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HOSPITALITY SECTOR REPORT 2021

LRS Labour
Research
Service

**FRIEDRICH
EBERT
STIFTUNG**
TRADE UNION COMPETENCE CENTRE
SUB-SAHARAN AFRICA

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Introduction

This report analyses three companies in the hospitality sector: Sun International City Lodge Hotels and Tsogo Sun Holdings. They are listed on the JSE under the travel and leisure sector.

The rich data extracted from the LRS's [MNC Database](#) further enables a retrospective view of company performance over the course of the last seven years. Following this, we analyse the remuneration packages received by directors in this sector.

The Sector

Over the course of the last year and a half, COVID-19 has caused a significant slowdown in world trade and disrupted global supply chains. Local and international travel was brought to a complete halt, and remains limited well into 2021. In addition to these disruptions, South Africa's national lockdowns over the course of 2020 and 2021 have severely impacted the hospitality sector.

According to The Federated Hospitality Association of South Africa (Fedhasa), 'income from accommodation decreased by 66.8% year-on-year in November [2020], the result of a 52.7% decrease in the number of stay unit nights sold and a 29.7% decrease in the average income per stay unit sold. The largest decline in income was reported by hotels, which was down by 69.6%.¹ It was also noted that these numbers do not take into account the businesses that had to close indefinitely.

Some research studies forecast approximately 1,6 million job losses in South Africa due to Covid-19 – a significant portion of which will be in the Hospitality Industry. Prior to the Covid-19 pandemic, the sector employed more than 330,000 people.² The sample used accounts for about 16,000 jobs in 2020.

¹ <https://www.engineeringnews.co.za/article/more-doors-close-in-south-africas-hospitality-industry-owing-to-pandemic-2021-01-20>

² <https://partners.24.com/TheBiggerPicture/HospitalityBeyondCovid19/index.html>

The hospitality sector in South Africa is very reliant on tourism. In 2019, more than 10 million people visited the country. According to Business Insider, these tourists stayed in at least one of the 63,000 available hotel beds, for which they 'cumulatively paid R27 billion'.³ In January of that same year, the sale of food at restaurants, coffee shops and fast-food outlets contributed R4,7 billion to the economy. In 2017, the sector created over 30,000 jobs – which at the time was more than both mining and manufacturing.

According to Nedbank, even if the economy were to reopen completely, it will take time for jobs to recover. People's travelling behaviour has been impacted indefinitely. However, Sun International CEO Anthony Leeming is optimistic about the future of the sector in South Africa. He believes that 'the worst is over' and that the sector is prepared for business to pick up again in 2022.⁴

Financials

Revenue

The dire situation outlined above is evident in the financials of the three big hospitality companies monitored on the MNC database. On average, revenue had been steadily increasing since 2012 when we started monitoring the companies. In 2020, the average revenue dropped to the lowest it's been since 2012.

All three companies reported dramatic drops in revenue – Sun International (the biggest company in the sample) reported a drop of almost 65% (from ZAR 17 billion in 2019 to ZAR 6 billion in 2020); Tsogo Sun Holdings reported a decrease of 61,5% from ZAR 11,6 billion in 2019 to ZAR 4,5 billion in 2020; City Lodge Hotels reported a drop of 25% from ZAR 1,5 billion in 2019 to ZAR 1,1 billion in 2020. On average, revenue in the sample decreased by 61,44%.

³ <https://partners.24.com/TheBiggerPicture/HospitalityBeyondCovid19/index.html>

⁴ <https://www.iol.co.za/business-report/markets/promising-future-for-the-sa-travel-and-hospitality-sector-the-worst-is-over-953b9bbf-770a-4e94-ae4e-03d337f6fe97>

