



Horwath HTL

Hotel, Tourism and Leisure

MARKET REPORT

Koh Samui: *Top-Tier Hotels*

NOVEMBER 2018



Source: Ritz Carlton Koh Samui

Is Koh Samui losing steam or adjusting for another gear?

Koh Samui a decade ago was not in the spotlight nor received attention from upmarket clientele until the Four Seasons debuted in 2007. A series of successful launches of subsequent luxury resort developments such as Banyan Tree, W and Conrad have elevated the island's positioning and international profile, which are of significant benefit to the broader top-tier market.

The strategy of Samui International Airport, as restricted by daily flight quota and the monopoly of Bangkok Airways, also played an important role in filtering out mass market tourists. None of low cost carriers flies to Koh Samui and therefore, to put things in perspective, a journey to Koh Samui will generally cost two to three times as much as a flight from the same origin to Phuket.

Visitor arrivals and hotel performance surged in the past decade, particularly over recent few years, following a few boosts to airport flight capacity. Daily flight ceiling was expanded twice in 2007 and 2014, together with an upgrade of aircrafts to larger planes.

"The best way to predict the future is to study the past or prognosticate" Robert Kiyosaki

Front Cover Photo Credit:
InterContinental Samui Baan Taling Ngam Resort

The island's outlook is contingent on an outcome of Bangkok Airways' request for an increase in daily flight limit to 73 and focused source markets going forward. Should flight additions be granted, the market will be ready to cope with an expected supply influx through 2022 and carry on positive business sentiment. On the other hand, continuing with its current cap, the airport is operating at full stretch unless Bangkok Airways' Koh Samui fleet is upsized to an airbus model. Luxury and upper upscale hotels will inevitably encounter intensifying competition and performance deterioration amid rising operating costs. Upper luxury hotels will be less impacted due to few suitable sites for new developments and uber-luxury guests' immunity to high price points of a trip to Koh Samui.

In addition, a rapid emergence of Chinese demand has been a result of Bangkok Airway's openings of new routes to China. In the near term, the airline appears to remain interested in this market and concentrate more on CMLV countries (Cambodia, Myanmar, Laos and Vietnam) to tap into their growing outbound travel demand and potential multi-stop demand from international travelers to the Indochina region. A changing demand mix calls for hotels' review of sales and marketing strategies and products to stay relevant and meet expectations of new customer profiles.

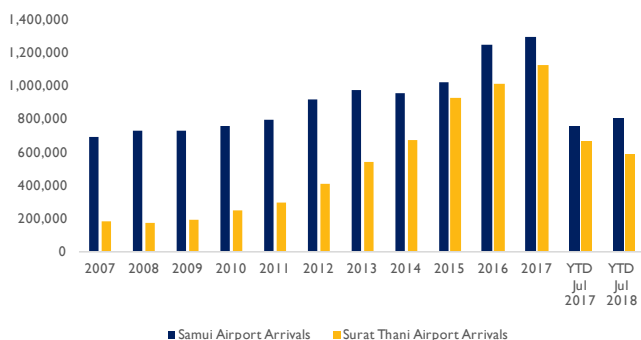
Koh Samui Visitor Arrivals

The accelerated growth in tourist arrivals to Koh Samui in recent years is mainly attributed to better air connectivity and robust demand from mainland China.

Arrivals to the two main access airports, Samui International Airport and Surat Thani Airport, grew steadily between 2007 and 2017, with a compounded average annual growth (CAAG) of 6 percent and 20 percent, respectively.

Total passenger arrivals at Samui International Airport went through a surge after the Civil Aviation Authority of Thailand (CAAT) granted an increase in daily return flights from 36 to 50 in late 2014. The arrival number reached almost 1.3 million in 2017, mainly driven by a significant increase in international arrivals from additional routes originated from China and Bangkok Airways' enlarged network of codeshare partners. As the airport's operation is reaching the flight quota, visitor growth has moderated since 2017, but remained at a healthy level of 6 percent for the first 7 months of 2018.

As a major gateway to Koh Samui for low cost airlines, Surat Thani Airport has offloaded broad-based air traffic from the Samui International Airport and experienced a substantial growth in flights and passenger loading factor over the past decade. The mainland airport is now operating almost at its full passenger handling capacity. The YTD July 2018 arrivals declined for the first time in the past decade due to an unusually low season in June, coinciding with the FIFA World Cup tournament, and a sharp drop in Chinese visitors following the Phuket boat tragedy in July.

