MARMORE
MENA INTELLIGENCE
A MARKAZ Subsidiary

July 2019

GCC Tourism and Hospitality

Research Highlights:

Analyzing the Hospitality Sector focusing on the supply-demand dynamics and investment trends. The report also discusses the various growth drivers, trends and challenges in the industry.

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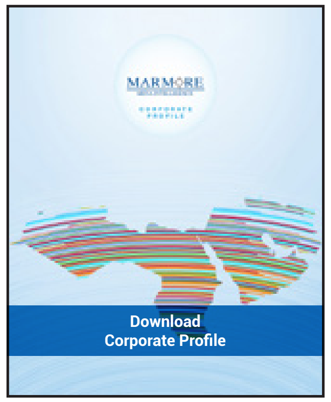
About Marmore



Organizational Background

Marmore MENA Intelligence provides research-based consulting solutions to help understand current market conditions, identify growth opportunities, assess supply/demand dynamics, and make informed business decisions.

Marmore is a fully-owned research subsidiary of Kuwait Financial Center 'Markaz'. Since 2006, Markaz Research has been at the forefront in disseminating thought-provoking, hard-data backed research reports. Marmore continues that legacy with a focused approach to providing actionable solutions for business leaders and policymakers.

Since its inception, Marmore has published over 700 research reports and covered more than 25 varied industries and infrastructure segments; all focused primarily on the GCC economies. (To view our Research Library, please *click here*)

With over 30 policy and regulatory research studies published, Marmore has partnered with renowned regional think-tanks and opinion-leaders to publish some of these intellectually provoking policy research papers. These research studies aim to initiate dialogue and propose better solutions to existing economic conundrums. (To view our Policy & Regulatory research report, *click here*)

Almost on a weekly basis, Marmore publishes thematic economic, industry, policy and capital market reports. Marmore has been recently conferred **"Research Provider of the Year - 2018" award by Global Investor, a Euromoney Group company.** To learn more, visit www.e-marmore.com

Experience/Qualifications

Marmore is the only regional firm providing niche research based on strong analytics in areas that are less researched. Marmore provides full range of financial market, sector specific and economic and policy researches, as well. The different types of researches are availed based on the client's requirements. It is notable that Marmore research reports have regularly been used by various renowned institutions to better understand the MENA region.

Marmore's strengths can be summarized as follows:

» Consistent track record of quality, in-depth research offerings;

» Skilled team with extensive experience in advanced quantitative and qualitative analysis techniques;

» Deep understanding of MENA market and access to wide-ranging database

» Delivers high quality, client specific, insightful research reports; highlighting key client issues and uncovering key answers/opportunities for the clients.

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Chapter 1

Executive Summary

The GCC region is rich in hydrocarbon assets and is home to the largest proven crude oil reserves in the world. The region ranks as the largest producer as well as exporter of petroleum and plays a leading role in the global petroleum market and OPEC in particular. GCC countries account for 41% of the total OPEC oil reserves and 55% of the total OPEC crude oil production. However, with a widely shared strategic goal of diversifying away from the hydrocarbon sector, the GCC has been focusing on non-oil sectors. The hospitality sector (which is influenced by travel & tourism) is one such sector that can assist in diversification of the GCC economies. Expansion of private sector through reforms, investment of oil revenues in local non-oil economy, attracting higher international tourist arrivals and hosting of international events can drive the growth in the hospitality industry.

As per our estimates, the GCC is home to 733,000 hotel rooms as of 2017. The GCC hotel pipeline consists of 1,156 projects worth USD 147.5Bn. Out of which, 724 are hotel projects worth USD 78Bn, 140 are resort hotels projects of worth USD 50Bn and 292 are hotel apartments of worth USD 19.5Bn. The GCC is expecting an additional 58,000 keys to enter the market in 2019 with Dubai, Makkah and Riyadh facing the highest increases in supply. According to data from hospitality industry service provider HVS Global Hospitality Services, the average occupancy rate for GCC is estimated to be 58% for the year 2017, whereas, the Average Daily Rent (ADR) for the year 2017 is estimated at USD 156. Average GCC occupancy rate is expected to increase from 58% in 2017 to 65% by 2022 and ADR is expected to increase from USD 156 to USD 167 over the same period. Economic growth and government initiatives leading to an increase in tourist arrivals are expected to support growth in occupancy and room rates. Revenue of the GCC hospitality sector is expected to be over USD32 Bn by the year 2022, with a compounded growth rate of approximately 7.2% between the years 2017 and 2022, driven majorly by mega events like the Dubai's World Expo 2020 and Qatar's FIFA World Cup 2022. Moreover, the progressive initiatives by the governments of the various GCC countries with the underlying objective of diversifying away from hydrocarbon dependency will further boost tourism in the region.

International tourist arrivals in the GCC region is estimated to grow at a compounded growth rate of 2.7% between 2017 and 2022. UAE is expected to receive the maximum tourist inflows at a compounded growth rate of 4.3% over the same period. The business travel spending in GCC for the year 2017 contributed a share of 24.6% (USD 25Bn) towards the Travel & Tourism GDP. The business travel is expected to grow at 5.4% p.a. from 2018 to 2028. In 2017, the leisure travel spending had contributed a share of 75.4% (USD 76.4Bn) towards the Travel & Tourism GDP. The leisure travel is expected to grow at 4.6% p.a. from 2018 to 2028. The growth in business tourism, relatively stronger economic situation and a more active private sector are factors, which have led to the growth in the hospitality industry. GCC is one of the busiest air corridors in the world owing to its locational advantage which has seen a phenomenal growth led by foreign, domestic & intra-regional tourists. Over the years, the GCC region has focused on promoting experience travel by focusing on building resorts and entertainment parks with a higher level of tourism-based activities that have helped the region attract tourists from all over the world.

GCC is focusing more on its niche tourism offerings such as heritage and cultural tourism, diving and wildlife-oriented tourism. Qatar attracts water sports enthusiasts for offerings like jet skiing, windsurfing, canoeing, kite surfing. Dive sites are especially known for deep water and reef dives. Saudi Arabia is traditionally known for pilgrimage spots of Makkah and Madinah, attracting millions of Muslims across the globe. UAE's main tourist attractions are Abu Dhabi's Sheikh Zayed Mosque and Dubai's Burj Khalifa. In addition, the beach resorts and sandy shores also give a mesmerizing experience to the tourists.

The pipeline is dominated by luxury rooms, which have seen a three-fold growth over past 10 years. Service apartments have also grown in the GCC region with the rise of business travelers who look for longer stays at reasonable prices. In addition to the luxury hotels segment, there has been a spur in the growth of mid-sized hotels to attract travelers with budget restrictions. There has been a considerable shift in the tourist source market where tourists from countries like India, China and Russia have seen a significant inflow into the region over the years.

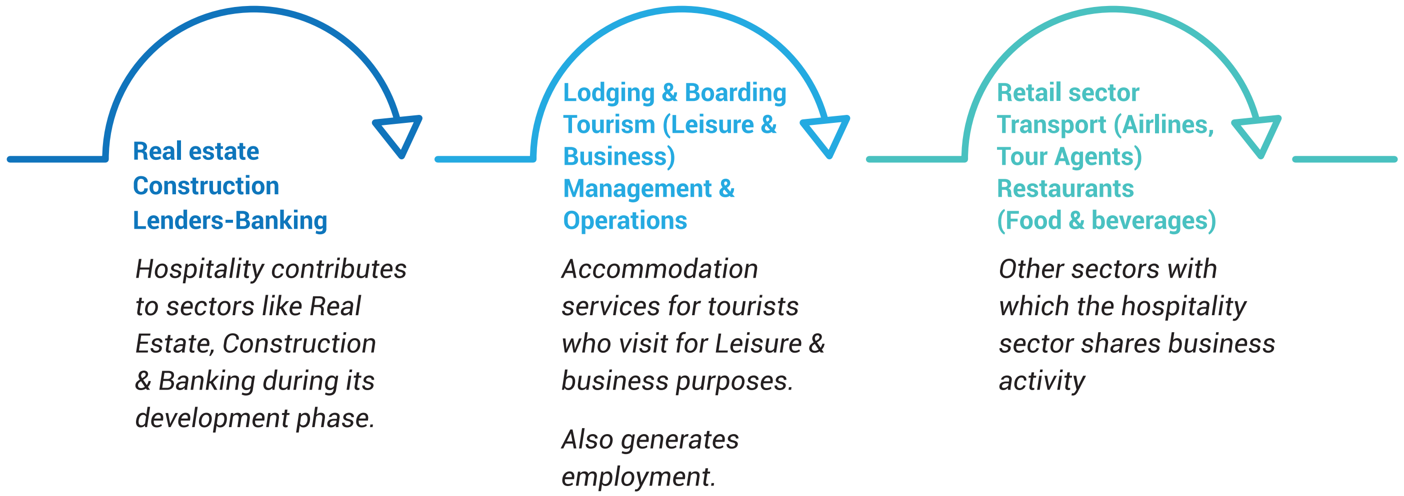
In order to understand the local consumer preferences and leverage the internal hotel expertise with Arabic touch, some of the renowned international hotel chains are increasingly showing a willingness to collaborate with local players. Swiss-Belhotel International, Minor Hotel Group (MHG), Deutsche Hospitality groups, are some of the international names that have expanded their presence in the GCC region in the recent years. Swiss-Belhotel International has identified the GCC as its main growth market in the MENA region with an objective to have a hotel in operation in every GCC country by the first quarter of 2020.

Regional co-operation and increased focus on engaging repeat travel are on the high priority list. On sensing the increasing demand for spas, gymnasiums and growing consciousness among people about personal health and fitness, a number of luxury and five-star hotels have started offering these to their customers. Social media as a focus point is being used extensively. There has been a particular focus on “no language barrier” when it comes to the campaigns and social media promotions. Online travel sector sales grew by 9% in 2017.

Industry Overview

The economic reach of the hospitality sector is broad; it supports the economy by contributing in terms of income generation, employment and investment. Its supply chain generates business activity for many other sectors of the economy, particularly for the retail, recreation, transport and restaurant sectors.

Figure 2.1: Hospitality industry supply chain



Source: Marmore Research

Hotels also provide a forum for business meetings, trade shows and conventions that are important catalysts for economic growth. Thus, it is an auxiliary industry and catalyst for the travel and tourism industry and its existence also contribute to other related/unrelated industries. Some of the key features of the hospitality industry are listed below:

High correlation with tourism: The travel and tourism industry is a major driver for the Hotels. Higher international arrivals and domestic demand for both business and leisure purposes drive the hospitality industry.

Classification of Hotels: Hotels are classified into different categories based on the standards of facilities and services at hotels. Some common classifications are Star category, Luxury, Mid-scale, Economy etc.

Labor intensive: The industry is a labor intensive one which provides employment to skilled, semi-skilled and unskilled labor directly or indirectly. Higher graded hotels in general have stringent manpower requirements.

Capital Intensive: The industry involves higher development costs initially. With rising construction costs and maintenance overheads, the industry tends to be capital intensive upfront.

Real-estate factor: Hotel industry is also in a way a real estate business. The hospitality industry tends to focus in fast growing markets where real estate comes at a premium. It is important to look for opportunities where real estate deals can be conducted at a good price.

Seasonality: Traditionally this industry was seen as seasonal, where the hotels experience high demand for some time of the year and the rest of the year entails low demand. However, this trend is seeing a change over the recent few years. Hotels have introduced various offerings to improve performance (occupancy) during the lean months.

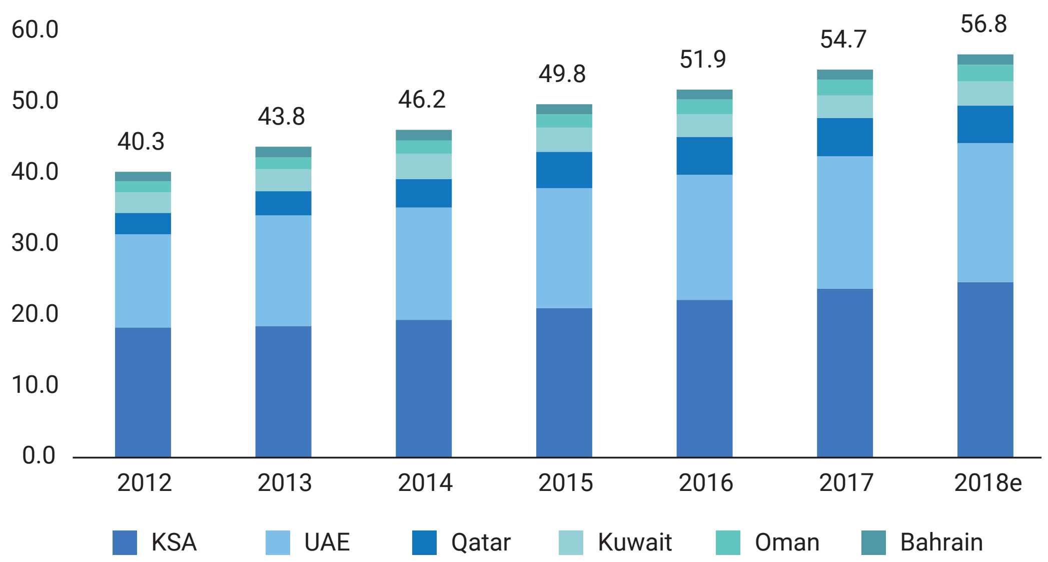
GCC hospitality industry overview

The GCC countries, rich in hydrocarbons and with economies heavily invested in and dependent on oil and gas industry, face a particularly daunting challenge in diversifying their economy. In this context, the GCC nations have adopted a strategic goal of economic diversification, which helps them reduce their dependency on oil and gas. The region views travel and tourism (which covers the hospitality, transport, restaurant, and others) as a potential sector, which is in alignment with this goal of economic diversification. Recovery in oil prices, increased tourism, regulatory changes, higher government investments and major upcoming events, is expected boost GCC hospitality industry, which has been under stress in recent years. Further, in anticipation of increased inflow of visitors handling capacity of airports are being enhanced. This reflects the emphasis GCC countries are providing to hospitality sector in order to develop themselves as the preferred travel destination.

