

Issue Price	75
Face Value	10
Market Lot	100
Credit Rating (Long Term)	AA
Credit Rating (Short Term)	ST-1
Market Category	N

Manager to the Issue	BRAC EPL Investments Limited.
Public Offer	26 Million Shares
Subscription Open	April 15, 2012
Subscription Close	April 19, 2012
NBR Subscription Close	April 28, 2012

Corporate Profile

Unique Hotel & Resorts Limited (UHRL), the owner of “The Westin Dhaka” a five star hotel in Bangladesh, was incorporated in Bangladesh as a Public Limited Company on 28 November 2000 under the Companies Act, 1994. UHRL’s vision is to be the pioneer in leading world-class hotel management and offering the most efficient customer service in Bangladesh and the subcontinent’s hospitality industry. Under the execution of a Management Agreement with Westin Asia Management Co. (a fully-owned subsidiary of Starwood Hotel and Resorts Worldwide Inc.), Unique Hotel is operating with the brand name, resources and technical expertise of Starwood Hotel and Resorts Worldwide Inc. The management contract was initially executed between Borak Travels (Pvt.) Limited and Westin Asia Management Co. on 17 December 1999. This contract was transferred in the name of Unique Hotel & Resorts Limited through a novation agreement on October 2, 2002.

Unique Hotel & Resorts Ltd. started its commercial operation from 1st July 2007. At present, the company’s authorized capital stands at Tk. 10 Billion (Ten Billion) and paid-up capital stands at Tk. 2.3 billion.

Business

The Westin brand is Starwood’s largest upscale hotels and

resorts brand, and it is the oldest brand within Starwood. Westin Hotels & Resorts as it believes are havens of wellness and rejuvenation for those seeking a transformative hotel experience. Through innovative programs and thoughtful amenities such as Westin WORKOUT, the Heavenly Bed and Super Foods menu, it offers guests services to enhance their stay and leave them feeling better than when they arrived. Its chain of over 160 hotels and resorts worldwide are defined by modern design, gracious service and a deeply relaxing atmosphere.

For hotel management, Unique Hotel & Resorts Limited executed a Management Agreement with Westin Asia Management Co. (a wholly-owned subsidiary of Starwood Hotel and Resorts Worldwide Inc.) on 17 December 1999 to operate with its Brand name, resources and technical know-how. Under the agreement UHRL, the Owner will support all physical and financial resources to the Operator for management of the hotel hereinafter namely “The WESTIN Dhaka”.

Main revenue sources are rooms and food & beverage. Around 90% of the total revenue comes from these sources. The growth of this revenue depends on growth of foreign tourism and enhanced business activities. Unique Hotel & Resorts Limited has to share around 8% of its revenues with its operators as license fee and incentive fee.

(Figures in BDT mn)	As on September 2011	% of total Revenue	Dec-2010	% of total revenue
Rooms	699.67	52.45%	805.04	51.95%
Food and Beverage	499.83	37.47%	581.44	37.52%
Minor Operating Department	34.95	2.62%	51.91	3.35%
Space Rental	31.56	2.37%	31.88	2.06%
Others	67.98	5.10%	79.40	5.12%
Total	1333.99	100%	1549.67	100%

Source: Prospectus of UHRL & LBSL Research

Use of IPO Proceed

Utilization of Fund	Amount (in BDT Million)	Project Completion Time
A. Westin 2	472	March 2015
B. Le Meridien	519	June 2013
C. Luxury Collection	412	February 2015
D. Repayment of Bank Loan	464	
E. IPO Expenses	32	
F. For 3% tax on Issue Proceeds	51	
Total	1950	

The company will utilize the IPO fund to invest in three hotels two of which are to be established as joint venture projects with Borak Real Estate (Pvt.) Limited. Borak Real Estate (Pvt.) Limited will provide the land for the projects while UHRL will provide the construction costs of the projects. As per the Joint Venture Agreements between Borak Real Estate (Pvt.) Limited and UHRL for Le-Meridien and Westin 2, the profit and loss sharing ratio in between these parties and in the management of the said hotel strength of parties will be at the following ratio:

- Unique hotel and Resorts Limited - 50%
- Borak Real Estate (Pvt) Limited - 50%

Luxury Collection will be established in Plot No 2, CWN (B), Gulshan Avenue, Gulshan-2, Dhaka-1212 which is owned by UHRL. There is no Joint Venture Agreement between Borak Real Estate (Pvt.) Limited and UHRL for Luxury Collection. Approvals for operating the hotels have not yet been obtained. There is also the risk that the company may not be able to obtain gas, power and water supply for servicing the utility of the hotels.

