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Aurora: The Pandemic Within

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Abstract

Aurora Layar Group (Aurora) had been experiencing losses for three consecutive years since 2017. Among factors contributing to these losses were high depreciation due to high capital expenditure and recognition of impairment losses. However, Aurora managed to reduce its losses from RM252 billion in 2017 to RM79.5 billion in 2019. Unfortunately, the Covid-19 pandemic had hammered many industries worldwide including Aurora, in the travel, leisure and hospitality sector. The implication from the restrictions on business operations due to the Covid-19 pandemic on Aurora was evidenced by its reported losses of RM371.3 billion in the first six months to June 2020 during which most of its cruise operations suspended since the start of the Covid-19 pandemic. The reported losses were extremely higher compared to the first six months to June 2019 of RM28.3 billion. While many cruise companies globally fighting for survival, the Deputy CEO of Aurora, Miss Salina Hasan, tendered her resignation. In May 2020, the Chairman and CEO, Tan Sri Salmah Ali, had pledged 60 per cent of her shares in the company as collateral for loans. The decision was made a day after Aurora decided to suspend all payments to creditors.

Keywords: Covid-19; Financial Performance; Liquidity; Corporate Governance;
Travel, Leisure and Hospitality Sector

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1. Brief background of Aurora Layar Group

Aurora Layar Group (Aurora) was incorporated in October 1990 and listed on the Main Market of Bursa Malaysia under the travel, leisure and hospitality sector. Aurora operated cruises in Asia countries for almost three decades and ventured new markets outside Asia. In addition, Aurora acquired ABC Holding Limited in one of the ASEAN countries and becomes the fifth largest and most profitable cruise line in the ASEAN region. Its core competences are in land and sea-based businesses and operates its fleet under Sea Horse Cruise. Aurora operates in more than 30 locations in the Asia region. In 2017, Aurora established Elite Dockyard Ltd in one of the European countries to venture in building large-scale mega-ships in the European region. This was in line with Aurora's aspiration to venture into European market. Aurora offers unique destinations and excellent services. Aurora is committed to ensure unforgettable experience for its guests through the uniqueness of its venues and itineraries.

2. Top management of Aurora

Tan Sri Salmah Ali is the co-founder of Aurora. She is also the Chairman and CEO of the company since 1990. In addition, she and her family are the majority shareholders of Aurora with 80 per cent ownership as of September 2020. Tan Sri Salmah Ali's daughter, Miss Salina Hasan was appointed as the Deputy CEO of the company in July 2019. Prior to this appointment, she was the Vice President – Business Strategy of Aurora since 2014. Besides that, Miss Salina Hasan assumed the role of Chief Information Officer of the company since 1 January 2015 until the appointment as Deputy CEO. Subsequently in September 2020, Miss Salina Hasan had stepped down from her position as the Deputy CEO of Aurora as she wanted to concentrate on other business venture. Although the Board members were shocked with her decision during this challenging time due to Covid-19 impact but they were unable to make her change her decision. The former Group President of Aurora, Miss Shanti Kaur had been appointed as the new Executive Director and Deputy CEO of the company. She was the founding President and CEO of the company.

3. Aurora's significant operations since 2017

During 2017 Aurora announced a plan to invest a large sum of money to upgrade their dockyards, including building new ships. The company planned on spending over RM50 billion on Elite Dockyard, a shipyard located in one of the European countries. The company will run two shipyards that build large ships under Elite Dockyard and Excel Ltd, another company owned by Aurora, will focus on repairs, conversion and building cruise ships. In the same year, Aurora acquired another two shipyards in the same country. The purpose of the acquisition was to build for the company a fleet of cruise ships under three labels: Rose Cruises, Diamond Cruises and Pearl Cruises. Rose Cruises and Diamond Cruises are existing labels of Aurora cruises and Pearl Cruises is a new label. The costs of the two shipyards acquired were RM115.3 billion. Rose Cruises are designed for contemporary market, Diamond Cruises for luxury market and Pearl Cruises, the new label, targeted for the global market. In addition, as a strategic move, Aurora had placed an order for five cruise ships with Excel Ltd. This order comprised of two cruise ships for Rose Cruises, two for Diamond Cruises and one for Pearl Cruises. The two cruise ships built for Diamond Cruises were designed for the luxury Asia market and were expected to be delivered between 2019 and 2020. In fact, there were plans to place more orders in the future.

