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IN FOCUS:

PHILIPPINES

A DIAMOND IN THE ROUGH

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Introduction

The Philippines, also known as the Pearl of the Orient Seas, consists of 7,107 islands that spread across the South China Sea between Taiwan, China and Southeast Asia. The country has finally started to catch up and perform closer to its true potential. Over the past years, the country has successfully transformed itself by focusing on growing tourism and its service sector, which is the result of quality political governance and aggressive tourism marketing campaigns. This article aims to showcase the potential of the country and evaluate its current performance under the given changes in the tourism market of the region.

Progress

- Tourism contributed directly 4.2% to the nation's GDP and is expected to increase by 4.9% by end of 2015 and grow by 5.6% per annum till 2025.[1]

- The country's airport infrastructure has seen limited progress; however, new flight routes are expanding to Papua New Guinea and Los Angeles.

- Destinations such as Cebu, Davao and Bohol are quickly getting recognised for the diversity of their landscapes like pristine beaches and beautiful mountains along with a rich cultural heritage.

- BSP, the Central Bank of Philippines, has maintained a prudent stance on borrowing costs. While inflation has moderated this year, we expect future changes to be closely linked with the policy of the US Fed.

Global Position

i. The Philippines climbed eight positions on the *Tourism Competitiveness Index* from the 82nd position in 2013 to the 74th position in 2015 out of 141 economies as more employees are receiving quality training.

ii. It ranks 13th out of 42 countries in Asia Pacific in the *Index of Economic Freedom* in 2015.[2]

iii. It has the largest call centre industry in the world due to more affordable labour and fluency of English among Filipinos.

iv. It has lower hotel development costs compared to Kuala Lumpur, Singapore, Bangkok and Hong Kong.[3]

[1] World Travel and Tourism Council
[2] The Heritage Foundation
[3] Langdon Seah

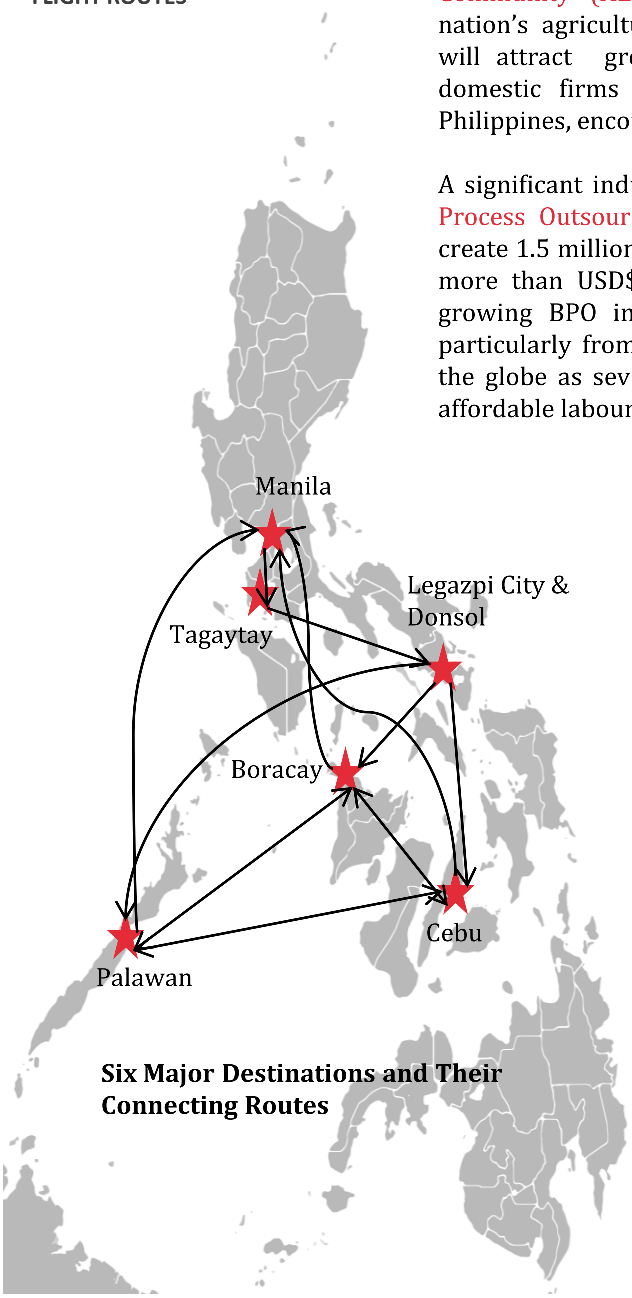
Tourism Market Drivers

"It's More Fun in the Philippines" campaign has opened up the nation to greater opportunities. The country has begun to see the fruits of publicity as tourism arrivals pick up steadily, recovering from the dip in growth due to Typhoon Haiyan, the worst disaster to hit Philippines, in 2013. As a result, there has also been an increase in hotel supply from several major projects in Manila, which is the nation's business hub.

