Wolmar Sun Hotels Limited

February 20, 2023

Rating

Facilities/Instruments	Amount (Mur Million)	Rating[1]	Rating Action
Bank Facilities- Long term	MUR 1,605 million (EUR 33 million) *	CARE MAU A-; Stable [Single A Minus; Outlook: Stable]	Reaffirmed
Total	1,605		

*#Nature of facility rated changed from proposed bond issue of EUR 35 million; * 1 EUR = MUR 48.64*

Rating Rationale

The rating assigned to the bank facilities of Wolmar Sun Hotels Limited ("WHL") continue to derive strength from its strong promoters being among the business leaders in Mauritius, experienced management team with successful track record, reputation of Sugar Beach being among the most attractive hotels to foreigners in Mauritius, healthy occupancy levels with relatively high Average Daily Rates (ADR) achieved by Sugar Beach over FY22 despite operating for only nine months, renewed profitability after two years of major losses suffered, satisfactory interest coverage and gearing levels, sustained high demand in the Mauritian tourism industry, and forward bookings level providing reasonable assurance of a continued improvement in performance of WHL over the medium to long term.

The rating is however constrained by the tourism & hotel industry being seasonal and also subject to external factors such as macroeconomic conditions or global pandemic, a clientele which is overconcentrated in the European markets which may led to severe downturn in operations in case of economic slowdown, and also the resort has been operating at below its optimum capacity given that the average occupancy level for the year was significantly lower than the pre-pandemic level.

Rating Sensitivities:

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Occupancy rate at the resort reaching back pre-pandemic level leading to higher profitability for WHL
- Sustained high ADR levels with the new repositioning post-refurbishment
- Higher profitability translating into healthier cash position for WHL and hence, enabling debt reduction and decrease in overall gearing below 1x

Negative Factors - Factors that could lead to negative rating action/downgrade:

- External factors such as another pandemic or recession causing occupancy levels to drop drastically and hence, impacting profitability
- Additional debt taken raising the gearing level

[1]Complete definitions of the ratings assigned are available at www.careratingsafrica.com.

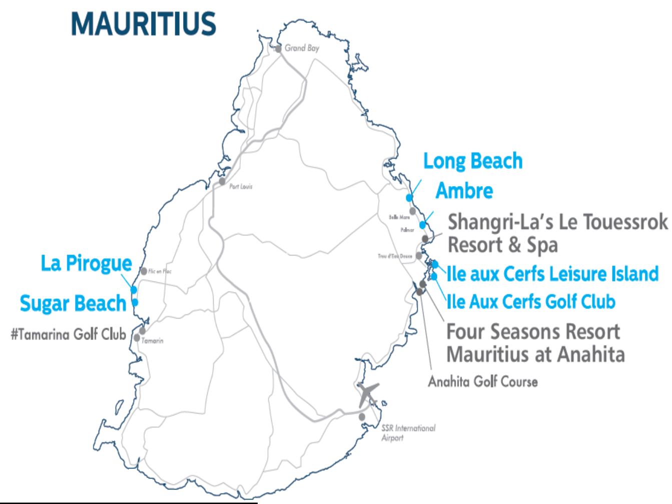
BACKGROUND

Incorporated in July 1988, Wolmar Sun Hotels Limited ("WHL") operates in the leisure & tourism industry and the Company's main business activity is to own and operate the Sugar Beach Hotel, a resort situated in Flic-en-Flac, Mauritius. Sugar Beach is a 5-star resort category resort comprising of 238 room keys with average room size of 50 sqm and a total of 6 restaurants & bars. The resort of Sugar Beach is situated on a combined area of 28,991 sqm of freehold land and 72,946 sqm of leasehold land.

