




Jetwing

SYMPHONY



Jetwing Symphony PLC
Earnings Presentation Q3 FY19
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Table of Contents

Forward Looking Statements	2
Opening Remarks	4
Investor Presentation	4
Slides 3 - 5: Business Overview	4
Slide 7: Jetwing Yala	6
Slide 8: Jetwing Kaduruketha	7
Slide 9: Jetwing Lake	7
Slide 10: Jetwing Colombo Seven	7
Slide 11: Jetwing Surf	8
Slide 12: Guest Reviews	8
Slide 14: Jetwing Kandy Gallery – Progress	8
Questions and Answers Session	9

Opening Remarks

Mr. Dimitri Cooray:

Ayubowan everyone, welcome to the earnings update for the third quarter of Jetwing Symphony PLC and now let me invite Mr. Sanjeewa Anthony who will do the presentation with the updates.

Investor Presentation

Slides 3 - 5: Business Overview

Mr. Sanjeewa Anthony:

Thank you, Dimitri. I think, despite the political turmoil – which we had during October, November and December – the Company was able to manage well, although it had an impact on Jetwing Colombo Seven but we do not know the potential loss which we suffered.

In a nutshell, Jetwing Kaduruketha, in the last quarter was able to increase the ARR to LKR 22,759 – positioning the property and increasing the ARR despite 36% occupancy, being the off-season. I think it is a great achievement from a positioning point-of-view.

Jetwing Surf – recorded occupancy of only 19% as this was the off-season, but when we are going to the season we are hopeful for a better performance. Again, we were able to maintain the ARR at Surf.

In the last quarter, Jetwing Colombo Seven had 65% occupancy, which is a QoQ drop. Actually, there was a significant drop only in December and we did alright in October and November.

Jetwing Yala – 63% was the last quarter occupancy. Of course Yala is doing extremely well at the moment, and we are expecting to do very well in the January, February and March period and occupancies are close to 90% at Yala, at the moment.

Jetwing Lake is also positioning very well, with 60% occupancy and achieving an ARR close to LKR 14,000. Currently, the occupancies are running between 80% to 90% in January and February and we are expecting this to continue into March.

Overall, looking at Jetwing Symphony as a whole, it is slowly positioning well. Only Jetwing Surf will take some time to adjust and we expect Jetwing Kaduruketha to break-even or make a small profit this year. Even Jetwing Colombo Seven and Lake are performing well but, because of the high

interest costs, they will be making a loss. At the GOP level, all the hotels are making profits. Jetwing Yala will have a very good year, this time.

Just to summarize the key highlights of the last quarter; the company was able to increase the QoQ revenue, by 37%, mainly contributed by Jetwing Lake and Yala. In addition to that, the EBITDA and EBIT saw an increase of over 100% and 3,000%, respectively. Group occupancy was maintained, during the last quarter, at roughly 58%, a 5% increase compared to the third quarter of the previous year.

This is the snapshot of our results, as you no doubt must have already seen from our CSE updates. As I mentioned earlier, we were able to increase QoQ revenue by 37% and by 30% for the 9-months earning close to LKR 1.3 billion. If you look at the EBITDA of the previous year, third quarter at LKR 82 million, we have improved to LKR 164 million (a 100% increase). Cumulatively, EBITDA saw an increase from LKR 213 million to 406 million; almost doubled. Profit after tax, without exchange loss, was a LKR 104 million loss in Q3FY18 and we were able to reduce it to LKR 32 million during the last quarter. And for the 9-months, a loss of LKR 337 million was reduced to LKR 170 million.

The reason for showing the exchange loss separately is that we have about USD 7 million in foreign currency, and that is roughly 40% of our borrowings; so the USD impact, due to the exchange rate volatility – which we accounted for LKR 156/USD the previous year, we have accounted this quarter at LKR 182.75/USD (which is the 31st December rate). Because of that we had a cumulative exchange loss of about LKR 200 million; and LKR 100 million for the last quarter alone, which we have accounted for in the Statement of Profit or Loss. But, of course, as you know, there will be a future hedging so there will be no risk as far as the company is concerned. With over 70% of all group earnings in foreign currency –it is naturally hedged. And, if you look at this quarter, we also have the other advantage (in addition to the reducing loss in the Statement of Profit or Loss), of a revenue increase. The net impact from exchange losses, to the group, is roughly LKR 130 million.