New agreements such as the inauguration of ASEAN Economic Community (AEC) would widen trading opportunities for the nation's agricultural exports and automotive manufacturing. This will attract greater foreign direct investments and also allow domestic firms to consider expanding within and outside the Philippines, encouraging domestic travel.

A significant industry, which has been growing rapidly is Business Process Outsourcing (BPO). This sector is not only expected to create 1.5 million new jobs next year but is also expected to bring in more than USD$11 billion by 2020. One of the benefits of the growing BPO industry is that more travel activity is expected, particularly from long-haul destinations in the Western regions of the globe as several multinational companies are investing due to affordable labour and strong fluency in English in the Philippines.

FIGURE 1: POPULAR LEISURE FLIGHT ROUTES



Six Major Destinations and Their Connecting Routes

Philippine Airlines and Cebu Pacific have expanded their fleets and introduced new flight routes between Cebu and Japan. More direct flights to cities such as Cebu, Boracay and Davao can be expected as well. This year, other international carriers such as Ethiopian Airlines, HK Express and Garuda Indonesia have also introduced new routes and increased the frequency of existing flights into Manila.

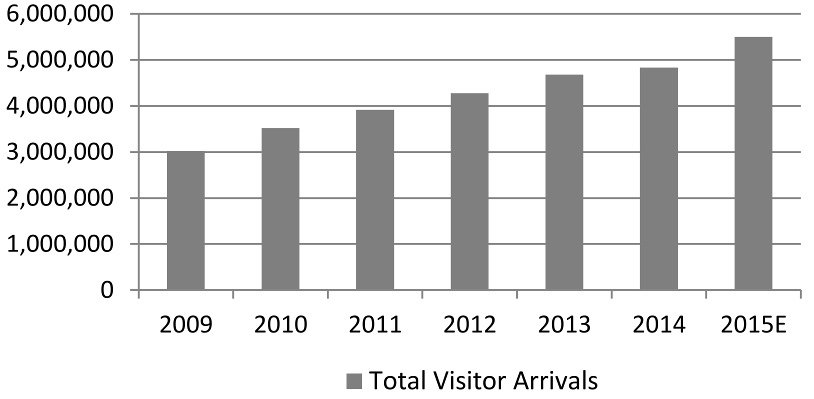
While Ninoy Aquino International Airport struggles to cope with the growing numbers of travellers, its expansion has not progressed and infrastructure remains unimproved. However, the government has contributed 4% of the nation's GDP to improving its infrastructure and this percentage can be expected to increase next year. Major roads and bridges account for US$3.72 billion out of the total budget of US$4.4 billion for public infrastructure. Other development includes conversion of Mactan-Cebu International Airport into a resort airport to help ease the arrivals in Manila as more direct flights enter.

Demand Overview: Tourist Arrivals, Source Markets and Seasonality

Total Visitor Arrivals & Tourism Receipts

Philippines' tourism arrivals have previously grown at a CAGR of 10% from 2009 to 2014 while tourism receipts have grown at a CAGR of 17%. Tourism arrivals in the first six months of 2015 have grown by 8% as compared to the 2% in 2014 over the same period, reflecting a sharp recovery over the previous year.

FIGURE 2: TOTAL INTERNATIONAL ARRIVALS (2009 – 2015E)

