

ROMANIAN HOTEL GROUPS LISTED AT BUCHAREST STOCK EXCHANGE A SURVEY

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Abstract

Hotel industry is an important component of travel and tourism (T&T) sector. However, less studies are dedicated to hotel industry than to the T&T sector as a whole. Even less studies are available on hotel companies or groups listed on stock exchanges around the world. The present study will focus on Romanian hotel groups listed at Bucharest Stock Exchange, compared with the situation in Europe.

Introduction

The number of existing hotel groups is difficult to be determined due to lack of uniform and comprehensive statistics. For some sources, no distinction is made between a hotel group and a hotel chain; E-hotelier publishes a list of 684 hotel chains or international, regional, national hotel groups (<http://www.ehotelier.com/browse/chains.php>, as of November 2007). Classification offered by Hotels Magazine makes a better distinctions between groups, brands and consortia, by ranking them separately.

For the purpose of this paper, the authors consider the following definitions:

- a hotel chain is represented by an established brand name, offering an announced level of quality in accommodation, in services and a consistent lifestyle; the hotels in a chain can be owned-operated, operated under a franchise contract or under a management contract; the main link between the hotels is the brand name;
- a hotel group concentrates several hotel chains and/ or brands, each targeting a specific market niche; each brand can be operated through direct ownership, franchising contracts or management contracts. However, another type of hotel group can be distinguished: that which gather a number of hotels under the same

ownership and/ or management. Sometimes this type of groups have an established brand name (like Four Seasons or Club Mediteranee); in other cases, they just own and operate hotels; each hotels has a different name and the presence of the same owner and/ or management company is difficult to be detected;

- a hotel consortium reunites (frequently), based on membership, independent hotels with a common purpose: a better reservation system, improved marketing and sales, support in purchasing process and staff training. Thus, in the last decade, an increasing number of hotel groups became members of hotel consortia to benefit from the improved reservation system and marketing/ sales services with lower costs.

The ranking made by Hotels Magazine indicate the clear dominance of USA hotel groups – representing 50.33% of all the groups present in the ranking. The 8 American hotel groups ranked in top 10 (positions 2, 3, 4, 6, 7, 8, 9 and 10) – all with over 100,000 rooms – represent 49.48% of total hotels and 43.34% of total rooms.

The European hotel groups present in the ranking represent 20.7%; they gather 28.2% of total hotels and 29.3% of total rooms. Only two European hotel groups are present in top 10, as table 1 shows. Annex 1 presents a more detailed situation for several European countries and their position in 2000 and 2006.

Table 1 - *European hotel groups in top 10 Hotels' corporate ranking*

	Rank		Number of hotels		Number of rooms	
	2000	2006	2000	2006	2000	2006
InterContinental Hotels Group (former Six Continents Hotels)	2	1	3,096	3,741	490,531	556,246
Accor	4	5	3,488	4,121	389,437	486,512

Source: based on Hotels Magazine, July 2007, pg.38-52 (www.hotelsmag.com)

All these data are consistent with the findings of Johnson (2002), Leidner (2004), Johnson & Vanetti (2005), and Holverson & Revaz (2006) indicating that at European level over 90% of the companies in hotel & restaurant sector have less than 10 employees.

The situation revealed above is also consistent with the findings of Martorell, Mulet & Palou (2007) that there are only 17 brands with more than 100 hotels in Europe and none with more than 1000 hotels, but 182 brands, with less than 10 hotels each.

The situation of listed hotel companies on European stock exchanges is presented below:

- At London Stock Exchange – as of October 31st, 2007 – 19 companies were listed in the hotel sector; one hotel company – Meikles Africa – start listing in November 1943; The Real Hotel Company (formerly known as CHE Hotel Group, which also was known in the past as Friendly Hotels), start trading in March 1973; Bil International start trading in 1986; it is not clear when InterContinental Hotels Group started the listing at LSE, due to changes in company's name over the years; for the remaining 15 companies the listing started in the second half of the 1990s, with 3 new entries (American Leisure Group, Minoan Group and Park Plaza Hotels) in 2007; 10 of these listed companies are British; the other 9 are registered outside UK; (source: <http://www.londonstockexchange.com/en-gb/about/statistics/>)
- At Euronext – as of October 31st, 2007 – 9 companies were listed in the hotel sector; the most important hotel group for continental Europe, Accor, started listing in 1981 at Paris Stock Exchange¹; the start of listing data was available for only one company: Les Hotels de Paris – in 2001 (Pop and Circo 2003a); for the remaining 7 companies the information is not available, however one new entry was registered during 2007: Pan Europe Hotels; (source: <http://www.euronext.com/trader/pricelists/>)
- At Italian Stock Exchange – as of October 31st, 2007 – 3 companies could be identified to be listed in the hotel sector (I Grandi Viaggi, Jolly Hotels and Viaggi del Ventaglio; only Jolly Hotels can be considered a hotel group; the other two companies combine the accommodation management with their activity of tour-operators; one company started listing in 1998 and another one in 2001 (Pop and Circo 2003 a), for one company the information is not available; (source: www.borsaitaliana.it/homepage/homepage.en.htm)
- At Madrid Stock Exchange – as of October 31st, 2007 – 2 companies were identified to be listed in the hotel sector: NH Hotels, since 1992 and Sol Melia since 1996 (Pop and Circo 2003a); a third companies – Codere SA – appears as listed in the hotel subsector, but the company's profile indicates that it is involved in gaming industry (www.codere.es); source: www.bolsamadrid.es/ing/portada.htm.
- at Wiener Boerse - as of October 31st, 2007 – one hotel company could be identified, Imperial Hotels Austria (source: www.wienerborse.at);
- at Warsaw Stock Exchange - as of October 31st, 2007 – one hotel company, Orbis Hotels, could be identified (source: www.gpv.pl)

¹ It is interesting to note that Societe du Louvre was listed at Paris Stock Exchange since 1930. Currently the hotel company was taken over by Starwood Capital LLC (HVS report on European Hotel Transactions from 2005).

