

InterContinental Hotels 1st Half profit falls, after taxes and administrative costs escalate

2008-08-12

Net profits for the year to June 30 were \$163 million, down from \$219 million in the first six months of 2007.

Half Year Results to 30 June 2008

Headlines

Three year net rooms growth target exceeded six months ahead of schedule, with 60,490 rooms added since June 2005.

48,282 new rooms signed (356 hotels), taking pipeline to 242,349 rooms (1,788 hotels), 41% of the existing system size.

13,071 net rooms added in the first half, taking total system size to 598,165 (4,046 hotels), up 6% year on year.

Global constant currency RevPAR growth of 4.0%. July 2008 global constant currency RevPAR growth of 3.4%, 1.5% in US.

Total gross revenue* from all hotels in IHG's system of \$9.6bn, up 8% in constant currency.

Operating profit including discontinued operations up 28% to \$291m.

Continuing revenue up 14% from \$832m to \$952m. Continuing operating profit up 29% from \$220m to \$284m. Revenue and operating profit include \$22m benefit from two significant liquidated damages receipts, \$13m in Americas and \$9m in EMEA.

Excluding significant liquidated damages benefit, continuing revenue up 12% (9% at constant currency) and continuing operating profit up 19% (17% at constant currency).

Adjusted continuing earnings per share ('EPS'), including \$22m liquidated damages, up 28% from 44.3¢ to 56.7¢. Adjusted total EPS of 58.1¢, basic total EPS of 56.0¢.

Interim dividend up 6% to 12.2¢, equivalent to 6.4p at the closing exchange rate on 8 August 2008.

Statement from Andrew Cosslett, Chief Executive:

'We were deeply saddened to announce that Steve Porter, President of our Americas region, passed away after a short illness on 7 August 2008. Steve was an outstanding executive and a great colleague, and our thoughts are with his family. Our Group Finance Director Richard Solomons is now in place as interim President of the region, in addition to his current role.'

Commenting on the results and trading, Andrew Cosslett, Chief Executive said:

'IHG had a good first half, seeing growth in both revenue per available room and in the number of hotels we operate round the world. In the half we hit the target we set the business in 2005 of adding more than 60,000 rooms on a net basis by the end of 2008. This is a big milestone and we have passed it six months early. Growth looks set to continue as we have been signing two hotels a day into our development pipeline, which now stands at almost 1,800 hotels. The \$1 billion relaunch of Holiday Inn is progressing well and early feedback from our franchisees and our guests is encouraging.'

'Over the last three years we have worked hard to strengthen the foundations of the business through investment in our brands, technology, reservation systems, loyalty programme and our people. This investment not only drives our room growth, but helps us outperform during times of economic uncertainty. Generally RevPAR growth slowed through the second quarter, and market conditions have become more challenging, particularly in the US. However, the long term trends for the travel industry remain positive and our broad portfolio of brands and fee based business model positions us well to take full advantage of this.'

Rooms: record openings and pipeline

48,282 rooms (356 hotels) were signed in the first half. InterContinental signings of 4,407 rooms (12 hotels) took its pipeline to 21,284 rooms (67 hotels), triple its size when the brand was relaunched in 2004. 45,034 rooms (365 hotels) have been signed into the Holiday Inn brand family since its relaunch was announced in October 2007. Of these, 24,327 rooms (203 hotels) were signed in the first half, taking the Holiday Inn brand family pipeline to 133,038 rooms (1,121 hotels).

The pipeline of rooms now stands at 242,349 (1,788 hotels), with each brand at record levels. The pipeline outside the Americas now stands at 91,150 rooms (359 hotels), 38% of the total pipeline.

23,729 rooms were added to the system and 10,658 were removed in line with IHG's strategy of driving quality growth. This gave 13,071 net room additions for the first half, 76% (5,641 rooms) more than in the first half of 2007.

Americas: continued growth in a more challenging market

Revenue

RevPAR increased 2.4% with a small drop in occupancy offset by strong rate growth. Growth moderated through the second quarter, although all IHG's brands performed ahead of the industry in the US achieving RevPAR growth of 1.6%. Continuing revenues grew 8% to \$477m. Excluding the \$13m liquidated damages received in the first quarter and noted above, continuing revenues grew 5%.

Operating profit

Operating profit from continuing operations increased 10% to \$242m. Excluding the \$13m liquidated damages, continuing operating profit grew 4%. Continuing owned and leased hotel operating profit improved \$3m to \$19m, driven by strong RevPAR growth at the InterContinental hotels in New York, Boston and San Francisco. Managed hotel profit was \$38m, flat year on year excluding the \$13m liquidated damages. Revenue growth of 5% was offset by higher investment in operations support. Franchised hotel profit increased 3% to \$215m, with 1.9% RevPAR growth and 4% net rooms growth partially offset by investment in resources behind more rigorous enforcement of quality standards.