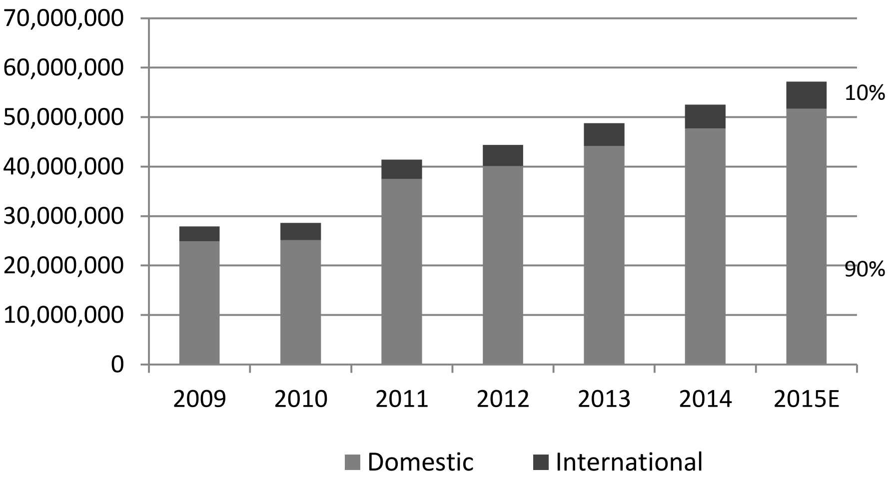


Source: Department of Tourism (DOT)

International & Domestic Demand

International tourists comprise approximately 10% of overall tourist arrivals while Domestic comprise the remaining 90% of the arrivals. Growth in both remains strong with 11% and 8% for International and Domestic arrivals, respectively.

FIGURE 3: INTERNATIONAL AND DOMESTIC ARRIVALS (2009 – 2015E)

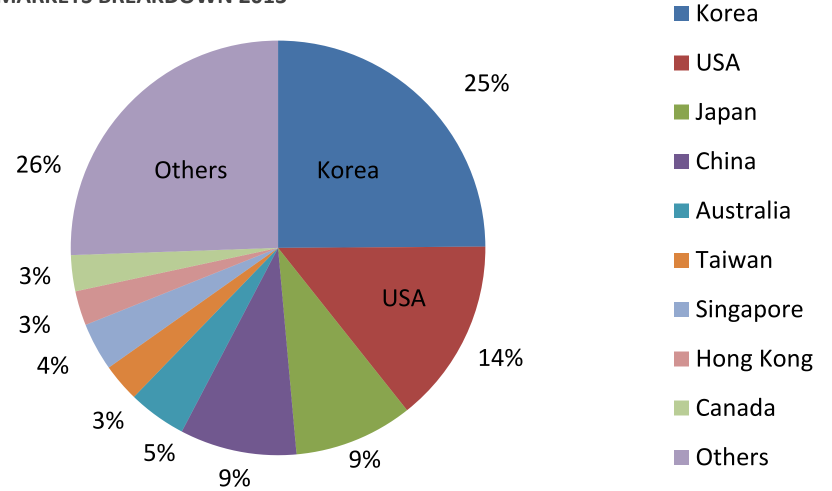


Source: DOT, National Statistic Coordination Board (NSCB), HVS Research

Source Markets

South Korea is the country's main source market as it makes up nearly 25% of inbound tourists, followed by USA, Japan, China, and Australia. Koreans are also the highest spenders in the Philippines with an average spending of US$1190 per capita. Tourists from the Western countries also have higher expenditures. One key source market that has the potential to grow is Australia, which serves as the top source market for Bali, Indonesia and Phuket, Thailand. Since the Philippines has several islands that serve as comparable alternatives to Bali and Phuket, there is the potential for increase in travel to Philippines from Australia.

FIGURE 4: SOURCE MARKETS BREAKDOWN 2013



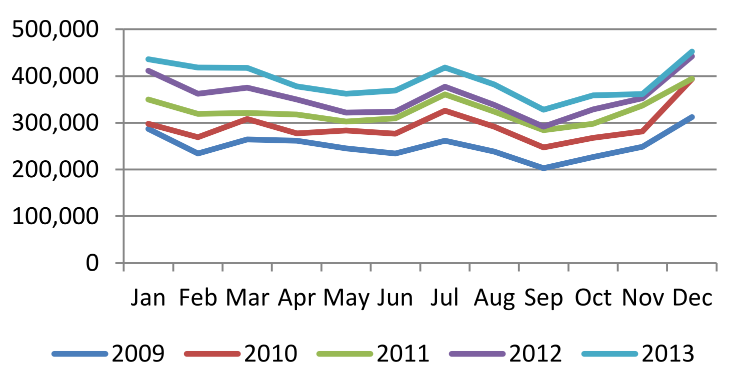
Source: DOT

The average length of stay in 2014 was 9.6 nights with Americans staying the longest – 13.4 nights.[4] A popular travel route for leisure tourists (Refer to Page 2: Figure 1) is to fly in to Manila, the gateway city to the Philippines circuit. Thereon, spend a day or two in Tagaytay to hike on Taal Volcano, a volcano within a lake within a volcano. A day each is spent in Legazpi City, which offers a city tour and Donsol for a swim with the whale sharks. The remaining time is usually spent in beach destinations such as Boracay, Cebu or Palawan before returning home through Manila.