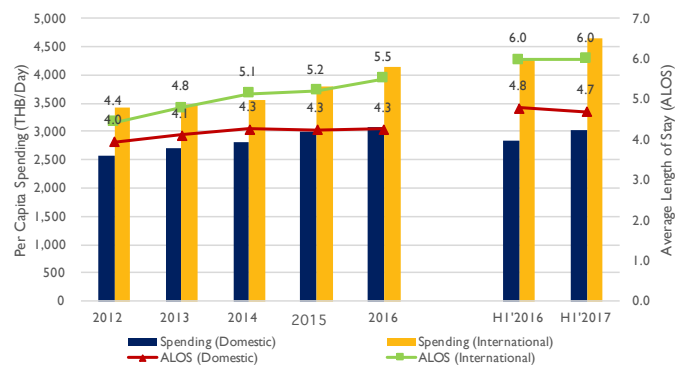


Source: The Civil Aviation Authority of Thailand

Average Length of Stay and Spending

The overall average length of stay has exceeded 5 days since 2014 and increased to 5.3 in 2016, driven by a longer stay of long-haul international visitors.

Between 2012 and 2016, average daily spending of international and domestic visitors increased at a healthy pace, recording a CAAG of 4.9 percent and 4.1 percent respectively.

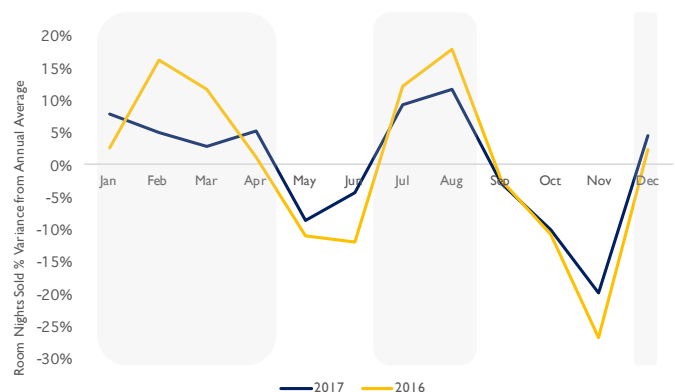


Source: Ministry of Tourism and Sports

Seasonality

High demand period is typically from the end of December to the end of April, due to winter holidays in Europe and Chinese New Year holidays. In recent two years, July and August have become another strong demand period, as these months encompass Asian school holidays and western summer holidays.

Low seasons occur from May to June and again from September to late-December. October to December is affected by heavy rain. However, Chinese demand during the Golden week's holiday has lifted the trough in October.



Source: Horwath HTL

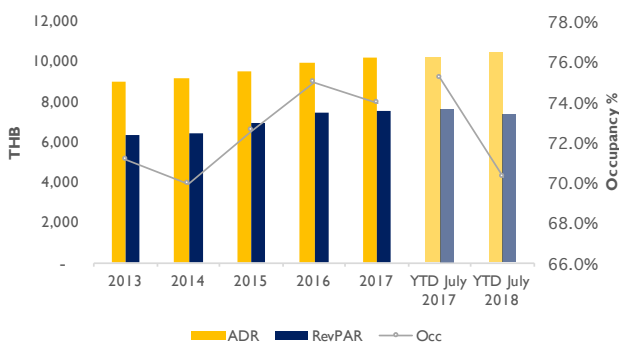


The newly renovated CoCoRum Bar
Source: Four Seasons Koh Samui

Hotel ADR and Occupancy

The top-tier market consists of hotels with 5-star positioning and above. Between 2013 and 2017, it showed positive occupancy and ADR trends. Demand registered a higher CAAG of 4.6 percent than the 3.5 percent in available room nights. ADR grew at an average rate of 3.2 percent annually. The 2017 RevPAR growth slowed down to 1 percent, and the YTD July 2018 RevPAR result fell from the same time last year. Potential headwinds from China’s negative response to Thailand’s tourism’s safety standards could dampen the industry.

