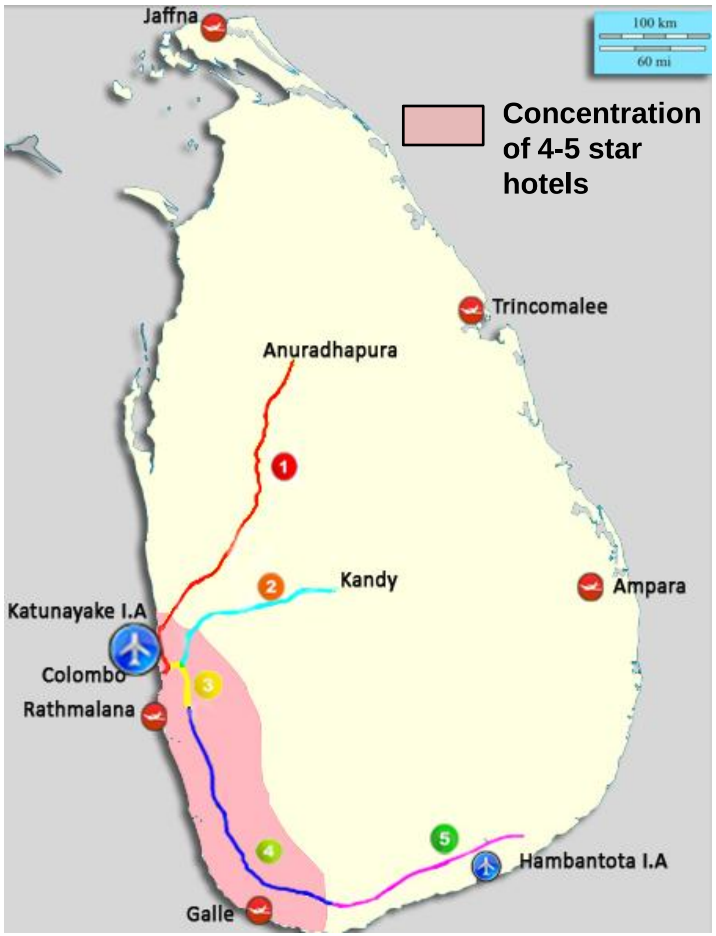
Sri Lanka Tourism Sector Summary Overview - 2011-2020



20/20 Vision:
Coming into Focus

Contents

	Page No.
I. 2.6m visitors by 2020 *possible* if shortages of rooms and workers addressed	5
II. India likely to lead robust arrivals growth, with China a wild card	13
III. Higher-end hotels likely to prosper	26

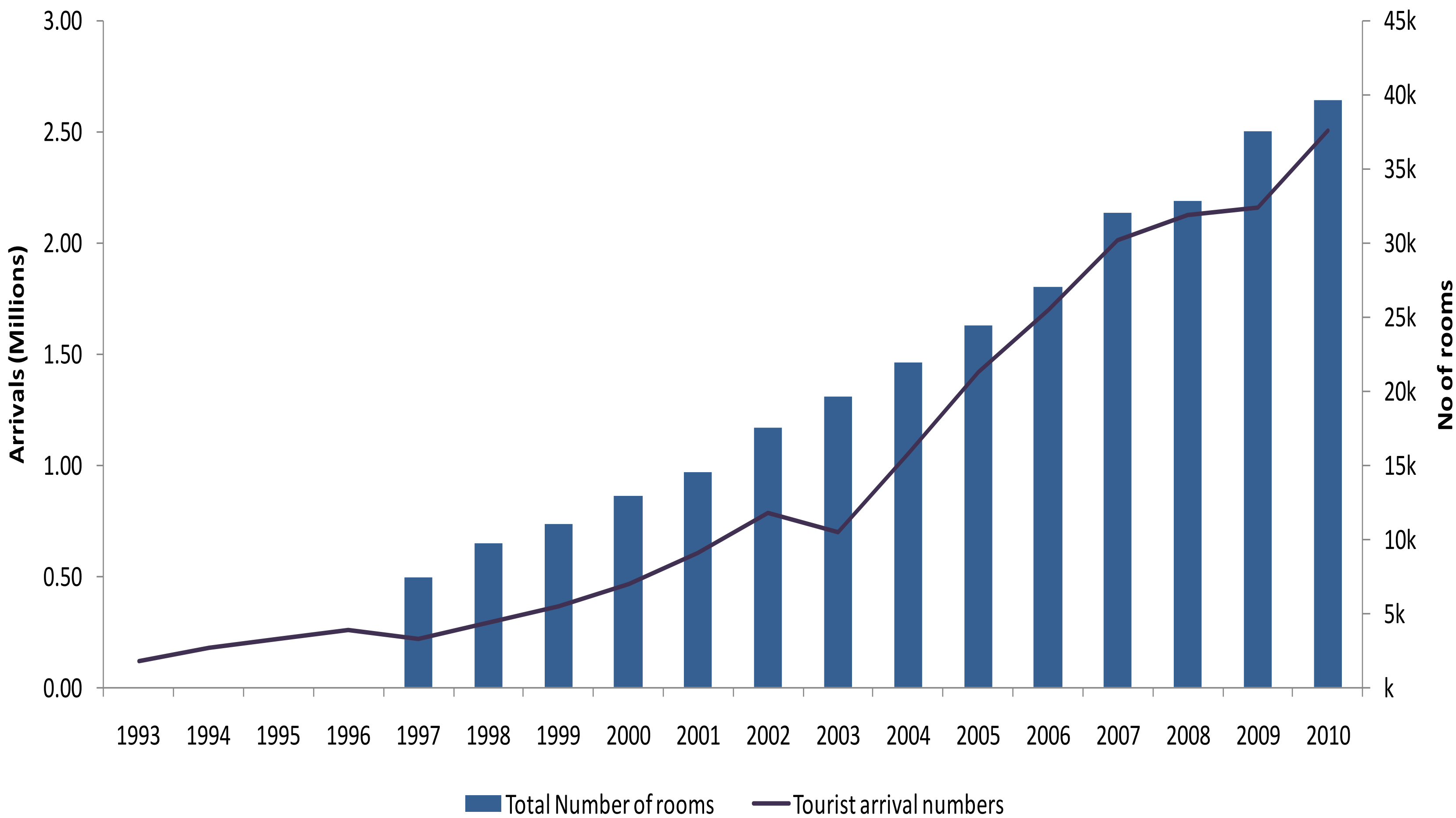
Executive Summary: A 15% tourist arrivals Cagr (2011-20) is possible, but not easy

- Shortages in graded rooms and qualified workers are two of the greatest challenges the industry will have to overcome
- India may become the single most important source market and China remains a dark horse with enormous potential, while arrivals from W. Europe may taper off from current high levels
- With regard to investment opportunities, 4-5 star hotels on the south coast are more attractively positioned than 3 stars and below

I. 2.6m visitors by 2020 *possible* if shortages of rooms and workers addressed

Sri Lanka's many attractions suggest it can generate a 15%+ arrivals Cagr, thereby driving arrivals from *c.65*0k to 2.6m from 2011 - 2020 similar to Cambodia's arrivals growth from 2001 - 2010

Figure 1: Cambodia's historical tourist arrivals and room numbers



Source: Cambodia tourism statistics annual report 2010

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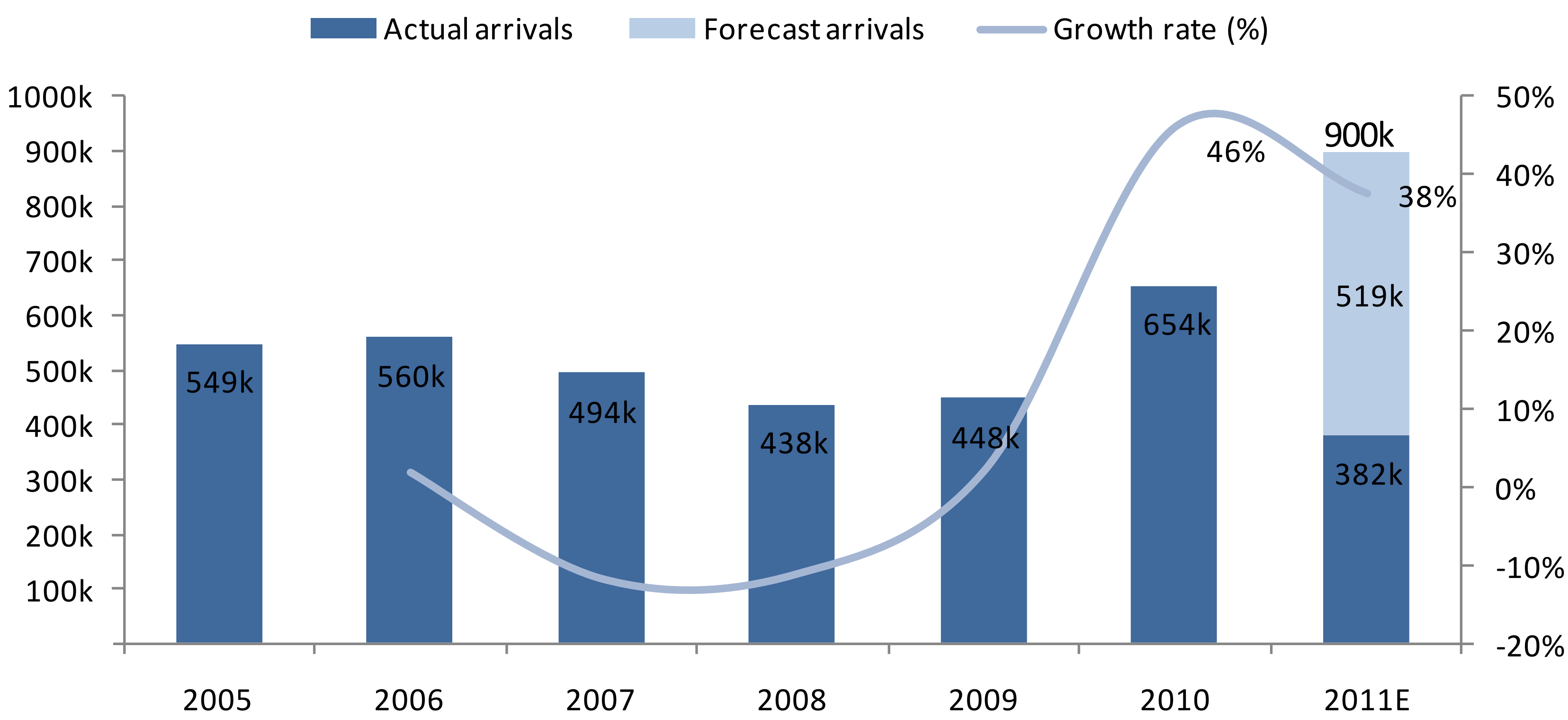
A 15% arrivals Cagr through 2020 would result in 2.6m visitors, but substantial supply-side constraints exist