Seasonality

The Philippines exhibits consistent seasonality in the visitor arrivals with the peak season being from late November till January when travellers from North American countries avoid their winter to enjoy the tropical climate of the island nation. There is also a brief increase in arrivals in June and July as these months usually fall during the school holiday period of the Southeast Asian markets. While corporate travel declines during this period, a significant leisure market successfully fills up this gap. For the leisure market, the Philippines is able to attract a diversified pool of tourists from various countries to displace one another during different periods of the year.

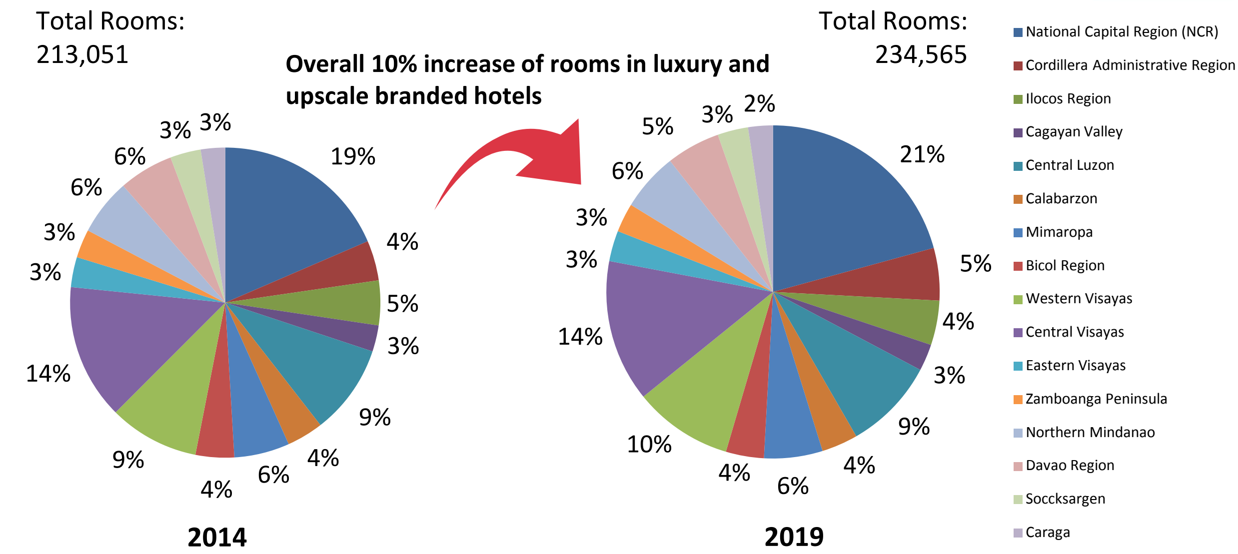
FIGURE 5: SEASONALITY OF INTERNATIONAL TOURISTS



Source: DOT

[4] *Department of Tourism*

FIGURE 6: ROOMS SUPPLY FROM 2014 TO 2019



Source: Ministry of Tourism, HVS Research

Supply Overview & Pipeline

By 2019, the nationwide rooms inventory will increase by at least 10% from that in 2014. This 10% increase is only accounting for the branded openings expected by 2019 and has yet to take into account rooms from new independent hotel openings.

The National Capital Region (NCR), Manila has the largest room inventory in the Philippines. The inventory is expected to increase by 27% in 2019 from the 39,456 rooms in 2014; this includes an increase of 57% in rooms supply in the luxury and upscale segment. The supply of new rooms are mainly from large integrated resort projects such as City of Dreams, Manila Bay Resort, Resorts World Manila, which house some brands such as Genting, Okura and Westin. However, there are several other significant hotel properties entering into the market such as Savoy Hotel and two Mercure properties. The influx of supply in the coming years will help Philippines to grow its presence further in the region as more branded hotel chains promote the Philippines as a destination.