Capital Structure

Unique Hotels & Resorts has its debt under control. It can afford to add up some more leverage to finance its expansion projects. Unique Hotels & Resorts will have to borrow almost 80% of each expansion project. An optimum capital structure may give UHRL a good return on equity.

	2010	2011(till September)
Paid up capital(BDT million)	2300.00	2300.00
Debt Ratio(Debt to Total asset)	4.45%	1.96%
Debt to Equity	4.96%	2.10%

Capacity

	Number of rooms
Presidential room(135 sq meter)	1
Chairman suite	1
Executive suite	4
Junior suites	8
Deluxe(40 sq meter)	217

Initially the company started with 65% occupancy rate in 2007, thereafter it increased to 75% in 2008, 72.87% in FY 2009, 82.98% in FY 2010 and it reached to 80.37% in the 1H of 2011.

Profitability

Unique Hotels & Resorts has very high operating profit margin and net profit margin. This high level of net margin was achievable due to interest income and tax exemption. If we ignore interest income and introduce tax then net profit margin is around 39%. Though the gross profit margin, operating profit margin and net profit margin are very high, if we look at ROAE it is very low. ROAE for nine months of 2011 was 5.34%. If we annualize it the ROAE stands at 7.12%. 7.12% return on equity is definitely below the cost of equity, so Unique Hotels & Resorts is not being able to generate value for its investors.

	2010	2011 (till September)	Annualizing nine months of 2011	2011 Ignoring interest income, other income and introducing tax for half year (annualized)
EPS	5.18	4.30	5.73	3.02
Gross Profit Margin	78.12%	79.30%	79.30%	79.30%
Operating Profit Margin	57.14%	58.50%	58.50%	58.50%
Net Profit Margin	76.95%	74.10%	74.10%	39.02%
ROAE	11.32%	5.34%	7.12%	3.75%
ROAE ignoring revaluation surplus	21.92%	11.18%	14.90%	7.85%
ROAA	9.61%	4.90%	6.53%	3.44%

Source: Prospectus of UHRL & LBSL Research

On the other hand around 30% of net profit comes from interest income and 39% of net income comes from interest and other income combined in 2011. The margins will squeeze further as the tax holiday ends in June 2011. So for the current year company will be taxed at 27.5%. If we ignore interest income and other income and introduce tax (for half year of 2011) then annualized ROAE will be around 3.75% with revaluation surplus and 7.85% ignoring revaluation surplus for 2011.

Pricing:

Considering the Price of 75 Unique Hotels & Resorts is being offered at 13.08 times P/E (taking annualized EPS for 2011) and 1.86 times P/BV (taking book value without revaluation surplus). P/E can be a bit higher as the tax exemption period is over in June 2011. SO the second half will contain tax expense. If we consider tax then PE is around 15.03 times.

Year	2010	2011 till September	2011 (annualized)	2011 Ignoring interest income, other income and introducing tax for half year (annualized)
EPS	5.18	4.30	5.73	3.02
PE at 75 price	14.47		13.08	24.83
Book value	60.65	100.38		
Book value (ignoring revaluation surplus)	36.59	40.32		
P/BV (Using book value excluding revaluation surplus and 75 taka price)	2.04	1.86		

Analyst Observation:

- Unique Hotels & Resorts will need BDT 15544.04 million for financing the three proposed projects. It is assumed that this whole fund will be borrowed. So implementation of these projects will depend on availability of loans.

Name of Projects	Total Construction Cost(BDT mn)	Amount of IPO Proceeds to be used (BDT mn)	Amount required from other sources (BDT mn)
Westin 2	6210.34	472	5738.34
Le Meridien	4567.20	519	4048.20
Luxury Collection	6169.50	412	5757.50
Total	16947.04	1403	15544.04

- The Westin Dhaka is one of the hottest names now in the city. With the boom in business activity and increasing tourist attraction it is expected that business of luxury hotels will see a constant growth in coming years.
- Approximately 30% of net profit comes from interest income and 39% of net income comes from interest and other income combined in 2011. If we ignore interest income and other income and introduce tax then EPS from core business on annual basis stands at BDT 3.02 in 2011.
- In 2010 interest income, gain on share disposal and other income constituted around 46% of net income.
- Unique Hotels & Resorts generates very small ROAE for its investors. ROAE for nine months of 2011 was 5.34%. If we annualize it, the ROAE stands at 7.12% which is definitely below the cost of equity.
- National election in 2013 may hamper the business of The Westin Dhaka as Bangladesh has always observed political turmoil during election year. Room occupancy rate is expected to remain low in this period.
- Introduction of tax and increase of share outstanding will put EPS under pressure in 2012 and 2013 as the new projects will start contributing to profit from 2013.

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