In 2018, there had been an incident where one of its cruise ships that operated in one of the Middle East countries was destroyed in fire due to suspected negligence of the cruise management. As such, the government of that country had suspended the cruise's operation for investigation of the incident. In the same year, there was intense competition in the cruise ship market. This was due to the presence of new and large ships competitors in the ports where Rose Cruises ships were normally positioned. This situation created plunging pressures on Aurora's occupancies and yields. Meanwhile, Diamond Cruises also encountered intense competition in 2018 against new luxury ships launched by competitors. As a consequence, there was 8% increase in berth capacity in the luxury sector.

In 2019, as a result of low river water levels in Asia, Rose Cruises and Diamond Cruises' performance was affected because the cruise ships' itineraries had to be cancelled or re-routed. Aurora expected that the performance of the cruises would be improved owing to the normal river water levels in Asia and the modernisation of the ocean fleet together with additional creative itineraries. One cruise ship operated by Rose Cruises, Super Rose Cruise, ended its public cruise operations in July 2019. Starting from August 2019, Super Rose Cruise is dedicated as a museum in Malaysia. In 2019, Excel Ltd embarked with the construction of the cruise ships for Rose Cruises, Diamond Cruises, and Pearl Cruises. End of 2019 marked the progressive completion of the construction of Rose Cruises 30%, Diamond Cruises 25% and Pearl Cruises 40%. Excel Ltd would accommodate early delivery of new ships for Aurora's fleet commencing in 2021 whereas global orders were stretching to 2025. This signalled the potential improvement in the cruise segment owing to reduction in cruise capacity and low penetration rate in Asia in 2019. At the same time, an exhibition for Pearl Cruises was launched and promotional activities will be carried on in Europe and other major cities of Asia.

On 15 March 2020, Aurora's existing cruises under Rose Cruises and Diamond Cruises labels had been suspended from March to April 2020 because of concerns pertaining to the Covid-19 pandemic. There is a potential that Aurora Pearl will resume the cruise operations when most Asia countries reopen their ports. In the short run, Aurora planned to assess an option for deployment plans for Diamond Cruises whereas the Rose Cruises was suspended until the situation in the region improves. In April 2020, Aurora suspended the majority of its cruise operations as a result of the Covid-19 pandemic. This included all works in its two shipyards in the European country. There is no definitive timeline for re-launch of any cruises. Nevertheless, starting August 2020, while the company laying up majority of its cruise ships, their existing cruise ship, Exo Rose, had been sailing domestic cruises in several ASEAN countries. In addition, Diamond Cruises were given the opportunity to embark its domestic operation from these countries. Aurora is in the midst of negotiating with other regional countries to commence its domestic cruises.

4. Financial performance since 2017 and the impact of Covid-19 pandemic

Aurora had been suffering losses since 2017 as shown in Table 1 below:

Year	Losses
2017	RM252 billion
2018	RM115 billion
2019	RM79.5 billion
2020 (First 6 months)	RM371.3 billion

The losses show a declining trend since year 2017 until 2019. The 2017 losses among others are contributed by the absence of a one-off accounting gain of RM783.7 billion. This gain is recognised from the reclassification of the company's investment in ABC Holding Limited from 'interest in associates' to 'available-for-sale investments' in 2016. However, this investment's carrying amount is higher than its fair value and hence, Aurora recognised impairment loss of RM150 billion. Another factor for the 2017 losses is caused by the absence of RM329.3 billion gain arising from the disposals of certain stakes in ABC Holding Limited in 2016. Aurora also incurred start-up and marketing costs for the launch of the new ships under Rose, Diamond and Pearl Cruises labels.

