

> LOW ROOM RATES POSE AN OBSTACLE TO DELIVERING GOOD RETURNS

# Tradewinds hotels face challenges

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TRADEWINDS Corp Bhd is not expecting its hotel business to post a profit for its current financial year as prevailing low room rates in Malaysia pose a major challenge for it to deliver good returns.

Tradewinds, the biggest hotel owner and operator in the country, owns 10 hotels in Malaysia under the InterContinental, Crowne Plaza, Hilton, Meritus and Mutiara brand names.

"Malaysia has the lowest hotel rates in the world. These low hotel rates are dragging down our profitability," chairman Datuk Seri Megat Najmuddin Khas told Business Times in an interview.

He said most of the five-star hotels in Kuala Lumpur are not getting an average rate of US\$100 (RM367.00) per night.

"The rates of a three-star hotel in Vietnam is equivalent to our five-star hotel here. Even tourists think that Malaysia is a cheap des-



Five-star hotels in Kuala Lumpur are not getting an average rate of US\$100 a night, says Megat Najmuddin

tinuation," he added.

Megat Najmuddin pointed out that more and more hotels are coming up in Kuala Lumpur, re-

sulting in a glut of hotels in an industry that is not properly regulated and lacks a proper master plan.

"We have five-star quality (hotels), but to provide five-star services, we have to invest money ... I think the industry is not serving the country at all. Our hotel industry is in a sad state. This issue has to be addressed," he lamented.

He said the Crowne Mutiara Plaza, the first five-star hotel in Malaysia, has been built at great cost to ensure that Malaysia has such a quality hotel.

The recent 12 per cent hike in electricity tariff has certainly not helped.

"Margins are very tight due to high overheads," he said.

In addition, the group is in the midst of completing its 350-room InterContinental Hotel in Hanoi, Vietnam.

Due to the current operating conditions, he said, some of the hotels in the group's stable may be offered for sale.

Megat Najmuddin was quick to add, however, that it is not in a hurry to dispose of its hotels.

Tradewinds Hotel & Resorts Sdn Bhd chief executive officer Shaharul Farez Hassan said the hotel business has been contributing 20 to 25 per cent to the group's annual revenue.

However, he expects this to fall slightly to 15 per cent for the current year as the company is in the process of completing its acquisition of Gula Padang Terap Sdn Bhd.

The acquisition will increase the contribution from its sugar business.

On its sugar business, Tradewinds group chief executive officer Azlan Abdullah said the group has increased its production by about 20 per cent to 465,798 tonnes last year.

It exports 40 to 45 per cent of its sugar production and the rest is for domestic market.

Azlan said the sugar business usually makes up about half of the

group's annual revenue and together with the plantation business, they contribute about 40 to 50 per cent to the group's operating profit.

For the current financial year, Azlan expects the group to plunge deeper into the red from that of 2005 due to the impact of the financial reporting standard (FRS) 136 Impairment of Assets and the FRS 116 Property, Plant and Equipment on the hotel business, effective January 1 2006.

For the first quarter ended March 31 2006, Tradewinds recorded a wider net loss of RM26.4 million, from a net loss of RM5.97 million in the previous corresponding period.

Revenue was RM310.27 million, down from RM316.32 million in the first quarter last year.

The company turned in a net loss of RM48.5 million on a revenue of RM1.45 billion for its fiscal year ended December 31 2005, compared with a net profit of RM56.43 million on a revenue of RM1.245 billion in the previous year.