

Jetwing SYMPHONY

Jetwing Symphony PLC Earnings Presentation Q2 FY19 Edited Transcript

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Corporate Participants

Mr. Hiran Cooray – Chairman

Ms. Shiromal Cooray – Non-Executive Director

Mr. Ruan Samarasinghe – Managing Director, Jetwing Hotels

Mr. Sanjeewa Anthony – Executive Director, Jetwing Hotels



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Opening Remarks

Mr. Hashan Cooray:

Ayubowan everyone, welcome to the earnings update for the second quarter of Jetwing Symphony PLC. As you know, this quarter is generally not the most financially beneficial quarter in the hospitality industry as it is summer in the European region, and generally performances are not at their best. I would now like to invite Mr. Sanjeewa Anthony, the executive director of Jetwing Hotels Limited, who will take you through the financial performances of Jetwing Symphony and give you a detailed analysis.

Investor Presentation

Business Overview: Slide 2-5

Mr. Sanjeewa Anthony:

Thank you Hashan. As I mentioned at the earnings presentation last quarter, despite it not being the main season, we were forecasting a good growth and in fact we achieved what we were forecasting at the last quarter. In a snapshot, if you look at how we have performed in the last quarter, at Jetwing Lake we were able to maintain a 60% occupancy rate with ARR's of over LKR 12,000. I will show you how these have moved. Kaduruketha is becoming better positioned with its rates as well as with ARR's, Colombo Seven as well we were able to increase our ARR's, Jetwing Yala continued to maintain its position, and at Surf it was the season at that particular time compared to other hotels, as a result Surf did very well and its ARR's was one of the highest in the Symphony Group (LKR. 32,000), and we were able to maintain it in that last quarter.

In our key performance highlights, overall revenue compared to last year second quarter increased by 36% to LKR 520 mn. EBITDA increased to LKR 194 mn. This was a c. 81% increase compared to (Q2) last year. EBIT also increased by c. 286% to LKR 112 mn and on occupancy, overall we maintained about 64% during the second quarter, it's a pleasing performance which we have achieved.

From a snapshot if you look at the second quarter itself, without exchange losses we were able to show a profit for the quarter for the first time. Compared to Q2 last year, losses after tax (without exchange losses) was LKR 78 mn. In the second quarter we made a profit of LKR 3 mn (without exchange losses). These losses were due to the exchange rate changes, I'm sure we all aware what has taken place in that regard. We have close to USD 7 mn in loans (in foreign currency) of the Group and we are recognizing that future loss up to date, this is what we have done in the preparation of accounts, in line with accounting standards. Compared to our revenue, that positive impact (of exchange rate changes) will come over the period. The revenue increase from the last two or three weeks is not enough to compensate for the exchange losses

this quarter. In the next two or three years, during the period of the loan repayments, that incremental revenue will offset this loss. The cumulative figures last year showed losses of LKR 233 mn (without exchange losses), this has reduced by 41% to LKR 138 mn and we had an exchange loss of close to LKR 100 mn, (cumulative) this resulted in having a loss of LKR 239 mn after taxes and exchange losses. With the new policies coming up we are waiting to see where the exchange rate will move. However, the exchange rate will definitely have some pressure based on the balance of payments, therefore it will keep on moving. If you look at the gearing ratio again compared to equity, we are 46% geared. There is marginal decrease. The good news is 'Yala' is almost coming to the end of its loan payments. Within another one to one and a half years, the Yala loan will be settled. Releasing one hotel with loans will definitely give a boost to Jetwing Symphony as a whole. Even the GP margins, EBITDA margins, net profit margins, in everything there is an improvement, compared to the similar period last year. When you take the total across the board you see that the numbers keep on increasing, revenue increased from one quarter to another and also in the last 6 months there is a 36% increase, for which Yala, Colombo Seven and Jetwing Lake are the main contributors. EBITDA increased more than the revenue increased, and one reason is that the synergizing cost will increase with the increase in revenue and it will not be a proportionate increase. Therefore an increase in revenue always gives a higher profitability.

Jetwing Yala: Slide 7

If you take Yala alone, again for the last quarter compared to the previous year (Q2) we were able to increase profit after tax without exchange losses by 60% and for the first half increased by almost 100% compared to last year. However, with exchange losses, Yala ended up with a LKR 19 mn loss. However as mentioned before, the exchange losses are coming down and the Yala loan will be more or less complete in another year and a half. When you look at the chart, we were able to improve the ARR's and the occupancies but the Tented Villas' ARR and occupancy saw a slight reduction. The main reason is that we have rebranded the Tented Villas as Jetwing Safari Camp and in the last 2 or 3 months the restaurant and the operational areas have been reconstructed and that had an effect on the occupancy. I believe that we are ready to commence the new branding and launch of the Jetwing Safari Camp from November. With that this will be an exclusive property. Coming from the 90 rooms, these 10 rooms will be marketed separately and that will definitely boost Jetwing Yala.