- at Budapest Stock Exchange - as of October 31st, 2007 – one hotel company, Danubius Hotels, could be identified (source: www.bse.hu)
- at Swiss Exchange - - as of October 31st, 2007 – 2 hotel company, Victoria-Jungfrau Collection and Sunstar Holding AG, could be identified (source: www.swx.com)

The situation presented above must be treated with care, since in the stock exchanges from Vienna, Warsaw, Budapest and Frankfurt do not offer a search criteria based on sector and subsectors.

Most of the listed hotel companies can be considered hotel groups since they own or operate several hotels under various brand names.

The only stock market hosting an important number of hotel companies is UK. While capital market was not a traditional source for financing hotel companies, during the 1990s, the number of hotel groups starting listing was important (Cline, 1996). Thus, during 2003, as a result of the enactment of new regulations regarding corporate governance and disclosure – considered burdensome – the number of listed companies at London Stock Exchange decreased rapidly, hotel companies considering that private equity is a more attractive source of funds (Mumford & Milky 2006) and became private companies.

The presence of hotel companies on analyzed stock exchanges remain weak. Several factors that contribute to the low profile hotel industry has in the eyes of public investors are the associated risks. Because a traditional hotel company has been considered a hybrid of hotel operations, real estate investment and asset management (TTF 2003), it generates two major types of risks (Gee 1994): the risk connected with the real estate investment and management of the property, and the risk arising from hotel business sensitivity to the impact of economic cycles (Parkinson 2006), events like the terrorist attacks from 2001 in USA, 2004 in Spain and 2005 in UK, pandemics like SAR and ever changing tourists/ guests preferences and tastes.

Mainly the dual role played by a hotel company – as property owner and manager and as hotel operator – is stated to create confusion among (public) investors (Gammage 2001, Whittaker 2006). Having difficulties to separate the ownership from the operations, stock market capitalization for the quoted hotel companies – similar to other property owning companies – tends to under-price the current market value of underlying asset or assets (Gammage 2001, Whittaker 2006).

On the other hand, hotel industry executives point out the fact that the stock market is short-term oriented, concentrating on earnings growth; this goal is difficult to reach when hotel companies own properties which are cost extensive.

The situation in Romania²

When the first research were conducted regarding the presence of hotel companies on Romania's capital market, the situation yielded a surprise: the number of listed companies was important, over the figures presented for the above presented stock exchanges.

The data used in the present study was collected between September 30th 2003 and November 29th 2007, using the information available on BVB³ and Rasdaq official websites.

On BVB, during the period under survey, the following hotel companies were listed:

- Turism Transilvania (TRS), available for trading between April 16th 1997 and March 10th 2004, when was took over by Unita Turism and de-listed;
- Compania Hoteliera Intercontinental Romania (CHI), was available for trading between February 12th 1998 and March 10th 2003; it was transferred on Rasdaq market during March 2003 and is traded on this market segment under RCHI symbol;
- Turism Hoteluri si Restaurante Marea Neagra, formerly known as Eforie, (EFO), is traded since August 15th 2002, following an IPO launched during in the first half of the same year;
- Turism Felix (TUFÉ), start trading on this market since March 21st 2007, transferred form Rasdaq.

EFO and TUFÉ, as of November 29th 2007, represented only 1.0% of BVB total capitalization. Both companies are traded in the second tier (category) and are included in the BET-Composite index.

If only these companies were listed on Romanian capital market, the situation could have been considered similar to countries like Spain and Italy, where only the most important hotel companies are listed on respective stock exchanges.

Nevertheless, the Rasdaq component of Romanian capital market is the one which allowed the presence of a high number of Romanian publicly listed hotel companies.

² A brief presentation of Romanian capital market is presented in annex 2; in annex 3 contains a general presentation of Romanian hotel industry.

³ BVB is the abbreviation used for Bucharest Stock Exchange in order to differentiate it from Budapest Stock Exchange.

As of September 30th 2003, a number of 114 hotel companies were identified to be listed on Rasdaq⁴. At that time, Rasdaq launched its website, the search options were limited and, therefore, there is no pretension that the list is complete⁵.

All listed hotel companies which could be identified resulted from the privatization process and not from public offerings.

The structure of these 114 hotel companies using the entry data supports this idea:

- 22 companies start listing between November and December 1996 (when Rasdaq was opened for transactions);
- 56 companies start listing during the 1997;
- 5 companies start listing during the 1998;
- 2 companies start listing during the 1999;
- 1 company start listing during the 2000;
- 3 companies start listing during the 2001;
- 20 companies start listing during the 2002;

4 companies start listing during the first quarter of 2003 (including the transfer of CHI from BVB to Rasdaq; CHI new symbol became RCHI) for 1 company the entry data is not available.

All the 6 companies which start listing between 1999 and 2001 resulted from spin-offs.

Of the 24 companies which start listing between 2002 and 2003, 23 resulted from spin-off of 2 companies. One (MAIA)⁶ generated 6 new companies and the other one (NEOL)⁷ generated 17 new companies. This situation only stresses

⁴ The hotel companies de-listed before September 2003 were not included in the present study.