As a result of the high capital expenditure made in 2017, there was high depreciation in 2018. Moreover, the losses in 2018 were caused by amortisation of the existing dockyards and additional finance charges on the new Rose, Diamond, and Pearl cruise ships. There was a one-off gain of RM102.5 billion on the sale of shares of a segment, Moonlight Leisure Sdn Bhd in 2018. However, this one-off gain was offset by the label extensions of Diamond Cruises' in river cruises and the absence of impairment on ABC Holding Limited shares of RM152.5 billion in 2017. Another contribution to 2018 losses is the Elite Dockyard's full year start-up losses. Particularly, pertaining to the revenue, Aurora's revenue for 2018 was RM500 billion, including an increase in revenue from "cruise and cruise-related activities" of RM400 billion. Meanwhile, revenue from non-cruise activities and shipyard operations rose to RM100 billion. This increase primarily resulting from sales of property in a few ASEAN countries and shipyard operations.

In 2019, the total revenue increased to RM650 billion primarily to shipyard operations and cruise revenue. Cruise revenue specifically increased particularly due to net cruise costs increased in 2019 largely due to higher capacity days but net cruise costs per capacity day was lower as a result of efficiencies of scale. In addition, shipyard segment also generated revenue compared to a loss in year 2018. Higher usage of shipyard of the Diamond Cruises in 2019 was the significant contributor to this improvement.

The year 2020 is a challenging period for Aurora. The Covid-19 pandemic negatively impacted the company's performance. The steady improved losses from 2017 to 2019 sharply increased to RM371.3 billion in the first six months to June 2020 during which most of its cruise ship operations suspended since the start of the Covid-19 pandemic. As a comparison to the first six months of 2019, the losses were only RM28.3 billion. The consequence of the restrictions on business operations due to the Covid-19 pandemic on Aurora is evidenced by its reported losses of RM371.3 billion in the first six months to June 2020. The first six months of 2020 reported a drastic decline in revenues as a result of cruising suspension and an eight-fold increase in its operating losses. The total losses for the first six months of 2020 included large non-cash charges due to a previous refinancing of its cruise ship the Pearl Cruises. It increased more than twelve times the total losses reported for the first six months of 2019. In the first few months of 2020, the business was suspended for the company's cruises including the works its two shipyards in the European country. The Covid-19 pandemic is expected to continue affecting the company's businesses, as the situation created significant uncertainty over the authorization to travel. In another move, Aurora searches for additional sources of financing to improve its liquidity. Specifically, the company seeks other sources of financing to finance the resumption of the shipyard works in the European country. Besides, the company also strategizes to look for other sources to support the cruise businesses.

The Covid-19 pandemic had significantly impacted Aurora as it had to terminate many cruise trips and temporarily suspended many of its cruise operations since March 2020. As a consequence, the company had undertaken the following cost rationalization measures:

- i. Full compensation and fees waiver from March until December 2020 for Aurora's key executive personnel.
- ii. Up to 40 per cent voluntary salary reduction of managers.
- iii. Company wide salary reduction.
- iv. Retrenchment of staff.
- v. Freezing recruitment.
- vi. Suspension of payments to creditors.
- vii. In May 2020, the Chairman and CEO, Tan Sri Salmah Ali had pledged 60 per cent of her shares in the company as collateral against the company's loans. The decision to pledge the shares was made a day after the company decided to suspend all payments to creditors.

5. Aurora faces liquidity issue

The Covid-19 outbreak had negative impact on the liquidity of Aurora. This is depicted in the Consolidated Statement of Cash Flows of which there is a net cash outflow from operating activities by RM126 billion for the six month ended 30 June 2020 compared to net cash inflow from operating activities of RM53 billion for the six month ended 30 June 2019. This is as a result of the cancellation of many travels and suspension of many cruise operations. To overcome the liquidity problems, Aurora had obtained loans and borrowings of RM521 billion for the first six months ended 30 June 2020 while only RM200 billion proceeds from loans and borrowings was obtained in the first six month ended 30 June 2019.

Aurora delineated its challenges as its capital commitments stand at RM0.65 billion mostly due to new cruise ships construction. Another nearly RM1.65 billion is due to total loans and borrowings. As at end of June 2020, Aurora reported only RM20 billion in cash. However, the company believed they have reasonable prospect of having adequate cash flows and working capital to fulfil its financial obligations in the next 12 months. Another strategic plan of the company to curb the current financial situation is by deferring some obligations while it continues to work with its advisors seeking additional equity or debt financing.