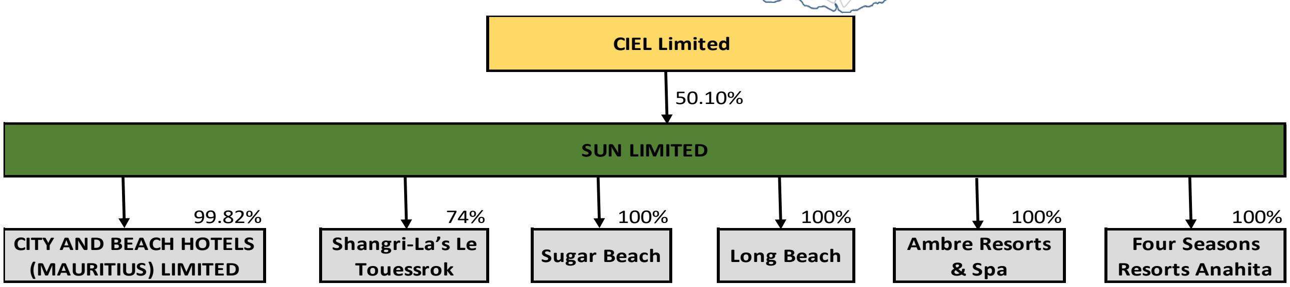
The Sugar Beach Hotel is acknowledged to be among the most famous hotels in Mauritius with a long-standing track record of meeting overseas travellers' requirements and attracting recurrent number of tourists. The hotel has won several awards including (i) the British Airways Customer Excellence Award 2017 (ii) TripAdvisor Certificate of Excellence – Hall of Fame 2018 and (iii) twice the Mauritius Leading Beach Resort at World Travel Awards 2019 & 2022.

WHL is wholly owned by Sun Limited which in turn is a 50.10% subsidiary of CIEL Limited (rated CARE MAU AA-; Stable/ CARE MAU A1+).

Sun Limited is among the leading hotels, leisure and real estate groups in the Indian Ocean, owning and/or managing six resorts in Mauritius namely, Four Seasons Resort (5-star Luxury), Shangri-La's Le Touessrok (5-star Luxury), Long Beach (5-star), Sugar Beach (5-star), La Pirogue (4-star deluxe) and Ambre (4-star). The geographical location of Sun Limited's resorts in Mauritius is as depicted above.



The groups structure of Sun Limited is illustrated below:



Consolidated Financials of Sun Limited

Year ended/ as on 30 June	FY19	FY20*	FY21**	FY22***
	MUR million			
Turnover	6,730	5058	528	4,840
EBIDTA	1,260	1,029	(589)	1,212
Net Interest	455	1,092	875	429
Depreciation	569	747	561	562
Profit/ (Loss) before Tax	237	(788)	(2,056)	251
Profit/ (Loss) after Tax	178	(857)	(2,076)	200
GCA	746	(110)	(1,515)	762
Dividend Paid	130	-	-	-
Total Debt	8,453	9,410	8,653	6,845
Long Term	7,454	6,254	6,687	5,556
Short Term	999	3,156	1,966	1,289
Cash & cash equivalents	628	632	1,565	1,583
Net Debt	7,825	8,778	7,088	5,262
Tangible Networth	6,910	3,204	2,659	3,528
EBIDTA margin (%)	18.72	19.03		25.05
PAT margin (%)	2.64			4.13
Overall Gearing (times)	1.22	2.94	3.25	1.94
Total Debt/EBIDTA (times)	6.71	9.14	-	5.65
Interest Coverage (times)	2.77	0.94	-	2.82

** Hotels operated only from July 2019 to March 2020 when border closed*
***No operations as border was closed for full year*
**** Hotels operated for only nine months as border reopened in October 2021*

For Q1FY23, Sun Limited achieved a turnover of MUR 1,543 million (Q1FY22: MUR 285 million) and posted a PAT of MUR 9 million (Q1FY22: Loss of MUR 456 million). At 30 September 2022, Sun Limited was in a healthy liquidity position with a cash level of MUR 1,414 million.

Strong and resourceful promoters with long track record of operations

WHL is owned and controlled by Sun Limited, which in turn is a 50.10% subsidiary of CIEL Limited, one of the largest business and investment groups in Mauritius with operations spanning across six business sectors namely, Healthcare, Textile, Hospitality, Banking & Financial services, agriculture and property. The Group also has a regional footprint with its activities extending to 11 other countries in Africa and Asia including Madagascar, South Africa, Botswana, Nigeria, Uganda, Kenya, Tanzania, Seychelles, Maldives, India and Bangladesh. The Group had total assets of MUR 101,638 million at 30 September 2022 and a market capitalization of MUR 10,125 million as at November 2022.

Experienced Management Team

The SUN Group is headed by a board comprising of 13 members, with Mr. Jean-Pierre Dalais acting as Chairman. The day-to-day operations of the Group are conferred to the executive directors, Messrs. Francois Eynaud (CEO) and Tommy Wong Yun Shing (CFO). All members of the board have long-standing experience in business and financial matters.