⁵ When the list was constructed, the information was crossed using two sources: the Rasdaq website and the reports Romanian companies should send to Ministry of Finance and available on ministry's website. In the list (see annex 1) the companies with the symbols BALO, IMPR, BURM, SOCI and BALN were included despite the fact that on Rasdaq website their activity is reported to be in other sectors than hotels. These companies reported for the Ministry of Finance that their main activity is in hotel sector. Five companies: AVSL, BALA, SOCS, LIDO and OLMP were excluded because while on Rasdaq site they appear to be in the hotel sector, of the Ministry of Finance website their main activity is in other sector than hotels.

⁶ MAIA is Mamaia SA Constanta and still listed on Rasdaq; its main activity now is leasing/ renting real estate.

⁷ NEOL is Neptun-Olimp SA Neptun, listed on Rasdaq as a hotel company, owning one hotel.

the high degree of fragmentation in Romanian hotel industry induced by the privatization process of the mentioned companies. It was chosen to sell individual hotels to small companies or individual investors, instead of trying to sell the entire hotel group.

It must be mentioned that 33.3% of 114 identified hotel companies on Rasdaq are located and own hotels on Romanian littoral (Constanta county), in correlation with the 'traditional' and most important (from authorities point of view) Romanian tourist product: sun tourism at the Black Sea side.

The situation of the 114 listed hotel companies as of November 29th 2007 was the following:

- 9 companies merged with or were absorbed by other companies (during 2004) and de-listed⁸; this situation indicates that, timidly, an horizontal integration process began in Romanian hotel industry;
- 37 companies were de-listed due to various reasons: from becoming private companies to bankruptcy;
- 1 company, (TUFÉ), was transferred at BVB;
- 7 were suspended for various reasons; STST resume trading in the following weeks or months; the remaining 6 will probably be de-listed due to low capital level or bankruptcy.

Between September 30th 2003 and November 29th 2007 only 2 hotel companies (CVAS⁹ and TRBZ) start listing on Rasdaq, both resulted from spin-offs.

During the period under scrutiny, only 4 listed hotel companies made secondary public offerings¹⁰. Neither company offered publicly bonds or new shares. Only IMPR had a rights issuing traded for a week in 2005.

⁸ Romanian Continental Hotel Group merged with the companies CTAS, DROB and ASUL.

EFO absorbed 4 companies: CASI, MORI, SATV si VENV.

Company IDIU merged with GALA and NTUN merged with OLIP.

⁹ CVAS is also a company resulted from NEOL's spin-off from 2002.

¹⁰

Company symbol	Period	% of offered shares
ACTU	Dec.15, 2003 – Mar.12, 2004	40.00%
TUFE	July 10, 2006 – Aug.18, 2006	38.39%
CVAS	Feb.5, 2007 – Feb.9, 2007	54.02%
BALN	Feb.12, 2007 – Feb 16, 2007	12.57%

Source: data available on website: <http://www.bvb.ro>

The result is that, as of November 29th 2007, the number of hotel listed companies on Rasdaq decreased at 70, of which 63 were available for trading and 7 were suspended for various reasons.

The 63 active hotel are listed on the ‘base’ category and included in the Rasdaq-Composite index. Six of these active companies did not registered any transactions in the last 52 weeks and for 3 of them only one transaction was registered during the last 52 weeks (source: www.bvb.ro). This situation indicates a very low level of interest toward around 14% of tradable hotel companies at BVB.

For the present study the area was narrowed down to hotel groups, considered to be those companies owning at least 3 hotels.

The study of Pop, Cosma, Negrusa, Ionescu & Marinescu (2007) identified – as of the end of 2005 – 34 Romanian hotel groups, representing 22.96% of total Romanian hotels at that time and 36.80% of total hotel rooms.

The same study showed that another 48 companies have 2 hotels each, for a total of 96 hotels, or 9.67% of all hotels. The bed places controlled by those companies are 14977 representing 9.14% of hotel bed places. The other 671 companies and legal entities own 1 hotel each and represent 67.37% of Romanian hotels and 54.06% of hotel bed places.

Of the 34 hotel groups identified at the end of 2005, 11 were listed on Romanian capital market, as table 2 shows. The company with the symbol STST was eliminated from the study due to current reorganization process.

Table 2 *Hotel groups listed at Bucharest Stock Exchange, as of November 29th 2007*

	Company's name	Trading symbol	Market	Remarks
1	Turism Hoteluri si Restaurante Marea Neagra SA www.eforienord.ro	EFO	BVB – second tier (category)	Majority shareholder SIF Transilvania 84.44% of shares
2	Turism Felix SA www.felixspa.ro	TUFE	BVB – second tier (category)	Majority shareholder SIF Transilvania 62.94% of shares
3	Calimanesti-Caciulata ¹ SA www.thermal_hotel.ro	CALU	Rasdaq – base category	Majority shareholder Cotexim Com SRL 87.64% of shares
4	Hercules SA No website	ERCA	Rasdaq – base category	Majority shareholder Agrirom International SA 61.20% of shares

5	Olimp Estival SA No website	OLIP	Rasdaq – base category	Majority shareholder AVAS ² 54.03% of shares
6	Steaua de M are SA No website	STST	Rasdaq – base category	Suspended from trading – reorganization process
7	Perla Majestic ³ SA www.pmg.ro	MAJE	Rasdaq – base category	Majority shareholder Spring Time Holding 93.66% of shares
8	Balneoclimaterica SA No website	BALO	Rasdaq – base category	Majority shareholder Salina Invest SA 94.64% of shares
9	Turism Covasna SA www.turismcovasna.ro	TUAA	Rasdaq – base category	Majority shareholder SIF Transilvania 85.88%
10	Tratament Balnear SA No website	BALN	Rasdaq – base category	Majority shareholder SIF Transilvania 91.63%
11	Robinson SA No website	ROPR	Rasdaq – base category	Majority shareholder - various shareholders 46.19%

Source: BVB website: www.bvb.ro and hotel groups websites.