Jetwing Kaduruketha: Slide 9

Jetwing Kaduruketha was a hotel that I explained in detail last time, now I can share the results of it. If you look at the performance in the last quarter, the revenue has increased about 95% in terms of the profit after tax as well as before tax. There is a 120% increase compared to the profitability in the last quarter. The cumulative profitability increased by about 63% and the loss has been reduced by 63%. If you look at the charts you will see how we have advanced from a little above an ARR of LKR 10,000 to maintain ARR's at c. LKR 21,000 over the period. There is an occupancy increase as well and the next winter is also looking good. Even though currently there is a reduction in October, from November onwards it will pick up.

Jetwing Lake: Slide 10

Jetwing Lake is in a similar position. Revenue in the last quarter has increased by 49%, we were able to increase the cumulative revenue by 42%. Profit after tax without the exchange losses for the quarter increased by 58%, and losses have been reduced. The cumulative loss of LKR 127 mn, without exchange loss, we were able to reduce to LKR 80 mn. The bookings for October, November and December looks positive and we have an average about 60 – 70% occupancy at the moment. Even in winter, it is looking good at the moment.

Jetwing Colombo Seven: Slide 11

Jetwing Colombo Seven is slowly positioning itself well. In the last quarter we were able to reduce the loss from LKR 23 mn to LKR 15 mn, and the cumulative loss from LKR 81 mn to LKR 62 mn. This is a 23% improvement compared to the previous year. ARR's increased for the hotel, however, the hotel rooms and also the apartments showed a drop in the occupancy (for the deluxe rooms mainly) because we were increasing the rates. Colombo Seven is very sensitive to the rates. We are moving away from certain travel agents and certain "low end travel agents" which we have used last year, and that is the reason for increasing the rate. As a result, in terms of total revenue there is a slight effect. However, there is 5% increase despite the drop in occupancy but we are driving up the ARR's. We are continuing to position this separately as one of the urban city resort experiences. We are currently rebranding Jetwing Colombo Seven as an urban resort in the city and you will see our campaigns in the coming months, where we position Jetwing Colombo Seven separately and move our rates up.

Jetwing Surf: Slide 12

For Jetwing Surf, this is the season they have. Even though it is only the first year of operation, we were able to make a profit in the last quarter. We made a LKR 6 mn profit after exchange losses. The next quarter however, we are going for the off season, unlike other hotels.

Guest reviews: Slide 13

Yet again, the most important thing is from a "Trip Advisor" point of view as well as from Booking.com's point of view and all our other social media networks; we were able to maintain our positions, with Jetwing being number 1 in that particular area. Jetwing Yala continues to be No. 1, Jetwing Kaduruketha No. 1, Jetwing Surf No. 1, Jetwing Lake No. 2, (No.1 is a boutique, a 10-15 room hotel and not a major hotel) so basically all our positions except Jetwing Colombo Seven which has maintained itself at the 21st or 22nd position in the last few days. However, that is also moving up from what we had last year. We will bring it to the No. 1 position over a period alongside all these properties, that is our strength. We will make sure that the customers are given the best value for money.

Jetwing Symphony Progress: Slide 15

Finally, I will just touch on the development work in Jetwing (the Kandy project) we have started 90% of the excavation and the earthwork is completed. The percentage completed of each type of work has been added on the slides. We have already commenced the super structure. In addition, I would also like to share one of the major awards is the "PATA Gold Award" received for the corporate environment programme with Jetwing Lake, and also Jetwing Lake won the "National Energy Efficiency awards" (Gold Award) while Kaduruketha won the silver award for the same.

I think overall we are positioned very well as Symphony, while the industry is looking very positive for the next quarter and specially for the next season, without considering any of the current political situations, which I hope and pray it will not affect tourism. The campaign is ready to start at the WTM, and all these factors will position Sri Lanka as a high end destination (especially Kaduruketha and other high end properties such as Jetwing Lake and Jetwing Colombo Seven). Our ARR goal can be achieved through this marketing campaign.

Thank you. If you have any questions, we will be happy to answer them at the question and answer session.

Questions and Answers Session

(Answered by Hiran Cooray, unless specifically mentioned)

Q1: For Jetwing Surf in the offseason what kind of occupancy are you expecting?

Good Question. October we struggled and November also seems to be having the same struggle. So we are hoping to position it as a wildlife destination as well and not only for surfing because there is Kumana and Lahugama and all of that. This gets people moving onto those areas. Maybe since it's the first year of operation we probably struggled but from next year onwards I think our efforts in positioning it as a Wildlife and Surfing resort should help us.

Q2: In Jetwing Surf, the ARR and occupancy rates seem pretty good. But the profit was only around LKR 6 mn. Considering this is peak season, why is it so low?

