

# [Hong kong disneyland analysis](https://assignbuster.com/hong-kong-disneyland-analysis/)

1. How would you value the Hong Kong Disneyland project from the perspective of Walt Disney? The valuation of Hong Kong Disneyland from the perspective of Walt Disney is done by taking the following assumptions: Cost of Capital = 9. 52% Cost of Government Debt = 8.

19% Cost of Commercial Bank Debt = 11. 36% Cost of Equity = 12. 3% (10 year average) Inflation = 7. 31% (10 year average) Gross margin = 37% Operating Cost = 22% Variable Management Fee = 5% With the above assumptions the FCF of the project and the Royalties that Walt Disney would get were calculated by projecting the Cash Flows till 25 years. The NPV of the project was found to be HKD1774million and the revenues to Walt Disney are HKD3834. 51million.

2. How much does the attractiveness of the project vary according to different economic scenarios and financing arrangements? InflationOperating Costs 0. 060. 100. 150. 180.

22 2. 804261. 052495. 64288. 88-1035.

18-2800. 59 5. 007269. 955127. 442449. 30842.

41-1300. 10 7. 3111373. 078716. 445395.

653403. 18746. 55 10. 0017788.

9414328. 5810003. 127407. 853947. 48 On performing the Scenario analysis by taking various Operating costs ranging from 6% (Oriental Land level) to 22% (Euro Disney level) and on Inflation from 2.

% (Minimum inflation in the past decade) and 10% (Highest inflation in the past decade was 9. 6%) it was found that the FCF varies from 17. 788billion to -2. 8 billion. Annual AttendeesOperating CostNPV (in Million HK$) 2. 00%0.

103829. 31 5. 00%0. 107367. 55 5.

91%0. 108716. 44 8. 00%0. 1012436. 77 On doing a scenario analysis assuming different Annual attendees growth rate at 10% operating costs we find that the FCF varies from 3.

829billion to 12. 436billion. Hongkong Government: Commercial banksOperating CostWACCNPV . 8: 0. 210%9. 40%11900.

39 0. 726: 0. 27410%9. 05%13095.

64 0. 9: 0. 110%9. 24%12436. 77 Doing a scenario analysis on the financing structure we find that the NPV of FCF varies from 11.

9b 10 12. 436billion at 10% operating cost. 3. If concessions could be granted by the HKSAR in order to make the project feasible, what would those concessions be? The NPV of the project is only 1.

774billion which might deteriorate in the face of un-quantifiable risks like political risk, so the project is not feasible in the present form. So to make the project feasible, HKSAR can give concessions like: •Give the land at a discounted price/Free •Give a Tax holiday for 10 years 4. How would you apply the project evaluation techniques to value the project from the perspective of Walt Disney? The project evaluation technique generally used is Discounted Cash Flow method which takes into account the cost of equity and cost of debt through WACC. But the calculation/finding out of cost equity is a very tough job as there are no comparable firms in Hong Kong as the proposed Hong Kong Disneyland (HKD). Though there are other theme parks like the Ocean Park and Shatin, they are not of comparable scale of investment and operations.

For arriving at the discount rate in our calculations, we have taken the betas of Disneyland Paris and Tokyo Disneyland. But these might not be accurate as the business environment and other factors are not similar in HK. Another important technique of evaluation is the Forecasting of attendance as well as prices. The techniques are useful for providing the snapshot (approximate) future cash flows and financial health of the company. But again these techniques may not be 100% accurate.

Also other factors like inflation, interest rates need to be projected for future cash flows. The techniques of forecasting are applied to project these variables. Sensitivity analysis is another important technique which would potentially capture deviations from the expected/projected values of the variables. This provides the snapshot with Best case, Most Likely and Worst cases that might occur in future.

This helps to make a go – no go decisions by the sponsors. This however would help to analyse about changes in the quantifiable parameters. However the techniques would not take into account the risks fully. Risks like political risk, technical risk are not taken into account while estimating the future cash flows.

Hence while the project evaluation techniques are instrumental in evaluating a project, there are still some aspects about the project which are not fully covered in these techniques. 5. How does the attractiveness of the project vary under different economic scenarios and financing arrangements? Similar to the question number 2 6. Should the Government pay to lure Disney to Hong Kong? If so, at what price? From the assessment of additional benefits by way of increased spending of tourists as well increased number of tourists, the economy is getting an additional HKD 540 billion from this venture. Apart from this there are employment opportunities that are created directly and indirectly.

Disney inturn is asking for free land as well as tax benefits in line with its earlier theme parks at Paris and Tokyo. Land premium to be charged by the Government is HKD 4 billion and the tax holiday for 10 years comes to HKD 363 million. Weighing the costs and benefits to the Government and economy as a whole, the Government can provide both the benefits asked by Disney. However due to the high political risk associated with providing free land, the Govt. can atleast provide tax breaks.

Hence it is advisable to the Government to lure Disney with the tax breaks the company has asked for. Please refer the excel file for further details on the calculation of additional contribution to the economy.