- Hotel rooms: >9,000 additional graded rooms would be needed above the current pipeline of c. 7,000
- Qualified workers: >9,000 direct employees may be needed per annum for the hotel sector vs. the current 1,500 yearly output of industry graduates
- On the other hand, airport capacity constraints are *not* likely to be binding given the option to add larger capacity planes to Colombo routes, plus the pending opening of the Hambantota International Airport in 2012

At the current rate, total tourist arrivals may reach a record 900k by end 2011

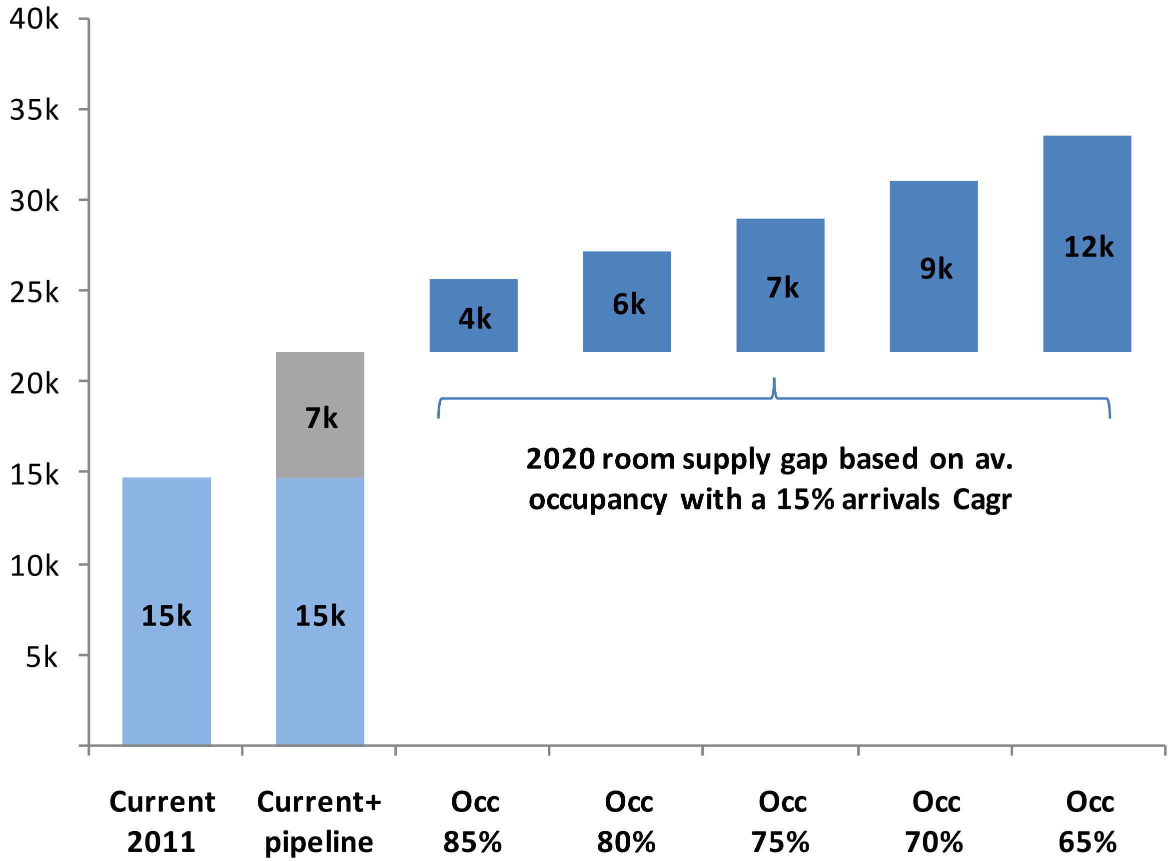
Figure 2: Tourist arrivals to Sri Lanka (2005-2011)



Source: SLTDA, CAL estimates

Over 9,000 additional graded rooms may be needed above the current pipeline of 7,000 to achieve a 15% arrivals Cagr

Figure 3: Current graded room supply and forecast rooms gap by 2020



Source: Pipeline figures – SLTDA, CAL estimates

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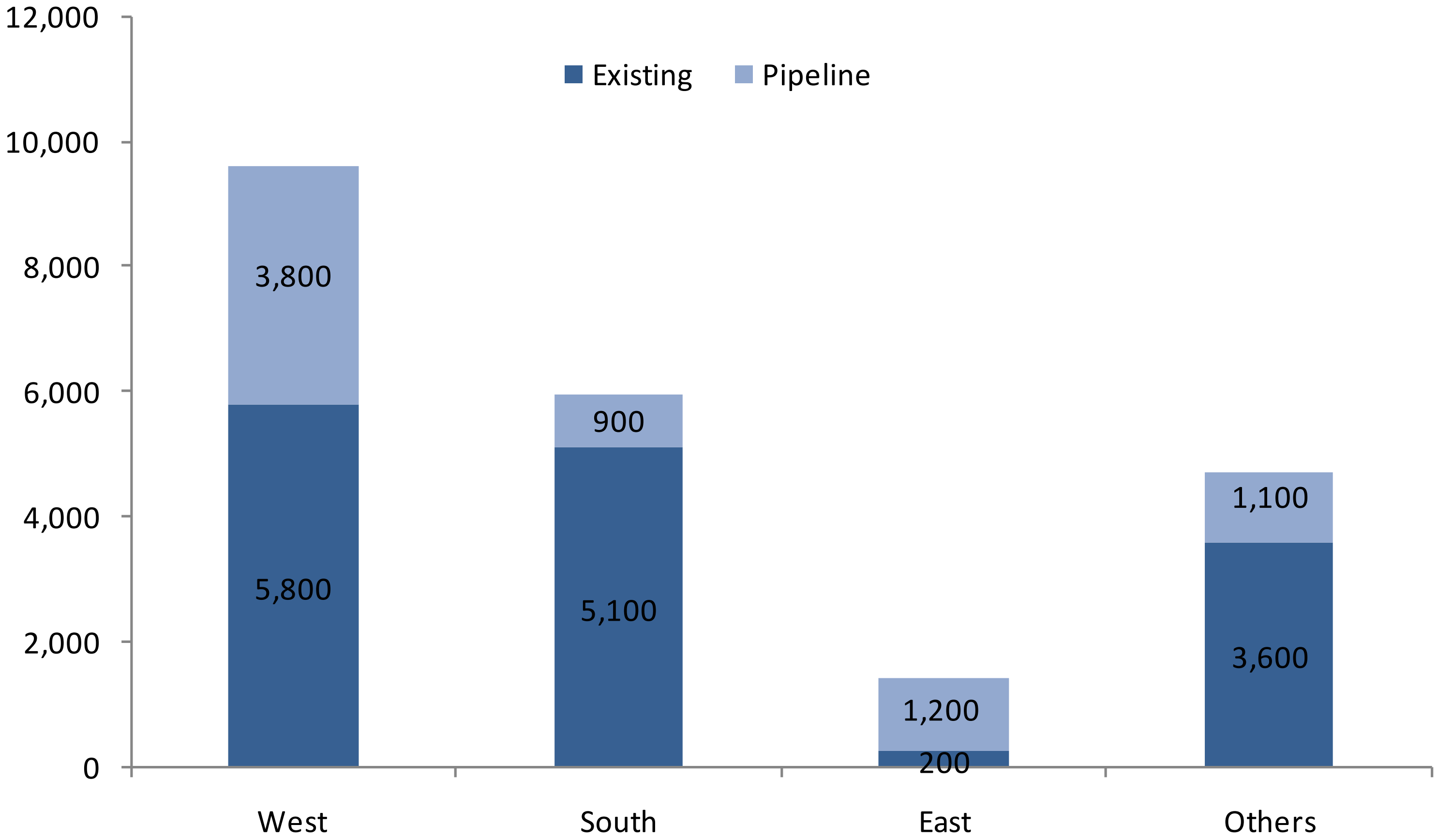
44% of the existing graded rooms, including those in the pipeline, are in the west

Figure 4: Regional distribution of overall graded rooms including pipeline



Source: SLTDA

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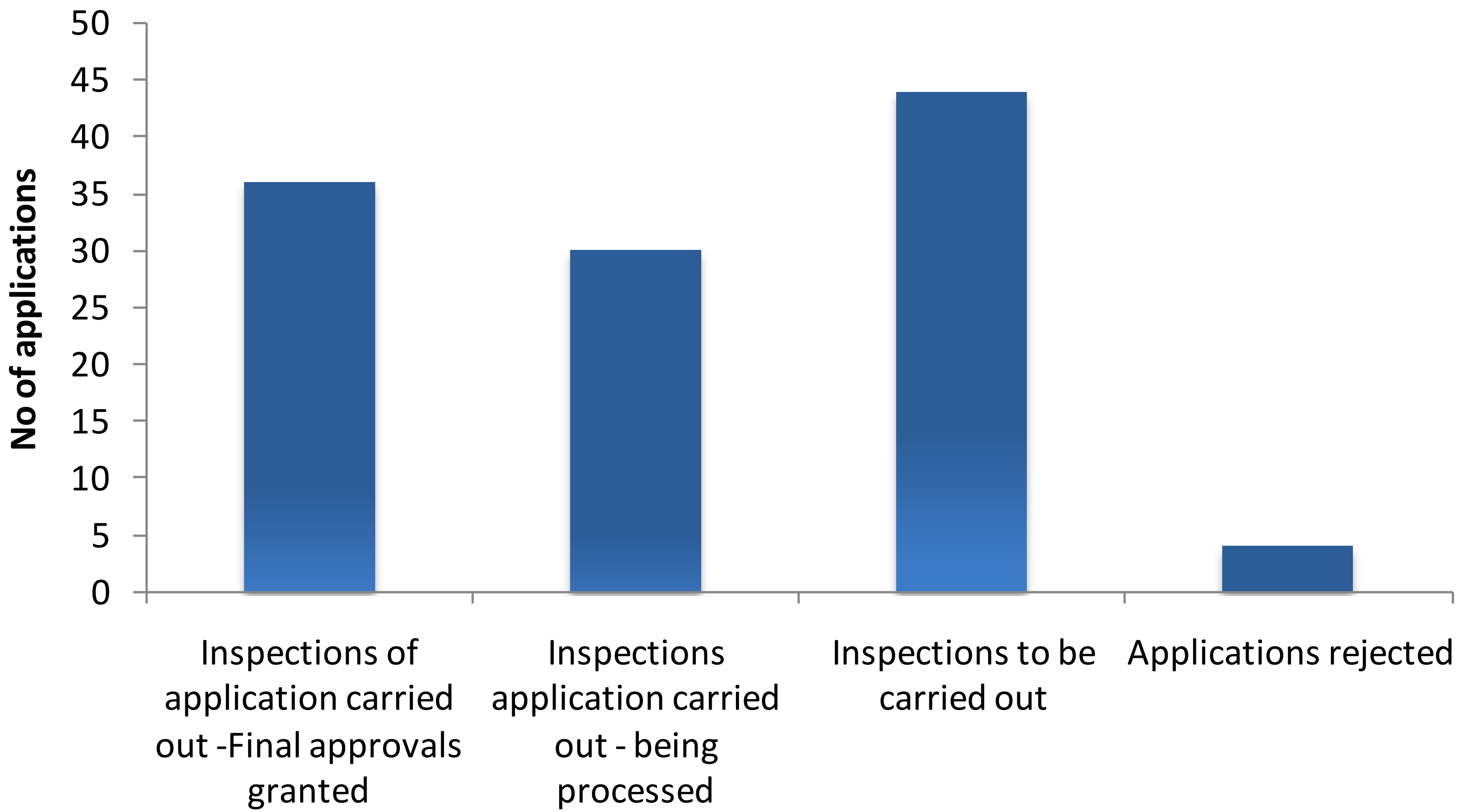
With most new room applications currently being processed, construction is unlikely to have started for most of the pipeline