In 2017 Travel & Tourism directly supported approximately 1.2Mn jobs (4.7% of total employment). This is expected to rise to 1.5Mn jobs (5.0% of total employment) by the year 2028. With healthy demand in business and leisure segments and with growing contribution to the employment sector, travel and tourism along with the hospitality sector is becoming an important part of the investment portfolio in the regions' strategy of economic diversification. With increasing standard of living all over the world and Gulf becoming one of the most sought out place to travel, tourism can contribute significantly to development in the coming years.

Total direct contribution of the travel and tourism industry to GDP was equal to USD 54.7Bn (3.8% of GDP) for the year 2017 growing at a yearly compounded growth rate of 6.3% between the year 2012 and 2017. As of 2017 KSA tops the list in direct contribution of travel and tourism to GDP at USD 23.8Bn, followed by UAE at USD 18.7Bn.

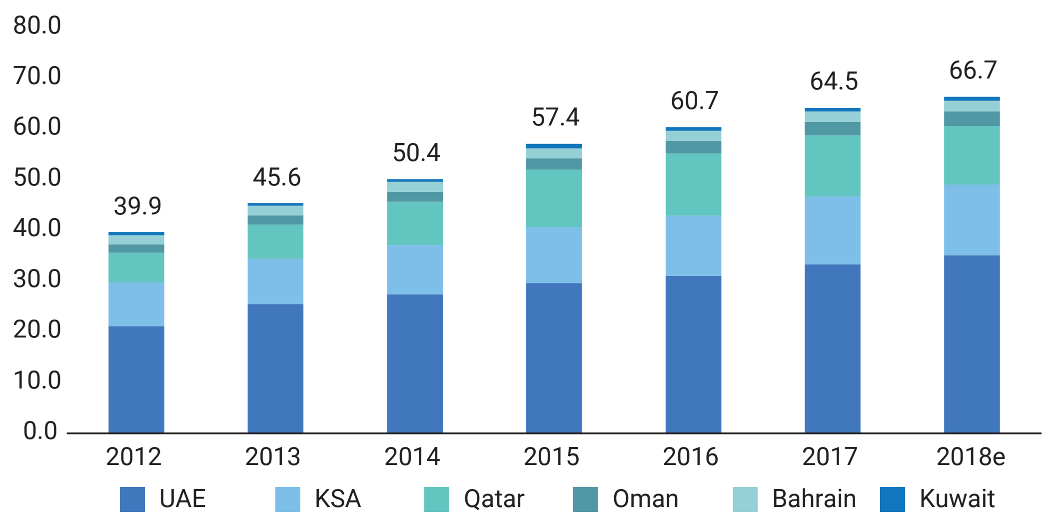
Figure 2.2: Direct Contribution of Travel and Tourism to GDP (USD Bn):



Source: World Travel and Tourism Council

Travel and tourism (T&T) is a direct contributor for the Hospitality industry for any nation. As such the demand in the hotel industry has a high correlation with the T&T spending of the country. Money spent by international visitors (also known as visitor exports) is one of the key factors contributing towards the Travel & Tourism in the GCC region. Visitor exports were recorded at USD 64.5Bn in 2017, accounting for 63.6% of the total T&T spending in the region. GCC visitor exports have witnessed a compounded growth of 10.1% during the period 2012-17. Domestic spending on the other hand accounts for only 36.4% of overall T&T spending in the region.

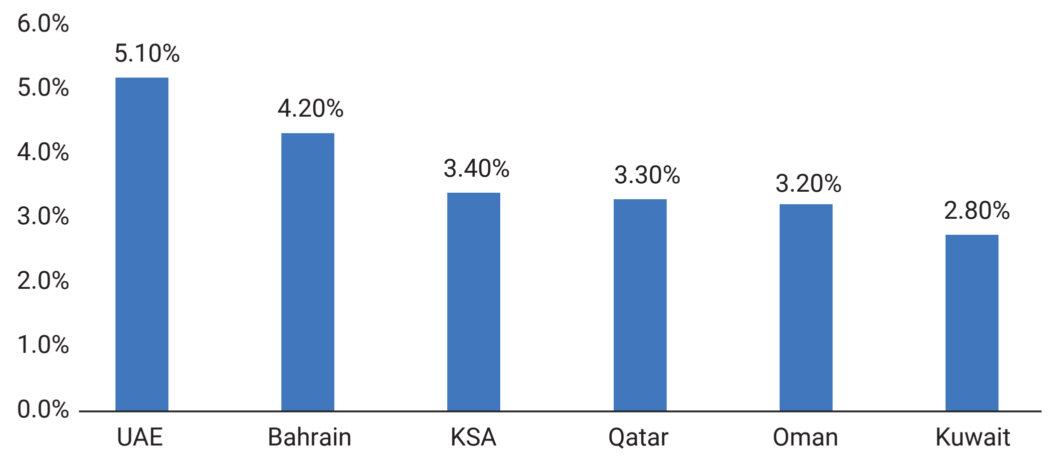
Figure 2.3: Visitor Exports (USD Bn)



Source: World Travel and Tourism Council

However, the direct contribution of travel and tourism as a percentage of GDP was highest for UAE at 5.1%, followed by Bahrain at 4.2%. The need for diversification away from oil has resulted in a high growth in UAE travel and tourism industry, especially in Dubai and Abu Dhabi who have been on the forefront of this growth.

Figure 2.4: Direct Contribution of Travel and Tourism to GDP in 2017 (%)

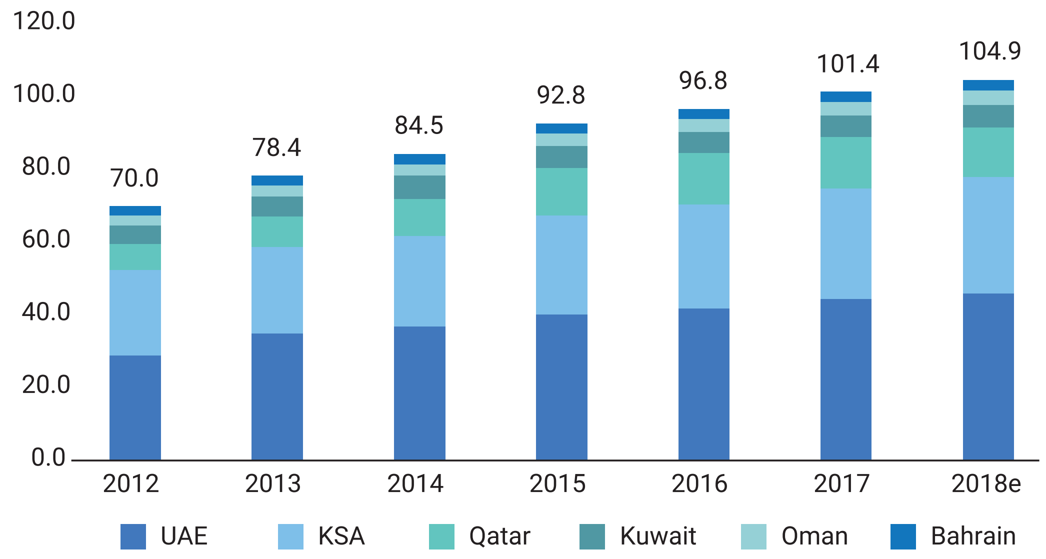


Source: World Travel and Tourism Council

Tourist spending on the rise

Overall spending on tourism activities in the GCC region is recorded at USD 101.4Bn in 2017 and has grown at a compounded rate of 7.7% between the years 2012 and 2017. Total Spending in the GCC is further expected to grow to USD 167.4Bn by the year 2028, at a compounded rate of 4.7%. In 2017, UAE and Saudi Arabia enjoyed the highest internal tourism consumption in the GCC region at USD 44.4Bn and USD 30.4Bn respectively.

Figure 2.5: Internal tourism consumption in the GCC (USD Bn)

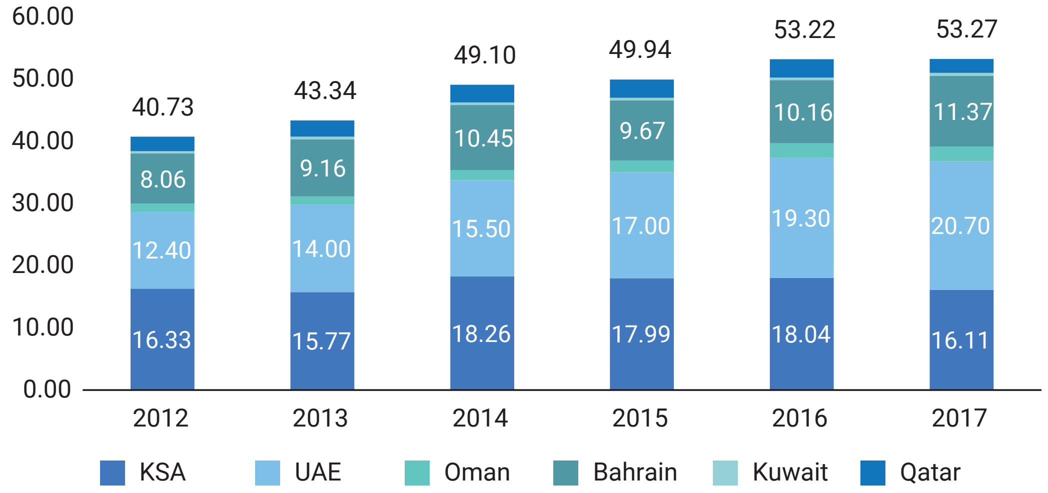


Source: World Travel and Tourism Council

Industry Supported by increasing tourists

The GCC recorded close to 54Mn international tourist arrivals, i.e. approximately 4.2% of the world inbound tourism in 2017. Over the past decade, the GCC region has evolved into a global travel and tourism hub by attracting visitors from all over the globe. Dubai saw an increase in 3 and 4 star properties which helped attract travellers with a constrained budget, whereas cities such as Muscat and Amman have seen an influx of higher international hotel brands helping to draw attention and bring loyal clientele from around the globe.

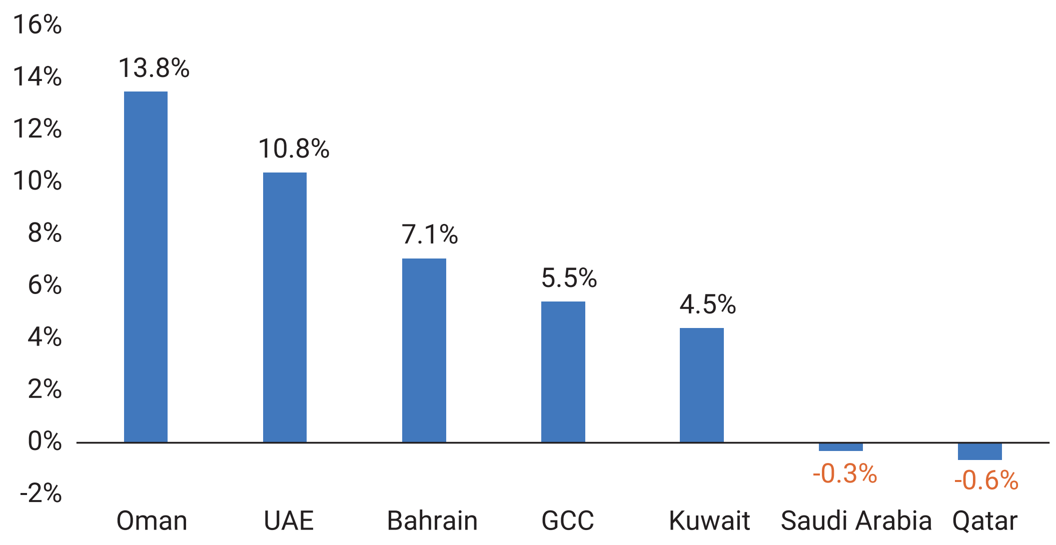
Figure 2.6: International tourist arrivals to GCC (in Mn)



Source: Department of Culture and Tourism – Abu Dhabi, Department of Tourism and Commerce Marketing (Dubai Tourism), World Bank, CEIC, Statista, Marmore Analysis

In the period between 2012 and 2017, Oman has seen the highest compounded annual growth rate (CAGR) of 13.8% in international tourist arrivals, followed by the UAE at 10.8%. Qatar and Saudi Arabia saw negative growth at a CAGR of -0.6% and 0.3% respectively.