BUSINESS AND OPERATIONAL

Improved Average Room Revenue and occupancy rate

Sugar Beach has historically managed to achieve an occupancy rate ranging from 70% to 80% on available rooms, barring FY20 to FY22 where borders were closed, and hotels ceased operations due to the Covid-19. The hotel reopened its doors to foreign travellers on 15 October 2021 but the lingering effects of the pandemic, external factors such as the Russian-Ukrainian war and restricted number of flights to Mauritius led to an average occupancy level of only 49% for the period October 2021 to March 2022. The three months which followed witnessed a slight increase in occupancy levels despite being in the off-peak period. For the year ended FY22 overall, the average occupancy was 44%.

The significantly lower occupancy compared to FY19 was compensated for by the Average Daily Rate (ADR) which was 49% higher than the pre-pandemic level.

The operational performance for FY22 and a comparative with prior years is given below:

Month	Number of arrivals	Occupancy rate (%)	ADR (MUR)
October 2021	704	46	11,944
November 2021	746	62	11,194
December 2021	656	38	17,621
January 2022	743	44	13,267
February 2022	694	45	10,710
March 2022	941	56	10,796
April 2022	1,317	71	12,580
May 2022	877	59	8,607
June 2022	710	43	8,341
Total	**7,388**		

Sugar Beach	FY18	FY19	FY20	FY21	FY22
Average Daily Revenue (ADR) in MUR	7,139	7,449	8,273	6,357	11,073
Occupancy (%)	84%	73%	45%	6%	44%
RevPAR (MUR)	**5,997**	**5438**	**3,723**	**382**	**4,873**

The fading away of the effects of the Covid-19 and increase in number of flights to Mauritius with the opening of air access to more international airline companies have boosted the demand for hotels in the country as from the start of the second semester. Sugar Beach has greatly benefitted from such factors as shown by the occupancy levels which have been trending close or above pre-pandemic levels for the period July to November 2022.

Month	Number of arrivals	Occupancy rate (%)	ADR (MUR)
July 22	1,404	77	9,219
August 22	1,612	85	9,208
September 22	1,165	78	8,004
October 22	1,514	87	11,962
November 22	1,192	79	13,738
Total	**6,887**		

Diversified Revenue Mix

The sources of revenue for WHL are as provided below:

For year ended 30 June	FY18	FY19	FY20	FY21	FY22
	MUR million				
Room revenue	584	512	329	49	412
F&B revenue	362	310	202	31	206
Other revenue	31	33	22	3	24
Total revenue	**977**	**855**	**553**	**83**	**642**
As % of Total Revenue					
Room revenue	60%	60%	60%	60%	64%
F&B revenue	37%	36%	36%	37%	32%
Other revenue	3%	4%	4%	3%	4%

Sugar Beach has a history of deriving 60%-64% of its revenue from room accommodation while F&B and other services (spa, fitness centre, golf course, amongst others) contribute to the rest. WHL therefore has a well-diversified revenue mix and avoids over dependence on a single source of revenue.

Favorable location

Sugar Beach has the benefit of being strategically located on the west coast of Mauritius, at Flic-en-Flac. The region is reputed among Mauritians and foreigners as being among the most preferred ones for spending holidays. It provides both tropical activities from its sea, sandy beach and blue lagoon, and also on-land experiences with its restaurants and night clubs. Flic-en-Flac is also located 4 km away from Cascavelle Shopping Mall and Casela Nature Park. Tamarin, which is a fully integrated village equipped with golf courses, a sport complex an out-patient private hospital and providing several out-door activities amongst others, is situated just 10 km away from Flic-en-Flac. Hence, in 10-13 km range tourists in Flic-en-Flac can get easy access to a wide range of activities and services.

The Road Development Authority (RDA) has also begun the construction of a link road which will link Flic-en-Flac to the southern part of the island. This development, which is expected to be completed by 2024, will further facilitate access to south from Flic-en-Flac and will encourage tourists to choose hotels on west coast to stay.

Brand Strength and Scale

The origin of Sugar Beach dates to more than three decades ago and over the years, the hotel has established itself as one of the renowned properties of the hotel industry in Mauritius and created a strong customer loyalty from international travellers for the hotel. Moreover, being operated by the SUN Group provides additional strength from a competitive standpoint, given that a group operating a chain of hotels tends to benefit from higher economies of scale in terms of cost minimization, advertising and marketing, treasury management, amongst others. These advantages allow each hotel in the Group to better compete on quality and pricing.

Highly Concentrated Market presence

Like for the Mauritian tourism sector in general, Sugar Beach has a clientele portfolio which is highly concentrated in Europe. For FY22, Sugar Beach had 28% of its total tourist arrival from the UK, 14% from Germany and 11% from France. Arrivals from countries in the southern part of Europe made up 7% of the total share. Overall, European tourists accounted for 60% of total arrivals at Sugar Beach which makes the resort highly dependent on the continent.

