INTELLECTUAL OUTPUT 4
Case Study IO4- Microeconomic

International Hotel Investments, P.L.C.: The road to quality enhancement hospitality and real estate

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1. Summary

This case study analyses the financial statements of a company that develops one of the most important activities of the Maltese economy, hospitality and real estate.

International Hotel Investments p.l.c. (IHI) is a hotel and real estate developer that owns and runs Corinthia Hotels. It also manages hotels for partner owners and investors. In this case, the financial and economic analysis is applied to a group of companies. This analysis shows a good financial and economic situation.

2. Introduction

This case study is presented in the context of the 3economy+ project, where three companies and areas are analysed -Melilla (Spain), Alentejo (Portugal) and Malta (Malta)-. In this case, the study is focused on the last one, for which the firm selected is the *International Hotel Investments IHI, p.l.c.*

The origin of the International Hotel Investments p.l.c. (IHI) lies on the restaurant of the family Pisani, opened in 1962 and converted into a hotel in 1968, under the name of Corinthia Palace Hotel Company Limited. The International Hotel Investments p.l.c. was established as the Group's publicly traded holding company in 2000 with the objective of managing the Corinthia brand (IHI, n.d.).

The main activity of the group consists in owning hotels and real estate, hotel management, development, project management and industrial catering and it operates 21 hotels on three continents (IHI, 2016).

Its mission is to establish Corinthia Hotels as a global luxury hotel brand, for this reason the firm acquires, develops, owns and operates Corinthia Hotels, although it also develops and manages hotels on behalf of partner owners and investors.

3. Aims

The management of a group of companies and businesses has several difficulties, as it must deal with the resource sharing and optimization decision between businesses and the diversity of activities that must be considered. In order to facilitate the decision making, the financial and economic analysis provides a good information resource.

However, when analysing data coming from a group of businesses it is necessary to study together each company of the group in order to investigate which one is the best and if any one presents financial tensions. Because,

it is important to have not only a global picture of the group, but also specific information for each business in order to establish the global strategy. In this way, we will try to identify the key financial issues of IHI to facilitate decision-making in the future.

4. Method

This analysis performed in a group of companies presents the same stages than the analysis of a specific firm. So, after obtaining the common-sized balance sheet and income statement and financial and economic ratios are calculated. Then, the analyst can initiate the study of the main relations of the financial and economic magnitudes with the aim of identifying company's evolution, its performance and its strangeness and weaknesses.

The elaboration of common-sized balance sheet and income statement allows the study of the composition and evolution of business patrimony and profitability. At the same time, it provides the necessary data for performing the ratio analysis.

So, following the methodology proposed by Rodríguez Ariza et al. (2016), this case study presents the common-sized balance sheet and income statement, obtained by the application of the vertical and horizontal analysis and a series of ratios to identify the main strengths and weakness of the IHI.

5. Results

Financial analysis

IHI's common-sized balance sheet for years 2015 and 2016 is presented in Table 1. As it can be observed by the vertical analysis, total assets of the company have increased in 2016 over a 5.23%. Specifically, non-current assets present a higher weight than current assets (91.73% vs 8.27%, in 2016). Both elements have increased, although the increase of non-current assets is higher.

Within current assets, the highest element is the account receivables (5.31% and 3.73% in 2016 and 2015, respectively). Inventories present a slight relative weight and cash is over 2.41% and 1.63%, respectively, in 2016 and 2015. The activity of this group of companies is hospitality and real estate which is the main reason for this asset structure.

Considering equity and liabilities, we can observe that IHI is mainly financed by equity (53.01% and 52.45%), but having a similar weight to liabilities. If we analyse the composition of liabilities, during 2016 and 2015, long-term liabilities (39.98% and 38.92%, respectively) are higher than short-term liabilities (7.01% and 8.62%, respectively).