Figure 2.7: International Tourist Arrivals Growth CAGR % (2012 - 2017)

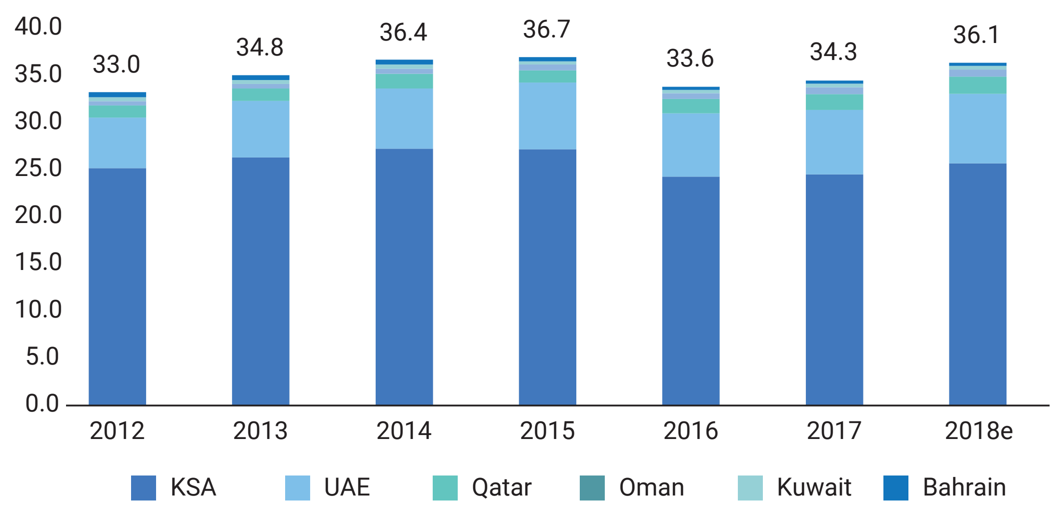


Source: Gulf News, Trade Arabia, Qatar Tourism Annual Report, Trading Economics, World Travel and Tourism Council

Investments

GCC capital investment in travel and tourism has reached USD 34.3Bn as of 2017, growing at a yearly compounded rate of just 0.8% since 2012. Saudi Arabia has been the largest investor in the region with capital investments of USD 24.2Bn (or 71% of its total investments) in the tourism sector for the year 2017, followed by UAE and Qatar. Capital investments into the tourism industry have remained stagnant post the oil crash in 2014, as the individual countries cut down on fiscal expenditure to maintain their reserves. Moving forward however, as oil prices have recovered, GCC countries have refocused on the importance of this sector and have planned to increase investments in the coming years. Total investments are estimated to reach USD68Bn by the year 2028. KSA's major investment plan is to promote cultural tourism by increasing the number of museum projects and archaeological sites. In UAE, the major investment will go for world-class hotels and island development.

Figure 2.8: Capital Investment in Travel and Tourism Sector (USD Bn)

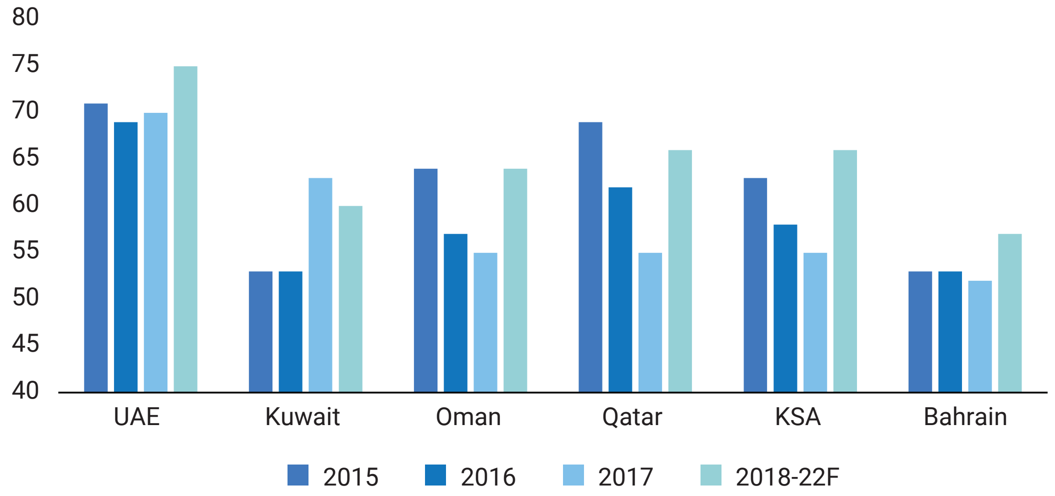


Source: World Travel and Tourism Council

Industry metrics (Historical Vs Forecast)

Historical occupancy in the GCC countries in the last 20 years have averaged approximately 64% with UAE consistently outperforming the GCC average hotel occupancy. In 2017, UAE had the highest occupancy rate of 70% followed by Kuwait at 63%. Over the years we have seen occupancy rate slowing down for almost all the GCC countries. This decline can be attributed to an increase in hotel room supplies which has outpaced the demand in the market. However, occupancy rates are expected to improve over the coming years on the back of increased government spending in an effort to diversify away from hydrocarbon dependency.

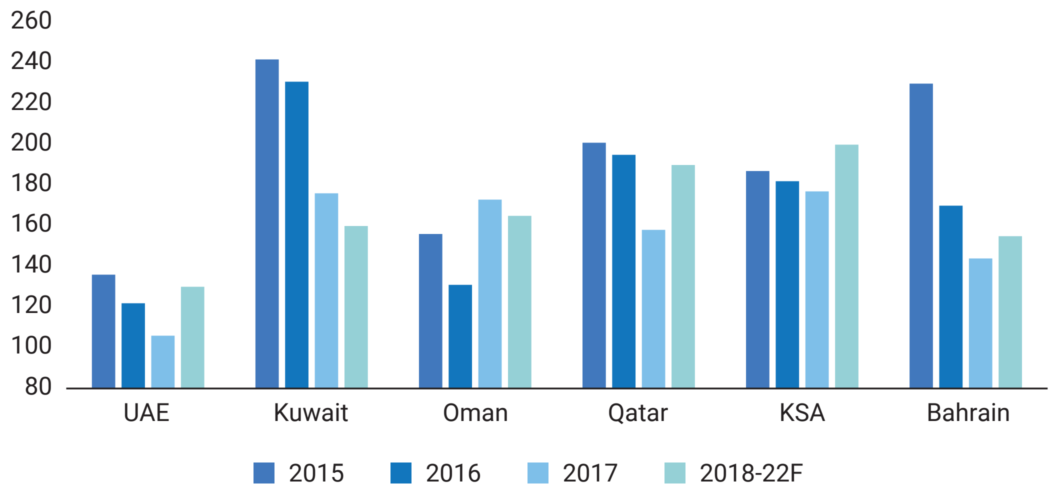
Figure 2.9: Trend in Occupancy Rate (%)



Source: HVS – Hotel Performance Indicators

Average Daily Rates (ADRs) have historically been the highest in Kuwait when compared to its GCC peers, but they have witnessed a sharp decline over the recent years with ADRs falling from USD 242 in 2015 to USD 176 in 2017. A Similar trend of falling ADRs can be observed in almost all of the other GCC countries as well. Changing demographics of source market and increased competition has been eating away at the profits of the industry players who are now forced to lower prices to remain competitive. However, according to data from hospitality industry service provider HVS Global Hospitality Services, it is expected that by 2022, ADR will stabilize and trend upwards for countries like UAE, Qatar, KSA and Bahrain.

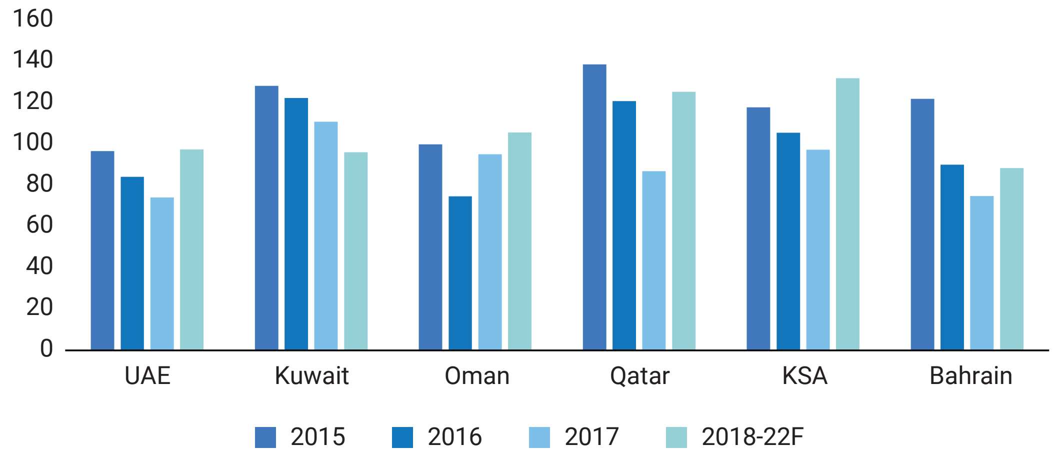
Figure 2.10: Trend in ADR (USD)



Source: HVS – Hotel Performance Indicators

Therefore, Revenue per Available Room (RevPAR) has witnessed a decline across the board as Occupancy rate have slowed down and ADRs have declined. But, revenue for the hospitality industry is expected to improve with mega events like the FIFA World cup in Qatar and the World Expo in Dubai leading the charge in attracting tourists from all across the world.

Figure 2.11: Trend in RevPAR (USD)

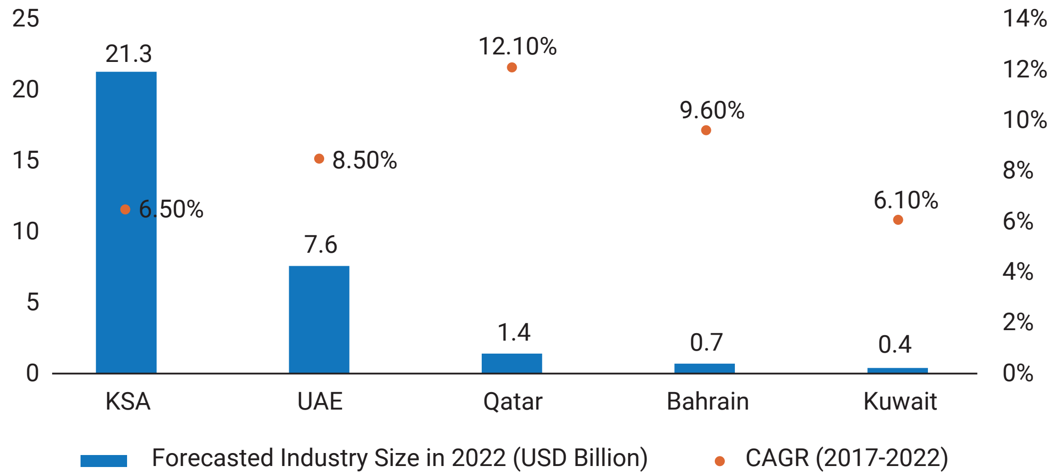


Source: HVS – Hotel Performance Indicators

Market Forecasts

The GCC hospitality sector revenue is expected to reach USD 32.5Bn by 2022, at a CAGR of 7.2 per cent (2017-2022), primarily driven by mega events such as Dubai's World Expo 2020, Qatar's Fifa World Cup 2022 and government initiatives to boost tourism. Bahrain is expected to outperform the GCC average, with revenues expected to go up 9.6%, backed by government-led initiatives and leisure segment driving the hospitality sector growth. Qatar is expected to witness highest revenue growth during the forecast period (2017-22) on account of significant investment activities in the tourism and hospitality sector for the upcoming Fifa World Cup 2022 event, which is expected to attract over 1.5 million tourist arrivals in 2022[1].