As it can be observed, SIF Transilvania¹¹ has a majority position in 4 hotel groups and one minority position (with the potential to become majority) in another hotel group. It is possible that some of these companies will merge in order to create a more integrated structure; SIF Transilvania also announced its intention for further developments of owned companies were made public (Bilant 2007).

Annex 4 presents the situation of these hotel groups, where data were available. With only one exception, all the listed hotel groups own hotels located in a well delimited area. This is mainly the result of privatization process; only Perla Majestic (MAJE) made a step to diversify its hotel portfolio by buying a hotel in a mountain-spa resort. The concentration of hotel portfolios in the same region (Romanian littoral) or in one spa/ mountain resort – thus popular mainly among Romanian tourists – expose the groups to a higher risk if the tourist preferences changes. In a better positions are those groups owning hotels in spa resorts; the level of seasonality for these hotels is low due to the fact that all year round people are using the available

¹¹ SIF Transilvania is one of the five closed-end funds traded since November 1999 on BVB. It resulted from the privatization process. As of April 30, 2007 the Romanian companies from T&T sector represented 20.6% of its portfolio, most of them are hotel companies (www.transif.ro/romana/Portofoliu/turism.html). It is traded under SIF3 symbol.

spa treatments – mainly through labor union special offers and through the national authority coordinating the public pension systems.

Another aspect that must be highlighted is that neither of these groups developed a brand; all the hotels have different names and it is difficult for an outsider to identify the hotel owner. There are no franchising or management contracts. This situation is normal, as long as those hotel groups did not create a brand. Also, in the last years, no new hotel was built by any of these groups. Some of them sold several hotels (the transactions could not be followed due to the lack of information) or the hotels are undergoing extensive renovation works; only MAJE extended its portfolio from 3 to 6 hotels.

Table 3 presents several indicators related to the situation of these hotel groups at the level of 2006.

Table 3

	% of fixed assets	Debt to equity ration	Net return (%)	ROE (%)
EFO	88.76	0.83	14.83	30.36
TUFE	86.12	0.24	16.89	25.54
CALU	90.73	1.10	0.13	0.54
ERCA	68.65	0.64	3.24	8.84
OLIP	94.17	1.38	Loss	Loss
MAJE	72.26	3.06	34.22	44.14
BALO	84.46	0.46	18.00	15.90
TUAA	89.34	0.23	7.98	6.59
BALN	93.22	0.55	9.77	15.71
ROPR	75.57	1.74	Loss	Loss

Source: financial data available on BVB official site www.bvb.ro and on Romanian Ministry of Public Finance www.mfinante.ro

The results from the table above indicate how important is the hotel ownership for Romanian hotel groups. Four of them have the debt level over their equity, indicating a high risk for investors. Two of these 4 hotel groups – OLIP and ROPR – already announced losses and CALU reports a very low return. The only exception is MAJE, but its exceptional results are based on other incomes than those generated by owned hotels.

If these indicators are correlated with those presented in table 4, most of companies are overvalued, but in reasonable limits; the only exception is OLIP which has a price almost 13 times its book value, completely unrealistic if the operating results are taken into consideration. However, the location of the 3 hotels owned by OLIP is exceptional and the investors seems to value that more than the company's capacity to operate them efficiently.

Regarding the trading frequency, the capitalization and other market ratios, data are presented in table 4.

Table 4 Information related to hotel groups' trading

	No.of trades – last 52 weeks	Volume – last 52 weeks	Traded value – last 52 weeks (mil.EUR)	PER - as of Nov.29, 2007	M/ B ratio - as of Nov.29, 2007	Capitalization (mil.EUR)
EFO	4,699	33,566,766	14.27	16.76	1.56	98.6
TUFE	10,688	20,013,793	7.19	59.43	2.63	124.57
CALU	631	1,422,239	0.16	535.62	1.49	5.33
ERCA	2,000	5,070,378	0.52	53.03	2.03	10.21
OLIP	431	658,918	0.16	Loss	12.83	25.58
MAJE	5	292	0.00	9.06	1.25	10.80
BALO	67	83,844	0.02	8.31	0.84	7.20
TUAA	495	162,730	0.25	36.36	1.38	7.05
BALN	193	430,653	0.07	62.96	3.67	12.98
ROPR	148	858,933	0.17	loss	n/a ⁴	1.07

Source: data available on BVB official site: www.bvb.ro, as of November 29th 2007

As mentioned above, EFO and TUFE are traded on the main market at Bucharest Stock Exchange and are dominating the transactions for the hotel groups; however, they represents only 1% of BVB capitalization as of November 29th 2007. The remaining hotel groups are traded on Rasdaq segment and their cumulated capitalization represent 1.22% of Rasdaq capitalization.

