

# Sri Lanka Tourism Report Q1 2012

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## Abstracts

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Core Forecasts In 2010, Sri Lanka welcomed 654,477 tourists, an increase of 46% year-on-year (y-o-y) and very much in line with BMI's forecast of a 50% increase for the year. July was the high watermark for monthly arrivals, when Sri Lanka welcomed 83,786 tourists – up by 32.3% y-o-y. Other months with strong increases were March and April, when there was 43.5% and 66.7% y-o-y growth respectively. This reflected a strong base effect, as in March and April 2009 tourism fell during the last phases of fighting in the civil conflict with the rebel Liberation Tigers of Tamil Eelam (LTTE, also known as the Tamil Tigers). The declaration of victory over the rebels by Sri Lankan President Mahinda Rajapaksa came in May 2009.

Following a strong 2010, 2011 has been another positive year for Sri Lankan tourism. Arrivals over the first nine months of the year stand at 598,006, up by 34.3% y-o-y. With November and December historically being strong months for inbound tourism, we forecast 40% growth in tourist arrival numbers for 2011 as a whole. This should take tourist arrivals to about 914,000.

We believe the outlook is still bright for Sri Lanka tourism and forecast a 55% rise in tourist arrivals to 1.42mn tourists over our newly extended forecast period to 2016. Tourist receipts should increase from US\$575.9mn in 2010 to over US\$1bn by 2016, with the risks very much to the upside. However, this remains dependent on a peaceful security situation. Any recurrence of violence from the LTTE, which we think is unlikely, would be a clear downside risk to our forecasts.

### **New Airport To Boost Tourist Arrivals**

At the time of writing, construction is ongoing at the site of the new Hambantota

International Airport in Mattala in the south-east of the island. It will be Sri Lanka's second international airport when it is completed in 2012. The US\$209mn airport, which is being funded and built by Chinese companies, will be able to handle the A380 superjumbo and should do much to boost tourist arrivals to the country, with Bandaranaike Airport becoming even busier as tourist numbers rise. The new airport is hoping to attract about 1mn arrivals per year when fully operational.

BMI believes that the new airport should be popular with tourists as it will be close to holiday destinations on the south and east coasts. Hambantota will also reportedly be established as a significant export hub for cargo planes, which could free up space at Bandaranaike for more tourist flights. It will also be a more convenient airport for Sri Lankans leaving the island for work in the Gulf. In April 2011, a report by the Daily News said 37% of Sri Lankan expatriates employed in the Gulf are from the Southern Province, where Mattala is located.

Airport and Aviation Services Sri Lanka is also spending money on renovation work at Bandaranaike. In May 2011, a new terminal was opened, with work scheduled to begin on the construction of a second runway able to handle the A380 in 2012. Expansion at Bandaranaike should more than double the existing capacity at the airport, from around 6mn passengers up to 13mn.

### **45,000 Hotel Rooms By 2016?**

In June 2011, the Ministry of Economic Development announced plans to double Sri Lanka's hotel room capacity to 45,000 by 2016. The current capacity is 22,745 rooms, according to figures cited by the Lanka Gazette.

Although BMI welcomes the priority given to increasing room capacity by the authorities, we believe building 45,000 new rooms by 2016 is an ambitious target. Our forecasts project approximately 30,000 hotel rooms by 2016 but we will monitor the situation to see if these figures need upgrading in the months and years ahead. In any event, our own forecasts anticipate an impressive 30.4% increase in capacity over five years.

It is clear that 2012 will be another boon year for hotel construction and renovation. Among the big domestic players, Aitken Spence Hotels and John Keells Hotels are investing significantly in new builds and modernisation of existing properties.

Aitken Spence is spending LKR1.7bn on refurbishing and extending The Sands resort (formerly the Ramada) at Kalutara. At the time of writing, John Keells is in the process

completing a LKR1.3bn refurbishment of its Coral Gardens property at Hikkaduwa, which will be rebranded as the Chaaya Tranz Hikkaduwa.

More information on Aitken Spence Hotels and John Keells Hotels can be found in the Company Profiles section of this report.

Foreign chains are also increasingly attracted to the Sri Lankan market, with Hong Kong-based hotel chain Shangri-La announcing in January 2011 that it intends to build a 700-room hotel in Colombo to be opened in 2014 and a 161-room, 20 villa beachside resort on the south coast, which will open in 2013. These will be Shangri-La's first properties in Sri Lanka.

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