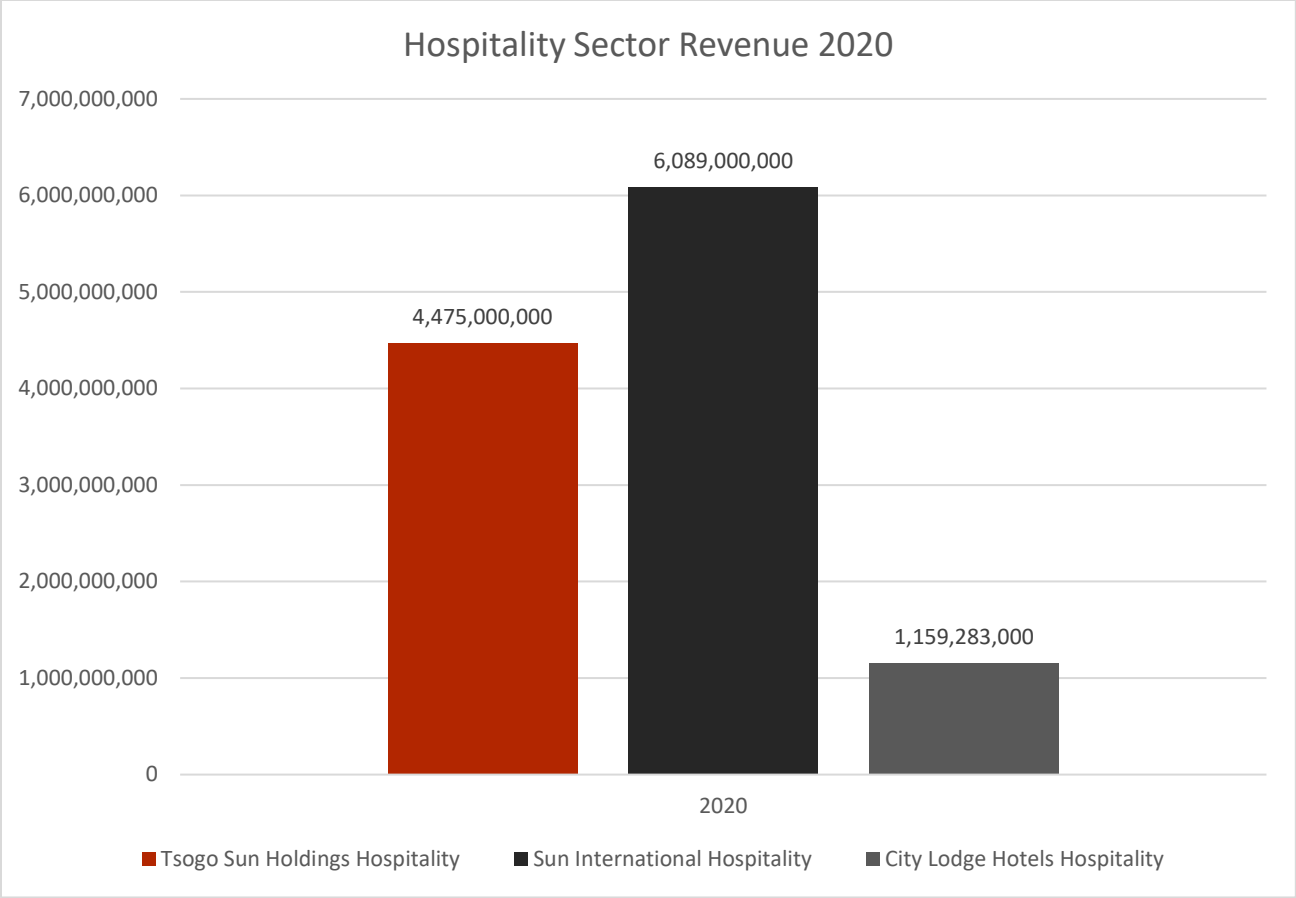


Figure 1 Hospitality Sector Revenue 2020

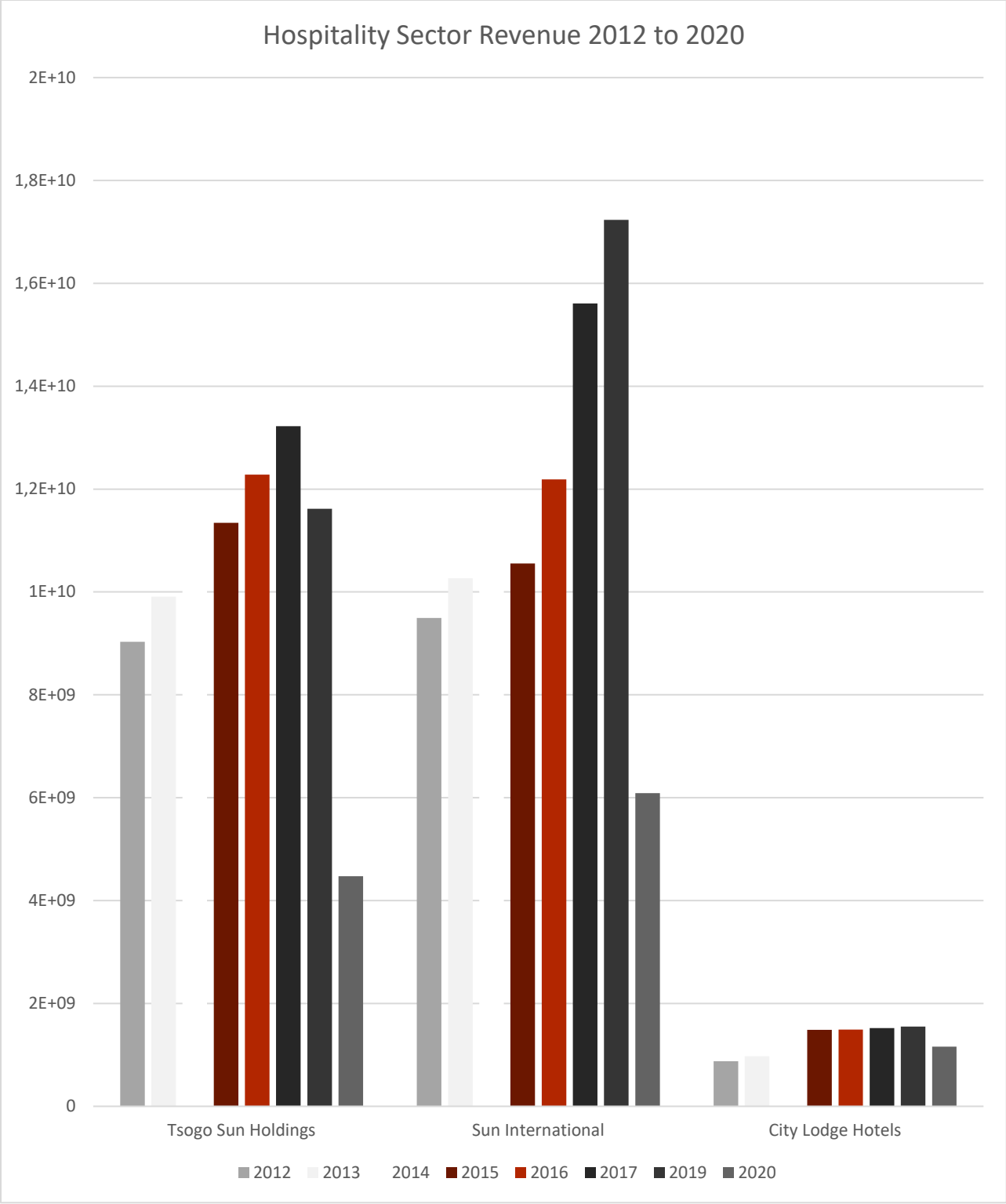


Figure 2 Hospitality Sector Revenue 2014 to 2020

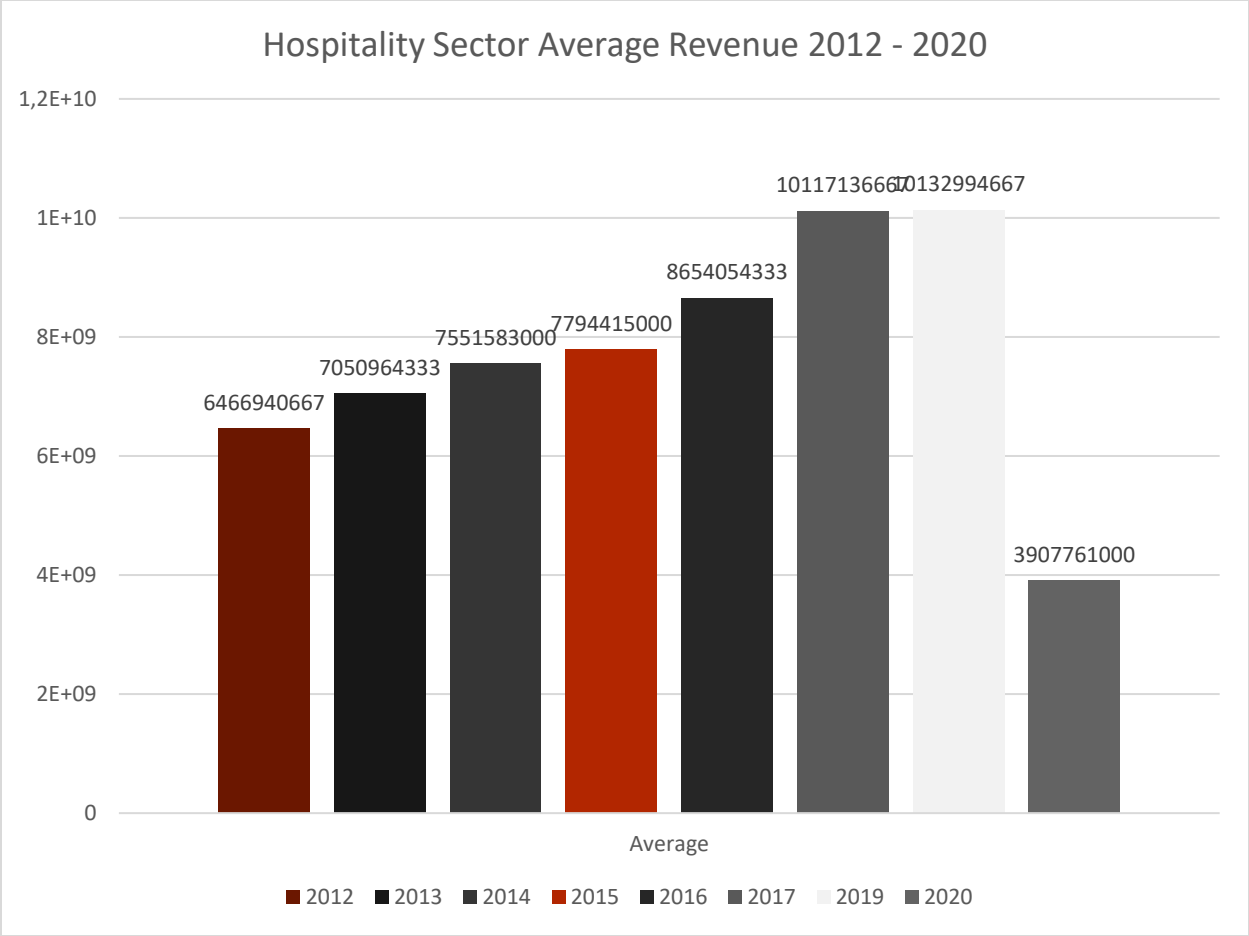


Figure 3 Hospitality Sector Average Revenue 2012 to 2020

Profit before Tax

In 2019, Profit before Tax in this sector took a big hit. Every company in the sample reported a loss. On average, reported PBT in the sample went down by 179%. This is reflective of the dire situation caused by the Covid-19 pandemic. All three companies reported profits in 2017, 2018 and 2019. In 2020, Tsogo Sun reported a loss of ZAR 1,2 billion, Sun International reported a loss of ZAR 1,6 million and City Lodge Hotels reported a loss of ZAR 582 million.

