

The Trawangan Gili Trawangan

Operations Review 31 March 2014

Introduction

The Trawangan is located on the south east end of Gili Trawangan, on the edge of the “Kuta” main strip; but removed slightly that creates a more private and exclusive environment.

The property falls outside the disputed zone, which stretches from Villa Ombak north to Karma Kayak, including all of the developed area at the back of the main “Kuta” strip (exact area of dispute to be clarified).

There are 8 land certificates covering the land allocated to:

1. 8 Standard Rooms & central pool; Four-bed Villa & pool; Back of House. Opened December 2010.
2. Two-bed Villa & pool (strata). Opened December 2010
3. Two-bed Villa & pool (strata). Opened December 2010
4. Two-bed Villa & pool (strata). Opened December 2010
5. Two-bed Villa & pool (strata). Opened December 2010
6. Two-bed Villa & pool (strata). Opened December 2010
7. Two-bed Villa & pool (strata). Opened December 2010
8. 8 Deluxe Rooms; & central pool and dining area. Opened February 2013

Note: The Reception, public access and beachside Restaurant are to be added to the original certificate (#494 & #487), approximately 4.5are. Apparently the omission was an error by BPN on the original sub-division by AJ Hackett. The adjustment will be made when AJ Hackett provides the original certificates, which are in his possession in the US (by end of April).

Two IMB certificates cover the two development phases:

- (a) Standard Rooms & Villas #1-7 above
- (b) Deluxe Rooms #8 above

The opportunity to develop The Trawangan came from an initial intention to purchase by a group from Australia, who pulled out after the October 2010 “Bali Bomb” incident. This opened the opportunity for AJ Hackett to purchase a large parcel of land.

He subsequently “sold” The Trawangan land to Garth & Dewi Holzer, who developed the initial units using funds from the sale of the six Two-bed Villas (sold for approximately \$250,000 each – refer to: Assessment/Financial/Strata).

AJ Hackett owns the adjoining land, which has 6 bungalows and minimal facilities, and future plans for development are unknown; however a positive relationship continues between AJ Hackett, Garth & Dewi.

Property Description

The Resort includes:

- 23 keys – 32 bedrooms; includes:
 - 8 Standard Rooms with shared pool
 - 1 Four-bed Villa with pool
 - 6 Two-bed Villas with pools
 - 8 Deluxe Rooms with shared main pool
- the six Two-bed Villas can only be sold as one key
- the one Four-Bed Villa can be sold as four keys
- small spa facility (contracted service) at Standard Room area
- main pool and dining area
- beachside restaurant, bar & kitchen
- reception & back of house
- 2 supply boats
- 2 vehicles (Lombok)

The Resort is relatively new, opening in December 2010, with an extension opening in February 2014. It is obvious that maintenance is kept at a reasonable level. The building design and layout is good, and only minor changes and upgrades would be required to improve standards and operating efficiencies to an acceptable level.

Licenses

A copy of the relevant certificates and licenses will be provided for review. Verbal indications are that most are due for renewal or are still in the process of being finalized.

Assessment

Systems

The Resort uses an integrated system that includes Reservations, Front Office, F&B and Finance. It is a locally developed system used by several properties on GiliT, and appears to operate effectively; however the financial set up will need to be reviewed to match the Uniform System of Accounts.

Even though the system is limited in its ability to provided detailed data, it appears to be adequate for the type of operation.

Reporting

Financial and supporting data provided will allow a reasonable analysis of the business. Note should be taken of the following current practices:

- Gross Revenue figures include service charge and tax (21%)
- 90% of Service charge is distributed to staff; 10% is allocated to Loss & Breakage and other expenses
- Tax calculations and past payments to be clarified
- Payroll tax paid regularly

Strata (Two-bed Villas)

The six Two-bed Villas were sold under a strata style agreement, assigning Dewi Holzer as the Nominee for the six individual “owners”. Currently all “owners” are Australian, and apparently in most cases are using their self-managed Super Funds for investment funding. Clarification of the villa “ownership” structure for the six foreign investors is pending.