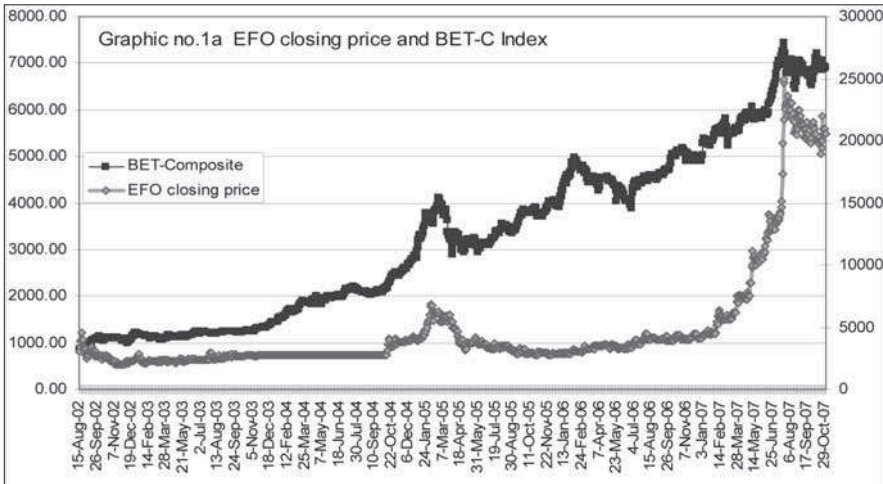
The data available in table 4 indicate that investors who are looking for liquidity, must concentrate their attention on BVB main market.

The average PER (for 2006) reported for BVB was 18.03; EFO is – for now – under that average; thus TUFE has a high PER indicating a higher risk due, also, to its M/B ratio which indicate an overvaluation.

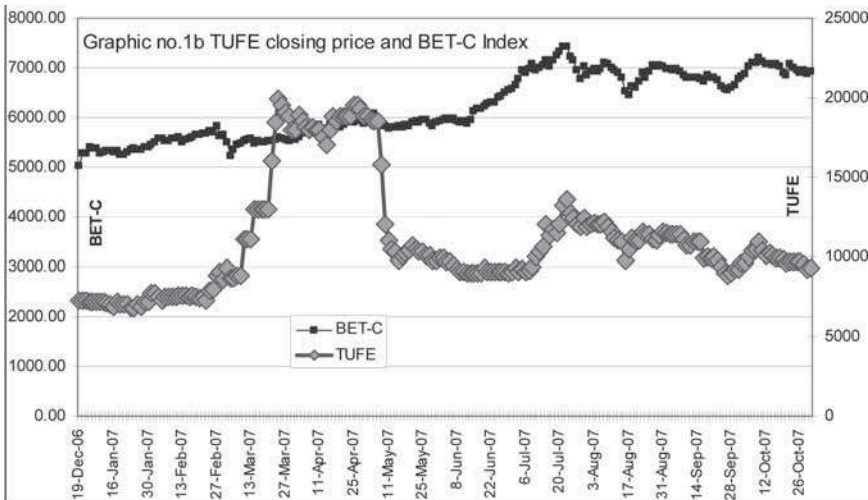
The average PER (for 2006) reported for Rasdaq was 11.62; only MAJE and BALO have PER under this average. The remaining companies for which PER could be calculated indicate a high volatility and – mainly in the case of CALU – a very low EPS. However, the investors must consider an investment in MAJE with care due to its very high debt to equity ratio and its very low liquidity on the market. On the other hand, BALO has all the ingredients to be a good investment (also its hotels are affiliated to the Hungarian hotel group Danubius Hotels), but it also lack liquidity.

It must be mentioned that none of these hotel groups paid dividends in 2004, 2005 and 2006.

As the data presented above indicate, the only two hotel groups which have a decent liquidity and also reasonable results are EFO and TUFE. Graphs 1a and 1b plot the price evolution, against the evolution of BET-C index¹², where EFO has an importance of 0.81% and TUFE of 0.56%.



For TUFE, the graphs plots only the period January – October 2007; the hotel group started listing on BVB main market since March 2007. Until then, the information regarding trading are discontinuous, due to low trading frequency, and could not be properly measured against Rasdaq-Composite Index.



12 BET-C index is Bucharest Exchange Trading – Composite Index. It includes all the companies traded at Bucharest Stock Exchange, except the 5 SIFs (investment companies similar to closed-end funds). It was launched in April 16th 1998.

For EFO, the correlation coefficient with BET-C based on past available data (using daily returns since August 15th 2002 until October 31st 2007) is 0.101, indicating a low level of correlation. STDEV for BET-C is 1.252. Despite the fact that STDEV for EFO daily returns resulted to be 3.756, its beta coefficient is only 0.303. The relationship of this hotel group with the whole market – represented by BET-C – is relatively weak and it can be used as a diversification factor in a portfolio.

For TUFÉ, the same parameters were calculated, but for a shorter period of time – March – October 2007. The correlation coefficient is 0.284. STDEV for BET-C is 1.286; STDEV for TUFÉ resulted to be 4.613 and the beta coefficient is 1.019. These data are consistent with the higher PER and market to book value ration for TUFÉ, as presented in table 4. All these indicate that an investment in TUFÉ implies higher risk, thus a higher rate of return – as table 5 shows.

Table 5 *Annual rate of return for closing prices (except dividends) - %*

	2003	2004	2005	2006	2007 (Jan-Oct.)
BET – C	22.22	40.09	-26.85	48.12	374.65
EFO	22.62	98.29	31.63	25.07	30.99
TUFÉ	n/a	n/a	n/a	n/a	27.40

Source: data available on BVB official website www.bvb.ro

The exceptional price increase for EFO in 2007 can be explained by the fact that the hotel group was undervalued for years and ‘discovered’ by investors due to its consistent good financial results in the past years and the expectation that these results will continue in the years to come. Also it is highly probable that the investment decision is based on the fact that the 37 hotels in EFO portfolio are considered to have good value as real estate investments. The fact that the majority of EFO hotels are opened mainly during the summer – due to their location on Romanian littoral – seems to be ignored by many investors.