FIGURE 7: EXPECTED SUPPLY PIPELINE (2015 – 2018)

2015

- Belmont Luxury Hotel Newport
- Citadines Millenium Ortigas Manila
- Conrad Hotel Manila
- Grand Hyatt Manila
- Mercure Manila Ermita
- Mercure Manila Ortigas
- Novotel Manila Araneta Centre
- Shangri-La at the Fort

2016

- Courtyard by Marriott Iloilo
- Crimson Resort & Spa Boracay
- Mövenpick Hotel Manila
- Mercure Dumanguete City
- Somerset Alabang Makati
- Savoy Hotel
- Swiss-Belhotel Quezon City Metro Manila

2017

- Admiral Suite Hotel MGallery
- Crimson Resort Barangay Yapak
- Manila Bay Resorts
- Novotel Manila Emerald Suites
- Park Inn by Radisson Clark
- Somerset Alabang Manila
- The Westin Manila Sonata Place

2018

- Dusit Princess Cebu Hotel
- Resorts World Manila: Westin, Crockfords, Genting, Hotel Okura
- Sheraton Manila
- Sheraton Mactan Resort

Luxury & Upscale Hotel Market Performance – Manila

Revenue Per Available Room (RevPAR)

Since the strike of Typhoon Haiyan in 2013, hotel performance in the Philippines has steadily recovered in 2015. Focusing on the upscale and luxury segment as it takes a large portion of Manila's hotel industry, properties achieved a RevPAR performance of US$110 in 2014. This has grown from the previous year's RevPAR performance of US$100. It is expected to grow about 8% continually from 2013 till 2016 as tourist arrivals increase to the Philippines. This strong showing by the hotels in this segment is expected to continue in the short to medium term.

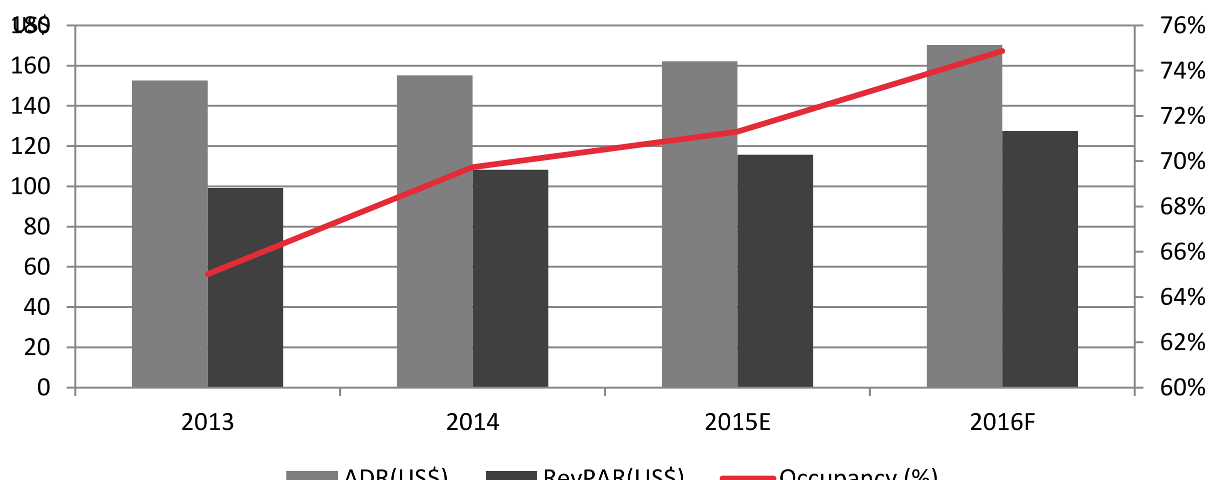
Occupancy

With the recovery of the tourism performance, hotel occupancy, too, has increased from 65% in 2013 to 69% in 2014. In 2015, hotel occupancy in most hotels in the luxury and upscale segments in Manila is expected to grow at a slower pace and achieve an average occupancy of 71% despite the opening of the integrated casino resorts – Solaire and City of Dreams. Occupancy is forecasted to reach almost 75% in 2016 if growth in tourism arrivals continues as expected.

Average Daily Rate (ADR)

ADR has grown slightly by 2% from 2013 to 2014 as rates were kept similar in order to remain competitive to attract tourists after the typhoon. In 2015, ADR of luxury and upscale hotels is expected to be approximately 4% higher than that in 2014. By 2016, ADR is expected to rise another 5% as the outlook for more tourist arrivals continues to look promising.

FIGURE 8: HOTEL PERFORMANCE FOR LUXURY AND UPSCALE HOTELS IN MANILA (2013 -2016F)



E : Expected
F : Forecast

Challenges & Opportunities

The medium to long-term outlook for the Philippines is promising. Some key issues impacting the country's future performance are summarised below.