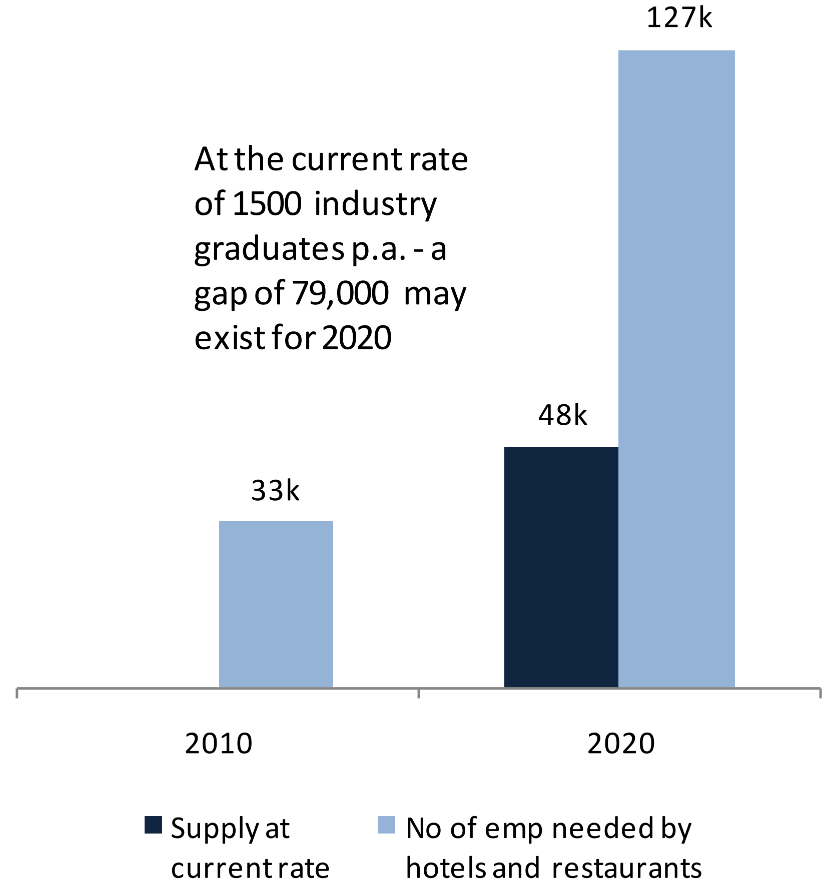
Figure 5: Status of applications for graded hotel projects



Source: SL Economic Summit Presentation -Tourism

At an arrivals Cagr (2011-20) of 15%, the hotel/restaurant industry may also require over 9,000 new employees yearly vs. the current output of 1,500 industry graduates

Figure 6: Current and forecast direct labour requirement by hotels/restaurants



Source: SLTDA, CAL estimates

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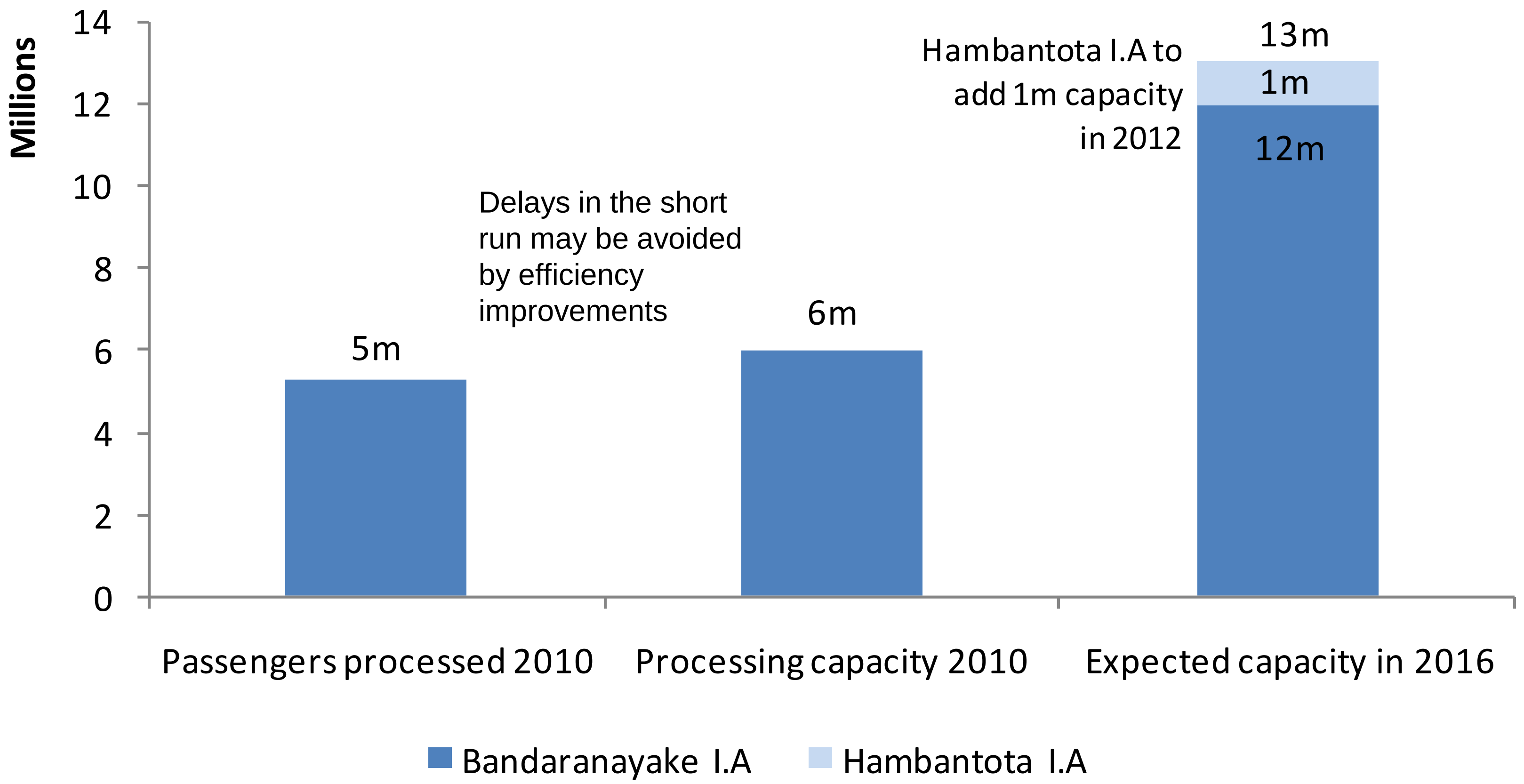
Airport capacity will *not* be a binding constraint

Figure 7: Current and future international airport passenger processing capacity



Source: AASL

II. India likely to lead robust arrivals growth

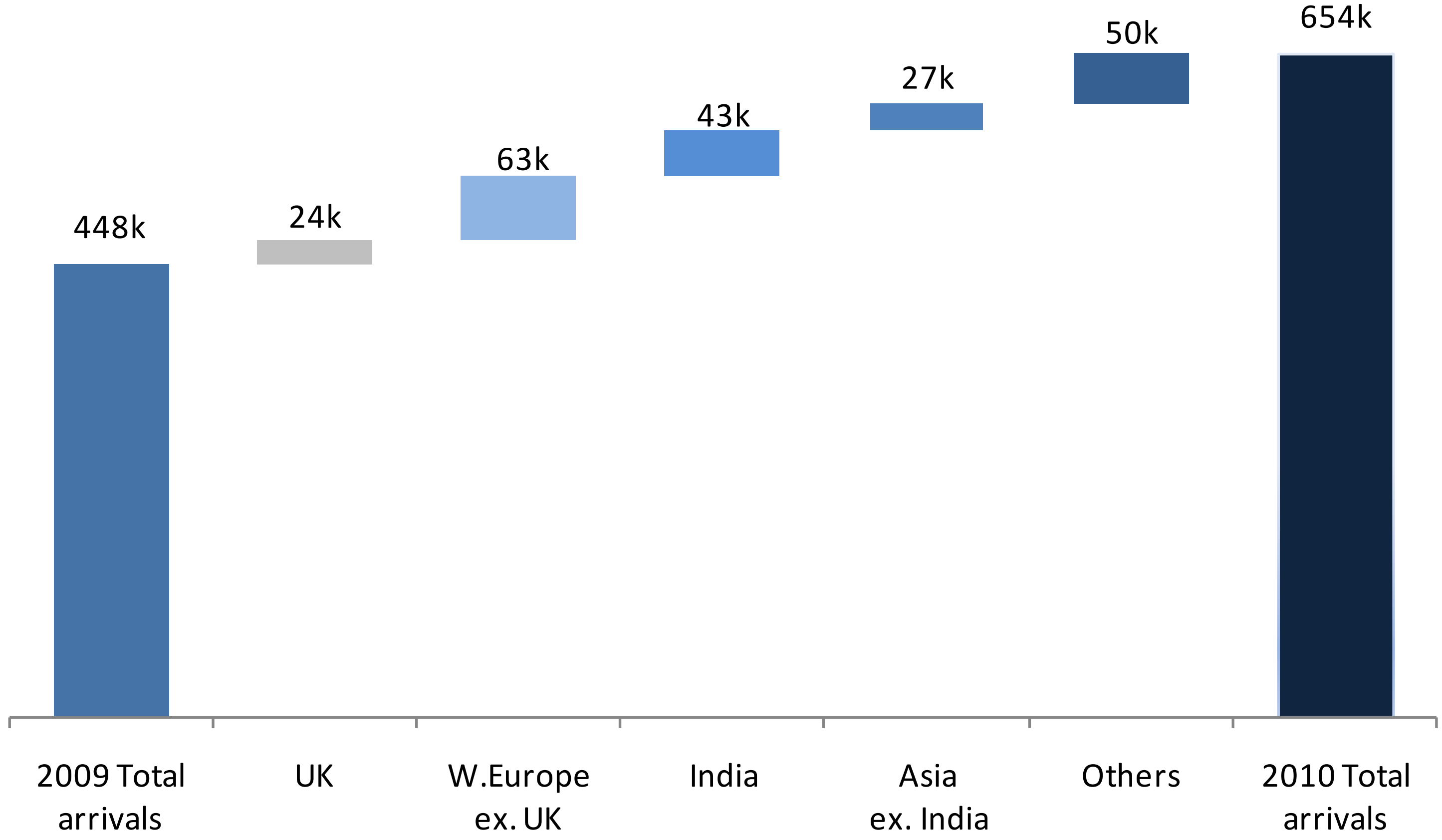
Inbound arrivals are likely to remain strong, and India may become the single most important tourist source market