Conclusions

Despite the no of 11 hotel groups listed at BVB – on the main market and Rasdaq segment – only two, EFO and TUFÉ, are liquid enough to attract investors attention. These two hotel groups, also, are the only which made available on their websites annual, biannual and quarterly reports (no older that 2006). However, these reports do not include proper structured data regarding: hotel groups capacity, occupancy rates and room rates and nor detailed information on revenues and costs generated by rooms, food & beverage and other hotel related services. This minus derives from the fact that the Romanian regulations regarding the annual financial reports do not request these kind of data.

Three of the remaining 9 hotel groups have websites, but no reports are available on them. The remaining 6 hotel groups do not have a website. For all the 9 hotel groups listed on Rasdaq section the most recent data available are from 2005. In order to make the calculations at the level of 2006, alternative information available on the website of Romanian Ministry of Public Finance was used.

As table 3 shows, 5 of Romanian listed hotel groups offer a ROE over 10%, a condition many international investors request for listed hotel companies (Sangster 2005). The low level of disclosure at company level, the heavy presence of fixed assets in hotel groups balance sheet, combined with the relative low free float keep important investors away from the Romanian hotel groups.

The lack of information available also keep away at least EFO and TUFÉ from international ranking. Both these hotel groups could enter in an international ranking – like that offered by Hotels Magazine – due to owned number of rooms. Since the information is barely available in Romanian and not available in English their anonymity is ensured.

It must be also mentioned that only one hotel group – BALO – affiliated its hotels to an international hotel group. The other did not even consider these option and keep their low profile struggling to cope with a portfolio of old hotels in need of extensive renovation and modernization works. The selling of hotels is expected to continue for some groups, while others will try to increase their ownership. It will take at least several years before any of the hotel groups under scrutiny will develop a brand and start operating hotels under franchising and/ or management contracts, using sale and lease back agreements.

In order to increase the interest of investors for hotel companies listed at BVB – mainly on Rasdaq section – one Romanian financial monthly magazine proposed a sector index including 8 hotel companies of the 70 listed. Calculating the increase in this index value for the first 9 month of 2007 the result was 200% (Ciobanu & Busuioc, 2007). This value, thus experimental and leaving a lot of place for criticism regarding the selection of those 8 hotel companies, indicate that the investments in hotel companies can generate a good return.

The investors' attention is not likely to be turn toward the hotel companies – and manly to hotel groups – until the level of disclosure will become a proper one, allowing investors to analyze the needed information and to make projections for the future. For now, this is almost impossible for Romanian hotel industry due to lack of proper information.

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Annex 1

European countries hotel groups present in Hotels' Corporate 300 ranking

	Number of hotel groups		Number of hotels		Number of rooms	
	2000	2006	2000	2006	2000	2006
UK	16	10	5,600	4,566	758,754	649,350
Spain	12	17	1,130	1,776	208,451	327,150
Germany	10	10	927	945	130,597	164,390
France	6	5	4,560	5,096	491,640	581,245
Italy	4	4	101	127	16,832	20,072
Other European Countries	17	16	664	1,321	100,550	191,290
Total	65	62	12,388	13,831	1,706,824	1,933,497
% of total 300 ranking	21.7	20.7	28.4	28.2	29.3	29.3

Source: www.hotelsmag.com

Annex 2

A short presentation of Romanian capital market

The Bucharest Stock Exchange opened for transactions in November 1995. Only companies which fulfilled the imposed conditions were listed. The maximum number of listed companies at Bucharest Stock Exchange was 132, reached between 1998 and 1999. With higher liquidity and transparency, the Bucharest Stock Exchange (BVB)¹³ became the main capital market in Romania.

The Rasdaq market was established in November 1996 as an OTC market, following the NASDAQ's model. The Rasdaq market was necessary to intermediate the transactions of privatized companies' shares which did not fulfill the conditions to be listed on the Bucharest Stock Exchange. During 1998, the highest number of listed companies was reached: over 5000. Due to Rasdaq's relatively poor results combined with several scandals involving theft of shares and price manipulation, the Rasdaq was transformed, with the hope of a change in image, in the Electronic Exchange Rasdaq in 2003. The situation slightly improved. The decision of a merger with the main Romanian capital market, Bucharest Stock Exchange, was taken during 2004. The merger took place in December 2005 and since then Rasdaq market became part of the Bucharest Stock Exchange.

The capitalization and PER are presented in the table below.

BVB and Rasdaq capitalization (mil.EUR)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
BVB	706.1	402.1	336.6	450.5	1,361.1	2,646.5	2,991.0	8,818.8	15,311.4	21,414.9
Rasdaq	1,670.9	894.7	1,058.6	872.7	1,188.5	1,764.9	1,943.7	2,064.3	2,241.3	3,126.4

Source: CNVM annual reports 2005, 2006

BVB and Rasdaq PER

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
BVB	10.7	8.22	8.82	3.98	4.92	9.12	13.10	35.18	24.05	18.03
Rasdaq	n/a	2.52	3.58	1.52	2.95	3.03	4.17	6.58	2.50	11.62