Figure 2.12: GCC Hospitality Industry Forecast

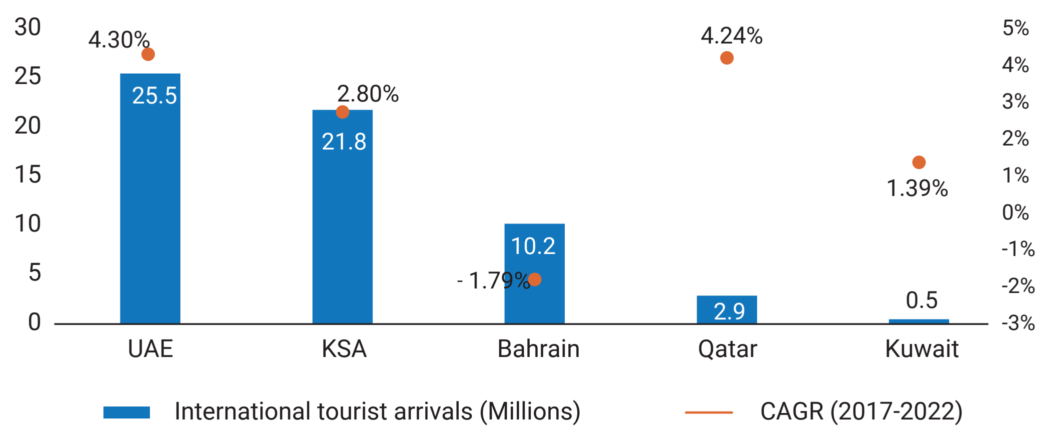


Source: Zawya, Trade Arabia News Service

[1] Zaway - GCC_hospitality_revenues_to_hit_32bln_by_2022

UAE is expected to receive the maximum number of international tourist arrivals at a compounded yearly growth rate of 4.3% between 2017 and 2022. Positive government initiatives in the form of progressive policy changes and increased investment into the in the industry to support the upcoming mega events will help boost tourism further in the region.

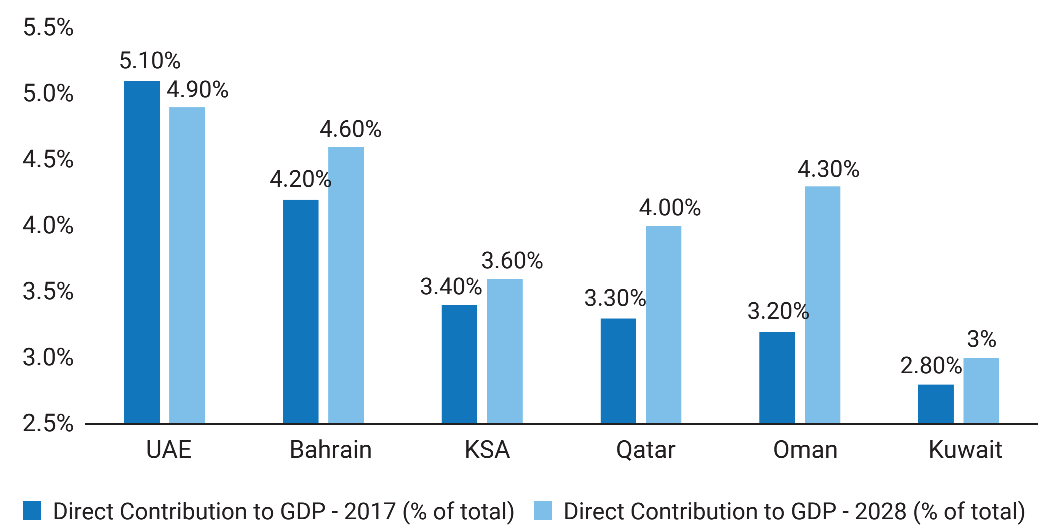
Figure 2.13: GCC International Tourist Arrivals



Source: Zawya, Trade Arabia News Service

Direct contribution of travel and tourism to GDP is forecast to rise to USD 89Mn (4.0% of GDP) by the year 2028, for the GCC region. The UAE and KSA hospitality markets have traditionally focused on executive and luxury travel but we see a growing trend towards affordable and budget friendly options for tourists. Kuwait has increased its focus on its hospitality industry as per their development plan of 'New Kuwait 2035' in order to diversify economy and reduce hydrocarbon dependency.

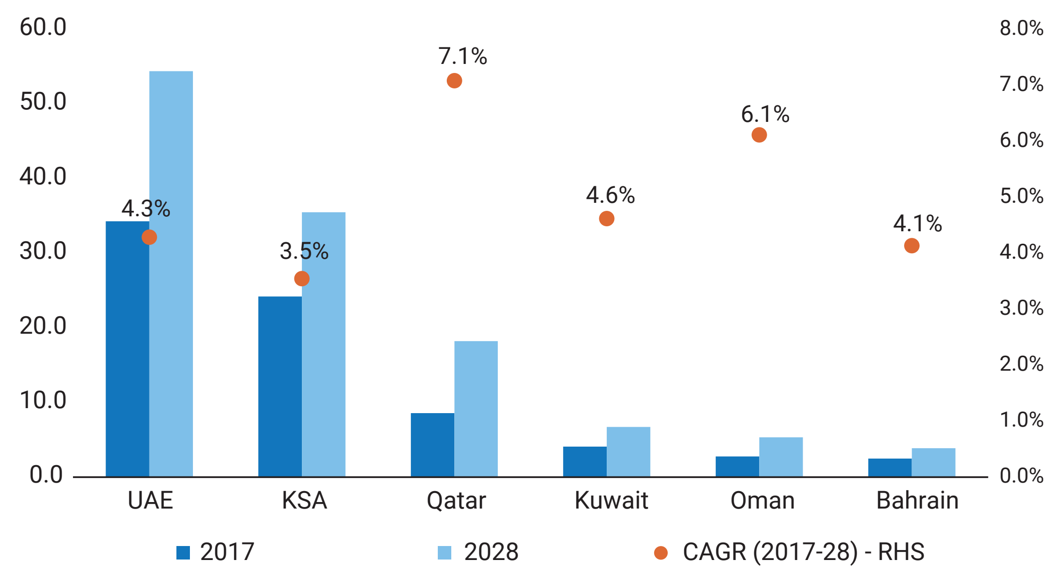
Figure 2.14: Direct Contribution of Travel and Tourism to GDP (2017)



Source: World Travel and Tourism Council

Leisure spending has been the largest portion of tourist spending and has seen a significant growth over the years. Total spending on leisure activities in the GCC amounted to USD 76.4Bn as of 2017, and is expected to grow at a compounded rate of 4.5% till the year 2028, where the leisure spending is expected to cross USD 124Bn. In 2017, the highest spending on leisure activities was registered in UAE at USD 34.4Bn followed by KSA at USD 24.2Bn. However, Qatar and Oman are expected to witness the strongest growth rate moving forward, with leisure spending growing to grow at the rate of 7.1% and 6.1% respectively.

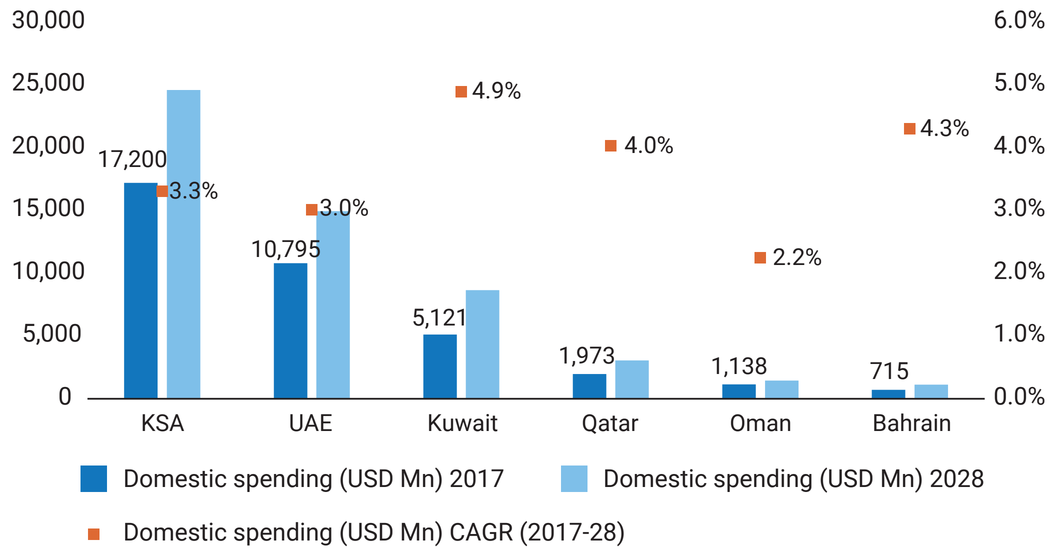
Figure 2.15: Leisure spending in GCC (USD Bn)



Source: World Travel and Tourism Council

Saudi Arabian citizens have spent the most on travel and tourism activities at USD 17.2Bn, followed by UAE at USD 10.8Bn in 2017. However on a per capita basis, UAE and Kuwait lead the charts with USD 1,148 and USD 1,113 in 2017 which signifies the importance and potential of the travel and tourism industry in these economies. With focus on increasing government investments into the tourism sector to increase its share on the GDP, all of the GCC countries are expected to see a growth in domestic spending on travel and tourism with Kuwait forecasted to register the strongest compounded growth of 5% by the year 2028. Kuwait's 2035 vision stresses the importance of developing tourism and its role in supporting Kuwait's economy by creating continuous employment opportunities in the private sector. This will help create additional tourism spots for the domestic population increasing their overall expenditure into the industry moving forward.

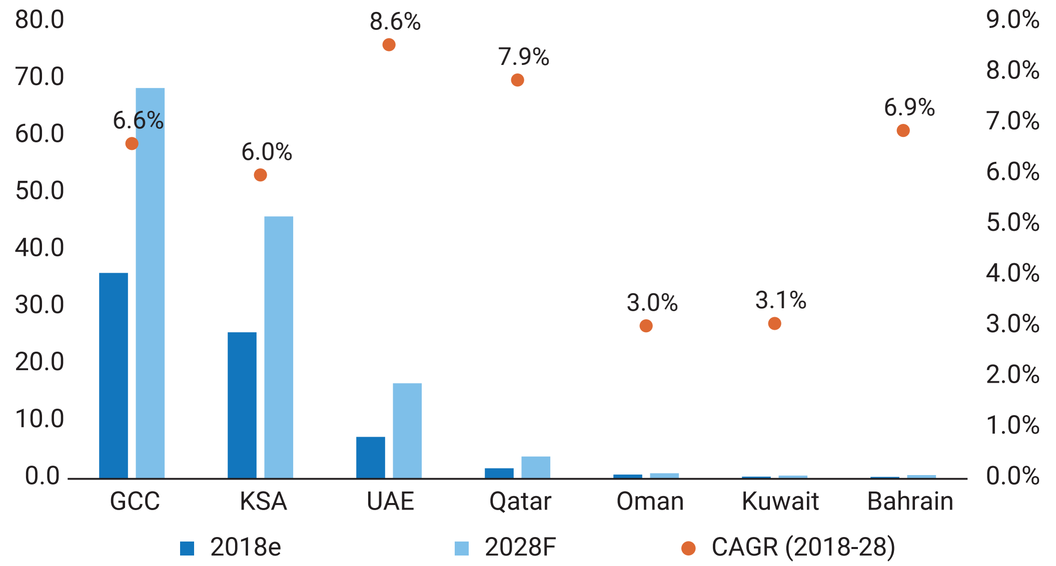
Figure 2.16: GCC Domestic Spend on travel and tourism



Source: World Travel and Tourism Council

Total capital investments in the GCC are expected to increase to USD 68.5Bn, at a yearly compounded growth rate of 6.6% between 2018 and 2028. UAE and Qatar are expected to witness the highest growth rate in capital investments at 8.6% and 7.9% over the same period respectively.

Figure 2.17: Forecasted Capital Investment in Travel and Tourism Sector (USD Bn)



Source: World Travel and Tourism Council, Marmore Analysis

Regional Market Structure

In order to understand the structure of the hospitality sector, channelizing the supply and demand sides of the market is essential. The supply of rooms can be classified into different grades based on their price range and services offered. On the other hand, the demand can be channelized by understanding the origin of demand (domestic vs. foreign) and basis of the need (leisure vs. business).

Increased thrust on mid-scale offerings

Hotel developers in GCC countries are focusing more on upscale luxury hotels in anticipation of higher returns. The spending by tourist on luxury sector is constantly on rise. In 2017, the MENA's luxury sector has 12,571 guestrooms under construction; the rapidly expanding mid-market stock is constantly offering new opportunities to owners and operators. In 2017, its upper mid-scale hotel inventory totalled to 17,914 guestrooms. The region also had 15,991 mid-scale hotel guestrooms inventory as of 2017[2]. The types of new hotel supply entering the market will also create a shift in the pricing landscape, with more offerings in the Midscale segment.