Management Agreement key points:

- Well structured and typical of many MA’s for similar strata investments
- Unlimited Villa Owner stays (Article 4); however an understanding exists between the Villa Owners and Management Company that 4 weeks per annum is available for personal use.
- 25% of all Rental Income to the Management Company; however since opening only 20% has been charged by the Management Company
- All operating costs are deducted from the Villa Owner’s 75%, including taxes, insurance and other expenses (Article 5)
- No sinking fund; all capital costs, refurbishment, etc are direct costs to the Villa Owner (Article 6)
- The agreement is assignable (Article 10)

Maintenance Agreement:

- Covers common area costs (Article 2)
- USD3000 per annum; not included in P&L; accounted for separately in financial reporting
- Can be adjusted annually up to a maximum of 10% above “rate of inflation”

2013 Analysis

- Total Gross Revenue (including service & tax) = 2,801,027,223
- Total Nett Revenue (excluding service & tax) = 2,314,898,531
- Breakfast is deducted automatically by the system each night and allocated to F&B Revenue (including service & tax)
- Villa Owner payment = 1,222,838,528 represents 52.8% of Total Nett Revenue for the six villas (2,314,898,531)
- Expenses deducted = 1,092,060,003 represent 47.2% of Total Nett Revenue
- Maintenance Fee USD3000 per annum appears to be accounted for as Miscellaneous Income in the P&L

Management Fee

In 2013 the Management Fee deducted was 20% of Total Nett Revenue = 462,979,706, and appears to be accounted for as Miscellaneous Income in the P&L.

However the Management Agreement allows for a deduction of 25% which would have equated to 578,724,633 in 2013. The lesser amount was apparently to ensure that the Villa Owners received their expected return.

Marketing

Current:

The experience of the current Owner/Manager, and their status as an independent operator, has limited their ability to market the Resort extensively. However their efforts to gather statistics and analyze the limited available data has been commendable, and highlights the potential growth opportunities for the Resort.

There is no Sales or Reservations Team in place at present.

Potential:

The introduction of a professionally structured Marketing Plan, including OTA strategies, social media program, revenue management strategies, etc will produce an increase in both occupancy and rate.

A five level BAR rate system can be set up to provide initial yielding using a basic revenue management strategy.

A Lombok Office, once set up, should include the Sales & Reservations Centre. A Sales Manager needs to be appointed to develop and maintain Agency and OTA business.

Transport & Access

Guests:

Improving access to GiliT via boat from Bali (Sanur & Padang Bai), and more local and international flights to Lombok will benefit business levels and flatten seasonality.

Note: The current erratic and disorganized situation with boat transport is a deterrent for some markets; in particular the more sophisticated traveller who could be attracted to a resort of The Trawangan's quality.

Supplies:

Supplies and laundry are brought daily to/from using the two boats owned by the resort. There are no major issues securing the necessary quantity or quality required.

Back of House (BOH)

The space allocated for BOH is limited but adequate for the operation of the resort. An improved layout and service flow is required to create more effective use of the space.

Engineering

Space allocated for workshops is limited; however contractors and other maintenance work can be outsourced.

Power:

Two 100KVA generators provide power, alternating over 12 hour periods. Improved power to GiliT is expected in the future, however at present the resort's needs are covered.

Maintenance records have not been provided or reviewed; however the general condition of the generators and area indicates that good practices are in place.

Water:

A desal water treatment plant has been developed for GiliT and provides fresh water to the resort. Should this system fail, supplies can be brought by boat from Lombok (reference was made to a well on a property owned by Dewi & Garth on Lombok that can be accessed by the resort).

Rates for supplied water are:

IDR17,000 per m3 for F&B areas up to 1000m3

IDR30,000 per m3 for all other water supplied

STP for the six Two-bed Villas and Deluxe Rooms uses a bioseptic system linked to the adjoining property owned by AJ Hackett. The original 8 Standard Rooms and Four-Bed Villa use a traditional septic soak system.

Water pressure is low but adequate.

Hot water is supplied using Solar for the Two-bed & Four-bed Villas and Standard Rooms; however it is expensive to maintain and during the wet season issues can arise. Electric was selected for the newer 8 Deluxe Rooms.

Staffing

The resort itself is generally in good shape; well maintained and able to operate effectively with the right systems. The key issue is the lack of trained and experienced staff, and in particular the lack of stable senior management. Unfortunately the Owner has been forced to directly manage the property, and has no resources to call upon for assistance. An urgent need exists for an experienced Manager and proper operating practices to be put in place. Training in all areas is needed to improve standards to an acceptable level. On a positive note, the attitude exhibited by all staff was pleasant, and indicated a willingness to care for their guests; thus a good base upon which to build a professional Team.