- India arrivals may grow 6x by 2020 – provided overall costs remain competitive and more direct daytime flights are added
- China has the potential to become a major source market – may require Mandarin-language tour guiding, bigger tour buses and larger-scale shopping options
- W. Europe arrivals may continue to grow, but at a more subdued rate

The introduction of large-scale casino gambling would likely provide a substantial boost to India and China tourists, but was not considered in this report.

Western Europe represented 42% of incremental arrivals in 2010, while India accounted for 21% on a standalone basis

Figure 8: Regional breakdown of incremental arrivals from 2009-10



Source: SLTDA

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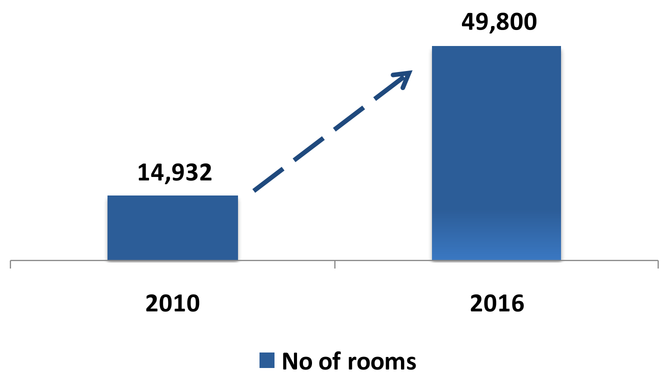
Sri Lanka's high-end is still in its infancy, but Thailand and Bali have shown what is feasible

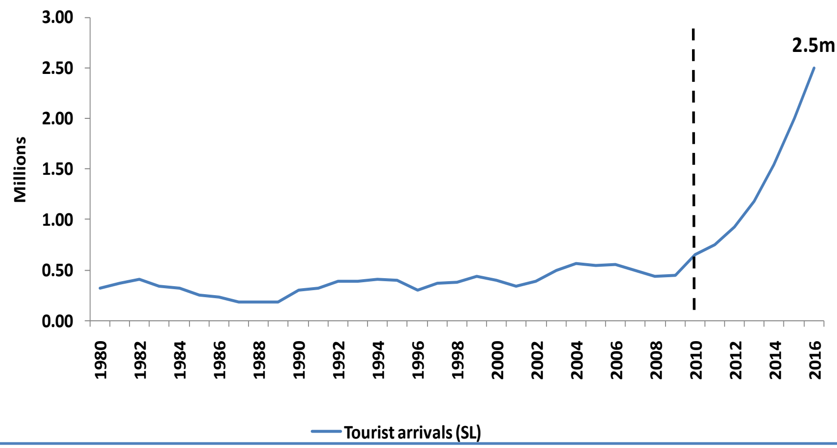
Figure 9: Government forecasts and Tourist arrivals SL Vs Thailand

- The Government projects 2.5m arrivals in 2016, but the industry will lack the rooms and trained staff to hit that goal
- Meanwhile, Sri Lanka has the natural attractions to rival better-known and well-developed destinations such as Bali
- The Government's objective is to move tourism up market and has implemented measures such as minimum room rates for city hotels in furtherance of the same

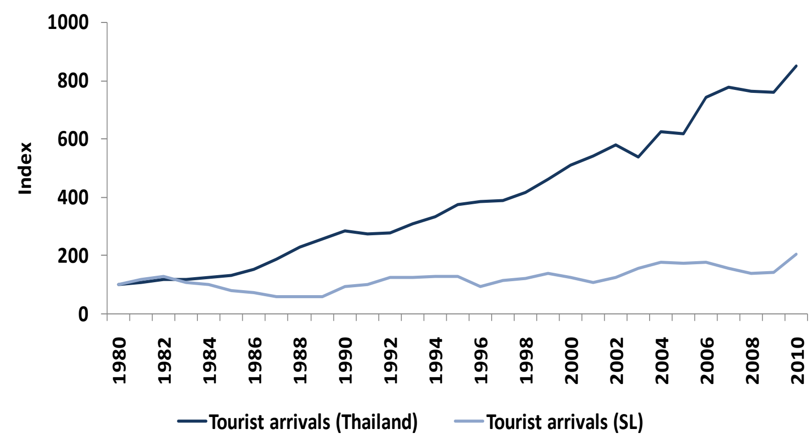
Shortage of available rooms



Government projected tourist arrivals (SL)



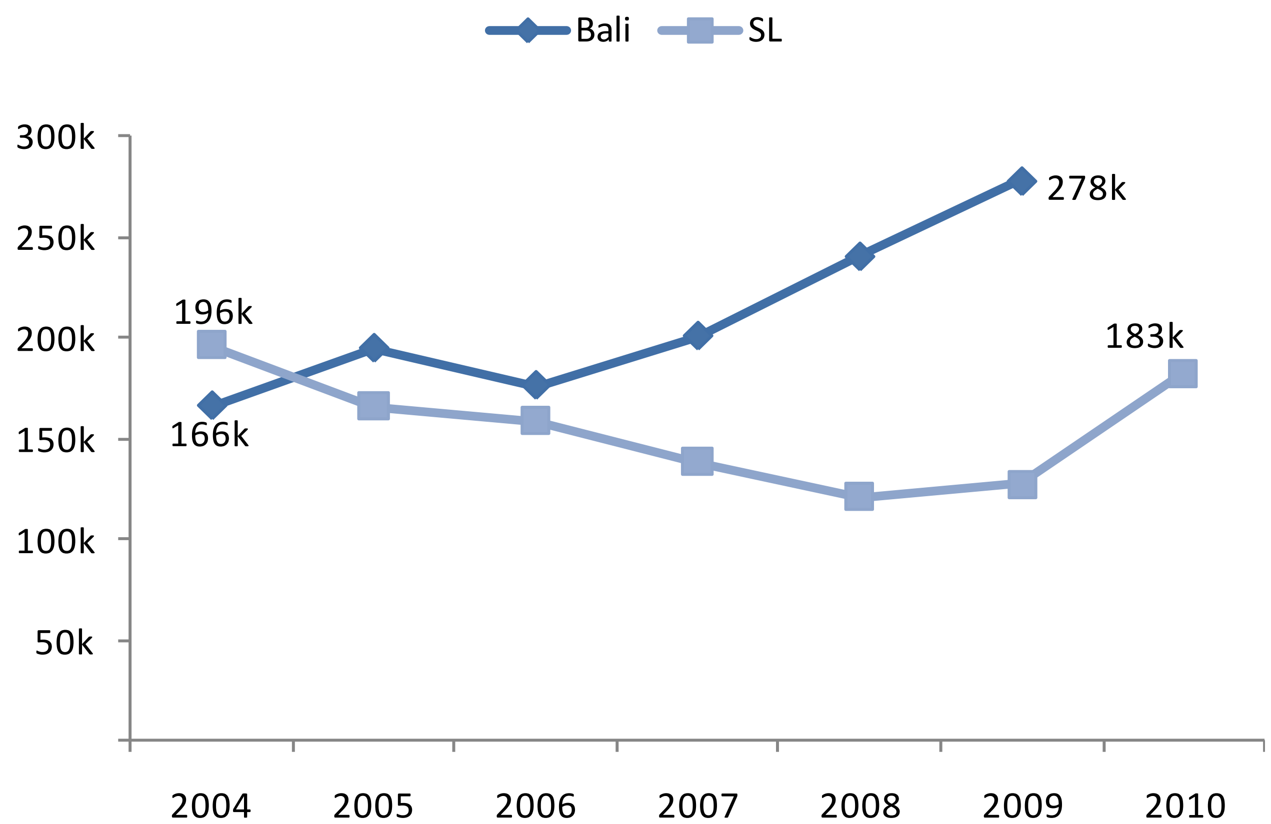
SL Tourism: 25 years of catch-up



Source: SLTDA. Tourism Authority of Thailand

At a Cagr of 11% (2005-09), tourist arrivals to Bali from the UK, Germany and France appeared unaffected by the Global Financial Crisis of 2008-2009