Sanjeewa Anthony: Mainly the depreciation and the interest costs, which push profitability down. Normally in the first two years you won't make profits in these kind of investments but actually we are happy that at least one quarter in the first operational year, despite the heavy interest cost and depreciation, Surf was able to make a profit after tax.

Q3: Are there any cancellations so far with the current situation?

We've had a few, yes. We also don't know how much we will lose. How much of business is going out and not coming into Sri Lanka but we hope that with the launch (as Sanjeewa mentioned in London on Monday) we should be able to regain some of that back. Let's hope for the best.

Q4: Were cancellations more the package coming through cooperators or were they more the online bookings?

Mainly online, because what happens is, the operator takes the responsibility and these are soft travel advisories. These are not saying "Don't Go!", so therefore tour operators won't cancel and they won't allow the customer to cancel as well. Whereas when they book online, then it's their choice. They decide and they cancel. We had more cancellations coming from India than other places.

Q5: What was the rationale to borrow in USD? Was it just the interest cost?

Sanjeeva Anthony: One major reason is the interest cost. In addition, since c. 70% of the revenue we get is in dollars, it is a natural hedge so we don't have to worry too much therefore unlike a rupee earning company, we do not have any currency risk to pay in US dollars so it's not a problem. Even though it is recognized in the future loss, for us to make a loss on dollars, we have to make at least about c. 8% depreciation continuously for 5 years. When we calculated it, we expected this not to happen, as 8% depreciation continuing for 5 years is very rare when you look at the past. Based on that forecast, we decided to take on the loan. However, the total loan component, if you look at Symphony, is only 30% dollars and 70% is still in rupees. Therefore, only about USD 7 mn is in loans, the balance is in LKR. Even though we can take the risk, we have put about 30-70 ratio to the company. Therefore the risk taken from the dollar point of view is very low. There is no risk for tourism where you earn your revenue in USD or USD equivalent. The rationale is that we want to reduce the rupee borrowing as the rupee interest rates are going up and since LIBOR was also going up, we thought that the latter is better. This was decided about two to two and a half years ago.

Q6: The cancellations from India, are these more tourists or are they business visitors?

Hiran Cooray and Shiromal Cooray (unanimous): A mix of both. Mainly from the Chennai area.

Q7: What is your view on Sri Lanka's new tourism campaign is that how you like to position Sri Lanka?

Well it was completely private sector driven. There was hardly any government involvement, other than facilitating it and the three people who were behind it shortlisted seven of the advertisement agencies that had international links. They shortlisted 7, of which 6 bid and 4 were selected from that for the final choice. I was there and I saw all 4. I thought this particular one was probably the best campaign I have seen in my 31 years of being actively involved in tourism.

It was very well thought out, campaign slogans so on and so forth, I think it now boils down to how its delivered and how it is communicated. Unfortunately, it can also be taken negatively like: "So Sri Lanka... this is what is happening...", but be that as it is, this is a very good campaign allowing the people to do their own "so culture", "so wild", "so history", "so tea" etc. everything can be linked with our people and the campaign. The instagramers, the bloggers and everyone who comes can also take it forward so there is a ripple effect.

Q8: Do you see a demand for the project that you will be launching as “Safari Camp”?

A couple of them are already offering it and when we try to sell it as a tented villa it didn't work as we were neither here nor there. However, after extensive research we decided that we will reposition it in that fashion. We are fairly confident that we will have customers and it just started yesterday so I can't tell you how good it is and the other reason why we also moved in that direction is to try and take some of those guests out of block one. Block one in Yala is most visited and unfortunately it gets overcrowded all the time, so we thought we'll try and take the guests to block 3 and block 5. It's a little further away, probably a 45 mins ride as opposed to a 15 mins ride from the entrance block 1. However, we thought we'll try and see whether we can divert some of that traffic to block 3 and 5. If it works hopefully the others will follow as well.

Q9: Can the hotels expect to see the benefits with the LKR depreciation in the revenue? For example, do you have to wait till tour operative contracts are renegotiated?

Sanjeeva Anthony: We don't expect to renegotiate contracts. We expect to get the benefit of the rupee depreciation to our revenue and we recognize the total loss of the loans in the future as at today. However, this revenue we expect in the next few months and years to come. We saw the benefits of the revenue for only 2 or 3 weeks of September, but going forward there will be a future benefit to the company.

Q10: What is the loaning component? Is there anything fixed? What percentage is in LKR?

Sanjeeva Anthony: We work on AWPLR and markup so it varies from 1% to 2% on the AWPLR. There is nothing fixed, it was varying. Out of the loan component, 30% is a USD component and 70% is LKR component. In total, 100% is floating.

End of Q&A

Closing remarks from Hiran Cooray:

If there are no further questions we can wind up and we can chat during tea as well if you have any other questions. Thank you for your attendance.