Payroll:

Current staffing is 48, and based upon a budget prepared by the Owner an additional 13 staff, mostly management, supervisory and sales/reservations are required. This highlights the key areas that are currently lacking – leadership and marketing.

Salary levels are in line with the area, and when fixed benefits are included, the base package exceeds the minimum wage requirement for the area.

Accepted HR practices

Based upon the required staffing and payroll noted in the Owner's recently prepared budget, total annual payroll & benefits, including 13th month, would be IDR2,315,933,750, representing 31% of 2013 Total Nett Revenue.

Taking into account an increase in business for 2014, and some minor adjustments to the Owner's staffing budget, Payroll & Benefits for 2014 should represent 20% - 22%, which is acceptable for the size and location of the property. Improved revenues through better trained staff and more professional management will further reduce this to 20% and below over time.

Benefits:

Housing allowances are paid to all staff, which also covers transport.

A Phone & Internet allowance is also included for some staff.

The Attendance allowance is for meals, which are not provided for on property.

Medical is covered under Jamsotek and "self insured" for expenses claimed directly by staff.

Salaries are paid at the end of each month.

Service Charge:

90% of the service charge collected is distributed equally to all staff.

10% is allocated to Loss & Breakage, and any balance goes towards Staff Welfare.

Stats Review

2013	Rooms Available/Day	Rooms Available/Month	Occupied Rooms	Occupancy
January	18	558	180	32.2%
February	18	504	124	24.6%
March	26	806	254	31.5%
April	26	780	257	32.9%
May	26	806	427	53.0%
June	26	780	433	55.5%
July	26	806	542	67.2%
August	26	806	686	85.1%
September	26	780	502	64.4%
October	26	806	565	70.1%
November	26	780	391	50.1%
December	26	806	434	53.8%
Total		9,018	4,795	53.2%

Average Daily Rate (ADR) 2013

1,081,627

Based on the figures provided:

Total Gross Room Revenue

6,275,548,998

Less Service & Tax (21%)

Total Nett Room Revenue

5,186,404,129

Notes:

- Four-bed Villa counted as 4 Keys (available to be sold individually).
- Additional 8 Deluxe Rooms available in February; added to inventory from March.
- Stats taken from Vertical Analysis Record
- The breakfast allocation of IDR90,000 per person is transferred to F&B Revenue, leaving Total Nett Room Revenue

A detailed analysis of the property's financial performance will be completed by C9 Hotelworks. MJBH has also added an operational review of the financial data in the form of a Forecast.

Summary

Our overall assessment of the property and business is positive.

Buildings:

Our site visit confirmed that the physical condition of the Resort is acceptable. The structures are relatively new, and it is obvious they have been constructed to a reasonable standard and maintained.

Plant and equipment appear to function effectively; however some minor work may be required to create greater efficiencies and improved service (water pressure; power; improved lighting).

A review of the various storage areas will also provide added space adequate for an operation of this size.

Accommodation:

Improved marketing programs and rate management will provide opportunities to increase occupancy and average rate. Also considering that the full inventory of accommodation has only been available since March 2013, there is a reasonable upside to the current performance (refer to Forecast).

An opportunity to expand the number of Standard Rooms in the area currently occupied by the rear pool and spa area may be appropriate in the future to add inventory (6 Standard Rooms).

F&B:

The current F&B operation is basic and with improved standards can attract a reasonable level of business during the day and evening.

An opportunity also exists to add a "roadside takeaway" Bar in front of the kitchen offering ice creams and other simple items for sale to the large number of guests passing in front of the resort.

Weddings and other special events are also markets for F&B as well as rooms once the F&B operation is lifted to an appropriate quality.

Spa:

An opportunity may exist to relocate the spa to the front of the resort to service in-house guests and passing traffic. A review of the poolside and garden areas in front of the Deluxe Rooms will provide the necessary space.

Staffing & Training:

The most critical area requiring immediate attention is to improve staffing levels and introduce basic training programs to lift standards and improve efficiencies. The lack of stable Senior Management is obvious; along with the need for support in order to access other resources outside of the day-to-day operation.

Conclusion:

All of the above are simple to resolve, and will require minimal investment; apart from any physical expansion program to add new rooms, spa and F&B facilities, or any upgraded options that may be considered to enhance the current quality of the resort.

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Attachment: Forecast – Future Potential