Being aware of this highly concentrated mix of clientele, the management of Sun Limited has since few years ago started to diversify the market of its hotels and the strategy has started paying off given that for FY22, Sugar Beach registered 14% of total arrivals from South Africa and 26% came from regional markets including Middle East, Far East, China, India and Australia.

In March 2022, Sun Limited entered into a partnership with Dubai-based dnata Representation Services where the latter will act as the Representation Partner to operate sales and marketing of Sun Resorts Properties across GCC (Gulf Cooperation Council) countries. The partnership is expected foster the image of the Sun Resorts and its hotels across Gulf countries and to create new markets for the Group. WHL (Sugar Beach) is expected to benefit tremendously from this partnership.

On 01 December 2022, Sugar Beach was relaunched with the Group's new brand Sun*life* and the resort was rebranded with a new identity.

Environmental risk associated with island nation

The property is located on the seafront, making it potentially vulnerable to changing climatic conditions, namely through sea level rise, amongst others. As reported in Special Investing Report of Mauritius by Financial Times, Sea levels in Mauritius are increasing at an average rate of 5.6mm a year, are a particular danger to the hotels located near the seafront. This in turn may affect the tourism sector of the country. The company has taken insurance cover.

Improved financial performance

The sentiment around the hospitality industry has improved significantly over the course of the year and the Government as well as industry players are strongly confident that the target of one million tourists for 2022 will be achieved. As an indication of this positive sentiment, Sugar Beach has been registering occupancy levels ranging from 77% to 87% for the period July to November 2022 and forward bookings for January 2023 was already at 69% at the end of November 2022. After reverting back to profitability by generating a PAT of MUR 9 million for FY22 compared to a loss of MUR 248 million in FY21, WHL began FY23 in a much more dynamic way. For Q1FY23, WHL achieved a total revenue of MUR 262 million and posted a PAT of MUR 32 million. Given that Q1FY23 is the off-peak season for the industry, such performance is deemed to be satisfactory and considering the forward bookings as well as ADR for coming months in early 2023, there is strong confidence that Sugar Beach will achieve a robust performance for FY23.

The above factors coupled with the repositioning and rebranding of Sugar Beach in the tourism sector, strong reputation and the penetration into new markets provide reasonable assurance that Sugar Beach will performance satisfactorily in the medium to long term and maintain comfortable liquidity and gearing levels.

Hotel Industry in Mauritius

The hotel industry in Mauritius has been among the main pillars of the economy over the last two decades having contributed on average, to 7% of the country's GDP, with 1.3 million tourist arrivals registered in 2019. The total tourism earnings were MUR 63,107 million.

Following the outbreak of the Covid-19 pandemic and the closure of borders for over 18 months, the level of activity in the sector was brought to a halt and for 2020 and 2021, Mauritius registered only 308,980 and 179,780 arrivals only.

As at June 2022, there was a total of 106 hotels in Mauritius with 13,649 available rooms and 31,745 bed places.

A massive and successful vaccination campaign during first half year 2021 sparked confidence among the Mauritian authorities and the Government decided to fully re-open borders to international travellers as from 01 October 2021. From January 2021 to December 2022, the level of activity in the sector was as shown below:

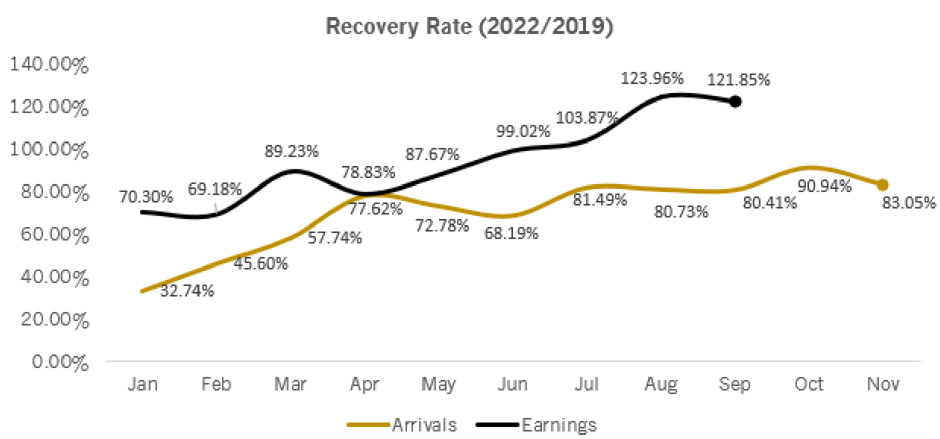
Month	2021		2022	
	Arrivals	Gross Earnings (MUR million)	Arrivals	Gross Earnings (MUR million)
January	1,232	243	40,028	4,343
February	1,229	176	52,724	3,556
March	311	103	66,066	4,640
April	58	90	84,268	4,296
May	115	124	70,462	4,309
June	280	171	63,008	4,128
July	1,242	370	93,084	5,128
August	2,499	757	86,605	5,892
September	2,494	757	81,087	5,315
October	54,434	3,044	117,323	6,676
November	65,922	4,962	106,905	7,834
December	49,964	4,636	134,730	N/A
Total	**179,780**	**15,253**	**997,290**	**56,117**