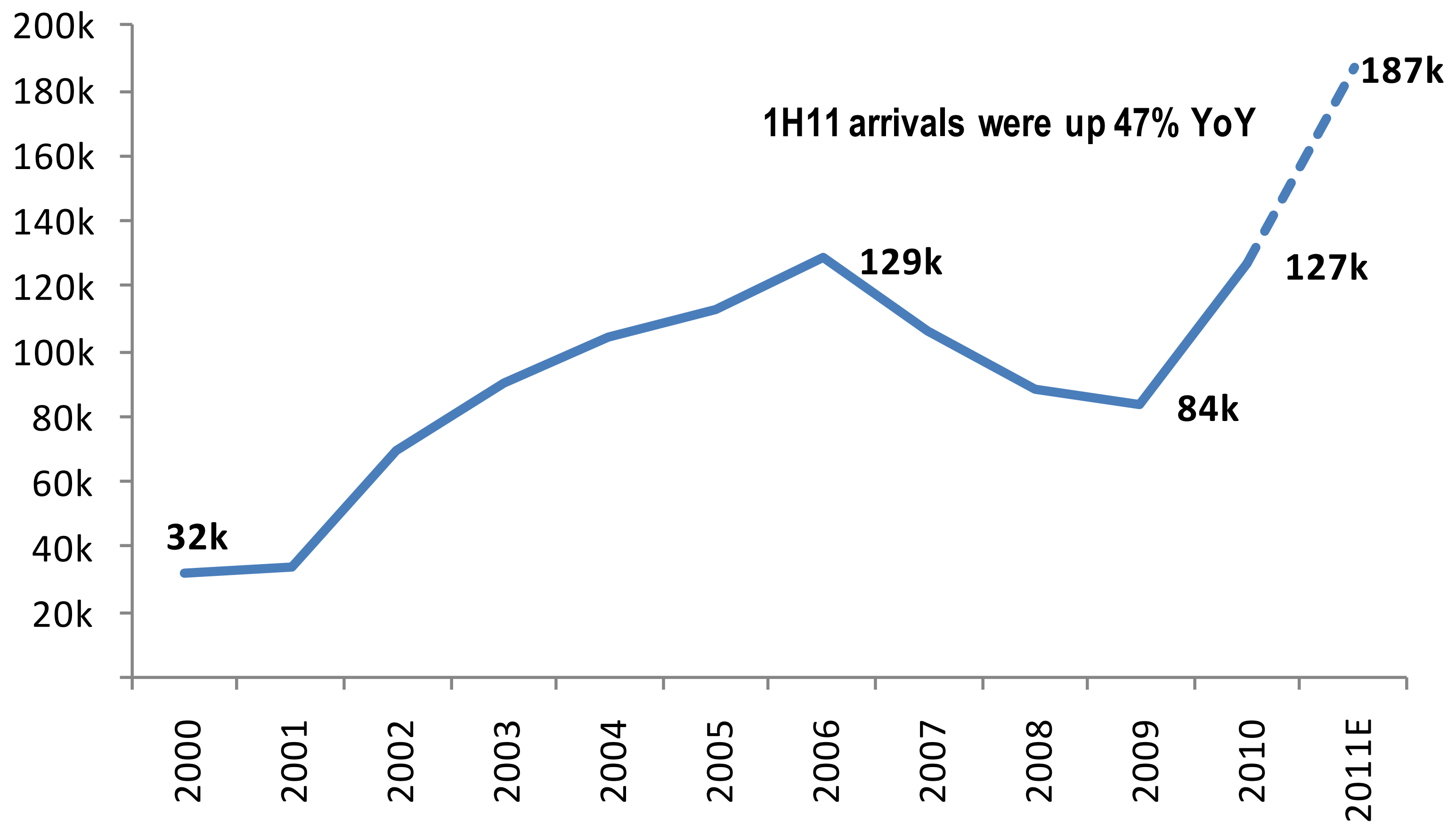
Figure 10: Historical arrivals from UK, Germany and France to Bali and Sri Lanka



Source: Sri Lanka Tourism Annual Report 2010, Bali Tourism Board

India arrivals to Sri Lanka may grow 47% to 187k in 2011, representing just 1.4% of a *c.*13m outbound market

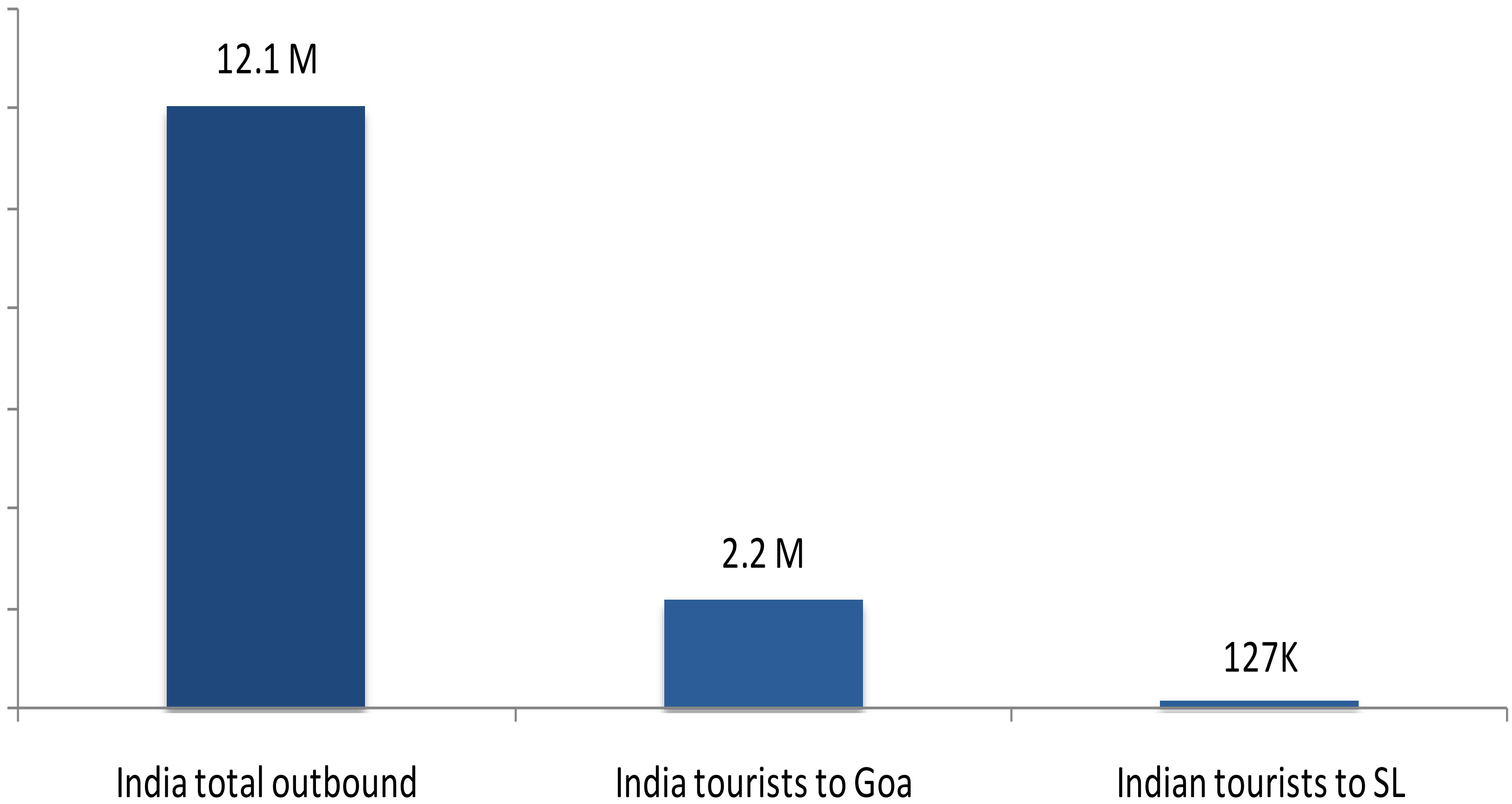
Figure 11: India tourist arrivals to Sri Lanka (2000-2011)



Source: SLTDA, CAL estimates

India's potential as a source market for Sri Lanka is evident from its size, proximity, cultural affinity; and Goa's success

Figure 12: India tourist market: 17x more visitors to Goa than to Sri Lanka (2010)



Source: India Tourism Statistics At a Glance 2010, SLTDA, Goa Tourism Development Corporation website

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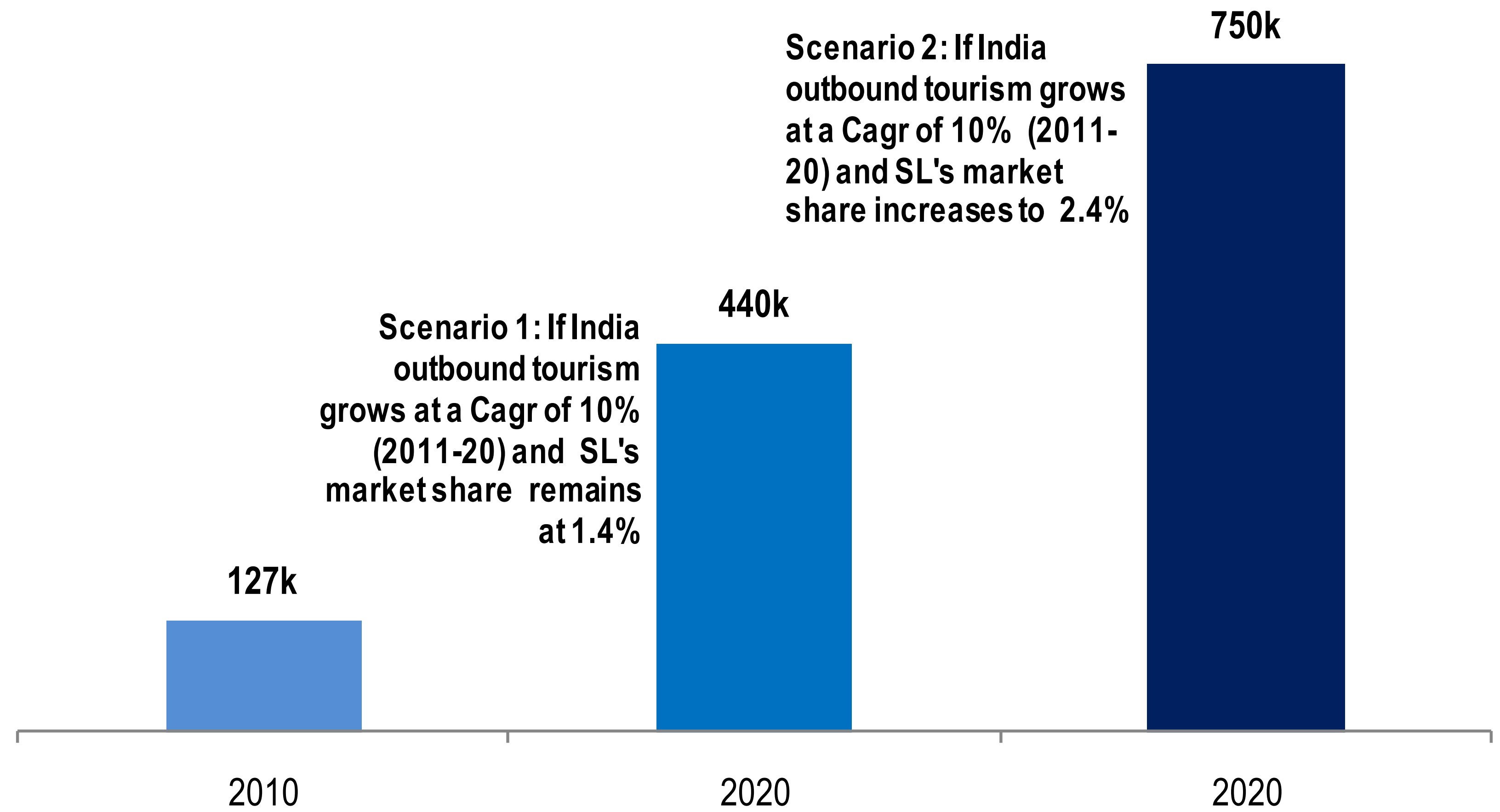
India arrivals to Sri Lanka could grow 6x by 2020 to 750k