Source: CNVM annual reports 2005, 2006

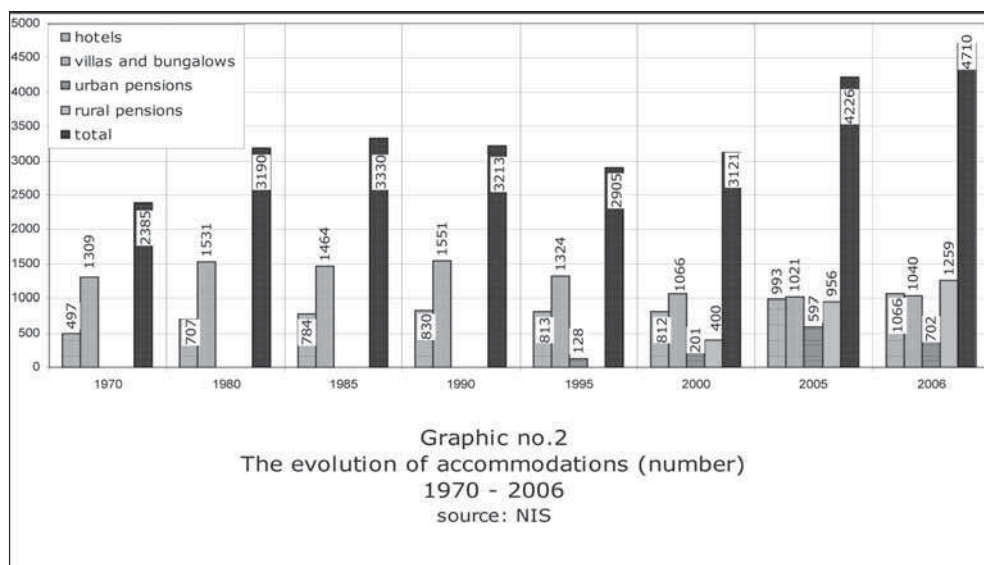
¹³ To avoid any confusion with the Budapest Stock Exchange, the abbreviation for Bucharest Stock Exchange used in this study is BVB, the initials of its Romanian name.

Annex 3

Romanian hotel industry

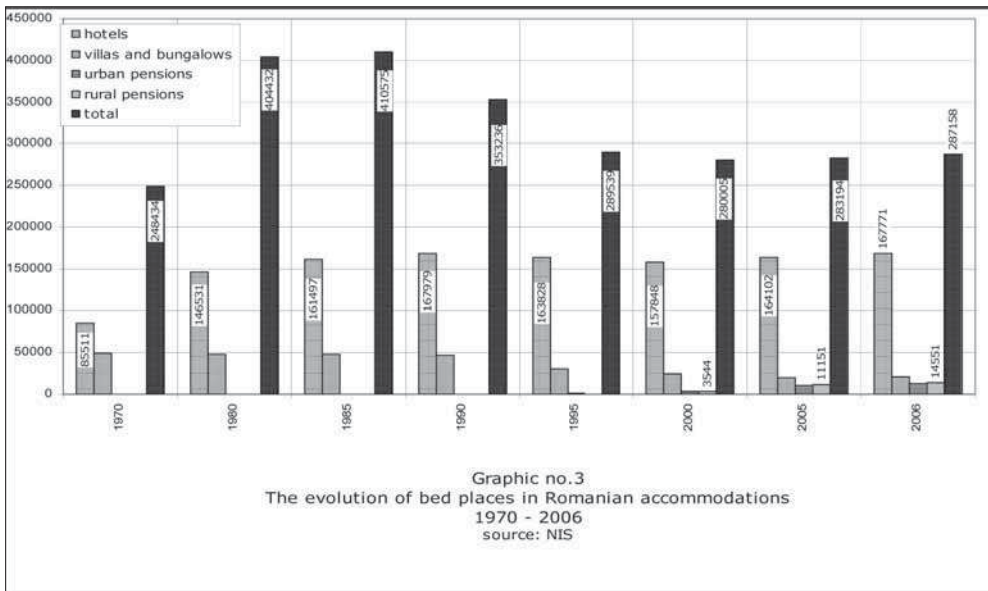
The number of accommodations in Romania evolved as graph 2 presents. As it can be observed, two important period of growth can be identified¹⁴:

- one between 1970 and 1990, due to important investments made by the communist authorities; they generated the hotels on Romanian littoral, the hotels and villas in spa resorts, villas and lodges in mountain resorts. The accommodation number grew with 34.7% and the number of hotels with 67%.
- the second between 2000 and 2006, due to private initiatives; the growth in number was generated by the growing demand for accommodation (mainly expressed by business tourists), but also by the fact that building and owning a hotel became a trend among Romanian business people (Roibu 2007a). The number of accommodation grew with 50.9% and the hotel number with 31.3%. An important growth was registered by rural pensions, they number tripled in 6 years due to various funding available for developing this kind of lodging in rural areas and due to the fact that the demand for rural tourism increased constantly. As it can be observed, a third of the growth took place during 2006 as a result of the trends described above and was due mainly to the growth in number of rural and urban pensions.



¹⁴ No data could be found before 1970.

However, when lodging capacity is analyzed, the situation is different, as graph 3 shows. It must be mentioned that Romanian official statistics do not offer information about the number of rooms, but about the available bed places. The same two period of growth could be observed. However, while between 1970 and 1985 the total lodging capacity grew with 65.3%, between 2000 and 2006 it grew only 2.6%, indicating the small capacity of the new built Romanian accommodations. The hotels' lodging capacity remained almost the same for 21 years. The lodging capacity of urban and rural pensions is negligible.