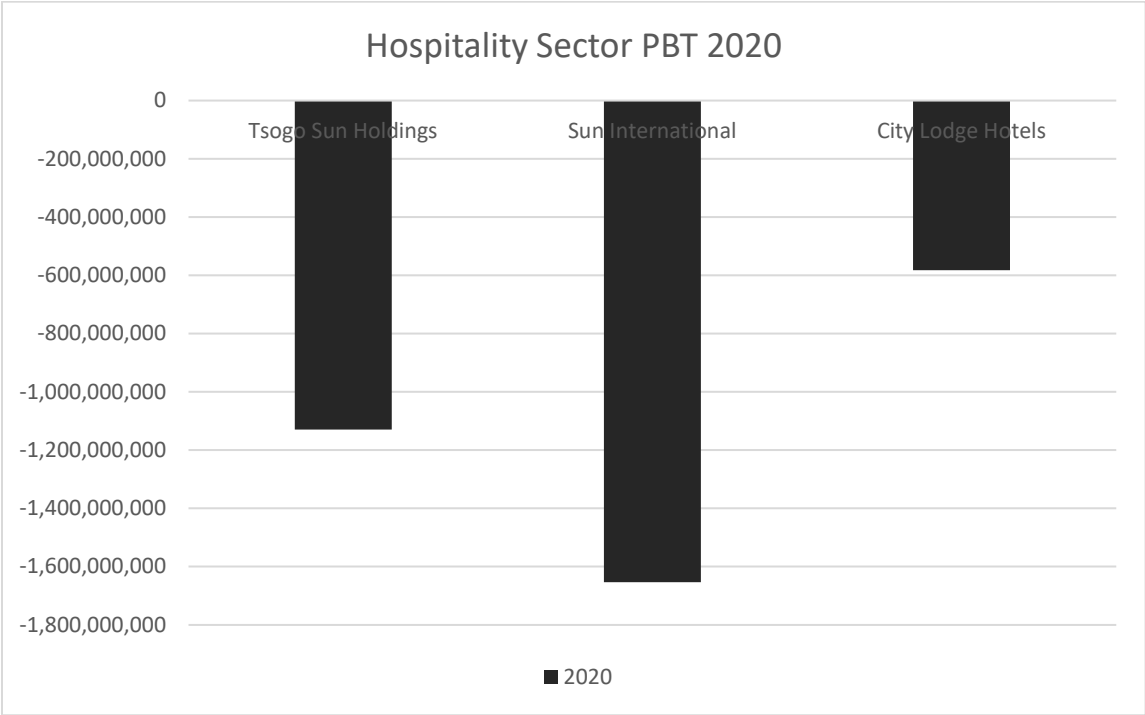


Figure 4 Hospitality Sector Profit before Tax 2020

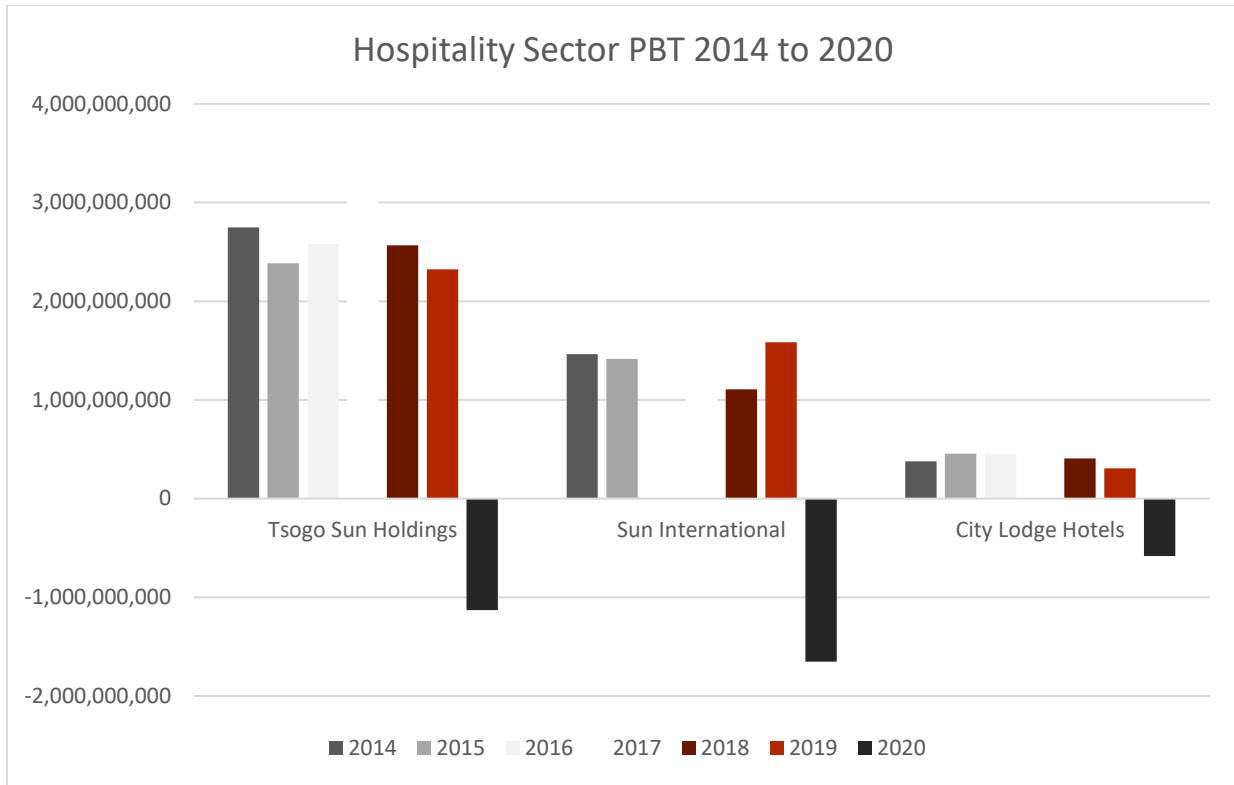


Figure 5 Hospitality Sector PBT 2014 to 2020

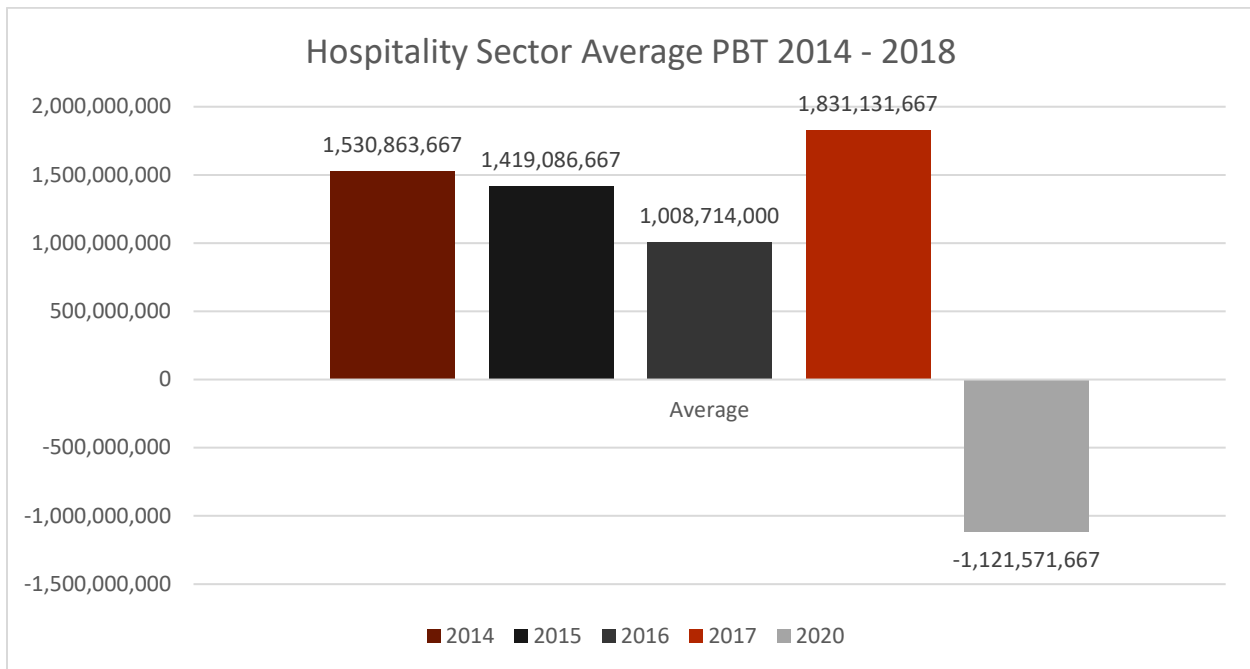


Figure 6 Hospitality Sector Average PBT 2014 - 201

Directors' Remuneration: a retrospective view

The LRS MNC database allows us to look at CEO remuneration over the course of the last nine years. In the Hospitality sector, and our sample specifically, we see the