Again, if you take the exchange loss as at today – it has come down to (an average) of LKR 178/USD against LKR 182.75/USD – there would have been a reversal of about LKR 30 – 35 million. We do not know what the exchange rate is going to be, but, we expect it to (more or less) stabilize at a certain level for the next 2–3 months, especially as at 31st March end. So, we expect this loss to basically, either reduce or, at a maximum, be maintained at the same rate and do not expect a further hit to the group as it is.

You will see that we have maintained the GP margins at over 80%. EBITDA margins have also increased from the previous year from 23% to 34%. Actually, if we can achieve anything above 35%, it is a good indication in the hotel industry. Our group targets are even higher but we are coming close to achieving those EBITDA targets as well.

Gearing ratio continued to be in the 40% – 50% range. Because of the exchange loss we have accounted to the loan outstanding, you will see an upward tick as the loan amount, in rupees, has increased in the Balance Sheet.

As a group, for the last quarter, the contribution of each property is given in detail. You will see different colours for Jetwing Surf, Colombo Seven, Lake, Yala and Kaduruketha, which will give you the components of the revenue increase. Further to the revenue increase of 37% in the quarter (as well as the 30% cumulative increase), we were able to increase the EBITDA margins proportionally higher than that. Due to the synergies which we create and the fact that about 60% of our overhead costs are semi-fixed, we were able to get better margins to the bottom line when the revenue increases.

I will go through each property individually.

Slide 7: Jetwing Yala

Jetwing Yala has positioned very well now. When we started we told that we were almost done positioning the property, but now Yala has completed the transition and we are expecting a very good result from the end of 31st of March. We had occupancy close to 90% in January and about 75% – 80%, from pre-bookings, for March already.

There was a QoQ increase of 36% in the revenue, with the EBITDA increasing by about 70% from LKR 37 million to 63 million in the same quarter. Cumulative EBITDA also saw a 23% increase, and even last year we saw a breakeven profit after tax (before exchange losses), which increased to LKR 27 million during the 9-month ended FY19, and we expect Yala to do very well in the next 3 months too.

In the next graph (Hotel and Safari Camp in two different colours), you will see that Hotel ARR increased from about LKR 15,000 to 19,000 and the occupancy has increased from c.60% to 70%, in the comparative quarter. Of course, we have the exchange benefit in the last 2 months; with the market mix also helping us increase the ARR. Even though the occupancy was low for Safari Camp, we have managed to maintain a high ARR as we have now completed Safari Camp as a separate unit – with a separate reception, kitchen and a completed different experience created on that. We will be selling this as all-inclusive, high-end property, so we expect Jetwing Safari Camp to show much better results in the years to come. We believe it will take a further 6 – 8 months to position.

Slide 8: Jetwing Kaduruketha

Jetwing Kaduruketha is also a classic example of a property which, for the last 2 years, has been positioning well. Earlier, it was an uncut gem but now it has started to shine. We expect this to position even beyond Vil Uyana, to be frank, and slowly graduate to be one of the best properties in Asia. This year we expect Jetwing Kaduruketha to make a small profit.

If you look at the QoQ revenue, there has been a 34% increase, with a cumulative increase of 48%. More than anything, if you look at the ARR, from the last year LKR 12,000 it has almost doubled – close to LKR 24,000. There was a small drop in occupancy but this is expected from the positioning which we have deliberately done. We expect another 10% – 20% increase in occupancy will make a complete difference in the profitability of the property.

Slide 9: Jetwing Lake

With Jetwing Lake we were able to increase QoQ revenue by over 70%, but of course, compared to the last quarters, the operations in this quarter were more settled down. Overall, the cumulative occupancy was increased by about 52% and the loss after tax [before exchange losses] reduced from LKR 185 million to LKR 102 million. EBITDA was positive, growing from LKR 6 million to LKR 83 million. You will see from the next chart that occupancy and ARR have increased. Jetwing Lake is doing extremely well at the moment, with close to 85% occupancy YTD, with pre-booking for March and April also looking very good at the moment.

