Hotel Finance and Revenue

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Abstract: Hilton Hotel is a global brand of five-star hotels. Since 1919, it has expanded to more than 85 countries with more than 570 hotels and resorts. The report tends to analyze the financial prospects of Hilton Hotel, mainly focusing on its analysis methods and investment methods. This paper mainly studies the financial data in recent three years: current ratio, quick ratio, turnover rate of accounts receivable, debt equity, interest repayment rate, net profit rate, return on assets, return on equity, financial risk and so on. The analysis results are compared with those of previous years.
The analysis results show that according to Hilton's current ratio analysis, the current ratio in 2015 was 76%, which means that the company does not have enough ability to repay its short-term debt. In 2016, the proportion rose to 95%, indicating that Hilton Group has better solvency. According to the quick ratio analysis, Hilton hotel does not have enough current assets to fulfill its short-term obligations. This will lead to the risk of debt repayment in the short term, as the company may not be able to arrange sudden cash flow in an emergency. The low ratio also indicates that the company may rely heavily on inventory or other assets to repay its short-term debt, which increases the company's possible concern about bankruptcy. According to the analysis of accounts receivable turnover rate, the company's accounts receivable recovery in 2017 is not as good as in the past. The decline in the debt to equity ratio shows potential changes in the company's financial position. The higher the ROA ratio, the more effective the assets the company uses. The return on equity has improved over the past three years, and the current return on shareholders' investment in Hilton Group is higher. Based on the overall analysis of Hilton Group, management needs to focus on their assets and equity to generate more revenue and control expenditure. As high debt has been used to finance assets and business operations, there is a potential risk of bankruptcy.
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1. Introduction

Hilton hotels are a global brand of five-star hotels and since 1919 it has expanded into over 85 countries with more than 570 hotels & resorts. The report tends to analyse the financial perspective of Hilton Hotels with main focus on its analytical as well as investing methods. The key financials will focus on recent three years 2015, 2016 and 2017 and each year analysis are compared with the following and previous years.

2. Analytical & Comparative Analysis

2.1 Liquidity Ratios

Current ratio

According to Park, Hun & Hong (2009), the current ratio is one of the most important and critical ratios as it describes the ability of a company to pay off their short-term debt obligations (Park, Hun & Hong, 2009) [9]. Based on the financial analysis on Hilton Hotel it shows that in 2015 the current ratio was 76% and this means that company does not have enough ability to pay their short-term debts. The ratio was increased to 95% in 2016 and this represents Hilton group had better ability to settle down their debts. However, the ratio became 60% and this was very low compared to previous years. Based on the current ratio analysis, it shows that the current ratio is not very good as ratio is below 1 and this represents company might have difficulty in paying their short term and long-term debts. A higher current ratio represents higher ability of a company to pay their obligations as company has a larger proportion of their short-term assets compared to the value of their short-term obligations (Hong, 2009).

Table 1. Analysis and ratio

RATIO ANALYSIS	2015	2016	2017
Liquidity			
Current Ratio %	76%	95%	60%
Quick Ratio	67%	86%	55%
Accounts Receivable Turnover (times)	1.00	1.09	0.38

Quick ratio

Nurdiwaty & Faisol (2017) stated that Quick ratio further reflects an organizations short-term liquidity position as it measures its ability to meet short-term obligations using most of its liquid assets. Based on the ratio analysis, it shows that in 2015 the quick ratio was 67% and this represents a very low ratio [8]. This shows that in 2015, Hilton hotels might have difficulty in paying their short-term obligations using liquid assets. The ratio was improved to 86% in 2016 and then decreased to 55% by the end of year 2017 (Faisol, 2017). Based on these results, it shows that Hilton Hotels does not have enough liquid assets to meet their short-term obligations. This lead to risk of paying debts in short term as company might not be able to arrange sudden liquid cash in case of emergency. The low ratio also shows that the company might rely heavily on inventory or other assets to pay off their short-term obligations and this rises that the company might have concerns for bankruptcy.