Top-Tier Market



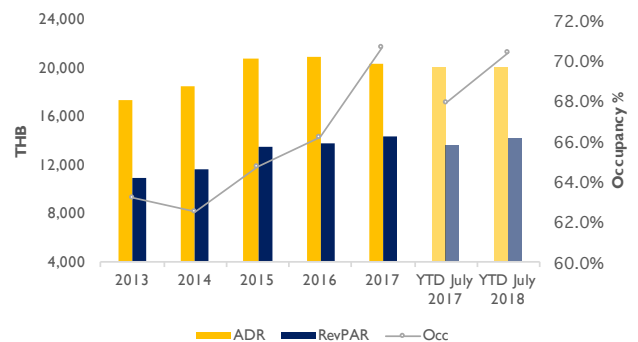
	2017 vs. 2016	YTD 2018 vs. 2017
Occupancy	-1% pts	-5% pts
ADR	2%	2%
RevPAR	1%	-4%

Source: Horwath HTL

Upper Luxury (THB 15,000 – THB 30,000)

This segment comprises beachfront luxury resorts with international brand affiliation and all-villa accommodation. Occupancy has grown year on year since 2013 and jumped to 71 percent in 2017. However, the expanding business volume was at the expense of ADR. Rate growth has been stagnant in recent years and recorded a drop of 2 percent in 2017. The 2018 sentiment will remain positive with healthy YTD July RevPAR performance and moderate growth, mainly driven by occupancy increase.

Upper Luxury (THB 15,000 – THB 30,000)



	2017 vs. 2016	YTD 2018 vs. 2017
Occupancy	4% pts	2% pts
ADR	-2%	0%
RevPAR	4%	4%

Source: Horwath HTL

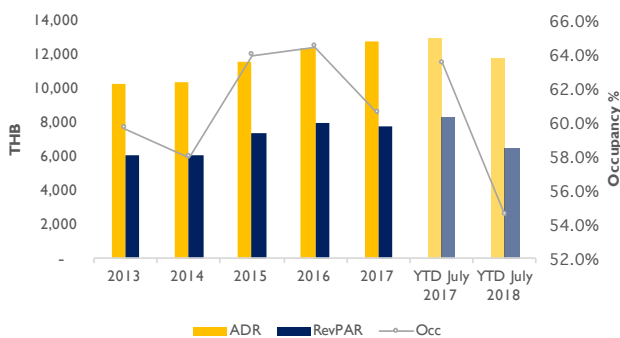


The new Grand Reserve Pool Villa
Source: Santiburi Koh Samui

Luxury (THB 10,000 – THB 15,000):

The luxury segment includes international branded and independent resorts, both of which feature all villas or hybrid products. Between 2013 and 2017, occupancy increased marginally by 0.9 percentage points. Strong ADR with 6 percent CAAG was the main contribution to RevPAR growth. Rate growth was evidently significant in 2015-16. The opening of the Ritz-Carlton introduced a large amount of room supply in late 2017 and heavily impacted the segment’s YTD July 2018 performance. The segment will need time to fully absorb an influx of new inventory.

Luxury (THB 10,000 – THB 15,000)



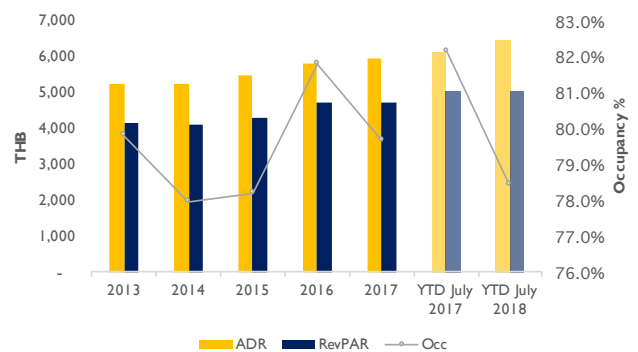
	2017 vs. 2016	YTD 2018 vs. 2017
Occupancy	-4% pts	-9% pts
ADR	3%	-9%
RevPAR	-3%	-22%

Source: Horwath HTL

Upper Upscale (THB 5,000 – THB 10,000):

The upper upscale segment consists of beachfront 5-star resorts affiliated with either international or local brand. Some properties have all block rooms and the others offer a combination of rooms and villas. Having the lowest price point in the top-tier market, upper upscale hotels were able to achieve the highest occupancy level. Between 2013 and 2017, ADR and RevPAR grew in line with inflation each year on average while occupancy remained flat. RevPAR stagnancy was observed in 2017 and continued into 2018 with softening occupancy performance.