• **Infrastructure challenges** would need to be met at the earliest to facilitate tourism growth. Soon, airports will require expansion in order to facilitate the incremental demand entering into the country year-on-year. It can be seen that the government is trying to manage airport congestion and opening Cebu, Clark, Davao and Iloilo to receive more international direct flights. However, more needs to be done to facilitate tourism growth.

• **Greater ease of access** following the Association of South East Asian Nations' (ASEAN) open skies agreement should allow more demand to enter into Philippines from countries within the region. The Department of Foreign Affairs of the country has also introduced a single visa scheme for ASEAN's 10 member states to improve the ease of access to the Philippines.

• **Natural disasters** such as Typhoon Haiyan, the deadliest typhoon to hit the Philippines, could reoccur due to its location along the Ring of Fire, or typhoon belt in the Pacific Ocean. It would bode well if the government and local authorities are better prepared in future for such disasters and their management.

• **Growth in visitor arrivals** has returned to normal levels as the 'Visit the Philippines Year' campaign aggressively promotes destinations such as Boracay, Davao, Cebu and Manila. This year, nationalities such as Taiwanese, Malaysians and British have seen tremendous growths in visitation alongside with Koreans. One key market, which can also be seen to grow is Australians. Going forward, this high impact of tourism promotion by the Department of Tourism shall be critical.

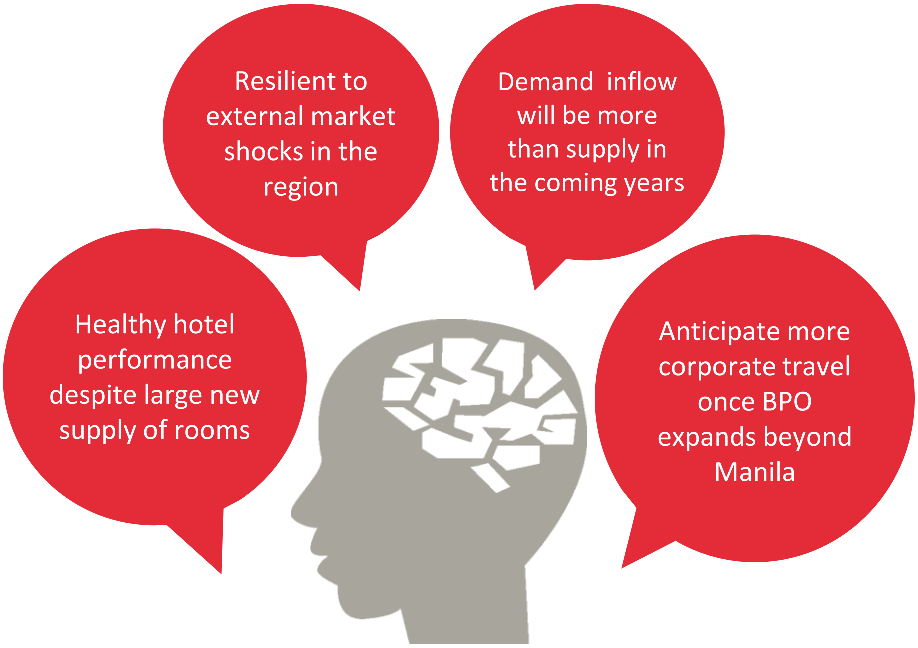
• **Emerging destinations** offer a bountiful supply of pristine beaches and eco-heritage sites. More importantly, they present the following opportunities for tourism to diversify across the length of the country.

• **Zambales** is an ideal destination for an off-the-beaten-track experience. It offers ideal waves for surfing and picturesque beach coves and sceneries for avid photographers. Located a few hours away from Manila, Zambales is accessible by bus from Cubao or Pasay.

• **Cagayan De Oro** is known as Philippines' premier whitewater destination. It is also known to offer several cultural attractions such as Museo de Oro, Museum of Three Cultures and the Gardens of Malasag Eco-Tourism Village. It is accessible by air, land and sea.

•Other high potential destinations are Butuan City, Danao, Dapitan City, Sarangani and the Island Garden City of Samal.

Why Invest in The Philippines?



Conclusion

Political stability in the Philippines will boost the country as a relatively safe destination to visit and invest in as compared to neighbouring countries such as Malaysia, Thailand and Indonesia which struggle with political instability or national security. Good governance and tourism initiatives should continue in order to gain greater publicity on the attractiveness of investing in the Philippines. As more islands open up for tourism, it can be expected that demand from leisure travellers will grow further than corporate segments in the medium term. It is crucial, now more than ever, for the Philippines to outshine and drive tourism growth and reach its full potential.

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