Accounts Receivable Turnover

The Accounts Receivables Turnover ratio shows a firm's ability in collecting their accounts receivables. Huang & Leung (2017) stated that this ratio is an activity ratio that measures how efficiently a firm uses its assets and collects its account receivables [1]. Based on the ratios it shows that company collects its receivables 1 time per year in 2015 and this was decreased to 0.38 times in 2017 [2]. As Hilton hotel operates in the hospitality industry and they do not have large-scale suppliers or customers (Huang & Leung, 2017) [6]. Based on these calculations, it shows that in 2017 company was not collecting its receivables as good as in the past [3]. Fan (2015) stated that the ratio may also indicate that the collection of accounts receivable from the company is valid, and that the company has a high percentage of quality clients and can pay off the debt quickly. A high proportion may also indicate that the company has adopted a conservative policy for its credit expansion [4]. This is usually a good thing because it filters customers who may take a long time to pay their debts. On the other hand, if the company's credit is too tight, it can be too conservative, which can drive out potential customers and deliver the business to competitors. In this case, the company may want to relax its policy of improving the business, even if it can reduce the turnover rate of its accounts receivable (Fan, 2015).

2.2 Solvency Ratios

Debt to equity ratio

Maulita & Tania (2018) stated that the debt to equity ratio is an important ratio for organization as well as for investors of the company [7]. The D/E ratio shows the amount of debt a company is using to finance its assets compared to its shareholders equity (Tania, 2018). The D/E ratio of Hilton Group was very high in 2015 as it stands at 202% and this represents a huge amount of debts is being taken in relation to the equity value. The ratio further increased to 207% in 2016, however it was decreased to 127% in 2017. The decline in the value represents a good step by the company, as now more assets are finance through equity rather than debts. The high ratio is not good for the financial perspective of the company, as investors tend to keep keen eye on the company activities. If a lot of debt is used to finance the operations of the company relative to equity will represent poor investment methods adopted by the company (Maulita & Tania, 2018). Therefore, it can be stated that the decline in the ratio shows potential set in the financials of the company.

Table 2. Profit margin comparison

	2015	2016	2017
Solvency			
Debt to Equity Ratio %	202%	207%	127%
Interest Cover (times)	0.33	0.32	0.93
Total Liabilities/Total Assets	102.7%	77.8%	94.3%

Interest coverage

Interest coverage ratio is one of the most important ratios reflecting on the ability of a company to pay interest on their outstanding debts [5]. Based on the data collected it shows that in 2015 the interest coverage ratio for Hilton group was 0.33 and this represents very low ratio and creates question on its ability to pay their debts. Choi (2018) stated that when a company's interest coverage ratio is 1.5 or lower shows that company does not have good ability to pay its interest expense [4]. Based on the analysis, the ratio further decreased to 0.32 in 2016 and increased to 0.93 by the end of year 2017. This reflects that over the past three years the coverage ratio for Hilton Group is not very high and they might have issues in paying off interest on their outstanding debts (Choi, 2018). Furthermore, it also shows that the ratio is below 1 and this means Company is not generating sufficient revenues to cover up its interest expenses. Therefore, this is a risk area for the company, as they might need to improve their revenues or cut down their debts in order to run in the long run.

Debt to assets ratio

Debt to assets ratio can be defined as a metric, which enables comparisons of leverage made by the company through its assets. If a ratio is high means using debt over equity is financing more assets. Based on the analysis, it shows that Hilton Group has more portion of debt being funded by its assets. In year 2015, the ratio was 102.7% and this means most of the assets are being financed by debt. Furthermore, the ratio declined to 77.8% in 2016 and increased to 94.3% in 2017 and this represents a very high debt on the assets of the company. Suarsa & Nawawi (2018), stated a higher debt ratio is very critical for the company as this kind of information can affect investors of the company. However, this ratio does not provide any kind of indication of asset quality of the company as its lumps all intangible and tangible assets (Suarsa & Nawawi, 2018) [13]. Hilton Group is using high debt, and this can alarm its investors and it creates risk for the company as well in the future.