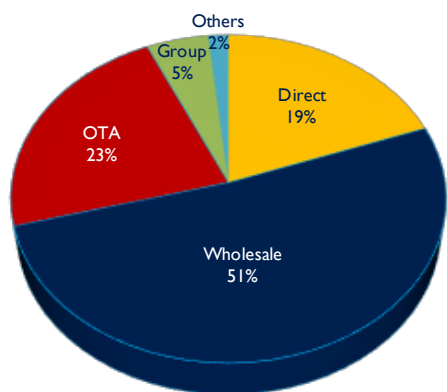
Upper Upscale (THB 5,000 – THB 10,000)



	2017 vs. 2016	YTD 2018 vs. 2017
Occupancy	-2% pts	-4% pts
ADR	2%	5%
RevPAR	0%	0%

Source: Horwath HTL

Demand Segmentation



Source: Horwath HTL

The market almost exclusively comprises transient leisure guests (93 percent), who make bookings through three main channels. Wholesale business makes up half of top-tier demand, and is predominantly sourced from Europeans who are often on long multi-destination trips around Thailand and South East Asia. With an improvement in regional air connectivity, the number of East Asian travellers mainly from China and South Korea is on the rise.

Direct booking accounts for 19 percent of total demand and its contribution is usually higher for branded properties, given their consumer awareness, strong reservation system and loyalty program.

Regional guests and young generations prefer to book through OTAs. This segment is growing noticeably and eating into a market share of the traditional wholesale segment. However, wholesale business is expected to remain predominant in the medium term.

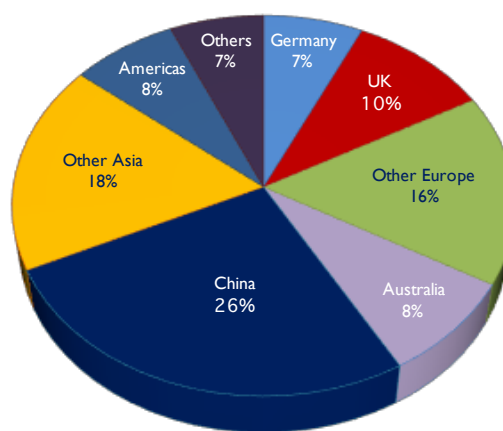
Group business is relatively small in the Koh Samui top-tier market, and is limited to corporate incentive, leisure and wedding groups.

Nationality Mix

By geographical region, Asia was the largest source, generating 44 percent of total demand for top-tier hotels in 2017. Europe was in the second place with 33 percent market share. Over the past few years, the nationality mix shifted towards Asian markets, particularly China on the back of its outbound travel boom. Back in 2013, Asia and Europe had an equal share of 37 percent each.

By country, China was a clear market leader with a quarter of market share. It grew into the largest demand source for a majority of top-tier hotels. UK, Australia, USA, and Germany are important markets in a descending order.

The upper luxury segment had a much larger mix of Asian guests, 20 percent above the level of luxury and upper upscale tiers. Koh Samui has emerged as a popular upmarket destination for Chinese visitors who are loyal and inclined to choose top-notch luxury brands with presence in China. Luxury and upper upscale hotels with less prominent brand awareness among Chinese consumers will rely on traditional source markets like Europe and Australia.



Source: Horwath HTL

The trends observed in the top-tier market corresponded to movements in the overall Koh Samui market reported by Ministry of Tourism and Sports. UK’s contribution fell from 19 percent of total visitors in 2004 to 5 percent in 2016 despite growth in visitor numbers. It was once a market leader together with Germany. Between 2013 and 2016, China was the fastest growing market and climbed up to the second largest international source market by 2016.

Top 5 International Source markets

Top 5 International Source Markets			
By Market Share 2016 (% of total)		By Growth 2016 vs 2013 (CAAG)	
Germany	11%	China	42%
China	8%	Switzerland	22%
Australia	7%	South Korea	19%
UK	5%	India	15%
France	4%	UK, Germany & Belgium	11%

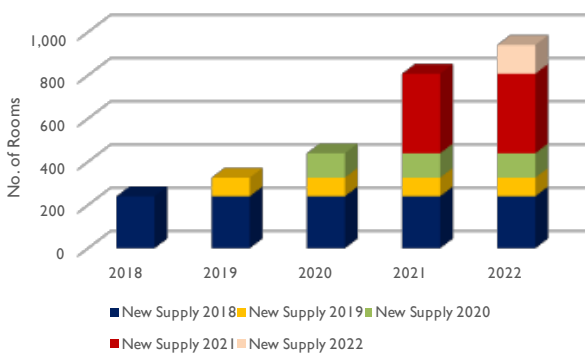
Source: Guests at registered accommodation establishments in Koh Samui, Ministry of Tourism and Sports



Source: SALA Samui Chaweng Beach Resort

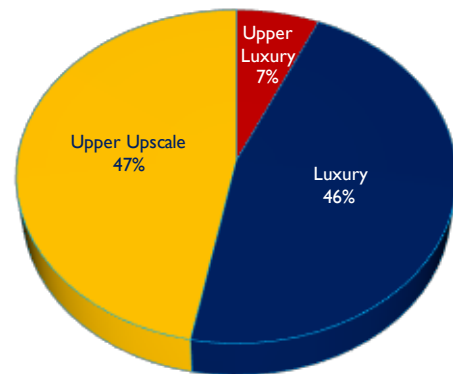
New Hotel Supply

Within the next 5 years, total inventory of the top-tier market will rise by 941 rooms from confirmed and rumoured developments. Supply growth is expected to accelerate during this period to a CAAG of 10 percent per year compared to the rate of 3 percent during the previous five years through 2017.