Jetwing Lake has reached the number 2 position on TripAdvisor for hotels in Dambulla. The number 1 position is an informal player. Therefore, as a brand, Jetwing Lake is the best hotel in Dambulla and we expect it to do well in the coming years.

Slide 10: Jetwing Colombo Seven

Jetwing Colombo Seven had a little bit of an impact from the country conditions. Compared to the other properties, Jetwing Colombo Seven sees a much higher last-minute bookings; therefore, country conditions generally have a direct impact on this property.

You will see that, despite the ARR going up, the occupancy in the Deluxe Rooms saw a drop. However, we were able to maintain and increase the ARR and occupancy in the Apartments category. We were able to increase QoQ revenue by 12% and the cumulative EBITDA from LKR 101 million to LKR 144 million – a 43% improvement. GP margins continued to be very good at 83% and 86% and even the cumulative EBITDA margins were up from 28% in Q3FY18 to 38% in Q3FY19 – clearly, we have continued to maintain healthy EBITDA margins.

Slide 11: Jetwing Surf

The last quarter for Jetwing Surf was the off-season, so we saw a negative EBITDA but we believe this will turn around in the season. We had a very good season as soon as we started; of course, here the main reason is the destination marketing. As it is, only in the season do high end guests visit Arugam Bay. So we have taken a lot of action overseas, in different markets to promote the destination first and hope that will help to get year-round high occupancy.

Despite, the revenue increase, we recorded a negative EBITDA (from LKR 1 million to 6 million in the third quarter) as the fixed costs were too high. Cumulative EBITDA, we recorded a positive LKR 16 million, EBIT also we have a positive LKR 2 million, but overall profit after tax before exchange loss saw a LKR 21 million loss. But, if you look at the chart, compared to the last year, we were able to increase ARR, and see a positive trend in occupancy which we expect to continue.

Slide 12: Guest Reviews

In a snapshot, these are the customers' point-of-view. We have continued to maintain good TripAdvisor and Bookings.com ratings throughout our portfolio. Jetwing Yala, Kaduruketha, Lake and Surf continue to retain their top positions on TripAdvisor. Lake, as I said, was number 2, Kaduruketha was place at number 1, Surf at number 1 and Yala at number 2. Jetwing Colombo Seven saw a major improvement where, in the last quarter, we were the 28th out of about 70 properties, now we have improved to the 14th position.

Slide 14: Jetwing Kandy Gallery – Progress

Finally, Jetwing Kandy Gallery; that is, our new addition to the Symphony Group. In a nutshell, 65% of the excavation work is completed, with over 80% of overall sub-structure and 30% of the super-structure work completed. LKR 300 million equity raised from the IPO is being used in the project and we have no borrowings [for this project] at the moment. We will first utilize the equity and then go to borrowings.

I think that is all from my end. We will answer all your questions now. Thank you.

Questions and Answers Session

(All questions answered by Hiran Cooray, unless specifically mentioned)

Hiran Cooray: Ayubowan! It's nice to see such a big crowd on Valentine's Day. We are happy to take any questions if you have any.

Q1: To start off, October and November may have seen a hit from the troubles that Sri Lanka was seeing, but if you are looking at early booking, for let's say March, which is also the last month of the season, how does the early bookings compare with the last year? I'm trying to get an idea of what kind of an impact the country situation had.

I think these 3 months have been exceptionally good. January, February and even March is looking very, very good. So, compared to last year, I would say couple of notches higher. Yes, as Sanjeewa was saying, the increase in the USD has also helped us plus pre-bookings are also good.

Q2: In terms of USD, the ARR, how do you think it's looking for March? Is it flat or slightly lower?