Luxury Hotels Vs Budget Hotels – Which one is on the rise?

The GCC hotel market is known for its luxury, up-market establishments as it dominates the pipeline of hotel rooms of GCC's hospitality industry. Luxury properties have increased three-fold in the GCC in just 10 years, and around 95% of these hotels are run by international brands[3]. UAE leads the GCC's luxury hospitality segment with 73% of existing luxury hotel stock and 61% of the region's current luxury pipeline located in the country[4]. Saudi Arabia is the next biggest player in the luxury market segment. However, with advent of emerging millennial travellers especially from Asian countries, global traveller trends have shifted dramatically. There has been drastic increase in demand for mid-segment hotels, even those who can afford are also opting to stay in affordable hotels. The reason for this shift includes the increase in number of the affluent middle class, especially in Asia, which has opened new opportunities for investors in the GCC hotel industry. In addition, with the preparations for mega-events such as the Expo 2020 in Dubai and the FIFA World Cup 2022 in Qatar, it is imperative that GCC countries widen their accommodation choices to include mid-market hotels.

GCC had positioned itself as a 'luxury' destination over the last decade through extensive marketing activities and thereby established itself with large presence of international luxury hotel brands. However, now it is moving towards attracting a diversified tourist profile. The increase in number of millennial travellers has forced the luxury hotels dominated GCC industry to shift their focus on the mid-market hotels. Though GCC lags in the percentage of budget hotels in the region when compared to more developed markets, the region has begun to catch up and is growing faster. There is a change in the dynamics of the tourists, and the hoteliers have realized the importance of maintaining a healthy supply of budget hotels and midmarket segments. In the current global crisis, budget hotels seem to be better alternative for corporates looking for avenues to cut operating costs.

[2] hotel management.net - uae-saudi-arabia-hotbeds-hotel-investment-booming-mena-region
[3] Eturbonews.com - uae-ksa-continue-lead-gcc-luxury-hospitality-market/
[4] Travelbulletinme.com - uae-and-ksa-continue-to-lead-gcc-luxury-hospitality-market/

GCC region has evolved in the recent years as an attractive location for tourists and for businesses. Again, mass markets such as China and India offer an opportunity for the growth of large-scale tourism projects, especially during the decrease in corporate travel budgets. This has led to a significant rise in the business travellers visiting the region. These business travellers and religious travellers have begun to prefer budget hotels for accommodation. Major hotel players in the GCC region have absorbed this trend. The latest trends and changes in the hospitality industry resulted in decreased room rates and a rapid increase in the mid-level hotels and family traveling.

Theme based Tourism

The GCC owns some of the most luxurious hotels and spectacular leisure facilities in the world, which they are marketing to the global traveller. The targeted promotions, sporting and shopping extravaganzas as well as commercial attractiveness of the region is making it a major tourist hub. One of the key ideas attributing to the increased tourist arrivals is that of diversified tourism approach. We can classify them into different themes to understand the multiple offerings catering to the fondness of the tourists:

- **Sports tourism** - Sports tourism is one of the biggest and rapidly expanding contributors to the tourism basket of the region. The 21st century is witnessing a gradual replacement of sun and sea vacations by popularly demanded sport-related vacation. A new generation of tourists is emerging that nurtures increasing interest in sport events. GCC's expenditure on overall sporting events and infrastructure is currently at USD 25Bn and is expected to increase to USD 35Bn in 2020[5].GCC's determination is all set to capitalise the USD 600Bn global sports industry. With the advent of budget airways, direct flights, and healthy competition in the travel and hospitality sectors, travelling to sporting events has become increasingly common[6]. The Formula One Grand Prix is one of the most attractive events in the region, which is hosted in Bahrain and Abu Dhabi. Abu Dhabi is aggressively expanding its tourism sector as part of its economic diversification strategy, with plans to attract 7.5 Mn visitors per year by 2030. Dubai is turning into one of the finest destinations for the sporting world. Set on 50 Mn square feet within the Dubai land development, Dubai Sports City will feature four magnificent stadia: a 60,000-seat multi-purpose outdoor stadium for rugby, soccer and track and field events, a 25,000-seat capacity dedicated cricket stadium, a 10,000-seat multi-purpose indoor arena for hard court games, ice hockey, concerts and other events, and a field hockey stadium for 5,000 spectators. Further, Qatar will be hosting the FIFA World Cup in 2022 which is expected to attract close to three million people from all across the globe giving a boost to the travel and tourism revenue generation in the country. Qatar Tourism Authority, which is marching towards the implementation of Qatar National Vision 2030. Boasting an impressive calendar of annual sporting events, fans of sports can enjoy the UAE's McLaren Cup Polo, Omega Dubai Desert Classic, Dubai Duty Free Tennis, ITU World Triathlon Abu Dhabi, Dubai World Cup, Emirates Airline Dubai Rugby Sevens, DP World Tour Championships and the Abu Dhabi Grand Prix.
- **Event based tourism** - The business-friendly regulations like tax perks and other reforms have made Dubai a major commercial hub. Annual shopping festivals in the region are among the major attractions for foreign tourists. The Dubai Shopping Festival, which is hosted every year, attracts millions of shoppers from across the globe. The governments in GCC are promoting other mega events such as movies and concerts which are contributing to the hotel demand. With the UAE building its position as an international hub for leisure, tourism and entertainment, and more than 25 Mn visitors for Expo 2020 Dubai, USD 44Bn in tourism revenues are expected by 2020.
- **Religious tourism** – Saudi Arabia immensely contributes to the GCC tourism which is the holy destination for religious tourists as numerous religious pilgrims from across the world gather here to perform Islamic Hajj and Umrah every year. The millions of pilgrims who travel to Makkah and Medina each year form a good tourist customer base for hospitality industry of Saudi Arabia. These religious destinations contribute 20% of the Kingdom's non-oil GDP and 7% of total GDP generated out of worshippers' fees, food, transport and accommodation totalling USD 12Bn in revenues. The religious tourism in Saudi Arabia accounted for approximately 40% and 25% of international and domestic tourists to Saudi Arabia, respectively. After witnessing a 10-year low of 1.86m worshipper's in 2016 due to expansion of the mosque which turned out to be a self-imposed decline, in 2017, there was a significant increase seen as 2.35Mn worshippers took part in the Hajj. CBRE has forecasted that a total of 35,000 hotel rooms are expected to develop in Makkah from 2017 to 2022, making an increase of almost 80% on the 45,000 rooms available today[7].

Global Vs Local Players: Competitors or Partners?

- **International players**

  IHG, Hilton Worldwide, Marriot International, Accor Hotels Group, Four Seasons Hotels and Resorts, Hyatt, are some of the major international players with their presence across the GCC. For instance, Marriott International has planned to set up more than double its 23-hotel portfolio in Saudi Arabia, its second-largest market in the Middle East, with 29 new hotels and 5,700 guestrooms in view of Saudi Vision 2030.

- **Regional Players**

  The Jumeirah Group based out of Dubai and the Rotana Group based out of Abu Dhabi are the biggest names among the regional players. The Dubai based Jumeirah Hotels and Resorts was awarded as Middle East's Leading Luxury Hotel Brand 2017 by World Travel Awards. Rotana was voted as the Middle East's Leading Hotel Brand' for the eleventh year in a row at the annual World Travel Awards event in 2017[8].

- **International players collaborating with regional players**

  In a bid to understand the local consumer preferences and leverage the domestic hotel expertise with Arabic touch, some of the big International Hotel chains are increasingly showing willingness to form tie-ups with local players. The business model wherein the local investors own the asset and international players take the operational responsibility is being preferred by the investors. For example, InterContinental Hotels Group (IHG) has signed a deal with Al-Futtaim to manage the largest Holiday Inn hotel in the UAE. The 520-room Holiday Inn Dubai Festival City will operate under a management agreement with Dubai Festival City Real Estate Development owned by Al Futtaim. Accor signed in 30 hotels along with seven acquisition deals in 2017. More than 8,700 guestrooms joined the hotel group's portfolio

[5] Isf-me.com/news-2
[6] Ttgmena.com - 2017-focus-sports-tourism/
[7] Oxfordbusinessgroup.com - grand-plans-sustained-focus-raising-pilgrim-numbers-and-expanding-beyond-religion-oriented-tourism
[8] Experiencejumeirah.com - world-travel-awards-jumeirah-hotels-and-resorts-named-middle-easts-leading-luxury-hotel-brand-2017/

- **International recognition of local players**

  GCC players are being recognized for their remarkable and novel services in the Hotel industry. Dubai based Jumeirah Group was awarded as Global Hotel of the Year and Jumeirah Messilah Beach Hotel and Spa in Kuwait was named Luxury Business Hotel of the Year at the World Luxury Hotel Awards 2017 held in Switzerland. As a result, these Hotel chains are being increasingly known in the international circles.

GCC Region Hospitality Industry Historical Performance

On analyzing the financials of top hospitality players in GCC region, it is seen that the industry has gone through many fluctuations due to prevailing geopolitics issues and unstable market over the past decade. The hospitality industry had a challenging phase due to increased room inventory and competition. The revenue is showing increasing trend, whereas, the net profit of hospitality industry with lot of fluctuations is showing decreasing trend. Overall, the outlook is positive from investors' point of view with rise in oil prices, which will help in increasing profit figures. The energy sector is a major economic driver in the GCC region boosting job growth and adding millions in revenue to local economies, all of which is a positive for a hotel sector that depends on a thriving economy to boost business and leisure travel.

The aggregate financials of 10 companies in the hospitality industry over the past 9 years has been taken as proxy to analyze the industry's trend. The companies considered for analysis are mentioned below:

Table 2.1: Sample portfolio to represent the hospitality industry:

Company	Country	Market Capitalization (USD Mn)*
Saudi Airlines Catering Company	Saudi Arabia	1,863
Abu Dhabi National Hotels Co	United Arab Emirates	1,032
Herfy Food Services Co	Saudi Arabia	945
Dur Hospitality Company	Saudi Arabia	469
National Corp for Tourism and Hotels	United Arab Emirates	293
Gulf Hotel Group	Bahrain	247
IFA Hotels and Resorts Co	Kuwait	135
Gulf Hotels Oman Co Ltd	Oman	85
Tourism Enterprises Co	Saudi Arabia	76
Kuwait Resorts Company	Kuwait	34

****Values as of 30st May 2019***
Source: Reuters

Table 2.2: GCC Hospitality Industry Peer Group Analysis (2018):

Company Name	P/E	P/B	Dividend Yield	EV To EBITDA	Debt to Equity	ROA	ROE
Saudi Airlines Catering Company SJSC	15.79	5.45	6.5%	12.01	0.0%	23.1%	34.3%
Abu Dhabi National Hotels Co PJSC	15.88	0.45	3.4%	16.33	10.4%	2.5%	2.8%
Herfy Food Services Co SJSC	17.33	3.59	3.8%	11.28	26.3%	14.4%	21.5%
Dur Hospitality Company SJSC	36.05	1.02	2.8%	19.01	42.1%	2.0%	2.8%
National Corp for Tourism and Hotels	10.09	0.62	6.9%	6.68	16.2%	4.6%	6.3%
Gulf Hotel Group BSC	14.71	0.85	7.3%	11.92	15.8%	5.3%	5.8%
IFA Hotels and Resorts Co KSCP	-	1.07	0.0%	-	412.1%	-6.1%	-46.5%
Gulf Hotels Oman Co Ltd SAOG	-	-	4.2%	24.35	8.0%	2.0%	2.1%
Tourism Enterprises Co SJSC	-	3.22	-	-	0.0%	-6.8%	-4.2%
Kuwait Resorts Company KPSC	7.36	0.35	0.0%	-0.45	17.2%	3.5%	4.8%

Source: Reuters

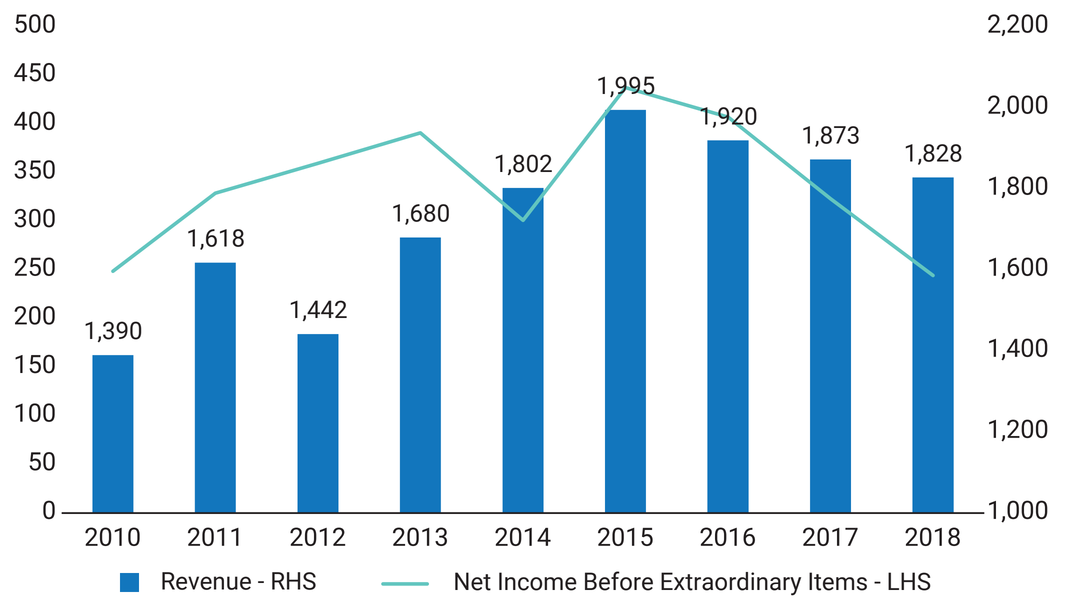
A detailed analysis of the sample portfolio performance reveals that hotel stocks have not created much wealth for the investors in the recent past.

