RATIO ANALYSIS OF PUBLICLY TRADED HOTEL COMPANIES LISTED ON THE STOCK EXCHANGE OF THAILAND (SET)

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ABSTRACT
The advent of ASEAN Economic Community (AEC) in 2015 will bring tremendous opportunities for tourism in ASEAN countries as the surge in investment to the region is expected. Challenges will also be present, as the hospitality industry in ASEAN will compete more aggressively. Among diverse tourism businesses, the hotel industry seems to be outstanding as Thailand boasts high quality service and service-minded hotel personnel. The listed hotel companies stand a good chance to benefit from the freer flow of capital. As investors will use a number of ratios to gauge hotel performances, the analysis and evaluation of Thai hotels should be brought to attention.

This study presents the ratio analysis of the eight hotel firms listed on the Stock Exchange of Thailand (SET) for the fiscal years 2010 - 2012. The analyzed ratios comprise of five categories: liquidity ratios, solvency ratios, activity ratios, profitability ratios and operating ratios. The data were obtained from various sources, mainly from the SET. The averages of the ratios were calculated for analysis and interpretation.

The study identifies that all of the hotel companies have good performance in profitability. On the other hand, financial liquidity, solvency, asset management, and operating activities should be improved. This will enhance overall profitability and thus the hotels' competitiveness.

INTRODUCTION

International tourists arrivals to Thailand between 2000 and 2012 grew from 9,508 million in 2000 to 19,230 million in 2012. The annual growth rate was averaged at 6.99 percent, notwithstanding the country's political crisis during 2007 – 2009 that affected the slowdown in tourist number.

Likewise, during the past ten years, Thailand's hotel industry has expanded with high growth rate. In terms of hotel supply, the number of rooms has increased more than 100 percent. In 2009, Thailand had 5,420 hotels with 303,154 rooms. The increase in tourist arrivals also provided demand. In 2010, for instance, the growth rate of occupancy rate was moderate at 2.96 per cent as a result of the political turmoil. Yet, the annual growth rate of occupancy rate in 2011 was at its highest, around 15.05 percent. Table 1 shows the number of foreign tourists and hotel occupancy rate in Thailand (2000 - 2011).

Table 1: The number of foreign tourists and hotel occupancy rate in Thailand (2000 - 2011)

Year	Foreign	Growth	Occupancy	Growth
2000	9,508.62		58.91	
2001	10,061.95	5.82	59.56	1.10
2002	10,799.07	7.33	60.63	1.80
2003	10,004.45	-7.36	57.16	-5.72
2004	11,650.70	16.46	63.43	10.97
2005	11,516.94	-1.15	60.52	-4.59
2006	13,821.80	20.01	62.94	4.00
2007	14,464.23	4.65	60.60	-3.72
2008	14,584.22	0.83	56.16	-7.33
2009	14,149.84	-2.98	49.22	-12.36
2010	15,936.40	12.63	50.18	1.95
2011	19,230.48	20.67	57.73	15.05
Average		6.99		0.10

Source: Modified data from The Bank of Thailand

In 2015, the ASEAN Economic Community (AEC) will extend ASEAN tourism market. The World Tourism Organization (UNWTO) has estimated that 120 million international tourists worldwide will visit ASEAN in 2015, an increase from 77.1 million in 2011. The UNWTO has also forecast that in 2020 the number of global tourists will reach 1.6 billion. The tourists travelling to Asia-Pacific will be 400 million while the inbound tourists to ASEAN countries will be around 160-200 million. From these positive forecast, it is expected that Thailand tourism receipts in 2020 will be around 2 billion baht, doubling that of 2011.

The tourism industry in Thailand has to prepare for the upcoming AEC, especially the hotel industry. The competitiveness of Thai hotel industry is essential to sustainable growth in the future. The AEC will bring tremendous opportunities for tourism in ASEAN countries as the surge in investment to the region is expected. Challenges will also be present, as the hospitality industry in ASEAN will compete more aggressively. Among diverse tourism businesses, the hotel industry seems to be outstanding as Thailand boasts high quality service and service-minded hotel personnel. The listed hotel companies stand a good chance to benefit from the freer flow of capital. As investors will use a number of ratios to gauge hotel performances, the analysis and evaluation of Thai hotels should be brought to attention. The objectives of this study is therefore to summarize and analyze the ratios related to the financial and operating performance of the hotel firms in Thailand listed in the Stock Market of Thailand (SET) for the fiscal years 2010 - 1012. The results of the study will be used as the reference figures for the financial and operating ratios of the hotel business in Thailand.

LTERATURE REVIEW

A financial ratio indicates the relationship of financial items reported in the financial statements. Financial ratio analysis is used as a fundamental tool to evaluate the firm in several aspects. It may be used by managers, shareholders, and creditors to evaluate financial performances of the firm. Also, investors find financial ratios useful to evaluate the financial condition of the firm.

Various types of financial ratios have been developed and widely used by the practitioners and scholars. Textbooks on managerial accounting and financial management typically emphasize the use of ratio analysis. Whittington (1980) indicated two main usages of financial ratios: the normative and the positive. The normative usage is to compare the ratios with some standard values such as mean, while the positive one is to use the ratios for forecasting.