Table 1. Common-sized balance sheet from IHI, p.l.c., 2015 and 2016

ASSET	2016	%	2015	%	Variation
Non-current Assets	**1,119,397,000**	**91.73%**	**1,091,247,000**	**94.1%**	**2.6%**
Current Assets	**100,857,000**	**8.3%**	**68,396,000**	**5.9%**	**47.5%**
Inventories	6,727,000	0.6%	6,280,000	0.6%	7.1%
Account Receivables	64,748,000	5.3%	43,253,000	3.7%	49.7%
Cash	29,382,000	2.4%	18,863,000	1.6%	55.8%
TOTAL ASSET	**1,220,254,000**		**1,159,643,000**		**5.2%**

EQUITY AND LIABILITIES	2016	%	2015	%	Variation
EQUITY	**646,822,000**	**53.0%**	**608,288,000**	**52.5%**	**6.3%**

LIABILITIES	**573,432,000**	**47.0%**	**551,355,000**	**47.5%**	**4.0%**
Long-term Liabilities	487,851,000	40.0%	451,356,000	38.9%	8.1%
Current asset	85,581,000	7.0%	99,999,000	8.6%	-14.4%
Accounts Payables	*50,675,000*	*4.1%*	*74,215,000*	*6.4%*	*-31.7%*
Short-term financial liabilities	*34,906,000*	*2.9%*	*25,784,000*	*2.2%*	*35.4%*
TOTAL EQUITY AND LIABILITIES	**1,220,254,000**		**1,159,643,000**		**5.2%**

Source: Own elaboration derived from data from financial statements for IHI, p.l.c.

Financial ratios for IHI are presented in Table 2. In 2016, the company presents a positive value for solvency (current assets represent the 117.85% over current liabilities), and liquidity (13.27%). However, quick ratio is only 34.33%.

As it has been previously explained, Evertis is mainly financed by equity so, indebtedness is 88.65%. Long-term liabilities represent the 75.42% in 2016 of current liabilities and short-term debt ratio, the 13.23%.

If we analyse working capital, it can be observed a change in form 2015 (negative value) to 2016 (positive value). In 2016, operational financing needs are positive, but higher than working capital, so part of them is covered by net liquid resources (negative value).

However, cash conversion cycle is negative both years, indicating that IHI's supplier financing is higher (260.43 days on average) than the sum of days inventory and days receivables. So, the operating cycle is covered by suppliers. Remember that IHI activity is focused on managing hotels, where almost all transactions are paid in cash, so the group has not problems on this issue.

Finally, if we analyse the long-term equilibrium, IHI enjoys a good financial health.

Table 2. Financial ratios for IHI p.l.c., 2015 and 2016

FINANCIAL ANALYSIS	**2016**	**2015**	**Variation**
Financial position and Corporate indebtedness			
Solvency	117.85%	68.40%	72.30%
Liquidity (acid test ratio)	109.99%	62.12%	77.07%
Quick ratio	34.33%	23.72%	44.73%
Debt to equity or Indebtedness	88.65%	90.64%	-2.19%
Debt composition	570.05%	451.36%	26.30%
Long-term debt	75.42%	74.20%	1.65%
Short-term debt	13.23%	16.44%	-19.52%

Short-term financial equilibrium			
Working Capital	15,276,000	-31,603,000	-148.34%
Operational Financing Needs	20,800,000	-24,682,000	-184.27%
Net Liquid Resources	-5,524,000	-6,921,000	-20.18%
Cash Conversion Cycle	-137.68	-108.13	27.33%
Days inventory	27.12	30.07	-9.80%
Days receivables	95.62	84.22	13.53%
Days payables	260.43	222.43	17.08%
Long-term financial equilibrium			
Equity guarantee	212.80%	210.33%	1.18%
Short-term debt repayment capacity	-2.69%	24.41%	-111.04%
Long-term debt repayment capacity	-0.40%	4.43%	-109.08%
Time to return financial credits	-37.13	4.10	-1,006.20%

Source: Own elaboration derived from data from financial statements for IHI p.l.c.

