

Sol Meliá Profits Of 36.7 Million Euros For The First Half Of The Year

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The hotel chain Sol Meliá today announced financial results for the first half of the year which show a net profit of 36.7 million euros and revenues of 618.5 million euros.

The economic slowdown, exchange rate fluctuations and absence of capital gains from asset rotation affected the results of the Spanish hotel chain, in spite of the positive performance of the business

Sol Meliá maintains its ambitious growth policy after reaching agreements in the first half of the year to add 3,600 new rooms in seven countries, and is now preparing the imminent inauguration of the ME Barcelona after the successful opening of the luxury resort Gran Meliá Palacio de Isora (Tenerife).

The Company has reduced investments scheduled for 2008 in its Strategic Plan from 300 to 200 million euros

The hotel chain Sol Meliá announced financial results for the first half of the year which show a net profit of 36.7 million euros and revenues of 618.5 million euros. The positive performance of the business was adversely affected by several external factors including the current economic slowdown, the negative influence of the dollar exchange rate and, to a lesser degree, the British pound, in addition to the absence of capital gains from asset rotation activities over the first six months of the year compared to the 17.4 million euros achieved over the same period in 2007.

If the absence of capital gains and exchange rate fluctuations were ignored, revenues would have increased by 4.1% between January and June compared to the previous year, while EBITDA and net profit would have decrease by only 3.5% and 1.6% respectively. Instead of having decreased by 1.5%, revenues per available room (RevPAR) would have increased by 1.6% were it not for the weakness of the dollar.

The exchange rate fluctuations have also had an important effect on the results of the Sol Meliá Vacation Club (SMVC). Although the figures show a revenue decrease of 6.7% , this would have been an increase of 8.1% after eliminating exchange rate variations.

The results show that the leading Spanish hotel chain is able to maintain revenue levels and business strength above the average for the industry thanks in large part to its superior geographical and business diversification as well as its ability to control costs within an environment of rising energy and food costs, once again demonstrating a resistance to external factors above the average of its competitors.

Hotel openings and capacity for growth

Within the framework of the ambitious growth objectives set in the Strategic Plan 2008-2010, in the first half of the year the company led by Gabriel Escarrer has inaugurated a deluxe resort in the south of Tenerife named the Gran Meliá Palacio de Isora and has added two cutting-edge hotels to the new ME by Meliá brand: the ME Barcelona (opening this month) and the ME Vienna (opening at the end of 2010), both designed by the prestigious French architect Dominique Perrault, author of emblematic buildings such as the National Library in Paris.

Between January and June Sol Meliá has added or signed agreements to add hotels in Athens and Kos (Greece), Dresden (Germany), Angra dos Reis and Jacuma (Brazil), Hurghada (Egypt) and Zadar (Croatia). Sol Meliá will also soon be starting construction of a hotel with 280 rooms in Salvador de Bahía in Brazil (part of a mixed-use project set over 5 million square metres of owned land) and of two hotels in Playa del Carmen in Mexico. In 2009 the company will also open the first Sol Meliá hotel in China, the magnificent Gran Meliá Shanghai.

Sol Meliá views the current economic crisis as an opportunity to identify significant opportunities for growth in emerging markets such as Eastern Europe or Brazil, or for closing asset acquisitions with strategic investment partners as has been the case with the purchase of the new ME Barcelona hotel, as well as opportunities to enter mature markets where it currently does not operate such as major cities in North America.

This growth is viable thanks to the healthy finances of the Spanish hotel company. In July the Company signed a syndicated loan agreement of 200 million euros with 14 banks to refinance medium and long-term debt which was oversubscribed 1.7 times, something the company considers evidence of its financial health. If we were to add up the loan amount, treasury funds and open credit lines, the Spanish hotel chain currently enjoys a comfortable liquidity position to the amount of 635 million euros.

Outlook and contingency plans

Demand for travel is expected to weaken a little this summer, although the impact will be deeper in Spain and the United Kingdom, two of our most important feeder markets. On the other hand, the US market is expected to show a more positive trend, particularly in Caribbean destinations, although the strength of the Euro is expected to continue to have a negative impact on results.

With regard to Sol Meliá destinations, hotels in the Dominican Republic, Costa Rica and Venezuela are expected to continue the positive trend, together with hotels in Asia thanks to the economic growth in the area.

With regard to the different market segments, given that the broad outlook for the holiday resort market is already apparent for 2008, the outlook for the end of the year will depend in large part on the performance of corporate travel in certain markets such as Spain.

Sol Meliá considers that it is more important than ever to provide powerful brands during a slowdown in demand, as is the case with the 7 hotel brands in the company portfolio, - Gran Meliá, Paradisus, ME , Meliá, Ininside, Tryp, and Sol - and retain its leadership in sales.

The Company has thus decided to maintain all of the priorities defined in the Strategic Plan 2008-2010 (enhancement of brand equity and the three business areas, sustainability and human capital), although it has also decided to adjust investment plans for 2008 from 300 to 200 million euros to take into account the current economic situation and maintain its financial strength, and does not rule out further decreases in Capex in the future if it were considered appropriate given the future economic environment.

Sol Meliá will also activate a number of measures which will allow the company to maintain its levels of activity bearing in mind the difficulties of the economic environment. These contingency measures are based on five key concepts: the mentioned adjustments in investments, a greater focus on revenues, the intensification of the brand standardisation process to focus on greater efficiency and greater value for clients, cost control in hotels and corporate offices, with a special focus on energy saving measures, and flexibility in sales activities.

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