

## LATEST NEWS



### NH, HNA joint venture a long time coming

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The joint venture between Spain-based NH Hoteles and China-based HNA Group saw numerous starts and stops before coming to completion last week.

#### Highlights

- NH Hoteles and HNA Group announced a JV that will result in the creation of a management company.
- NH will take over operations of HNA Group's hotels.
- The two will explore a new Chinese-focused hotel prototype.

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MADRID—After nearly three years of starts and stops, Spanish chain NH Hoteles and its major shareholder, China's tourism conglomerate HNA Group, successfully have established a joint venture that gives NH a door into the Chinese market and HNA proven hotel management know-how.

Under the terms of the pact, the two will establish the company with headquarters in Beijing to build a portfolio of management contracts for HNA or third-party properties in the middle and upper-middle segments in China and nearby territories Hong Kong, Macau and Taiwan.

In addition, the new company will take over operations of six of the Chinese group's hotels totaling more than 1,300 rooms in Beijing, Haikou, Sanya and Tianjin, the companies said in a [news release](#).

Also in the works are plans to design a prototype hotel for the Chinese market under the NH brand, which, the partners said, "would serve as the model for spurring the joint company's business development."

A strategic business plan is also in the works to lay out the joint venture's roadmap and boost its growth.

Ivar Yuste, a founding partner of the Madrid-based hotel consultancy PHG Hotels & Resorts and who has wide experience in Asia, said the agreement would help the Chinese group's relatively weak hotel business.

"Let's not forget that HNA's hotel division is not the strongest in the conglomerate," he said.

"In relative terms, HNA's hotel division is small in the context of China where the largest group, Home Inns (& Hotel Management), has 262,321 rooms, while HNA has 17,203 split amongst 75 hotels with the brands Tangla Hotels & Resorts and HNA Hotels & Resorts.

"With 60,000 rooms, the hotel business of NH is three-and-a-half times bigger than HNA's, so the Spaniards' know-how is important for their Chinese partners," Yuste said.

#### A long time coming

In announcing the deal, NH CEO Federico González Tejera said he is "fully convinced of the positive impact and benefits of leveraging the synergies between the two companies, such as the chance for NH to get its feet wet in one of the world's biggest markets."

It was a long time coming.

Back in late 2011, HNA backed out of a deal under which the tourism and airline group was to acquire a 20% holding in the Spanish company, with the partners agreeing to an eventual joint venture in China to manage hotels.

HNA executives, spooked by the volatility in the eurozone and capital markets, called it off and stumped up the \$15 million in compensation set forth in the investment agreement.

Just over a year later and suffering under a €1-billion (\$1.3-billion) debt burden, the NH board approved the Chinese group's 20% capital share increase worth €234 million (\$306 million), and the joint venture back was back in play.

In the latest version, the partnership will be 49% owned by NH with the remainder in HNA's hands and incorporated with initial share capital of \$20 million out of which the Spanish company is to provide \$4.9 million.

#### **A good fit**

Yuste said the NH executive team has vast experience in forging alliances as the two top executives, González and Chairman Rodrigo Echenique Gordillo, come from Disney and Spain's biggest bank, Banco Santander, respectively.

"NH is currently working on similar platforms in Latin America and had landed major corporate deals before in Europe with Jolly, Astron and Krasnapolsky," the consultant said.

The deal also fits with NH's pursuit of growth using capital-light formulae such as the management of hotels owned by third parties as one of its strategies to return to financial health.

"The transaction would be compatible with the five-year business plan on which NH continues to make very solid progress," González said in the statement announcing the agreement.

"The company would put in place a standalone team to carry out the Chinese venture's business activities, thereby enabling the rest of the professionals to continue to focus unwaveringly on delivery of the company's priority targets."

Those targets include shedding non-performing and poorly-located properties, sorting out its brands—NH, NH Collection, Nhow and Hesperia—and expanding in Europe and Latin America.

Meanwhile, NH's domestic market is improving.

"Although NH is still clearly overexposed in Spain, it is true that Spain's hotel performance is also picking up," Yuste said. "Madrid, NH's major capacity gateway, has seen international arrivals grow by 5% in the first four months of 2014, year on year. NH is also performing well in its Latin American markets and growing in Colombia and Brazil."