general trend over time being inconsistent and downwards. The latest year, 2020, created a sharp downward turn for CEO remuneration. Not one of the three CEOs in the sample reported receiving LTIs, and other benefits have seen a downturn as well. Given the dire situation of the sector, this is reflective of the losses the companies are facing.

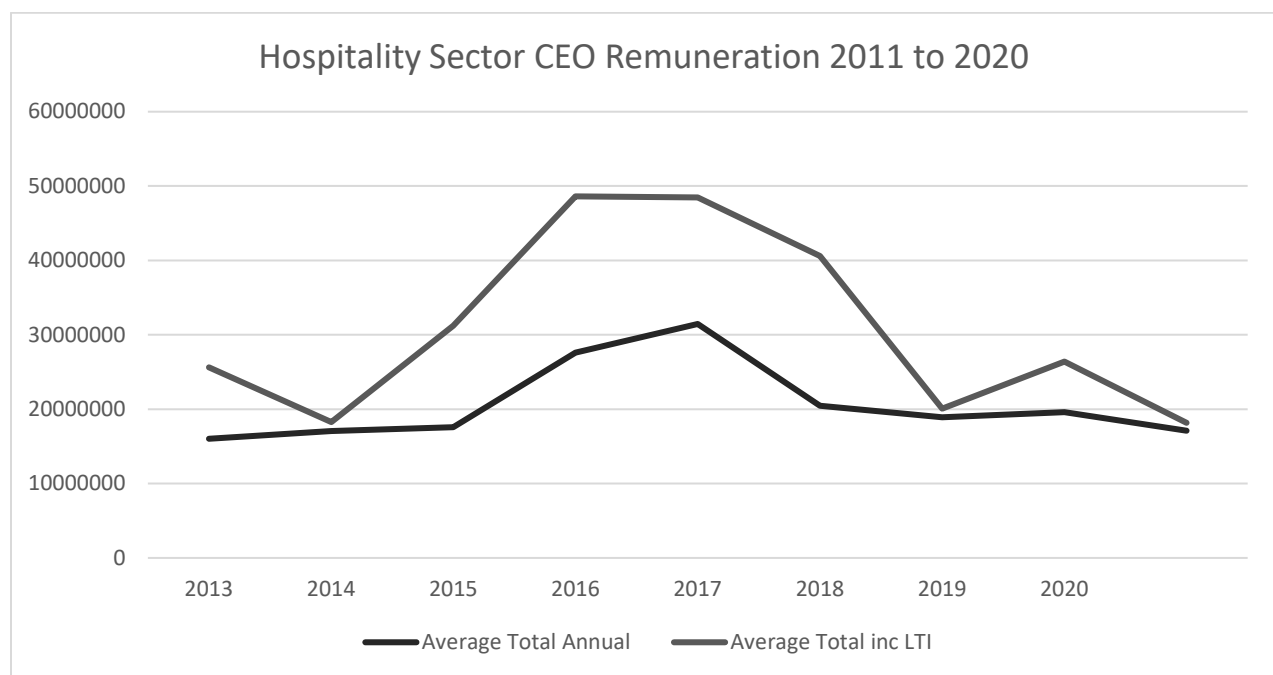


Figure 7 Hospitality Sector CEO Remuneration 2011 to 2020

CEO Remuneration 2020

In the Hospitality sector, the CEO of Tsogo Sun Holdings Marcel von Aulock was reported to have received annual remuneration of ZAR 10,407,000 in 2020. The CEO of Sun International received remuneration of just over ZAR 6 million, while City Lodge Hotels CEO received ZAR 5,7 million in total. None of the CEOs received LTIs in this time.

On average, in our sample, executive remuneration went down by 67% (mainly due to no LTIs being paid); and non-executive director remuneration went down by 22% from 2019 to 2020.