For the first half year 2022, the overall occupancy for tourism sector in Mauritius stood at 51%. The main market for Mauritius continues to be Europe with France, UK and Germany topping the list with 24%, 15% and 11% of total arrivals respectively. South Africa also contributes to 11% of the share while other regional markets such as Reunion Island, the Middle East, Indonesia and Australia also being key sources for the industry.

It should also be noted that the number of major flights being effected by the national aviation company, Air Mauritius, was reduced to a large extent compared to 2019. Similarly, access to international aviation companies to Mauritius as at June 2022 was limited compared to pre-Covid levels.

As from July 2022, the Government of Mauritius has opened access to new airline companies and granted additional flights to existing airlines. Subsequently, the number of tourist arrivals picked up to reach 80% to 90% of 2019 levels over the period July to November 2022.

The below chart illustrates the recovery of the Mauritian Tourism industry compared to 2019:



Being situated in the middle of the Indian Ocean, Mauritius faces fierce competition from other islands such as Maldives, Sri Lanka and Seychelles. While the Maldives is far ahead, Mauritius still maintains its attractiveness as shown below:

	Mauritius	Maldives	Sri Lanka	Seychelles
Jan to June 2021	3,255	510,564	16,908	50,444
Jan to June 2022	376,556	813,263	411,377	156,287

The outlook of the tourism industry in Mauritius will continue to depend on the country's attractiveness to foreigners, air access being granted to international airline companies and the overall macro-economic environment. The opening of air access to more foreign companies will facilitate the access to other key markets such as countries in the Eastern Europe or the Gulf. Government support to the industry will also remain a critical factor.

Summary of financial performance of WHL

Year ended/ as on 30 June	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**
	MUR million				
Total Income	980	857	580	175	691
EBIDTA	270	192	67	(87)	182
Depreciation	51	40	59	76	83
Interest	57	39	39	72	76
PBT	162	113	(49)	(247)	10
PAT	133	93	(42)	(208)	9
Gross Cash Accruals (GCA)	184	133	17	(131)	93
Dividend paid/proposed	300	150	-	-	-
Financial Position					
Equity share capital	0.025	0.025	0.025	0.025	0.025
Tangible networth	202	137	249	377	654
Total debt	621	621	620	1,220	1,176
- Long term debt	*620*	*620*	*620*	*1,218*	*1,153*
- Short term debt	*1*	*1*	*-*	*2*	*23*
Cash & Bank balances	5	10	11	3	29
Key Ratios					
Profitability (%)					
EBIDTA margin (%)	27.56	22.35	11.62	-	26.35
PAT margin (%)	13.56	10.88	-	-	1.36
ROCE- operating (%)	21.96	16.01	0.78	-	4.62
RONW (%)	54.46	55.03	-	-	1.82
Solvency					
Long term debt equity ratio (Times)	3.07	4.54	2.49	3.24	1.80
Overall gearing ratio (Times)	3.07	4.54	2.49	3.24	1.80
Total Debt/ GCA (Times)	3.37	4.65	48.14	-	12.68
Total Debt/ EBITDA (Times)	2.30	3.24	11.91	-	6.46
Interest coverage (Times)	4.71	4.94	1.73	-	2.39

Details of Rated Facilities

Facilities	Bank	Amount	Tenure	Repayment
Proposed Term Loan	Absa Bank	MUR 292 million (EUR 6 million)	3 years	Staggered capital repayment
Proposed Term Loan	Absa Bank	MUR 632 million (EUR 13 million)	9 years	
Proposed Term Loan	Afrasia Bank	MUR 244 million (EUR 5 million)	9 years	Capital repayment quarterly in equal instalments
Existing Term Loan	Afrasia Bank	MUR 437 million (EUR 9 million)	5 years	Staggered capital repayment

1 EUR = MUR 48.64

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