



COMPETITION TRIBUNAL OF SOUTH AFRICA

Case No:108/LM/Dec11

[013763]

In the matter between:

Southern Sun Hotels (Pty) Ltd

Acquiring Firm

And

Hotel Formula 1 (Pty) Ltd

Target Firm

Panel : Yasmin Carrim (Presiding Member),
Medi Mokuena (Tribunal Member)
Takalani Madima (Tribunal Member)
Heard on : 14 March 2012
Order issued on : 14 March 2012
Reasons issued on : 22 March 2012

Reasons for Decision

Approval

[1] On 14 March 2012 the Competition Tribunal approved the merger between Southern Sun Hotels (Pty) Ltd and Hotel Formula 1 (Pty) Ltd. The reasons follow below.

The Transaction

- [2] The target company, Hotel Formula 1(Pty) Ltd (“Hotel Formula 1”) is a joint Venture between Southern Sun Hotels (Pty) Ltd (“Southern Sun Hotels”) and Accor SA. Southern Sun Hotels is increasing its 47.4% interest to 100% by acquiring the remaining shares of 52.6% held by Accor SA, thereby moving from joint to sole control.
- [3] Both the acquiring and target firms are private companies incorporated in terms of the laws of the Republic of South Africa. Southern Sun Hotels is an indirectly wholly owned subsidiary of Tsogo Sun Holdings Ltd. Accor SA is a wholly owned subsidiary of Accor, a company incorporated in terms of the laws of France.

The Rationale

- [4] According to Accor it is selling its interest in Hotel Formula 1 because it wants to focus on the operational side of running hotels rather than hotel real estate which is capital intensive. Southern Sun is exercising its pre-emptive right to acquire the shares in Hotel Formula 1.

The parties and their activities

- [1] Hotel Formula 1 provides low budget hotel accommodation, which is graded as 1 star. Hotel Formula 1 is located throughout South Africa.
- [2] The Tsogo Sun Group is involved in hotel, gaming, exhibition and conference facilities and the entertainment industry and has a local as well as international presence. Southern Sun owns 93 hotels in eight countries. In South Africa it, inter alia, operates 2/3 star graded hotels under the Stay Easy brand in Cape Town, Johannesburg, Nelspruit, Witbank, Pretoria, Harrismith and Pietersburg.
- [3] The Commission, in its investigation, found that rates per night for single rooms at Hotel Formula 1 were between R437 – R644 and at Stay Easy hotels between R549 – R690. The Commission therefore decided to define the relevant product market as the market for hotel accommodation with a star grading of 1, 2 and 3. Within this product market the parties’ activities overlap in Cape Town, Pretoria, Nelspruit, Witbank and Johannesburg.

The impact on competition

[4] The Commission had calculated the market shares by using the number of rooms available in each geographic area. According to the Commission it was conservative in its approach and did not include all the establishments available in an area, for instance it did not include Bed and Breakfast accommodation. It only included the top 10 establishments per area. Based on this methodology it calculated the merged entity's market share post the transaction as:

City	Post Merger Market share %
Cape Town	12
Johannesburg	19.5
Pretoria	9.9
Nelspruit	16.4
Witbank	19.6


[5] As indicated above there are a number of low budget hotels and Bed and Breakfast accommodation in each city that have not been taken into account in calculating the market shares. A number of travel agencies indicated to the Commission that it was easy for them to switch between different hotels in these geographic areas, indicating that countervailing power exists in the market. Barriers to entry are high though not insurmountable and according to the Tourism Grading Council it would only take approximately three years for a new entrant to enter the market and become competitive.

[6] The hotel industry in South Africa is currently facing a difficult period after the soccer world cup with less demand for local accommodation. The worldwide economic downturn has also had a negative impact on the tourism industry and local travellers tend to return to their home towns after business appointments to save costs rather than overnight at a hotel. The decrease in demand has led to an oversupply of accommodation in the main cities.

[7] In light of the above, we find that the transaction would not substantially prevent or lessen competition in the relevant geographic markets.

CONCLUSION

[8] There are no significant public interest issues and we accordingly approve the transaction.



Yasmin Carrim

22 March 2012
DATE

M Mokuena and T Madima concurring.

Tribunal Researcher: Rietsie Badenhorst
For the merging parties: Nortons Inc
For the Commission: Bheki Masilela