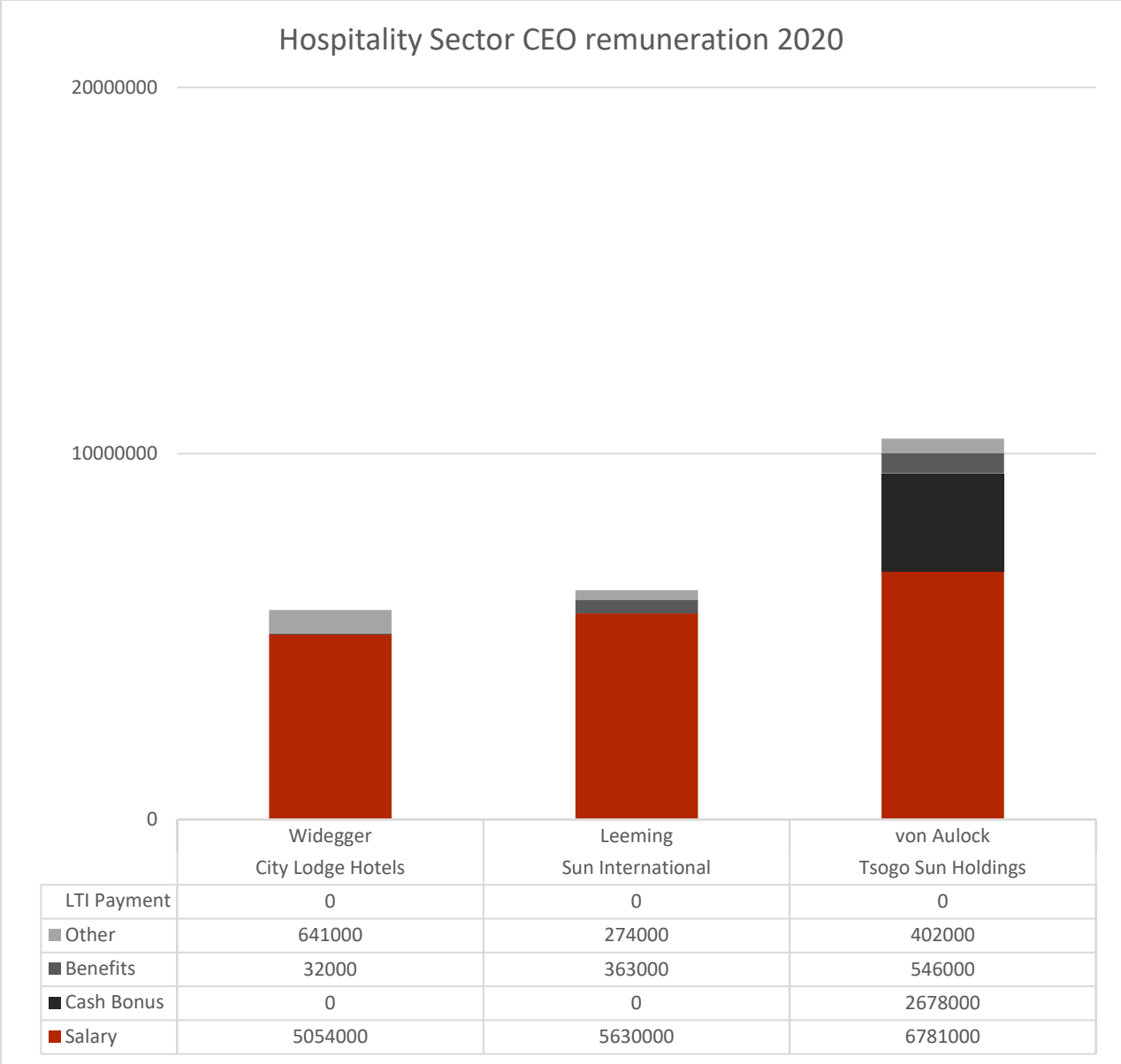


Figure 8 Hospitality Sector CEO remuneration 2020

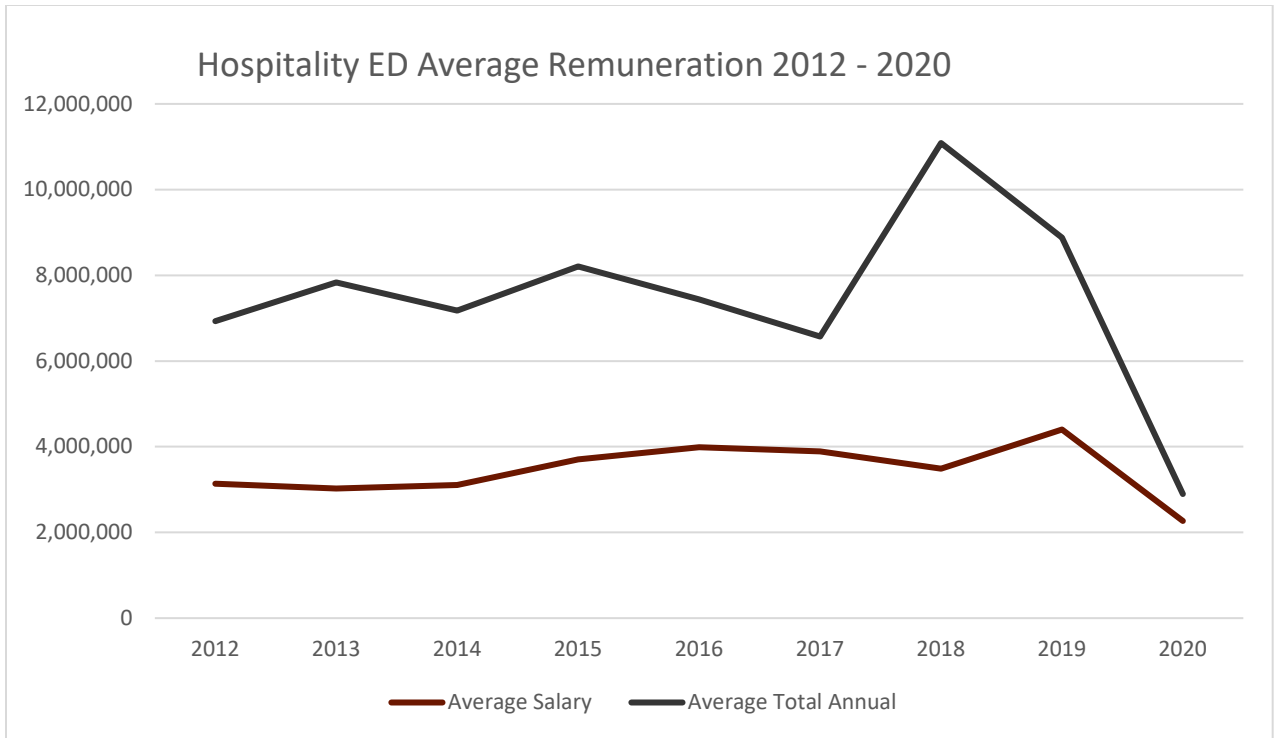