Figure 13: Growth scenarios for India tourist arrivals: 1.4% vs. 2.4% market shares



Source: SLTDA, CAL estimates

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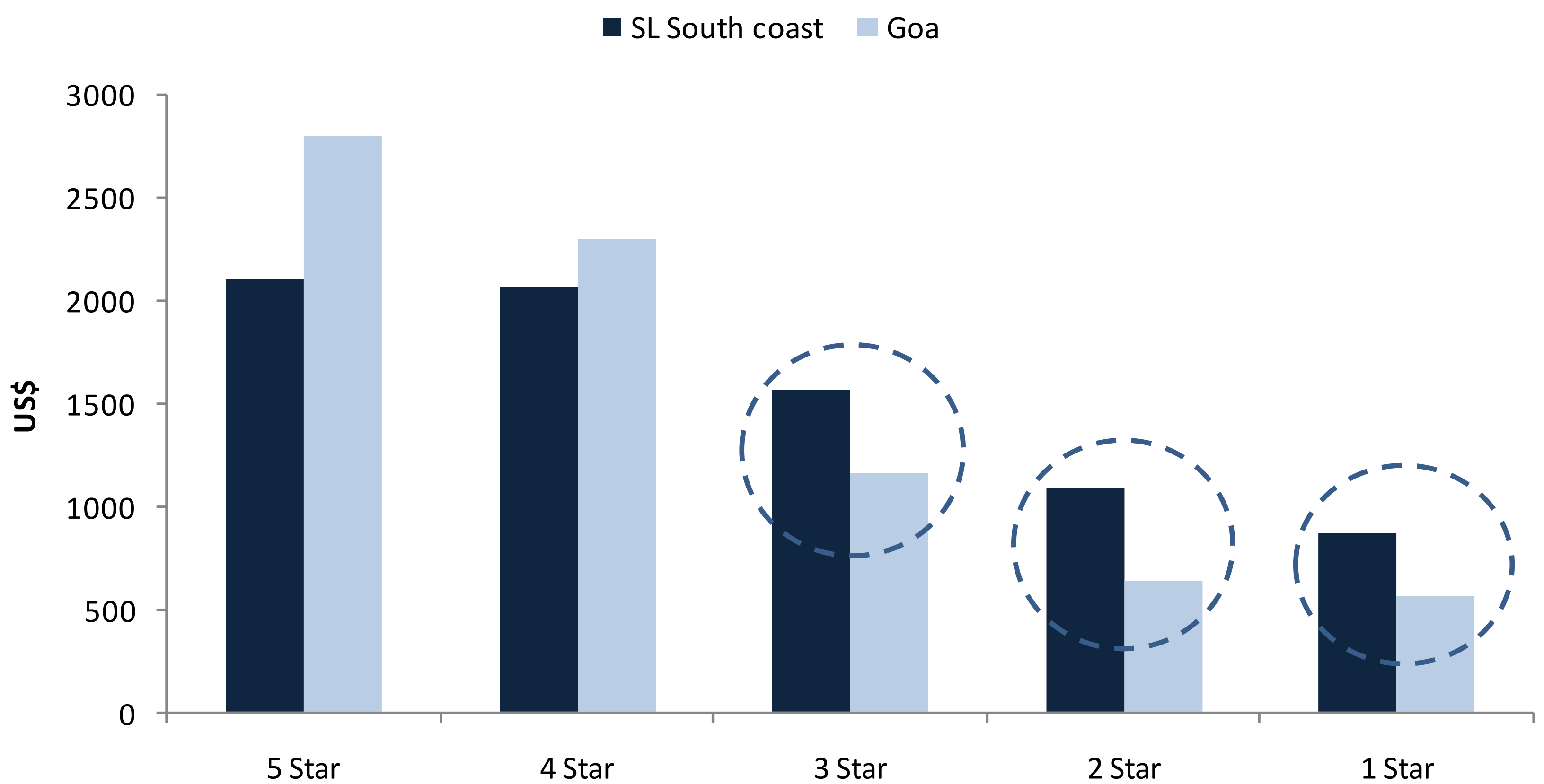
A 2.4% India outbound tourist share should be easily achievable given a 10-25% cost advantage over Goa *if* 1-3 stars price more competitively and . . .