No, now the USD rates we have contracted, we haven't changed. So, what's happening is now even if we have budgeted at LKR 160 or 165/USD we are getting about LKR 178 – 180 to the USD. So luckily, so far, the cost of operations has not increased to the same extent. Therefore, there is a slight gain for us, in the short term. Of course, in the long-term, as Sanjeewa was showing, it can go up and then it will even out.

Q3: You don't feel as if we are yet to come to a point where the hoteliers will be able to increase their room rates in terms of dollars?

Oh yeah, yeah, I mean, you know, when we are contracting next time we will increase on the dollar. So, when we talk of an increase in hard currency, the USD, the Euro or the GBP – most of our contracts signed, I would say around 80%, are in USD and the balance in Euro and a very few in GBP. So the increase varies from 3% to 5% unless if you are repositioning a hotel where, then, of course you get a different pricing altogether. Then it is complete restructure, but otherwise we are talking normal increases – about 3% to a maximum of 7%.

Q4: One last question, this is more on the industry. The tourist arrivals growth figure for January was just 2% and that is on the back of the country situation at the end of last year. But there was a considerate attempt to increase the tourist arrivals. Does a 2% surprise you and why do you think that it was a low figure?

Actually, we really do not focus on the numbers. One thing is (of course the numbers that the tourist board puts out are not cooked, that I can tell you) I think a fair amount goes into the informal sector as well. As for the increase being low – because January and February would have the highest number anyway – ideally, of course, we could have had a 10% increase; but given that we had all sorts of other issues, you know, travel advisories and not having a functioning tourist board; all of that put together, even a 2% increase, I would say, is good. And most of the promotions happen via people coming and putting on social media and all of that, rather than the country spending money and that promotion has helped us to get this increase.

Q5: To continue on the last question, do you think that the impact from the constitutional crisis and the travel warnings in October and November is limited to the 3rd quarter?

Well, there certainly was an impact! We can't deny the fact even though, sometimes, publically we are responding to a newspaper overseas, we say no because you don't want to shoot your own foot. But definitely there was an impact. When it was sailing smoothly, suddenly, when the ship was halted, promotions stopped and everything, you know, came to a standstill. Especially, most of the destinations we were attracting the tourists from when these travel advisories and the negative publicity started hitting; we could have done without it.

Q6: So, going on from that, do you think that this quarter – January to March – could have seen a better quarter?

Yeah, definitely. As Sanjeewa said, we do not know what we lost. Because if you were thinking of coming and you saw this and you thought, "Okay we'll go somewhere else and maybe think of Sri Lanka later"; so that much we do not know. We only know what we got but what we haven't got we don't know. So maybe we missed out, and if this didn't happen, maybe in January we could've had a 5% to 10% increase than the 2%.

Q7: Then when do you see that effect wearing-off and we get normalized in terms of growth? When do you see that traction coming back?

Well, I think, yeah, I'm sure you'd have seen in the papers also, they have appointed a new chairman and there is a destination slogan campaign agreed upon. Hopefully, those will start happening, and I think, with that push, plus the natural push that is coming with social media and everything else – all those combined will help us. And by the 2nd or 3rd quarter this year we should see better results.

Q8: And we got the Lonely Planet number 1 destination ranking, but that largely got overshadowed by what happened in October and November, do you think we missed the bus in terms of gaining traction from that?

I hope not; no, no, but that will continue. Because, luckily Lonely Planet stood by their decision; they came out and defended their decision. For them it wasn't politically related anyway, right, so that will stay on and we have to ride on it. We, ourselves, have to market the fact that we are now Lonely Planet's number 1 destination. If we go to sleep and think everybody will come, that won't happen but if we go out, market and push the destination, more and more will come.

Q9: Looking on to the later end of the year, we will potentially see a presidential election in November. How does campaigning and elections sound with tourists?

As long as there is no violence, no bombs and no mass destruction, elections won't affect too much. Because as far as tourists are concerned they come for a week or two and if they can go around the country with no disruptions to their travel plans, it is not going to effect. But if there is going to be curfew, death and destruction, I mean you know, that kind of thing is going to affect more than an election. Of course, there might be a small impact but not a huge one.