2.3 Profitability Ratios

Net margin ratio

Net Margin ratio indicates amount of dollar value collected by the company during their financial year. Santoso (2015) stated that net profit margin is one of the most important ratios for companies as it indicates financial health of the organization. By assessing increase or decrease in this ratio can reflect on the current practices adopted by the company (Santoso, 2015) [11]. From the financial analysis on Hilton Group, it indicates that in 2015 the net margin ratio was 102.43% and this reflects that company earned a good value for every dollar spent. The ratio in the following year declined to 66.33% and this means that Hilton Group earned 0.66 cents for every dollar spent. This ratio represents portion of information on the profits made by the company after eliminating all of its expenses. A good ratio is very important to indicate the future of the company. In year 2017, the ratio was increased to 90.11% and this shows a positive increase in the sales as well as change in the expenses of the company. From the annual report it shows that in 2017 even though there was a change in the revenues made by the company as it declined, however there was change in the operating expenses of the company. This shows that the ratio was increased mainly due to decline in the expenses rather than increases in the revenues. The revenues have constantly declined in the recent three years and this alarms that there has been potential decline in the revenues of the company. However, a higher ratio in the recent financial year indicates that Hilton Group has good financial health and it can operate effectively in the following year.

Table 3. Profit margin comparison

Profitability			
Net Margin %	64.25%	66.33%	90.11%
ROA %	32.6%	36.2%	44.2%
ROE %	103%	84%	88%

3. Return on Assets

Return on Assets is one of the most critical ratios used by investors in order to analyse the return made by the company through its assets. This ratio gives an idea on how efficiently a company is using its assets to generate earnings. Reimsbach (2011), stated that ROA reflects critical information to the investors of the company regarding management's ability to generate earnings by using assets effectively [10]. Based on the data collected it shows that Hilton Group had a ratio of 32.6% in year 2015 and this represents that for every dollar of debt and equity company takes, it can return 62.9 cents in the net profit. The ratio was increased to 36.2% in the following year and then increased to 90.11%. The increase in the current year shows that management is using assets more effectively in generating revenue compared to previous year. According to Reimsbach (2011) the higher the ROA ratio will be the more effective assets are being used in the company. From the financial analysis of the company it shows that in the year 2017, Hilton Hotels had increased the company is developing their number of rooms as well as more assets. From the ROA analysis, it shows that management needs to focus on their assets in order to use them effectively.

4. Return on Equity

Return on Equity ratio Is a measure of financial performance of the company as it reflects the ability of a company to use their shareholders equity in order to generate profits. The higher return on equity ratio will reflect that management is using their shareholders equity effectively in order to generate earnings. From the financial analysis of Hilton Group, it shows that in year 2015 the ROE ratio was 103% and this represents for every shareholders dollar invested the shareholders earned $1.03 in year 2015. The ratio was declined to 84% and then increased to 88% in 2017. Setiawan & Zamzani (2018) stated that return on equity is very important for shareholders as it reflects their equity being used by the management of the company in generating earnings [12]. Furthermore, ROE can also be used to analyse the growth rate of a company as investors can use the ROE to understand the future of a company (Zamzani, 2018). ROE can be used to identify problems in the stocks of the company. Therefore, it can be stated that ROE is an important indicate of performance of a company relative to their shareholders equity. The results from financial analysis of Hilton Group show that its ratio has improved compared to last three years and now shareholders are earning more from their investments in Hilton Group.

5. Risks in Financials

Based on the data collected and ratio analysis, it shows that some of the ratio's have declined in the recent years and this reflects that Hilton Group sales have not been performing very well. From the ratio's, it shows that in the current year company has better ability to pay off their debts compared to previous years. On the other hand, the inventory levels of the company have declined, as there is an increase in the timeshare expense and this influence the revenues of the company. Hilton Group does not have enough ability to pay of their sudden debts as liquid assets have declined constantly and if company need to pay and settle off their short-term debts, it might have issues in arranging money and this can lead to bankruptcy. Hilton Group also has high debt to equity ratio and this represents management has been using poor investment methods in order to finance their business. As company has high debt ratio, it leads to lack of ability to manage interest payments over the time. As the interest coverage ratio shows Hilton Group's ability has declined to pay off their interest expenses. The ratio is below 1 which means it's hard for the company to pay off their interests on the debt payments. Therefore, the high debt being adopted by the company for the assets of the company leads to lack of effective ability on paying off interests. The ROE and ROA has also not been very effective for the company in the recent years and the performance of the company is not effective. Based on the overall analysis of Hilton Group, it shows that management needs to focus on their assets as well as equity to generate more earnings as well as to control the expenses. There is potential risk for bankruptcy as high debt has been used to finance assets and business operations.

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