Figure 14: Room plus airfare costs for India tourists compared for a 10-day stay

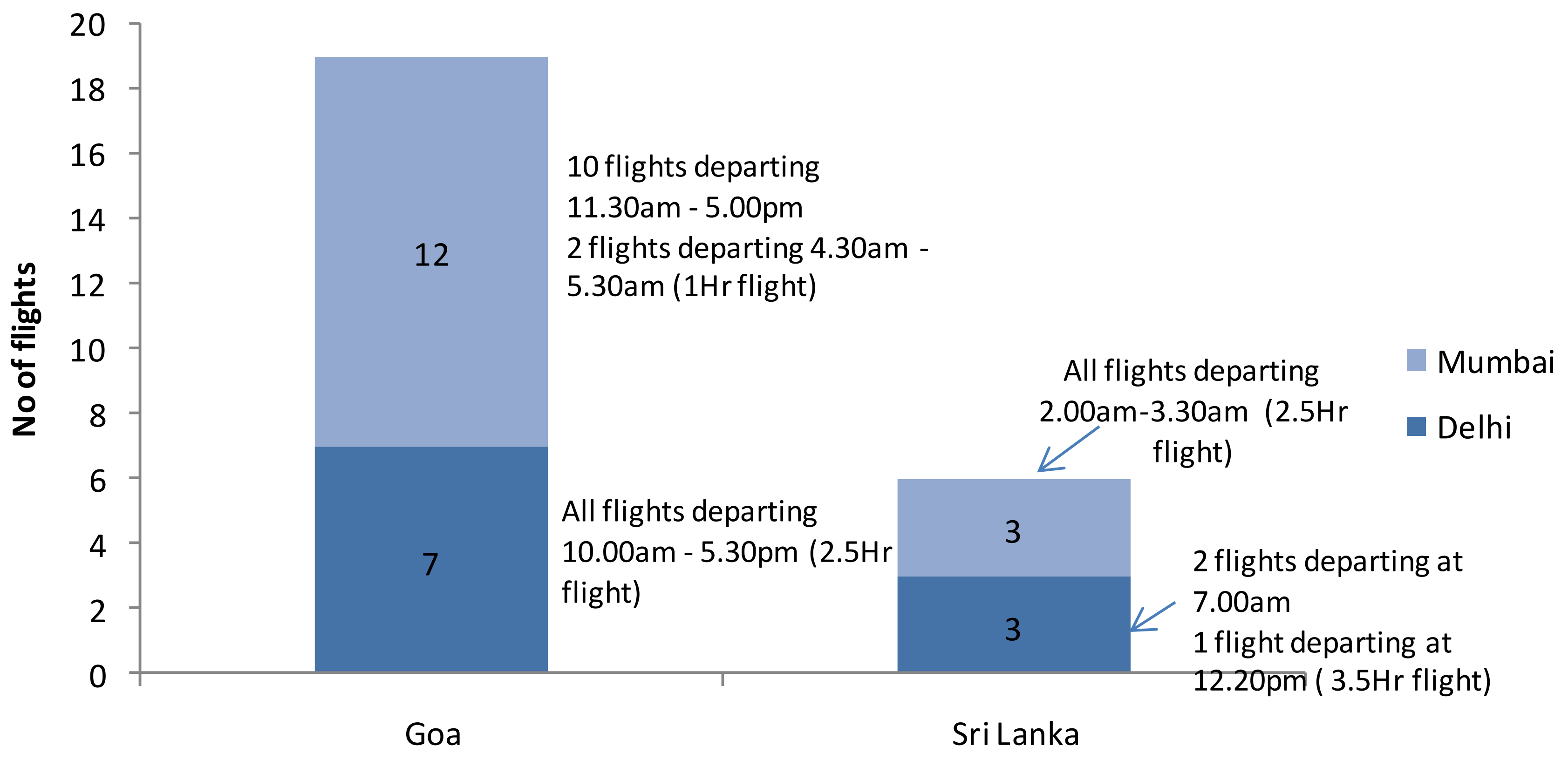


**airfare+10 day stay*

Source: booking.com, tripadvisor.com , expedia.com

… more direct daytime flights are added from India's major cities to Sri Lanka

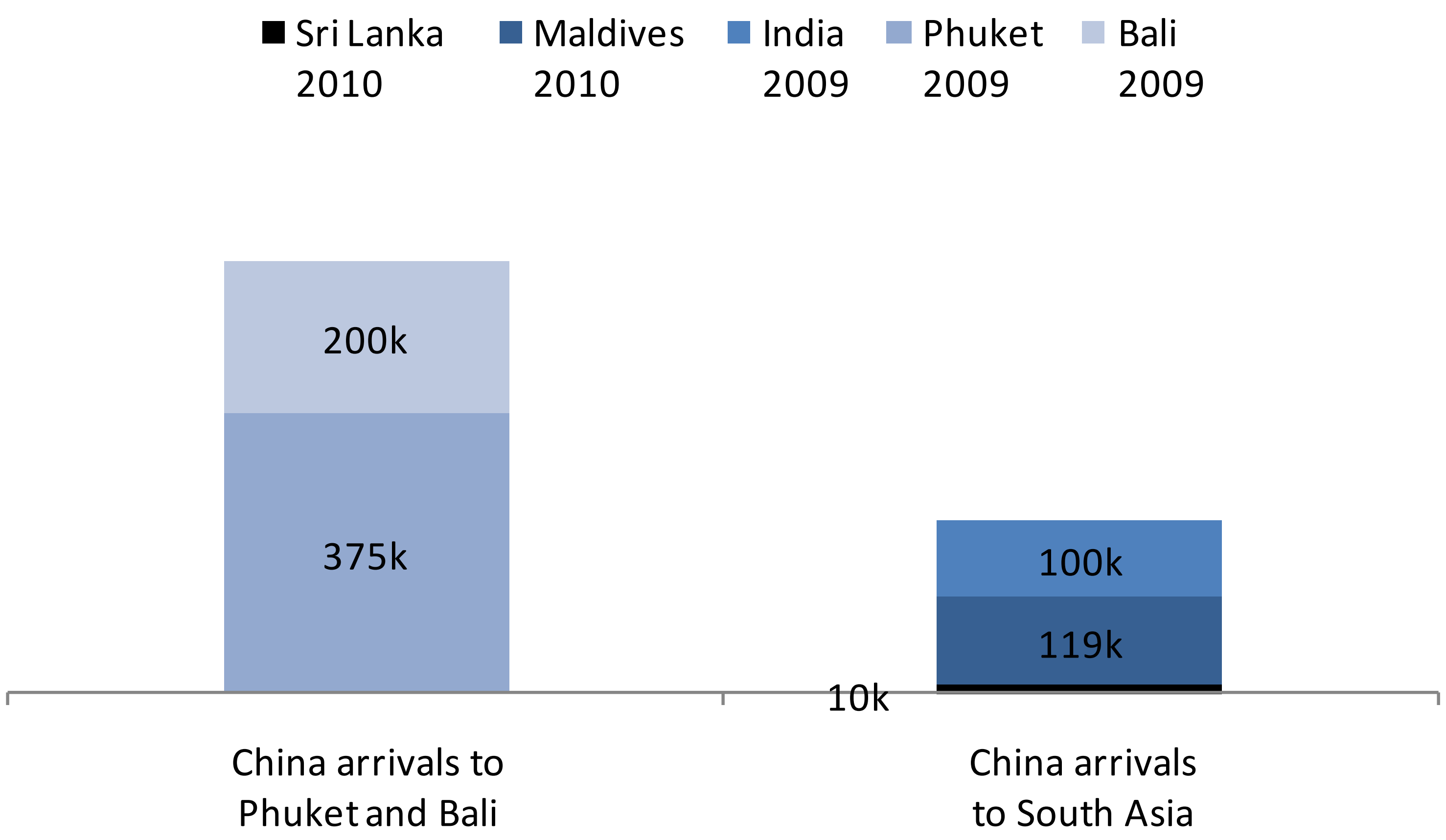
Figure 15: No. of direct flights to Goa and Sri Lanka from Mumbai and Delhi



Source: AASL, Expedia, mapsofindia.com, directflightsindia.com

South Asia receives fewer tourists from China compared to Phuket and Bali

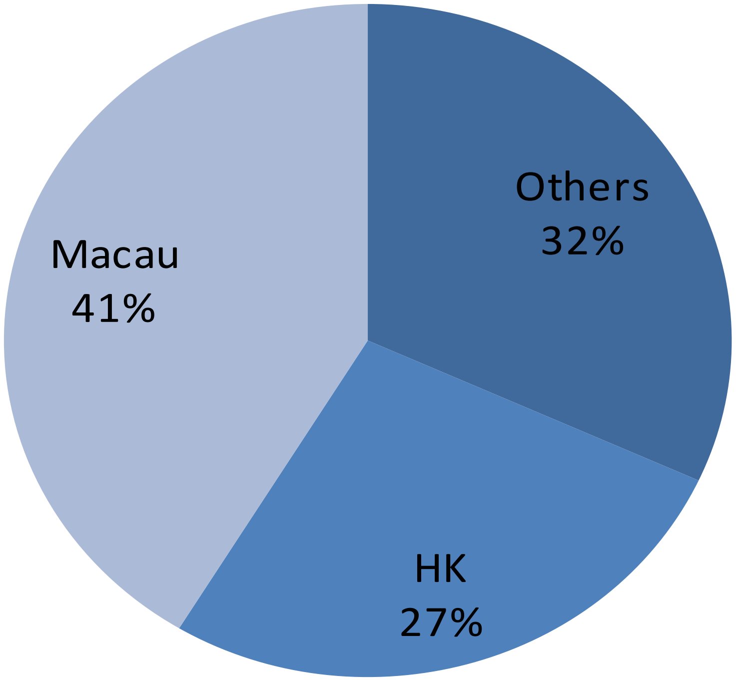
Figure 16: China tourist arrivals to South Asia, Phuket and Bali



Source: SLTDA, maldivesonlineguide.com, Bali Tourism Board, Phuket 2010 – Hotel Market Update (Hotelworks Consultancy), India Tourism Statistics Annual Report 2010.

Typically two-thirds of the 57m China outbound market head to Hong Kong and Macau, illustrating a significant preference for gambling and shopping

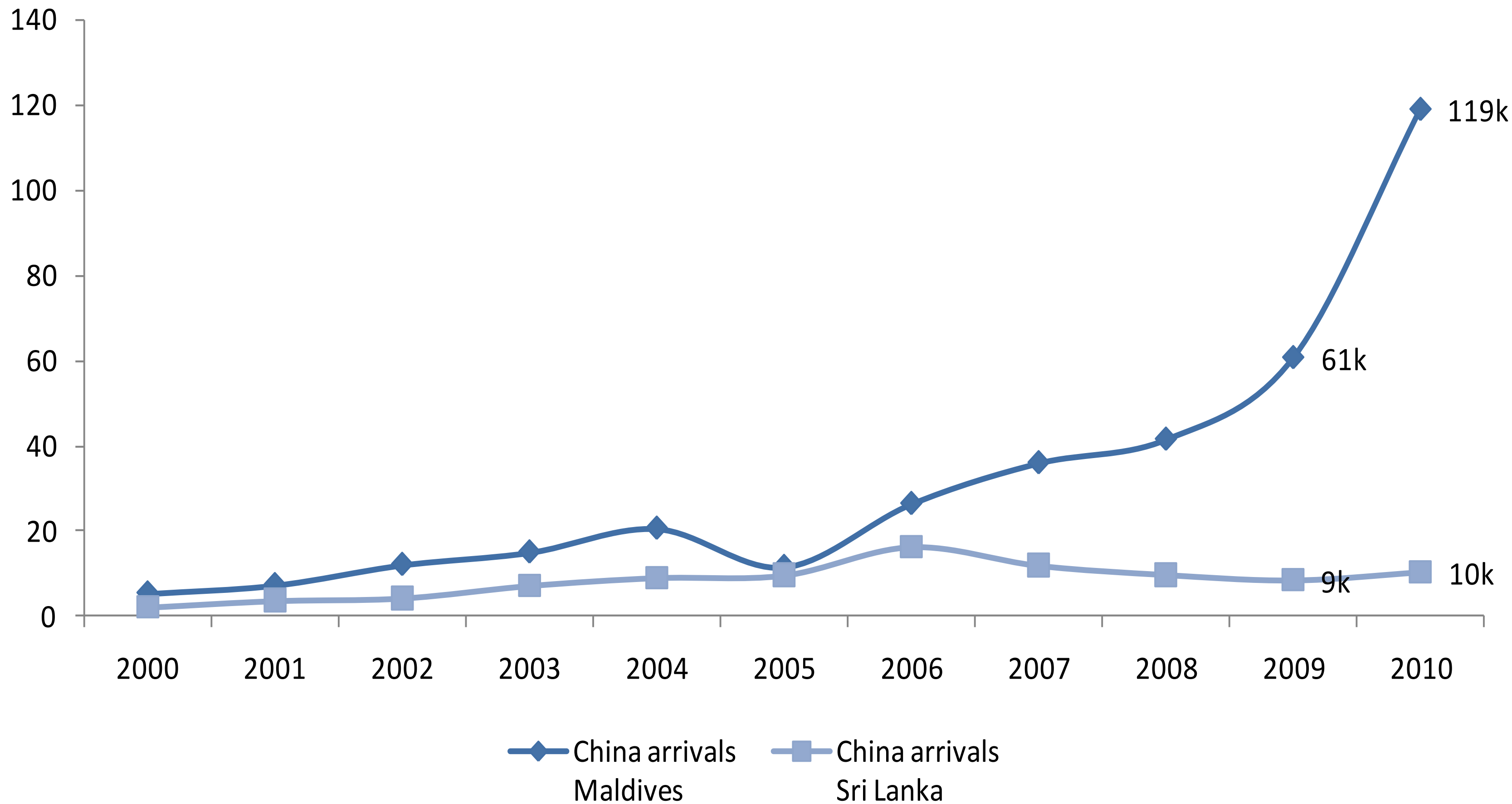
Figure 17: Major destinations of outbound China tourists



Source: Euromonitor International - 2010

The appeal to China tourists of 4-5 star beach resorts in the Maldives illustrates the potential opportunity for Sri Lanka

Figure 18: China arrivals to the Maldives vs. Sri Lanka (2000-2010)



Source: SLTDA, Maldives Holidays Guide website

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III. Higher-end hotels better positioned to prosper

