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PRINCE MOPAI: A spring in SA tourism's step

Despite the challenging environment during Covid-19, the sector displayed strong resilience

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Picture: 123RF/TRAVNIKOV STUDIO

Optimism is building for the SA travel and leisure sector as all of us get ready to enter 2023. Tourism continues to recover after the challenging operating environment faced during Covid-19.

The second half of this year is already producing strong recovery stories in the tourism industry and continues to be bolstered by increased activity in domestic travel and inbound international tourists. Anticipation is high for the upcoming festive season, as more improvement in the sector is expected, which should continue to reinforce improving trading activities.

The global economy ground to a halt in 2020 because ofCovid-19. In SA, March 2020 saw a lot of businesses close their doors as the country was placed on full lockdown. The heavy-handed government-imposed restrictions affected local and international travel and gatherings and included bans on the sale of alcohol and cigarettes. This had a big effect on the gaming, leisure, hospitality and oth tourism-related businesses.

Hotel room occupancies fell to a dismal 12% in 2020, while casinos operated at extremely low capacity due to limitations on indoor gatherings. The sector generated little to no income for most of 2020. In fact, revenue fell more than 60% in 2020 compared to 2019. Given the inherent high fixed-cost structure of these businesses, profitability took a big hit, as can be seen in the operating losses and the negative operating cash generation incurred during the period.

Despite the challenging operating environment during Covid-19, we believe the sector displayed strong business resilience. Credit should be given to the various management teams for their skilled execution in keeping their businesses afloat while continuing to navigate the tough operating environment. The main focus was on implementing cost-reduction initiatives to drive efficiencies, while protecting their businesses in the short term, and to enable more sustainable business models over the long term. Managements further minimised spending in order to preserve cash, reduce debt and maintain good liquidity, along with flexible balance sheets. Most importantly, managements acted more proactively in engaging with lenders on debt servicing and covenant waivers.

In the first six months of 2022 operating activities have already improved significantly. This is largely due to the final pandemic-related restrictions in SA having been lifted. Room occupancies and room rates continue to edge towards achieving pre-Covid-19 levels. In September 2022, the hotel occupancies rose to 56%, compared to 60% in 2019, an encouraging statistic. This is a significant improvement compared to the lows of 12% in 2020.

Casino, sports betting and bingo have also improved trading significantly this year. Interestingly, Sun International indicated during its half-year results at the end of June that its overall July 2022 income was in line with 2019, and the company expects a significant improvement in the second half of the year compared to the prior comparative period.

Tourism continues to improve in the second half of this year. Data from Stats SA suggest that August 2022 saw inbound international traveller numbers rising by more than 200% compared to August 2021. Of these numbers, more than 95% (532,223) of the travellers came to SA on holiday while the other 5% (32,248) came for business.

Although we are not yet at prepandemic levels, international flight activity continues to show significant improvement this year compared to last. According to the latest data from Airports Company SA, international passenger arrivals at OR Tambo International Airport have risen about 220% to 1,840,067 between January and September 2022 compared to 575,461 between January and September 2021. Similarly, at Cape Town International Airport international arrivals rose about 349% to 496,882 between January and September 2022.

To further support tourism recovery going into 2023, airlines such as Emirates have recently announced plans to ramp up operations in SA. Emirates aims to increase flights between Dubai and SA from 42 to 49 weekly by May 2023. In addition, Emirates is also introducing new services between major domestic airports, with three daily flights to and from Johannesburg as of March 1 2023.

Locally, domestic air travel has experienced a similar boost and we expect the trend to continue into the festive season. Furthermore, we expect a recovery in corporate travel, sporting events and conferencing.

Against the increased tourism backdrop, we expect improved trading activities and profitability in the travel and leisure sector, allowing for further balance sheet flexibility to accommodate improving shareholder returns. Tsogo Sun Gaming and Sun International have both resumed dividends in their most recent interim results and we estimate that City Lodge and Southern Sun are likely to resume dividends in their upcoming interims.

We believe the sector still offers further upside as present share prices are still at more than a 50% discount to where they traded pre-Covid-19.

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