Figure 9 Hospitality ED Average Remuneration 2012 - 2020

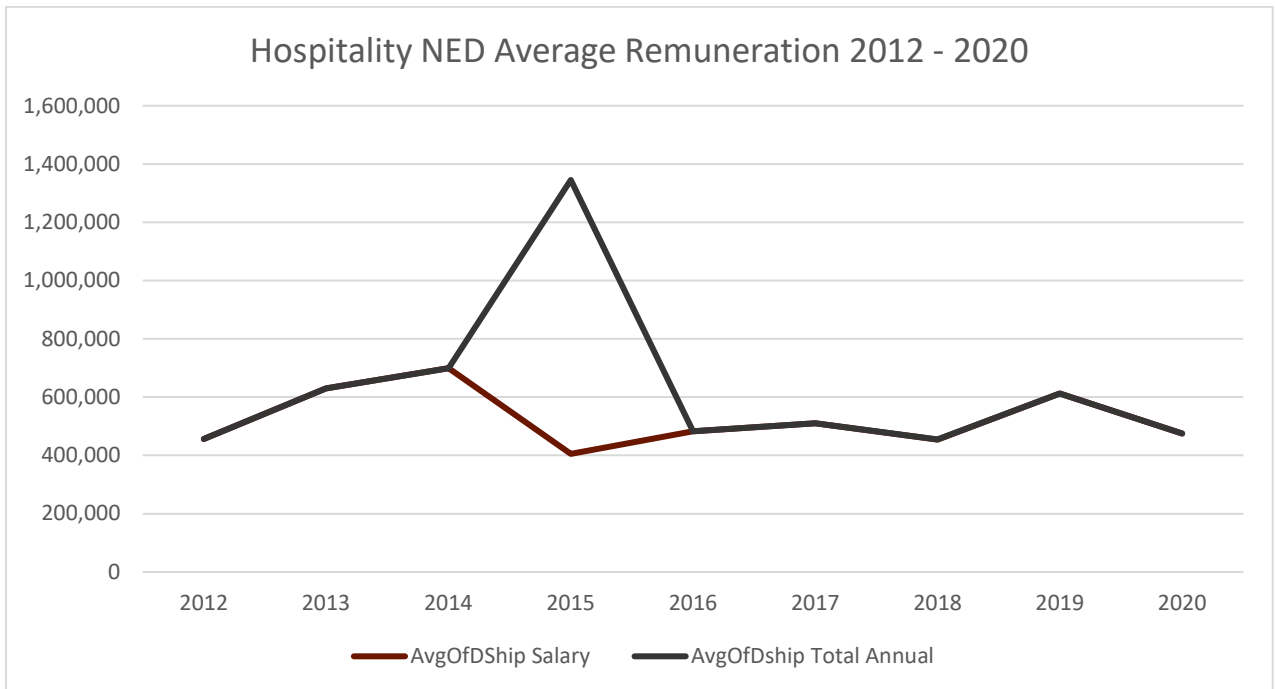


Figure 10 Hospitality NED Average Remuneration 2012 - 2020