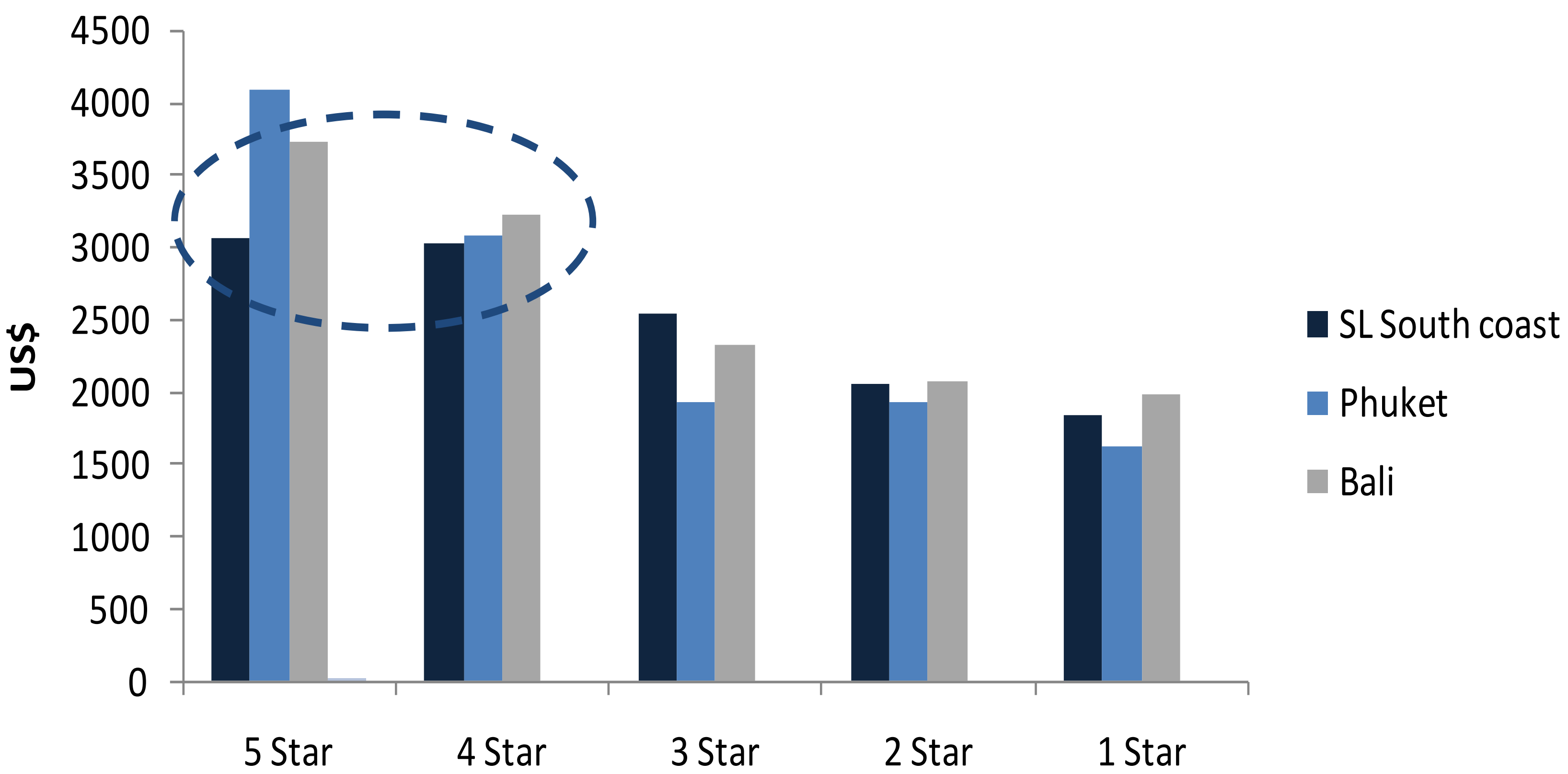
4-5 star hotels on the South Coast seem more attractive to investors given their regional cost-of-stay price advantage

- 4-5 star rooms in the South Coast are more attractively priced than comparable rooms for both W. Europe and India tourists vis-à-vis Bali, Phuket and Goa, with high occupancy rates indicating pricing power.

- Improved accessibility via new highways and conversion of military to domestic airports may make high-end hotels in the Deep South and the East of Sri Lanka viable alternatives to the Galle area.

4-5 star hotels are 12% cheaper* on average for UK tourists (a proxy for W. Europe) vis-à-vis Phuket and Bali

Figure 19: UK tourists' total costs of stay: Sri Lanka vs. Phuket and Bali (2011)



**Based on airfare + 10 day hotel costs*

Source: booking.com, tripadvisor, expedia.com

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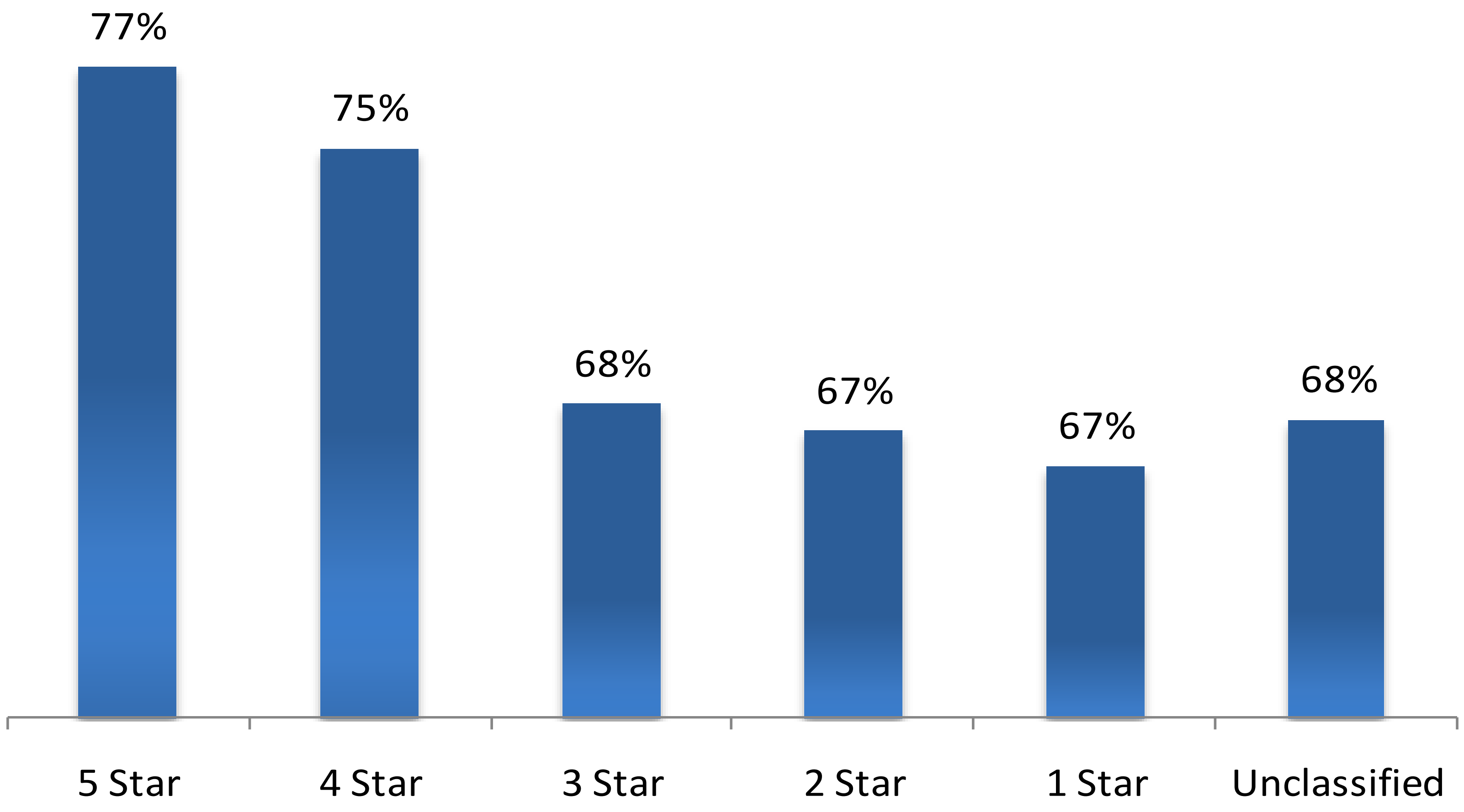
4-5 star occupancy rates in 2010 were higher than other classes, reinforcing SL's relative value proposition

Figure 20: 2010 occupancy levels for graded rooms



Source:SLTDA

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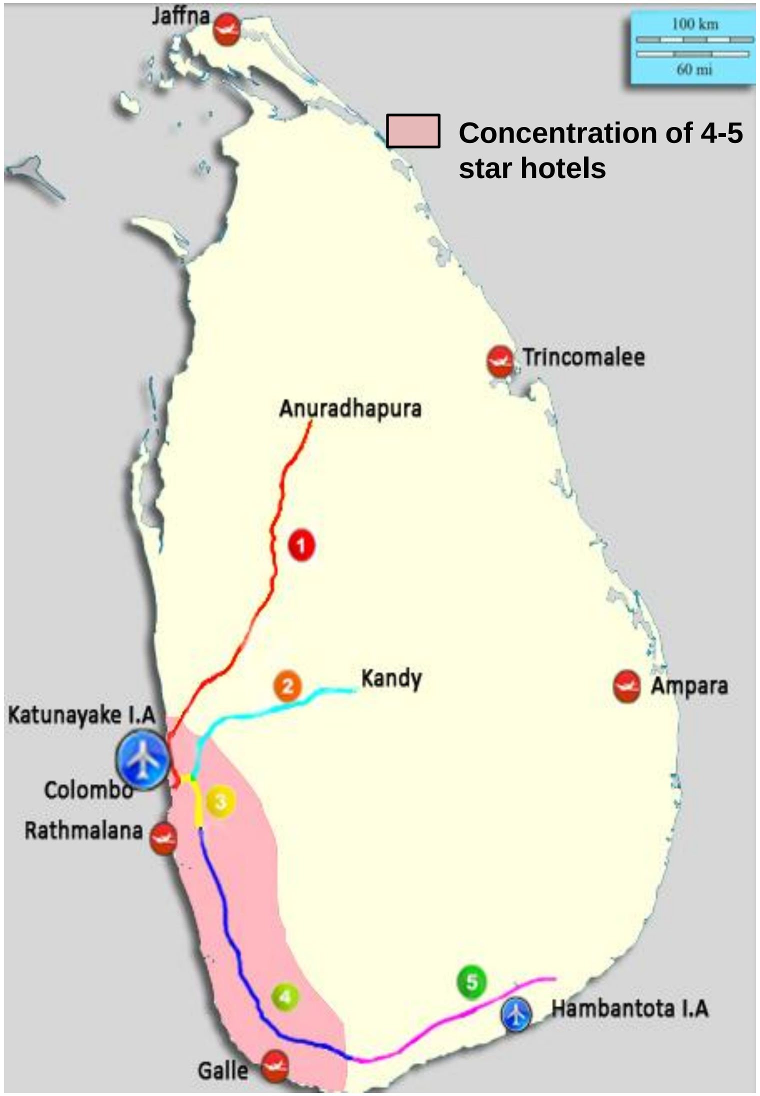
Increased domestic and international accessibility may make higher-end hotels more viable, particularly in the south and the east



International Airports

Bandaranayake I.A. (Main)

- Passenger capacity to be increased from 6m to 12m

Hambantota I.A. (2nd South – 2012)

- Initial passenger capacity – 1m passengers

Domestic Airports

Five regional domestic airports to be restructured at a total cost of approx. Rs. 2bn: Rathmalana, Ampara, Koggala, Trincomalee & Jaffna

•**Rathmalana** will be developed as a "City Airport"

Highways

1. **Katunayake – Padeniya – Anuradhapura Highway**
   From Katunayake to Anuradhapura
2. **Colombo – Kandy Highway (2014)**
   Travel time to be reduced from 3 hrs to 1–1.5 hrs
3. **Colombo – Katunayake Expressway (2012)**
   Travel time to be reduced from 50 mins to 20 mins
4. **Southern Expressway – Phase 1 (2011)**
   Travel time to be reduced from 3.5 hrs to 1.5 hrs
5. **Southern Expressway – Phase 2 (2013)**
   Travel time to be reduced from 4.5–5 hrs to 2 hrs

Source: Road Development Authority, Development.lk, SLBC.lk, AASL

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