EMEA: strong performance in the Middle East

Revenue

RevPAR increased 8.1%, driven primarily by rate growth of 7.2%. RevPAR growth of 9.9% in the second quarter benefited from a strong performance in April due to the timing of Easter. The Middle East continued to perform well with RevPAR growth of 27.1%. RevPAR increased 4.0% in the UK and 7.1% in Continental Europe, with increases of 9.1% in France and 8.0% in Germany. Continuing revenues grew 25% (16% CER) to \$271m, driven by 35% growth (27% CER) in managed and franchised revenues. Excluding \$9m liquidated damages received in the second quarter and noted above, continuing revenues grew 21% (12% CER).

Operating profit

Operating profit from continuing operations increased 85% (71% CER) to \$89m. Excluding the \$9m liquidated damages, continuing operating profit grew 67% (54% CER). Continuing owned and leased hotel operating profit improved \$16m to \$19m, primarily due to the increased contribution from the InterContinental London Park Lane which fully reopened in June 2007 after refurbishment. Excluding the \$9m liquidated damages, managed hotel profit increased 24% (18% CER) driven by strong growth in the Middle East. Franchised hotel profit increased \$8m to \$35m reflecting 6.5% RevPAR growth and 9% net rooms growth.

Asia Pacific: RevPAR growth across all brands

Revenue

RevPAR increased 5.2%, driven by rate. Greater China RevPAR grew 1.7%, slowing from 3.2% in the first quarter to 0.5% in the second mainly due to the impact of the Sichuan earthquake and the introduction of international visa restrictions. Continuing revenues grew 18% to \$141m, driven by 15% growth in owned and leased revenues and 27% growth in managed revenues.

Operating profit

Operating profit from continuing operations grew 7% to \$29m. Owned and leased hotel operating profit increased 33% to \$20m driven by 15.2% RevPAR growth at the InterContinental Hong Kong, after completion of its multi year refurbishment at the end of 2007. Managed hotel profit grew \$7m to \$26m driven by 5.1% RevPAR growth, an increased contribution from the joint venture with All Nippon Airways (ANA) and continued room expansion in Southern Asia and Greater China.

Strengthening Operating System

IHG continues to demonstrate the strength of its revenue delivery to hotel owners through its reservation channels and loyalty programme, Priority Club Rewards:

\$3.7bn of rooms revenue booked through IHG's reservation channels, up 14% and representing 47% of total rooms revenue.

\$2.9bn of rooms revenue from Priority Club Rewards members, up 14% and representing 36% of total rooms revenue.

Internet revenues increased from 17% to 19% of total rooms revenue. 84% of internet revenues are from IHG's own websites.

39m Priority Club Rewards members around the world, up from 37m at the end of 2007.

Overheads, Interest, Tax and Exceptional items

Regional overheads in the Americas and EMEA were broadly flat. \$9m was invested in Asia Pacific's regional overheads to support the rapid growth in that region, including \$4m committed at the time of the ANA joint venture to support the launch of the ANA Crowne Plaza brand in Japan. Central overheads increased by \$1m to \$76m.

The interest charge for the period increased from \$23m to \$55m, driven by higher bank borrowings following the return of funds to shareholders in June last year.

The effective tax rate for the first half of 2008 was 28%, the underlying rate before the impact of prior year items was 37%. As previously disclosed the effective tax rate in 2008 is expected to be in the mid to high 20s but will trend upwards over time. As previously announced IHG will make a non-recurring revenue investment of \$60m to accelerate implementation of the global relaunch of the Holiday Inn brands, which will be treated as an exceptional item. \$9m has been charged in the first half.

Cash flow and net debt

\$288m of cash was generated from operating activities in the first half, up \$156m on 2007. In addition \$28m of cash flow was generated from disposals including the sale of IHG's 17% stake in the Crowne Plaza Amsterdam City Centre for \$20m.

Capital expenditure of \$38m was \$69m below 2007 levels. 9.2m shares were repurchased under IHG's buyback programme during the first half, at a cost of \$139m, leaving \$60m of the current programme to be completed (representing £30m of the £150m announced buyback program).

IHG's net debt at the end of the first half was \$1,623m, slightly below the start of the year, including the \$201m finance lease on the InterContinental Boston. Net debt now stands at 2.4x earnings before exceptional items, interest, tax, depreciation and amortisation.

In the second quarter IHG successfully refinanced \$2.1bn of long term debt facilities. The new syndicated bank facility consists of two tranches, a \$1.6bn 5 year revolving credit facility and a \$0.5bn term loan with a 30 month maturity. Terms are broadly unchanged from the previous facility.

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