Travel & Tourism Industry - Key Success Factors

BUSINESS RISK ASSESSMENT

Market Position
The analysis covers comprehensive assessments on the company's brand recognition or reputation and its market share and business size. A company with significant market share or business size tends to have better bargaining position to negotiate with the suppliers such as with the hotel operators and airline companies, as well as better flexibility to adjust the selling prices due to its good reputation. The company's historical and potential revenue growths are taken into consideration, including the vulnerability of its growth to customers' changing preferences and behaviors. We also analyze the company's ability and creativity in providing good perceived value to its customers by delivering good travel experience and good quality services to its customers with competitive prices. The efforts to build customer's loyalty are expected to positively affect the company's performance in both business and financial sides.

Diversification
The analysis covers detailed reviews on the company's types of product and service offered, including inbound and outbound activities and other related services. A company with various product and service offerings is expected to have more stable revenue stream compared to those that are dependent only on a certain product or service. The mix of customers' types is also considered, whether they are retail or corporate customers and whether they are domestic or foreign travelers. Domestic and foreign travelers have different economic background and travel behavior (such as favorite destination, length of stay, holiday season), so that diversified customers' origin may provide better revenue stability. PEFINDO also assesses the diversification of suppliers or business partners to see whether there is any dependency on certain partners. The more diversified the partners, the more competitive offerings may be obtained.

Marketing and Distribution Network
The analysis covers the effectiveness of the company's marketing activities to build brand equity and to increase sales by having proper advertising and promotion. In addition to offer interesting tour package or good service, a tour company should be able to attract the customers through distribution of brochures, advertisement in newspapers, and tour and travel exhibitions. The number of branches and their distribution areas are also important, especially for the selling of airline ticket and hotel voucher, in which customers usually choose nearby sellers. The usage of state-of-the-art information technology (IT) system is also assessed. The attractive and communicative website and online booking will increase the customers' awareness and convenience in doing the transactions. Reliable IT system is also important in coordinating the activities and transactions across branches.

Operating Management
The analysis includes risk assessments on the company's strategy and ability to control costs given the competitive market. Cost control and pricing flexibility are important to maintain margin, especially during the low season period. The margin analysis is done by comparing the company's figures to those of other players. The management of human resource team is also taken into account, including the efficient work allocation during peak and low season as well as the training and development provided for employees to better serve the customers. The analysis on operating margins (EBIT and EBITDA) is also assessed by comparing the company's ratios with other players in the same industry or other industry with similar characteristic, which is important in analyzing the company's competitiveness. The analysis is helpful to measure operating efficiency.
FINANCIAL RISK ASSESSMENT

Financial Policy
The analysis includes a review of management's philosophy, strategy and policies toward financial risk (historical, current and future). It also includes examination of management's financial targets (growth, leverage, debt structure and dividend policy), hedging and other policies in an effort to reduce the company's overall financial risk (historical vs. future). The company's track record on fulfilling its previous financial obligations is also examined to determine the degree of its commitments and willingness and consistency to pay obligations on a timely basis.

Capital Structure
The analysis covers careful examination of the company's historical, current and projected leverage (total and net debt in relation to equity and EBITDA), debt structures and composition (rupiah vs. foreign currencies, short-term debt vs. long-term debt, fixed rate vs. floating rate). Management of its liabilities is also thoroughly reviewed.

Cash Flow Protection and Liquidity
The analysis covers thorough reviews of the company's cash flow generation and capability to meet its short-term and long-term financial obligations. The degree of its debt-servicing capability level is measured by the company's interest and debt coverage ratio. The degree of its liquidity in fulfilling its short-term liabilities relative to its sources of cash is also thoroughly assessed. The sources of cash are assessed, which include cash balance, estimated cash from operations, unused credit facilities, and other sources of cash. The uses of cash other than short-term liabilities, such as capital expenditure, are also assessed.

Financial Flexibility
The analysis covers combined evaluations of all the financial measures above to arrive at an overall view of the company's financial health. Analysis of other related factors or figures that are not specifically examined above, such as insurance coverage, restrictive covenants in loan/bond agreements or parental linkage and support, are also covered. Other analytical tasks covered are the evaluation of the company's options under stress, including contingency plans and other capabilities and flexibility to deal with various adverse scenarios. Shareholder support and commitment are also greatly considered.
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