Table 2.3: GCC Region Hospitality Industry Key Financials (USD Mn)

Company Name	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	1,390	1,618	1,442	1,680	1,802	1,995	1,920	1,873	1,828
Operating Income	255	317	345	384	324	408	362	316	228
Net Income	249	329	360	391	301	438	407	323	244
Operating Profit Margin	18%	20%	24%	23%	18%	20%	19%	17%	12%
Net Profit Margin	18%	20%	25%	23%	17%	22%	21%	17%	13%
Sample Portfolio Returns	-5.9%	0.4%	3.7%	53.1%	23.4%	-18.5%	-11.7%	-16.4%	-0.7%

Source: Reuters, Marmore Analysis

Figure 2.18: GCC Hospitality Industry Revenue and Net Profit (USD Mn)



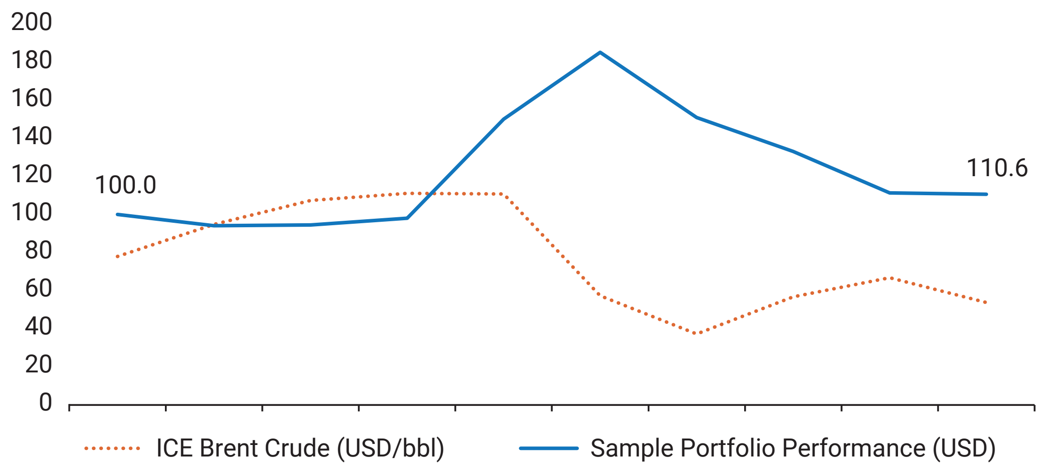
Source: Reuters, Marmore Analysis

The trend reflects a fall in revenue and a subsequent dip in net income since 2015 after the drop in oil prices in mid-2014. Profits peaked in 2015 and have seen a sustained drop ever since, with net profit falling 44% between 2015 and 2018. The fall in oil prices, forced hotels to lower their room rates and supply overshadowed demand in the region, resulting in a rise in vacancy rate. In addition, the structural shift in the tourist source market with more and more travellers pouring in from countries with a growing middle income group have also increased the demand for affordable hotels, directly affected the ADRs of the hotel industry. All these factors have led to average GCC occupancy rates falling from 63% in 2014 to 58% in 2017 and ADR from USD 199 to USD 156 over the same period.

National Corporation for Tourism and Hotels in its 2017 financial statements mentioned that 2017 was one of the most financially difficult year for the company due to several market challenges, mainly over-supply of hotel rooms, especially five-star, which have negatively impacting all hotel segments. This led to hotel operators reducing room rates to secure occupancy and attract more guests. Moreover, hotel operating costs put additional burden on profitability[9]. Bahrain's Gulf hotels group also cited drop in occupancy rate and RevPar, along with government policies like cap in service charge, increase of Government levy, and cuts in subsidies, as an explanation for its poor performance in the year 2016[10].

To better understand the impact on investor capital, if USD 100 were invested at the end of 2009, its value would have increased to USD 110.6 by the end of the year 2018, reflecting a compounded annual growth rate of only 1.1%. Stocks peaked in 2014 and dropped subsequently, reflecting a strong correlation with the drop in crude oil prices.

Figure 2.19: Sample Portfolio Performance (2009-18)



**Note - Portfolio returns have calculated according to market cap as on 30st May 2019.*
Source: Reuters, Marmore Analysis

[9] Ncth.com - Financial-Statements.pdf
[10] Gulfhotelsgroup.com - 2016AR_English.pdf

Trends in the sector

Development of niche tourism offerings

The travel and tourism departments in the GCC are contributing towards the strategic goal of economic diversification. This is evident from the increase in tourist arrivals. GCC was successful in developing niche tourism offerings such as heritage and cultural tourism, diving and wild life-oriented tourism.

- Cultural and Heritage tourism: The Gulf States are known for investing heavily in prestigious new arts and culture projects, like the museums in Abu Dhabi and Qatar, the film festivals in Abu Dhabi and Qatar, the Dubai Art Fair, The Cultural Spring festival of Bahrain, The International Music Festival Bahrain, the Muscat opera house etc. Promoting culture industry is one of the economic development goals of the GCC States and it is not surprising that the recent years have witnessed increased investments in culture in the region. The oasis of Al Ain in the Abu Dhabi Emirate was listed on the UNESCO list of world cultural heritage in 2011. Saudi Arabia is blessed with rich cultural heritage such as monuments, historic towns, books, works of art and artefacts. Though the predominant tourism activity is religious tourism, the Saudi Commission for Tourism and Antiquities (SCTA) is promoting the considerable accumulation of culture and heritage in the region. The Asir region, running parallel to Red sea is one of the regions with rich cultural history, which is evident in the colourful interiors, and traditional constructions of the Asir. Oman's Al Dhakhiliyah has diverse cultural attractions, which can enhance its geo-tourism.
- Wildlife tourism and theme parks in GCC offer unique ambience to tourists: The Al Areen wildlife sanctuary, Bahrain is home for flamingos, ostriches and the renowned oryx. At the centre of the island is the 'Tree of life', a 400-year-old mesquite tree that is considered a natural wonder.
- Oman has a profusion of exotic marine life and some of the best dive sites in the world. In particular, the Hallaniyat Islands and the Dimaaniyat Islands offer a chance to see beautiful tropical fish and unusual hard and soft corals. The warm waters around across Oman's shore are home to 22 species of whale and dolphin. Oman is also a member of the International Whaling Commission. The al-Saleel park is a nature reserve located in the town of al-Kamil wal-Wafi, in the Interior of Oman, and was established to protect gazelles and plantations of Samr and Ghaf trees (Acacia tortilis and Cineraria). The Jiddat al-Harasis Reserve is home to the Arabian Oryx and the area is listed on the World Natural and Cultural Heritage register by UNESCO . Approximately 400 birds have been recorded in Oman during the seasons. Because it is located at the hub of three different geographical landmasses, Oman is host to many foreign species, such as the Golden Oriole, Nightjar and White Stork.

[11] Ministry of Information, Sultanate of Oman

Growing trend towards service apartments

The expected increase in housing demand from professionals, the six-month World Expo 2020 in Dubai, and The 2022 World Cup in Qatar has encouraged several leading developers and holiday home operators to bring in more supply of serviced apartments. Service apartments have grown in the GCC region with the rise of business travellers who look for longer stays at reasonable prices. In addition, with the rise of expatriates, the operators have started providing permanent accommodation to families. This has resulted in majority of apartments bearing the look and design of residential buildings. However, the industry is currently witnessing evolution of standardized, low-price/high-occupancy serviced residence models. Smaller and independent operators are finding it increasingly difficult to sustain their market share and at the same time are exposed to higher overhead charge with the introduction of VAT. On the other hand, demand for international serviced apartment brands is on the rise, as they offer value added services including food and beverages, gymnasium, swimming pool and other amenities. Over the past few years, many large international operators have entered the market, introduced a variety of extended-stay, and serviced apartments. Some of the brands that entered the market include Accor's Suite Novotel, InterContinental Hotels Group's Staybridge Suites and Intercontinental Residence Suites and Marriott's Executive Apartments.

The significant differences in prices between the apartment and hotel rentals have resulted in a decline in the number of hotel buildings in the region. Dubai, where this trend has been significant, has emerged as the largest service apartment market in the UAE.

Shift in marketing strategies by hotel companies

The brand name of the hotel used to be a major driver in the market a decade back. However, with the arrival of well-educated and experienced travelers, hotel companies have had to realign their marketing strategies. Today, hotel companies marketing strategies include differentiation, consistency, customer satisfaction, delivery of brand promises, and customer retention. Development and use of technology have also changed the way hotel companies operate, creating need for online marketing. Travelers in the GCC are embracing digital technology to enhance their travel experience. Travelers have increased on the Internet, blogs, networking sites, and travel sites. Therefore, it is also widely used for making choices, as the information provided tends to influence opinions and choices. With the high smartphone penetration rates and large young population, the GCC region continued to experience strong growth in mobile transactions in 2018, according to the 2018 Travel Insights Report jointly released today by Cleartrip and Flyin. The market recorded a 110% increase in mobile bookings as they represented one-third of all transactions[12].

As social media websites expand access to the internet and online distribution channels, the global traveller is being provided with unlimited scope for price comparison and greater transparency of the accommodation experience on a global scale. The internet and mobile phone usage in the GCC are approaching upper quartile rates and thereby providing the Hotels opportunities to market and deliver services directly to the local consumers and international guests and minimise the commissions paid to intermediaries.

[12] Hozpitalityplus.com - cleartrip-and-flyin-2018-travel-insights-report-finds-110-increase-in-mobile-boo.html

Effects of sharing economy

AirBnb in quick succession has become a threat to hotels, as travelers prefer to book hotels with independent hosts on the website rather than traditional ones. The UAE is expected to be leading the GCC's luxury hospitality segment until 2022. However, in the mid-market segment, Dubai's hotel market prices are likely to be affected by 4,200 short-term vacation rental options, which are available on AirBnb[13].

On a broader view, holiday homes have been embraced positively by many GCC residential property owners, however, the unexpected growth of the sharing economy in such short period may affect the budget hotel market. In a way, it is creating new demand from visitors willing to pay a little more than budget hotels. While in other countries there is a competitive pull of guests between hotels and AirBnb seen, however the Middle East conversely enjoys a boost in hotel development due to numerous factors. In Dubai, for instance, the Department of Tourism and Commerce Marketing (DTCM) has set strict rules before owners can list their properties on websites like AirBnb. To sublet a property, the consent of the property owner and a license to operate is required. DTCM also has laid a set of rules and requires an AED 5,000 fine if any of these rules are broken.

Impact of VAT

Experts believe that the introduction of a VAT system in the GCC region will lead to increased transparency in accounting in the hospitality sector. Virtually all areas of the hospitality sector are anticipated be affected by the introduction of VAT, including prices in restaurants and other ancillary spends. The new VAT laws does not simply mean adding 5% to room rates. Hoteliers need to set up a system to incorporate VAT, ensure that their Property Management System (PMS) and other Point-of-Sale (POS) systems are charging it, and make sure all suppliers are also VAT registered. Hotels that are able to get more granular in their pricing and adopt a true Revenue Strategy will have a smoother transition to a VAT-loaded pricing structure[14]. This put additional operational costs and challenges for the various participants in the sector.

It is expected that the midscale hotels, identified as having the highest potential to offer the largest growth opportunity in the UAE hospitality sector, could be the one being most affected by the introduction of VAT as margins are already narrow for this sector. Travelers are increasingly becoming most price-conscious and are opting to stay in midscale properties so as to have a higher disposable income for other activities. Hoteliers need to be more strategic with VAT implementation when it comes to these properties as they cannot simply increase room rates by 5%. This is because if their rates are 5% higher than that of their competitors, it may directly lead to loss of clientele. On the other hand, for those travelling on behalf of VAT registered businesses, the 5% charge will be of no consequence. Moreover, for group bookings, many hotels have an addendum in their contracts which covers government changes, such as the introduction of new taxes and charges. Supplies made by the hospitality sector is taxable which allows suppliers to recover VAT incurred on the purchases. However, this is likely to introduce a high degree of complexity into the accounting process.