Q10: Just to focus on your properties; would you say, given the style of properties you have, the kind of segment you appeal to, I suppose you do not go too much for the tour group segment, it is more solo travellers, is it?

Both. Now, let's say for example, Jetwing Yala and Jetwing Lake, out of the Symphony hotels, would cater to both because they are slightly bigger. One has 93 and the other has 90 rooms; so therefore, we can't cater only to the solo traveller. Whereas Kaduruketha and Surf are the one that is coming up – Kandy Gallery is 26 suites – those 3 hotels will cater more to the independent or smaller groups, about 6 – 12 pax. Jetwing Colombo, we are marketing as an urban resort, therefore we prefer to cater to solo travellers, but of course, we are not going to say no to groups.

Q11: From a price point of view, which is better? The solo travellers or the groups?

Solo travellers are always better.

Q12: My one question with Kaduruketha and Surf is accessibility. That is of course concerning in terms of drawing the crowds, so what is your solution to overcome that?

Well, one of the things that we are trying to do is offer different itineraries. If you look at a travel brochure or a travel itinerary, there will be Colombo, Negombo, the Cultural Triangle, Kandy, Nuwara Eliya and Yala. That's the bog-standard tour which 90% of the travel agents in Sri Lanka will offer. We are now trying to say – "Hey, there are different itineraries you can do!" You can go from here, spend a few nights in Galle and from there to Kaduruketha, then you have access to so many places – in fact, we ourselves are doing Wellawaya.com, we have a team who is developing in order to convince Sri Lankans on why they should go to Wellawaya. It is such a nice place to go to – beautiful scenery, walks, historical places, nature and all of that. And it is fantastic village living. From there you have access to Nuwara Eliya, Pottuvil, Arugam Bay, Kumana, Yala and Udawalawe. And from Pottuvil, there's the drive up North/North East to Passikudah and Trincomalee. We are trying to attract more and more different itineraries to overcome the barriers. It is a fact that even today to go to Wellawaya it takes 6 hours, to Pottuvil it takes 8. So if you are just driving from here to there, point-to-point, then, it is not that attractive – I have to accept that. But, if you are coming as a tourist where you are going to spend a week or 10-days then you can break the journey and you do 2–3 hours, stop, and wait for a 2–3 days and go again, like that.

Q13: Your customer spread between local and foreign. What is the ratio like?

Our Sri Lankan business is over 25%, so as a single market, Sri Lankans are the biggest users of Jetwing (not only Symphony) properties. It would be around the same ratio for the Symphony portfolio, as well.

Q14: Just to touch back on Jetwing Kaduruketha and Surf, you mostly do the promotion through an inbound business. Is that gain in traction helping you to an extent?

Yes, correct. We do different promotions; one is online, now that online is big. Then we still have the traditional channels, because only 30% of our business is online, the balance we do through tour operators. Still our tour operators are very strong across Europe and in some other countries like China, so we work very closely with them and they promote us. Then we also have our representatives in certain markets, they promote us and, then of course, we also do a little bit of advertising in those markets. So, in summary, we do traditional, as well as online marketing.

Q15: Since you entered Wellawaya and started promoting the destination do you see other players entering that area?

We certainly hope they will, it makes it easier to promote a destination. Now see what has happened to Galle, when we started nobody was there, but now there isn't a single inch in Galle which is not developed for tourism (which is probably not good as well, but that's the way it is). Negombo is the same, in the 1970–80s; nobody except my father and a few others was in Negombo. But now, today, two blocks behind us they are building hotels.

Q16: In terms of arrivals growth, we sort of hit a roadblock with the current capacity we have at the BIA and the next phase of capacity was supposed to come in 2020. Do you have any idea of what progress was made? Do you know when that will come in?

You are talking on expanding the airport, right? I think there is a plan to build that. [Laughs] I don't want to comment on that. Yes, the minister has mentioned something, so, if you want to accept that, that's fine.

End of Q&A, Closing Remarks

Hiran Cooray: If there are no questions, shall we wind up, have some tea and chat? Thank you for your attendance.