Economic analysis

Common-sized income statement for IHI is presented in Table 3. As it can be observed, the firm present a negative net result during both years, 2016 and 2015.

Gross margin represents the 44.57% and 47.55% in 2016 and 2015, respectively, over total revenues. Costs of sales are only the 55.43% and 52.45%, respectively. However, personnel costs and other operating expenses decrease the margin until a 2.69% and 14.07%, respectively.

EBIT is negative due to the weight of amortization and depreciation. Financial results are also negative, so net result is negative.

Considering Table 4, that presents economic ratios for IHI, as it has a negative result, the return on assets and return on equity are also negative.

Table 3. Common-sized income statement from IHI p.l.c., 2015 and 2016

	2016	%	2015	%	Variation
Revenues and other income	157,901,000	100.0%	134,074,000	100.0%	17.8%
Cost of sales	-87,519,000	55.4%	-70,326,000	52.5%	24.5%
GROSS MARGIN	**70,382,000**	**44.6%**	**63,748,000**	**47.6%**	**10.4%**
Other Income operating	795,000	0.5%			--
Cost of personnel	-27,805,000	17.6%	-26,147,000	19.5%	6.3%
Other operating expenses	-39,122,000	24.8%	-18,731,000	14.0%	108.9%

E.B.I.T.D.A.	**4,250,000**	**2.7%**	**18,870,000**	**14.1%**	**-77.5%**
Amortization and depreciat.	-23,307,000	14.8%	-20,093,000	15.0%	16.0%
E.B.I.T.	**-2,305,000**	**-1.5%**	**24,407,000**	**18.2%**	**-109.4%**
Financial income	11,125,000	7.1%	807,000	0.6%	1278.6%
Financial cost	-15,583,000	9.9%	-25,544,000	19.1%	-39.0%
FINANCIAL results	**-4,458,000**	**-2.8%**	**-24,737,000**	**-18.5%**	**-82.0%**
GROSS results	-6,763,000	-4.3%	-330,000	-0.3%	1949.4%
NET INCOME	**-7,658,000**	**-4.9%**	**-3,728,000**	**-2.8%**	**105.4%**

Source: Own elaboration derived from data from financial statements for IHI p.l.c.

Considering Table 4, that presents economic ratios for IHI, as it has a negative result, the return on assets and return on equity are also negative.

Table 4. Economic ratios for IHI p.l.c., 2015 and 2016

ECONOMIC ANALYSIS	2016	2015	Variation
Gross Margin Ratio	44.57%	47.55%	-6.25%
Operating Profit Margin	-1.46%	18.20%	-108.02%
Profit Margin (after tax)	-4.85%	-2.78%	74.42%
Return on assets	-0.63%	-0.32%	95.22%
Return on equity	-1.18%	-0.61%	93.18%

Source: Own elaboration derived from data from financial statements for IHI p.l.c.

6. Discussion

As it has been previously explained, IHI is present in the hospitality sector and the real estate area. This activity determines the volume of long-term investments and its financing structure.

At the same time, as it is highlighted in the notes of the group companies, revenues come from the operation of owned hotels, flowed by the rental income of residential and commercial premises.

Residually, earning are caused by a vacation ownership marketing business, a retail and event catering business, and the operation of *Costa Coffee* outlets in Malta and Spain.

Finally, although the group presents a good financial and economic situation, it must deal with political changes and uncertainties, as in the case of Libya, as it is remarked by the audit report of consolidated financial statements for the year ended 31 December 2015.

7. Conclusions and Recommendations

Although it would be necessary a specific and more detailed analysis of each business of the groups, from the analyses performed, several conclusions can be showed. First, IHI present a good financial position. It is mainly financed by equity, but having a similar weight to liabilities.

In the economic analysis, IHI presents a positive gross margin but it must control its expenses in order to get positive results. Indeed, as it is highlighted in the notes, the results were affected by a pre-tax net impairment in fair value of Group properties.

Finally, as IHI presents losses (negative net income), the return on assets and return on equity are also negative.

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