[13] Valustrat.com - how-will-sharing-economy-affect-the-mid-market-hotel-segment-in-the-middle-east

[14] Duettocloud - internet-things-set-revolutionise-hotel-industry

GCC tourism industry will be dealing with both domestic tourism as well as international tourism –inbound and outbound. This results in complexities over the 'place of supply' – which country VAT is due in – and the applicable rate. Outbound tourism, may, on the other hand, be partially subject to VAT in the GCC at standard rate, and partially subject to VAT at zero-rate (or completely outside the scope of GCC VAT)[15]. Revenue and expenses in the operations may differ according to the various range of activities provided. The VAT implications of each revenue stream is needed to be considered and separately categorized for invoicing and accounting purposes. For instance, revenue can be classified into activities like accommodation (room revenue), food and beverage or F&B revenue, telecommunication (both telephones, TV/movies, and internet revenue), recreation revenue (weddings and other functions) and other rentals (conferences, exhibitions).

Challenges faced by hospitality industry due to nationalization demands

GCC workforce is largely dominated by expatriates – which accounts to around 51.9% of total population. Based on the latest data from GLMM, UAE has 87.5% expatriates, the highest percentage of international migrants in the world. This is followed by 87.3% and 69.8% in Qatar and Kuwait, respectively.

Table 3.1: Expatriate Population in GCC (2016)

	Total Population	Expat Population	Expat as a % of total
Qatar	2,617,634	2,353,252.97	89.9%
UAE	9,121,167	8,072,232.80	88.5%
Kuwait	4,082,704	2,812,503	68.9%
Bahrain	1,423,726	759,019	53.3%
Oman	4,414,051	1,986,226	45.0%
KSA	31,787,580	11,705,998	36.8%
GCC	53,446,862	27,689,232	51.8%

Source: GCC Stat, Gulf Labour Market and Migration

The positions filled by these expats are predominantly low-paying and low-skilled jobs. GCC governments have recognized that the country's long-term development needs cannot be seconded indefinitely to foreign experts, and must be placed in the hands of a growing national workforce. Therefore a nationalization policy have been implemented by the various GCC countries in an attempt to increase domestic workforce participation in the private sector. However, with the advent of GCC country's nationalization policies with the aim to improve the ratio of local people in the industry, the governments have enacted policies and set targets of replacing the expats with local work force.

[15] Deloitte.com - Documents/tax/VAT/industry.pdf

Traditionally, hoteliers have delegated lower-ranking roles such as stewards to expatriates. The changes in policies are bound to affect the organizational efficiency as nationals are hesitant in taking up such low profiles. Again, due to the new labour laws, hotels are supposed to offer higher salaries to local work force. These regulations have made the hotels to rethink on their budgets. The hotels, which fail to abide to these laws, are not provided with visas to hire expat work force. The change in policies and laws have resulted in the rise of recruitment consulting firms, as the work force supply provided by them won't be accounted under the payroll of the hotels.

Investment Opportunities for Private Sector

UAE

UAE's hospitality sector has received massive support from the government in terms of new policies, opening of new tourist destinations, exemption from value-added tax (VAT) for tourists, in its preparations for Expo 2020 Dubai. Over the six months spanning the event, UAE is expected to earn a total revenues of approximately Dh140 Bn (approx. USD 38 Bn) from Expo-related activities. Estimates also suggest that between 270,000 and 300,000 jobs will be created as part of preparations, with most jobs coming between 2018 and 2021 mainly from the construction sector. Abu Dhabi has enjoyed the strongest growth in the Travel & Tourism spending in the UAE region as tourism GDP has increased more than threefold since 2006 from USD 1.0 Bn to USD 3.2 Bn in 2016. The industry has historically been driven by corporate and MICE visitation with additional focus on the development of theme parks and major tourist attraction spots like the Yas Island. These are some of the prime growth drivers that will steer forward the growth trend in the region creating massive investment opportunities for investors worldwide.

Qatar

Infrastructure investment related to the FIFA World Cup Event in 2022 has galvanized the country's infrastructure. Tourist arrivals are expected to grow at a great pace between now and 2022 with International tourist arrivals in Qatar forecast to touch 2.9mn by 2022. This has greatly boosted the confidence of major hospitality providers and is driving them towards making major investments in infrastructure development. Qatar National Vision 2030 is also providing opportunities for private players. It intends to enable the private sector to play a significant role in achieving sustainable development. The Vision proposes to provide support and training for entrepreneurs to enable them to participate and contribute in the development of the economy. The Vision states that financial and non-financial support would be provided to the sector to help incubate and grow SMEs. Further steps to enhance the attractiveness and competition in the industry would be taken. These steps are essential to remain a player in the increasingly dynamic and borderless international economy.

Saudi Arabia

Saudi Arabia's Vision 2030 economic diversification plan aims to grow the contribution of tourism to the kingdom's GDP under the National Transformation Plan. Officials are working to expand the industry by liberalizing visa regulations and opening up new areas of the kingdom, including the Red Sea coastline, to international and domestic visitors. Tourism growth is expected to be driven by three key groups namely leisure, pilgrims and corporate visitors. International arrivals are due to increase by around 4% per year and cross 22 Mn by the year 2025, according to the World Travel and Tourism Council. Corporate travel demand is also expected to expand as the country grows alternative industries away from its traditional oil-based economy opening up further investment opportunities for private players.

Kuwait

The Kuwait Vision 2035 development plan was launched to make Kuwait capable of attracting investment, developing competitiveness, improving legislature to support the economic and social systems in this matrix through the 7 pillars that include effective public administration, sustainable diverse economy, enhanced infrastructure, sustainable living environment, high quality health care, creative human capital and enhanced global position. The hospitality sector has been given great importance as a means for economic diversification and drive growth in the non-oil sector. This is exemplified in the impressive Northern Gulf Gateway, an integrated flagship project that will identify the Future of Kuwait, and will open the doors for mega investment opportunities for global investors. It is intended to create over 300,000 to 400,000 knowledge-based jobs for the youth, and is positioned to welcome 3 to 5 Mn visitors annually, boosting the tourism, hospitality and leisure sectors. Besides a touristic destination, it will further serve as an economic catalyst by integrating various competitive specialized zones: an educational hub, a world-class medical facility, a center for smart industry and future technologies, a financial hub with a stock exchange, and a port of 8 Mn TEU capacity.

Oman

Oman's 'Vision 2040' aims at diversifying its economic activities from oil and gas sector to tourism sector. The vision and mission statement aims at developing tourism as a sustainable economic sector of the Sultanate in a manner that reflects the Sultanate's history, cultural and natural heritage and spirit of traditional hospitality. Tourism will facilitate economic diversification, the preservation of cultural integrity and the protection of the environment of the Sultanate. According to the latest statistics by World Travel and Tourism Council, tourism directly contributes approximately 3.1% to Oman's GDP in 2017 and is expected to increase to 4.3% by 2028.

Bahrain

Bahrain has long been a leisure haven with GCC residents, especially from neighboring Saudi Arabia. Even though it is the smallest country in the GCC region, the total number of visitors in 2017 reached 11.4 Mn given the country's resident population is only 1.5 Mn people. Bahrain's hospitality sector has developed into an attractive investment destination thanks to its pro-business regulatory environment, low tax and 100% foreign ownership nationwide. Tourism and hospitality play a key sector for the nation as it directly contributed 4.2% to its GDP in 2017. With the Bahrain Vision 2030, the government aims to focus additional investments to further develop leisure travel and attract tourists from all across the world and improve the direct contribution of the tourism industry to 4.6% of its GDP.

SWOT

Strengths

- Tourism demand is going strong driven by business, leisure, sports, cultural and religious tourism.
- Hotel room supply is expected to grow in tandem with demand.
- Rise in income levels driving domestic demand
- International arrivals also set to grow in the region.
- The supply pipeline, though dominated by luxury hotels, and demand for midscale and budget segments is now picking up aggressively.

Weaknesses

- Very capital intensive involving high developmental costs.
- Has a high correlation with travel and tourism industry and is susceptible to political decisions and events.
- Shortage of skilled labour.
- Building infrastructure for the hospitality sector is time consuming and costly.

Opportunities

- The income levels of the people are rising internationally. So, the money left with people to spend on leisure is rising.
- Government Spending – The government has increased its investment in the sector realizing its potential as an important economic diversifier.
- Rising business inflow in the region. So, the demand for business accommodation is rising.
- The government is increasingly bringing about policies to improve private and foreign investment making the industry align with the market.

Threats

- Volatile political and economic conditions
- Increasing competition might bring down the profitability of the players in the industry.
- Labour laws aimed at localization may bring down organizational efficiency.
- The threat of oversupply –resulting in fall of ADR and revenues.

Key Players Analysis

National Corporation for Tourism and Hotels (NCT&H) is a public shareholding company engaged in the ownership, management and investment in hotels and leisure complexes across the United Arab Emirates. The Company is organized into five business segments:

- Hotels segment: rooms, food and beverages;
- Retail segment: beverage sales services
- Catering segment: contract basis;
- Transport segment: operates fleet of deluxe taxis and buses, for the public and customers in Abu Dhabi and Al Ain,
- Holding company: responsible for managing investments and, development of hotels

Some of the hotels which the Company owns within the United Arab Emirates are Abu Dhabi Inter-Continental Hotel, Danat Al Ain Resort, Al Dhafra Beach Hotel and Danar Resort.

Table 5.1: Key financials - National Corporation for Tourism and Hotels

Mn USD	2013	2014	2015	2016	2017	2018
Revenue	195.1	212.7	231.1	220.9	198.2	193.1
Operating Income	29.7	33.3	36.3	39.8	25.4	24.2
Net Income	33.6	43.2	45.1	46.7	28.3	27.4
Total Assets	338.2	342.4	328.9	352.7	576.2	601.5
Equity	188.5	197.2	195.4	213.8	440.1	464.2

Source: Reuters

Table 5.2: Key Ratios - National Corporation for Tourism and Hotels

	2013	2014	2015	2016	2017	2018
Profitability						
Gross Margin	17.9 %	18.5%	19.3%	21.5%	16.9%	16.6%
EBITDA Margin	22.9%	22.9%	22.7%	22.0%	17.5 %	17.4%
Operating Margin	15.2%	15.6%	15.7%	18%	12.8%	12.5%
Net Margin	17.20%	20.3%	19.5%	21.2%	14.3%	14.2%
Liquidity						
Current Ratio	1.15	1.00	1.84	2.16	2.31	2.81
Cash Cycle (days)	97.0	27.6	30.3	26.8	10.1	0.1
Leverage						
Assets/Equity	1.79	1.74	1.68	1.65	1.31	1.30
Debt/Equity	0.53	0.44	0.39	0.39	0.18	0.16
% LT debt/Total Capital	23.3%	1.1%	21.5%	21.8%	11.6%	11.0%
Operating						
Avg A/R Days	88.7	84.7	88.2	84.3	65.7	60.7
Avg Inventory Days	8.3	8.6	8.8	9.4	10.5	12.3
Avg A/P Days	-	65.8	66.6	66.9	66.1	73.0

Source: Reuters

The revenue has decreased by 2.6% to USD 193Mn, the net income has fallen by 3.2% to USD 27.4Mn in the full year 2018 compared to 2017. This can be attributed to the increase in amount of new hotel supply which has resulted in fall of occupancy rate & ADR. Also, the type of new hotel supply entering the market created a shift in the pricing landscape, with more offerings in the Midscale segment.

Dur Hospitality Company, is a Saudi Arabia-based public shareholding company which is primarily engaged in the construction, acquisition, management, operation, investment and purchase of hotels, motels, restaurants, rest areas, tours and travels agencies, entertainment centers, beaches and properties, as well as the ownership, development and sub-division of land. The Company operates in three segments:

- The Hotels and Recreational Center segment
- The Owned Real Estate segment which provides renting its commercial and residential real estate
- The Services and Operation segment which includes the management and operation of hotels and real estate.