In the hospitality context, academicians classified the ratios used to evaluate firm's performances into five major categories (Martin, J. 2007; Andrew W. P and Raymond S. Schmidgall 1993). They are: liquidity ratios, solvency ratios, activity ratios, profitability ratios, and operating ratios. Liquidity ratios measure the firm's ability to meet its short-term obligations. The key liquidity ratios are current ratio, quick or acid-test ratio, accounts receivable turnover, and average collection period. Solvency ratios measure the ability of the firms to cover long-term obligations. The key solvency ratios are debt ratio, debt to equity ratio, and time interest earned. Activity ratios measure the firm's efficiency in managing assets. The key solvency ratios are inventory turnover, inventory holding period, fixed asset turnover, and total asset turnover. Profitability ratios measure overall performance of the firm's ability to generate income and the return on revenue and investments. The key profitability ratios are gross profit margin, operating profit margin, net profit margin, return on assets (ROA), return on equity (ROE), price-earning ratio (P/E), market-book value ratio (P/BV), and dividend yield. Operating ratios measure the management's efficiency on the firms operations. The key profitability ratios are occupancy percentage, average room rate (ARR), revenue per available room (RevPar), food and beverage cost percentage, and labor cost percentage.

In hospitality literature, a number of studies comparing the ratios among different segments are widely used as research methodology. Andrew W. P. and Raymond S. Schmidgall (1993) investigated the leverage ratios of hotels and restaurant sector and found out that hotels had debt portion higher than restaurants. Dong Jin Kim (2006) compared 15 financial ratios of the two segments of the hospitality industry: hotels and restaurants. The findings suggested that liquidity and activity ratios of hotels are higher than those of the restaurants. Also, the solvency ratios indicated that restaurants have more capability than hotels to meet its long-term obligations. There is no significant difference in profitability ratios between these two segments. Kim G. W. and Baker Ayoun (2005) conducted a cross sector comparison of financial trends in the hospitality industry: lodging, restaurant, airline, and amusement sector. The results of the cross-sectional analysis indicated that at least eight out of thirteen financials ratios were statistically different across the four segments.

Singh and Schmidgall (2002) conducted a study to investigate the use of financial ratios in hospitality organization. They investigated financial ratios commonly used in the US lodging industry and discovered the importance level for lodging financial executives. The study found that the operating and profitability ratios are the most important ratios for lodging managers.

Recently, there have been a number of studies in hospitality, which have major focus on the applications of ratio analysis. Similarly, in other service area, the recent study by Tugas in 2012, conducted a comparative analysis of the financial ratios of listed firms belonging to the education subsector in the Philippines during 2009-2011. There were three listed firms classified in the education subsector. The results indicated the benchmark figures useful for both listed and non-listed firms in such subsector.

In Thailand, there were a few studies in the hospitality areas. None of them was related to ratio analysis in the hospitality industry. Therefore, it would be useful to conduct a study in hotel financial evaluation. The results of the study will make a contribution to both practitioners and academicians in view of Thai hotel's performance evaluation, both financial performance and operating performance.

METHODOLOGY

The study obtained data from various sources, mostly, the Stock Exchange of Thailand (SET) and the annual reports of the listed firms. According to the data from SET at the end of fiscal year

2012, 13 listed firms were categorized in the hotel and leisure subsector. Of these, 10 firms are identified with the 4-digit Thailand Standard Industrial Classification (TSIC) code: hotels with TSIC code of 55101.

Due to the fact that the financial data derived from the Stock Exchange of Thailand (SET) are relatively limited, it was impossible to calculate every ratio indicated in the hospitality literature. Thus, the authors have used only important ratios in each category for which data are publicly available. The data from the SET used to calculate four categories of the ratios are: liquidity ratios, solvency ratios, activity ratios, and profitability ratios. The data from the annual report of each firm were calculated for the operating ratios. The averages and standard deviations were finally computed for each ratio.

THE RESULTS

It was found that the liquidity ratios, the current ratios and quick ratios in all three years were less than 1.0. Thus, the listed hotel firms should focus more on trying to meet short-term obligations. Further, while the accounts receivable turnover and the collection period were in the acceptable ranges, the hotel firms should however find ways to manage their receivables more efficiently.

Considering the solvency ratios, the debt ratios indicated that the hotel firms should work on strategies to meet long-term obligations. Nevertheless, they had the ability to create sufficient earnings to pay for annual interest expenses. The debt-to-equity ratios showed that the percentage of fund from the creditors and the shareholders are nearly equal.

With regards to activity ratios, the results showed that the hotel firms' inventory management has been improved during the past three years. However, the asset turnover was significantly low. The firms therefore need to improve their efficiency in using and controlling assets, especially the fixed ones.

Overall, the listed hotel firms have improved their profitability during 2010-2012. The gross profit margin and operating profit margin have increased, so have return on assets (ROA) and return on equity (ROE).

Various measures have been suggested as the tools for evaluating hotels' operating performances. The most common indicators are occupancy rate, average daily room rate (ADR) and revenue per available room (RevPar). The results of the study showed that the occupancy rate had increased to nearly 60 percent in 2012. Also, both the ADR and RevPar were improved in 2012. However, these three key indicators need to be improved to sustain the firms' competitiveness.

CONCLUSIONS

This study presents the ratio analysis of the eight hotel firms listed on the Stock Exchange of Thailand (SET) for the fiscal years 2010 - 2012. The analyzed ratios comprise of five categories: liquidity ratios, solvency ratios, activity ratios, profitability ratios and operating ratios. The data were obtained from various sources, mainly from the SET. The averages of the ratios were calculated for analysis and interpretation.

The study identifies financial strengths of the studied hotel companies: a good performance in profitability and the ability to meet long-term obligations. On the other hand, asset utilization and operating activities should be improved. This will enhance overall profitability and thus the hotel competitiveness.

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