Source: Horwath HTL

Luxury and upper upscale products make up an equal share of total rooms of the supply pipeline while upper luxury developments only represent 7 percent.



Source: Horwath HTL

The following table shows a list of confirmed supply additions. Most new developments will be on the east coast and feature international brands, which will further enhance Koh Samui’s awareness among international travelers and induce demand growth.

Name	Location	Rooms	Opening
Ritz Carlton	Choengmon	175	2018
Sala Chaweng (phase 1)	Chaweng	52	2018
Santiburi (expansion)	Maenam	19	2018-19
Avani	Taling Ngam	58	2019
Cape Fahn	Choengmon	22	2019
Sala Chaweng (phase 2)	Chaweng	83	2020
Hyatt Regency	Bophut	139	2021
Sofitel So	Choengmon	83	2021
Unbound Collection by Hyatt	Chaweng Noi	107	2021

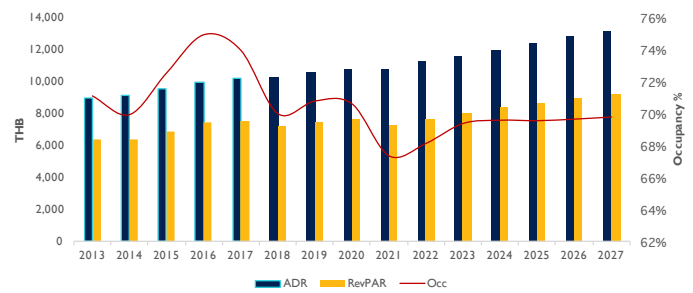


Source: Samui International Airport

Hotel Performance Outlook

The top-tier market is likely to witness moderation in RevPAR growth. Healthy RevPAR increases between 2013 and 2017 resulted from limited hotel openings and the lifted daily flight ceiling. Occupancy was on the rise while ADR grew slightly above inflation. Over the next decade, a supply influx will hit the market albeit demand constraint from uncertainty in the flight capacity expansion plan. Our forecast reflects the demand trend under the current capacity. Future occupancy will be rebalanced and fluctuate around 67-71 percent. ADR growth will also cool down.

Across the board, the upper luxury segment is expected to have the brightest future due to its high barriers of entry. In contrast, the luxury segment will be the most impacted by the largest number of new projects and room supply. Hotels will strive to build or sustain occupancy at the expense of rate. Some new hotels' rate position below the segment's ADR could cause further downward rate pressure. This challenge will even set a boundary for rate increment at upper upscale hotels. Guests may trade up for a bargain on luxury hotels' block rooms. Moreover, the expensive nature of Koh Samui may drive business away to other domestic and regional destinations.

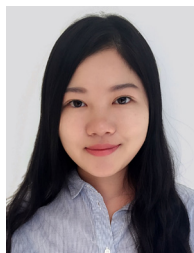


Source: Horwath HTL

	RNA	RND	Occ %*	ADR	RevPar
CAAG (2013-17)	3.5%	4.5%	0.7%	3.2%	4.3%
CAAG (2017-27)	6.5%	5.9%	-0.4%	2.6%	2.0%

* Occupancy growth is an average annual growth in percentage points
 Notes: RNA – Room Night Available
 RND – Room Night Demand

Positive Factors	Negative Factors
Improving air access	Flight quota, small aircrafts
Destination profile	Chinese market over-reliance
Small island, better control	Seasonality impact
	Domestic & regional competition

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Nikhom Jensiratanakorn (aka Nick) is a Director of Horwath HTL. Nikhom has advised both local and international investors in the Thailand hospitality sector. He has brought with him comprehensive skills in feasibility analysis, investment underwriting, and asset management, as well as years of experience with hotel management companies, investment funds and consulting firms, namely Pan Pacific Hotels Group, Jumeirah Group, Host Hotels and Resorts, and PricewaterhouseCoopers Thailand respectively.

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