Table 5.3 Key financials – Dur Hospitality Company

Mn USD	2013	2014	2015	2016	2017	2018
Revenue	115.5	127.9	142.0	133.1	129.0	121.1
Operating Income	35.0	24.7	38.0	31.0	25.4	16.6
Net Income	38.1	27.7	38.5	29.7	24.2	15.3
Total Assets	561.7	569.5	605.5	641.6	694.9	779.6
Equity	480.3	474.2	477.0	474.2	476.7	473.1

Source: Reuters

Table 5.4: Key Ratios – Dur Hospitality Company

	2013	2014	2015	2016	2017	2018
Profitability						
Gross Margin	32.0%	34.9%	33.6%	29.5%	27.0%	23.8%
EBITDA Margin	36.4%	27.4%	36.8%	33.8%	33.0%	30.2%
Operating Margin	30.3%	19.3%	26.8%	23.3%	19.7%	13.7%
Net Margin	33.1%	21.7%	27.3%	22.3%	18.8%	12.4%
Liquidity						
Current Ratio	1.72	1.95	1.63	1.25	1.03	0.78
Cash Cycle (days)	72.0	68.2	62.5	64.0	65.1	91.3
Leverage						
Assets/Equity	1.17	1.20	1.27	1.35	1.46	1.65
Debt/Equity	0.05	0.06	0.11	0.18	0.26	0.42
% LT debt/ Total Capital	4.2%	5.3%	9.3%	13.3%	18.8%	25.6%
Operating						
Avg A/R Days	46.0	45.3	48.0	54.2	68.0	93.7
Avg Inventory Days	33.5	32.2	28.0	28.5	26.1	24.7
Avg A/P Days	7.5	9.2	13.5	18.8	29.0	27.0

Source: Reuters

Dur Hospitality Company revenues decreased by 6.1% to USD 121.1Mn in 2018 from USD 129Mn in 2017. Net profit fell 36.8% to USD 15.3Mn in 2018 due to lower revenue from hotel facilities in Riyadh. This was attributed to weak demand from the business segment amid oversupply in the hospitality sector.

Abu Dhabi National Hotels Company is a United Arab Emirates-based company engaged in the tourism and hospitality industry sector. The Company's main activities include the ownership and management of hotels and undertaking related services. The Company is organized, along with its subsidiaries, into five business segments:

- Hotels
- Retail services
- Catering and contract services
- Transport services
- Holding Company

The Company owns seven hotels in the United Arab Emirates, which include Hilton International Abu Dhabi, Hilton International Al Ain, Abu Dhabi Sheraton Hotel, Le Meridien Abu Dhabi, Mercure Jebel Hafeet Hotel, Sofitel Dubai and Park Hyatt Abu Dhabi, which are managed by international hotel operating companies. The Company holds 100% investments in its subsidiary, namely Al Ghazal Transport; 51% in its joint venture, namely Abu Dhabi National Hotels Compass Middle East LLC, and 38.46% in associated company, namely Overseas Tourist Investment Company Limited.

Table 5.5: Key financials – Abu Dhabi National Hotels Co

Mn USD	2013	2014	2015	2016	2017	2018
Revenue	336.8	364.9	374.7	352.9	347.1	309.0
Operating Income	26.6	38.9	41.4	38.2	41.4	31.1
Net Income	58.6	54.6	64.5	66.4	67.5	65.7
Total Assets	2,684.6	1,313.1	1,311.3	2,689.0	2,652.3	2671.8
Equity	2,179.5	911.3	962.6	2,247.4	2,281.1	2312.5

Source: Reuters

Table 5.6: Key Ratios – Abu Dhabi National Hotels Co

	2013	2014	2015	2016	2017	2018
Profitability						
Gross Margin	13.9%	14.7%	14.6%	14.1%	16.9%	14.6%
EBITDA Margin	22.2%	26.3%	27.4%	27.4%	28.4%	25.8%
Operating Margin	7.9%	10.6%	11.1%	10.8%	11.9%	10.1%
Net Margin	17.4%	15.0%	17.2%	18.8%	19.4%	21.3%
Liquidity						
Current Ratio	1.32	1.15	1.26	2.47	2.70	2.34
Cash Cycle (days)	118.1	0.7	(16.5)	(15.4)	(7.0)	(28.7)
Leverage						
Assets/Equity	1.23	1.44	1.36	1.20	1.16	1.16
Debt/Equity	0.17	0.33	0.26	0.15	0.13	0.10
% LT debt to Total Capital	11.9%	20.5%	16.2%	11.3%	9.2%	7.4%
Operating						
Avg A/R Days	103.0	67.6	48.7	51.1	53.5	60.2
Avg Inventory Days	15.1	12.1	10.0	9.6	10.3	9.9
Avg A/P Days	-	79.0	75.2	76.1	70.8	98.8

Source: Reuters

Revenue for Abu Dhabi National Hotels has seen a drop of 11% to USD 309Mn in 2018 compared to USD 347Mn in 2017. In 2018, Abu Dhabi hospitality market had seen a decline of 5.1% in ADR as compared to data from 2017. However, ADNH hotels managed to restrict the fall in net income to 2.7% from USD 67.5Mn in 2017 to USD 65.7Mn in 2018.

Abdulmohsen Al Hokair Group for Tourism and Development Company is a Saudi Arabia-based company engaged in the leisure, entertainment and tourism industry. The Company operates in two major business segments:

- Hotel segment – which provides hotel and tourism services, health and tourist resorts, furnished apartments
- The entertainment segment – Which includes the establishment, operation and maintenance of games cities, entertainment centers and parks

The Company owns more than 48 entertainment centers and amusement parks, and more than 33 hotels across Saudi Arabia and the Gulf States. In addition, Al Hokair Group is active in assisting in the development of investment in the field of tourism in the areas of entertainment and hospitality. The Company's wholly owned subsidiary is Sparky's Land Amusement Toys.

Table 5.7: Key financials – Abdulmohsen Al Hokair Group for Tourism and Development Company

Mn USD	2013	2014	2015	2016	2017	2018
Revenue	234.7	253.7	305.5	312.9	299.8	306.9
Operating Income	45.2	48.6	45.6	32.1	1.8	(13.2)
Net Income	52.2	52.4	50.6	33.7	2.3	(20.3)
Total Assets	323.9	336.4	389.3	429.7	479.3	467.4
Equity	202.3	189.1	181.3	186.2	178.6	155.3

Source: Reuters

Table 5.8: Key Ratios – Abdulmohsen Al Hokair Group for Tourism and Development Company

	2013	2014	2015	2016	2017	2018
Profitability						
Gross Margin	37.0%	37.4%	36.8%	31.9%	23.9%	19.8%
EBITDA Margin	30.4%	30.1%	25.8%	22.4%	14.3%	10.2%
Operating Margin	19.3%	19.1%	14.9%	10.3%	0.6%	(4.3%)
Net Margin	22.2%	20.6%	16.6%	10.8%	0.8%	(6.6%)
Liquidity						
Current Ratio	1.22	0.85	0.75	1.02	0.70	0.58
Cash Cycle (days)	0.2	12.0	12.7	16.0	14.7	17.4
Leverage						
Assets/Equity	1.60	1.78	2.15	2.31	2.68	3.01
Debt/Equity	0.33	0.44	0.57	0.75	0.92	1.07
% LT debt/Total Capital	14.5%	18.6%	24.6%	31.2%	33.9%	33.6%
Operating						
Avg A/R Days	21.3	27.2	29.6	33.0	37.3	46.1
Avg Inventory Days	14.9	15.1	13.6	12.3	11.9	11.4
Avg A/P Days	36.0	30.4	30.5	29.3	34.4	40.1

Source: Reuters

In 2018, revenue increased 2.4% from USD 299.8Mn in 2017 to USD 306.9Mn in 2018. The decline is due to the decline in demand from individuals and corporate sector on hotels as a result of the decline in expenditure from government and private sector on conferences, meetings and exhibitions. Also, the increase in competition has led to decline in the Average daily room rate and occupancy. In addition, the cancelation of first term school holidays negatively affected the entertainment business. The net profit in 2017 had declined drastically by 93.2% from USD 33.7Mn in 2016 to USD 2.3Mn in 2017. This was due to the ramp up phase of the newly opened locations. Also, there was a decline in profit from associates. However, pre-operation expenses of these new openings led to low level of revenues achieved. The effect of new openings on the profitability is yet to be attained.

Gulf Hotel Group is a Bahrain-based public shareholding company that operates in the tourism and hospitality management industry. The Company owns and operates a number of domestic and international holiday resorts, namely Gulf Hotel Bahrain, Bahrain; Gulf Executive Residence, Bahrain, and Ocean Paradise Resort, Zanzibar in the Republic of Tanzania. It also owns the Gulf Convention Centre, which is a venue for conferences, exhibitions, gala dinners, banquets, and weddings. In addition, Gulf Hotels Group BSC serves the beverages industry through its subsidiary, Gulf Brands International, which imports, retails, and distributes alcoholic and non-alcoholic beverages throughout the Kingdom of Bahrain. The Company also offers other hospitality related services, such as Pre-opening Technical Assistance, Pre-opening Management Contract Services, Management Services and Group Support Services. In July 2013, the Company purchased a plot of land in the Business Bay area in Dubai.

Table 5.9: Key financials – Gulf Hotel Group

Mn USD	2013	2014	2015	2016	2017	2018
Revenue	84.7	88.4	85.9	96.6	98.9	93.11
Operating Income	22.4	24.1	21.3	18.5	17.3	3.74
Net Income	27.8	29.9	24.4	42.8	29.3	18.36
Total Assets	193.2	209.0	219.5	309.5	320.8	376.0
Equity	170.5	184.3	192.1	276.2	296.4	301.8

Source: Reuters

Table 5.10: Key Ratios – Gulf Hotel Group

	2013	2014	2015	2016	2017	2018
Profitability						
Gross Margin	41.1%	41.8%	40.3%	36.1%	35.7%	36.1%
EBITDA Margin	35.7%	36.2%	35.0%	30.5%	30.3%	23.4%
Operating Margin	26.4%	27.3%	24.8%	19.2%	17.5%	4.0%
Net Income	32.7%	33.9%	28.4%	44.3%	29.6%	19.7%
Liquidity						
Current Ratio	4.48	3.91	3.41	3.81	5.73	1.26
Cash Cycle (days)	89.1	81.2	24.6	31.3	76.2	41.7
Leverage						
Assets/Equity	1.13	1.13	1.14	1.12	1.08	1.25
Debt/Equity	0.00	0.00	0.00	0.00	0.00	0.16
% LT debt/ Total Capital	0.0%	0.0%	0.0%	0.0%	0.0%	10.6%
Operating						
Avg A/R Days	31.1	29.9	28.9	26.6	22.3	18.2
Avg Inventory Days	58.0	51.3	53.1	52.8	53.9	56.8
Avg A/P Days	-	-	57.4	48.1	-	33.4

Source: Reuters

Revenue for the year ended 31st December 2018 was USD 93.11Mn compared to USD 98.9Mn in same period in 2017, marking a decrease of 5.9%. The Group generated a Net Profit of USD 18.4Mn in 2018 compared to USD 29.3Mn achieved in the same period in 2017, a decrease of 37.2%. Average daily rates at Bahraini hotels fall by over 12% to USD 126 and Occupancy slumped by nearly 25% to 40% in 2018, due to a 9% increase in new supply[16].

[16] Arabianbusiness.com - bahrain-hotel-occupancy-slumps-25-on-new-supply-ramadan

Conclusion

GCC countries are progressing well with their diversification plan and are attracting tourists from all over the world. With several development projects already in place, the trends that are guiding the hospitality sector are coming into full force. The challenge facing the hospitality, leisure and retail sectors is in coping in an environment of falling prices. Careful planning is needed to avoid over-shooting in terms of development, to build and maintain attractions as well as events that will encourage future visitors to the destination.

The markets are witnessing accelerated construction so as to meet the demands from the upcoming mega events like the world Expo in Dubai and FIFA World Cup in Qatar, leading to a possibility of a supply overhang in the periods thereafter. Due to expected surge in supply, hoteliers may find it challenging to attract additional guests in the future without compromising on prices (measured by the hotel's Average Daily Rate or ADRs), especially as the source markets and visitor demographics are changing with increased demand for low to mid-range hotels. Sluggish economic conditions in the region, global currency trends and lower oil prices have contributed to falling property prices and poor market sentiment in the past. As there is a significant portion of supply coming to market in the near future, the short to medium term market outlook appears to be challenging in the GCC region.

However, the long-term outlook remains positive on the back of strong economic and business fundamentals that can support the market. Changing technological landscape may bring new challenges for the hospitality sector, but on the other hand, leveraging these new technologies and turning them into opportunities may result in greater cost efficiency and improved customer loyalty for hospitality operators. Nowadays, consumers are expecting greater personalization, which in turn requires hotels to collect and analyze increasing amounts of data. Therefore, hotels must now also take greater precautions in ensuring that the data is adequately protected so as to build and maintain customer trust. Going forward this may imply greater investment of resources in loyalty programs and a myriad of promotional activities in the print and electronic media. Such innovative marketing may be favorable for occupancy, however this would not be of much help to improve the pressure on hotel ADRs, especially for luxury properties.

The GCC hospitality sector is also facing competition from neighboring countries like Egypt, Jordan and Turkey. However, increased investments by the governments in the tourism sectors along with additional initiatives such as easing of visa norms, and a suite of attractive tourist destinations is expected to drive the demand for tourism across the region going forward.

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