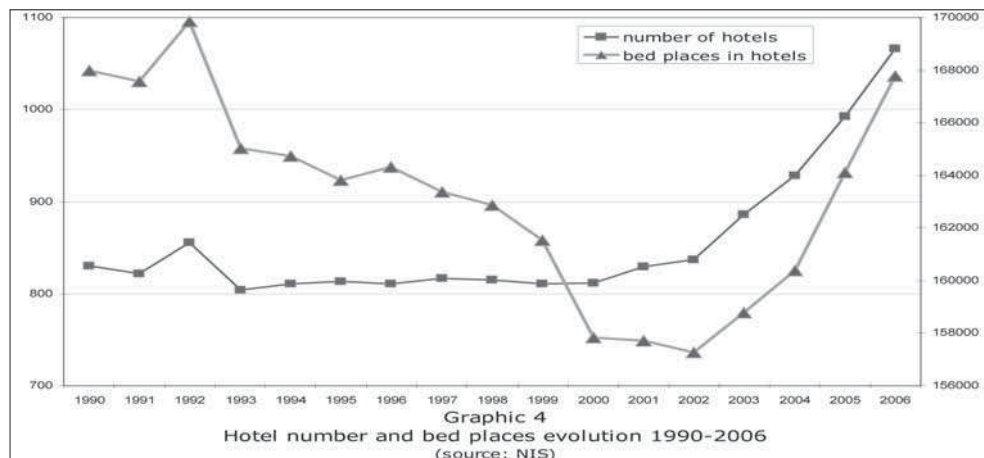


Hotels represented, in average, 25.6% of Romanian total accommodation and gather 56.2% of total lodging capacity at the country level.

Graph 4 plots the evolution of Romanian hotel number and the bed places available in hotels. While, after the hotel number remained almost the same for 10 years (1993-2003), the last 3 years witnessed an important growth in their number. The number of bed places decreased dramatically between 1992 and 2002, mainly due to closure of big hotels built during the communist period; the ascend trend returned in 2003, but did not reached the level of 1992. The evolution only indicate that the new built hotels have small lodging capacities, 51.16% of Romanian hotels having between 6 and 49 rooms, as of the end of 2005 (Pop, Cosma, Negrusa, Marinescu & Ionescu, 2007, pg.98).

Since 1993, when a new regulation was enacted, Romanian hotels are classified using a star system, from 1 to 5 stars. The 1 and 2 star hotels correspond to budget/

economy hotels, the hotels classified at 3 stars correspond to mid-market and the 4 and 5 star hotels can be considered up-market and luxury hotels.



The hotels distribution by main destinations still reflects the communist period investment policy, which gave a huge importance to the accommodation at Black Sea side. On the second place county residences¹⁵ could be found, but this rank is due mainly to the hotel development between 2000-2005 due to the demand expressed by business travelers.

Destination	Concentration of bed places in hotels by main destinations - average 1993-2006
County residences (Tulcea excluded)	21.50%
Littoral (Constanta excluded)	45.99%
Spa resorts	17.94%
Mountain resorts	6.81%
Danube Delta (Tulcea included)	0.80%
Other destinations	7.06%

Source: based on NIS data

The presence of international hotel chains in Romania is still modest, thus the number of affiliated hotels increased. A study made by Pop, Cosma, Negrusa, Marinescu & Ionescu (2007) identified, as of the end of 2005, 12 hotels and 3421 rooms operated under the umbrella of international hotel brands. As of August 15, 2007 the number of affiliated hotels grew to 23 and 4327 rooms.

¹⁵ In Romania every county has a main city, considered the administrative capital for the respective county. NIS excludes the city of Constanța from the statistics for the Romanian littoral for a more accurate count of accommodations at Black Sea side and include the city of Tulcea in the Danube Delta because otherwise the number of accommodations at this destination would be too low to be considered.

Table no.2 *The situation of international hotel brands in Romania*

	End of 2005		August 15, 2007		Remarks
	Hotels	Rooms	Hotels	Rooms	
					Regarding the situation as of August 2007
European brands	12	1892	20	2496	Accor and NH Hotels have each 5 hotels affiliated.
US brands	10	1529	13	1831	Best Western has 8 affiliated hotels; Ramada franchised its name to 3 hotels.
Total	22	3421	33	4327	

Source: Pop, Cosma, Negrusa, Marinescu & Ionescu (2007) and hotel websites

For the Fall of 2007, a hotel under Radisson SAS (brand of Rezidor Hotels) is expected to open in Bucharest. Other international brands like Hyatt or Sheraton expressed their interest to open or operate hotels in Romania (Roibu 2007b). This situation is due also to the attitude of Romanian hotel owners (mainly from Bucharest), who changed their attitude and are more and more interested to have their hotel affiliated to an international brand, rather than operate it independently (Dumitru 2006)

Annex 4

The situation of hotels and rooms owned by Romanian hotel groups

Company symbol	No. of hotels end of 2005	No. of hotels Nov.2007	Estimated no. of rooms end of 2005	Estimated no. of rooms Nov.2007	Remarks
EFO	42	37	7,468	6,444	Hotels located on Romanian littoral
TUFE	9	7	1,530	1,325	Hotels located in spa resort Baile Felix
CALU	5	3	804	n/a	Hotels located in spa resort Calimanesti-Caciulata
ERCA	4	n/a	712	n/a	Hotels located in spa resort Herculane
OLIP	3	n/a	764	n/a	Hotels located on Romanian littoral
STST	3	n/a	693	n/a	Hotels located on Romanian littoral
MAJE	3	6	656	n/a	5 hotels located on Romanian littoral; 1 hotel located in a spa & mountain resort
BALO	3	n/a	394	n/a	Hotels located in spa resort Sovata
TUAA	3	2	354	302	Hotels located in spa resort Covasna
BALN	3	n/a	333	n/a	Hotels located in spa resort Buzias
ROPR	3	n/a	138	n/a	Hotels located in mountain resort Predeal

Source: National Authority for Tourism data for 2005 and hotel groups' websites for 2007.