The company also reported that there are potential investors for two of their cruise labels. Aurora believes there is a reasonable prospect that they would obtain funding before July 31, 2021. In addition, the construction of the five new cruise ships is being deferred and Aurora cancels material contracts on the cruise ships. Furthermore, plans for placing new orders of the company's cruise ships have been suspended. Aurora expects a net loss for the full year 2020 and there is no certainty that the current financing efforts can be completed.

Reference

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APPENDICES

Aurora Layar Group			
Consolidated Statement of Comprehensive Income for the year ended			
	2019	2018	2017
	RM	RM	RM
	million	million	million
Revenue	650,000	500,000	350,454
Operating expenses			
Operating expenses excluding depreciation and amortisation	(163,400)	(210,000)	(147,454)
Depreciation and amortisation	(380,000)	(260,000)	(250,000)
Selling, general and administrative expenses	(71,700)	(105,000)	(100,000)
Operating loss	(34,900)	(75,000)	(147,000)
Finance costs	(28,100)	(25,000)	(15,000)
Profit/ (Loss) before taxation	(63,000)	(100,000)	(162,000)
Taxation	(16,500)	(15,000)	(90,000)
Loss for the year	(79,500)	(115,000)	(252,000)

Aurora Layar Group**Consolidated Statement of Comprehensive Income for the six months ended**

	2020	2019
	RM	RM
	million	million
	<i>unaudited</i>	
Revenue	57,700	311,000
Operating expenses		
Operating expenses excluding depreciation and amortisation	(43,000)	(87,000)
Depreciation and amortisation	(200,000)	(190,000)
Selling, general and administrative expenses	(19,000)	(35,250)
Operating loss	(204,300)	(1,250)
Finance costs	(150,000)	(14,050)
Profit/ (Loss) before taxation	(354,300)	(15,300)
Taxation	(17,000)	(13,000)
Loss for the period	(371,300)	(28,300)

Aurora Layar Group
Consolidated Statement of Financial Position as at 31 December

	2019 RM million	2018 RM million	2017 RM million
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3,000,000	2,500,000	2,150,000
Intangible assets	1,025,000	466,000	1,153,942
Other assets and receivables	55,000	9,000	11,058
	<u>4,080,000</u>	<u>2,975,000</u>	<u>3,315,000</u>
CURRENT ASSETS			
Inventories	288,000	210,000	234,000
Trade receivables	216,000	157,500	175,500
Prepaid expenses and other receivables	144,000	105,000	117,000
Cash and cash equivalents	72,000	52,500	58,500
	<u>720,000</u>	<u>525,000</u>	<u>585,000</u>
TOTAL ASSETS	<u><u>4,800,000</u></u>	<u><u>3,500,000</u></u>	<u><u>3,900,000</u></u>
EQUITY			
Share capital	1,440,000	1,440,000	1,440,000
Retained earnings	864,000	240,000	432,000
Non-controlling interests	576,000	420,000	468,000
TOTAL EQUITY	<u>2,880,000</u>	<u>2,100,000</u>	<u>2,340,000</u>
LIABILITIES			
NON-CURRENT LIABILITIES			
Loans and borrowings	265,000	392,000	436,800
Deferred tax liabilities	431,600	196,000	218,400
Provisions, accruals and other liabilities	161,850	147,000	163,800
Advance ticket sales	485,550	245,000	273,000
	<u>1,344,000</u>	<u>980,000</u>	<u>1,092,000</u>
CURRENT LIABILITIES			
Trade payables	230,400	168,000	187,200
Provisions, accruals and other liabilities	115,200	84,000	93,600
Current portion of loans and borrowings	86,400	63,000	70,200
Advance ticket sales	144,000	105,000	117,000
	<u>576,000</u>	<u>420,000</u>	<u>468,000</u>
TOTAL LIABILITIES	<u>1,920,000</u>	<u>1,400,000</u>	<u>1,560,000</u>

**TOTAL EQUITY AND
LIABILITIES**

4,800,000	3,500,000	3,900,000
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Aurora Layar Group**Consolidated Statement of Cash Flows for the six months ended 30 June (excerpt)**

	2020	2019
	RM	RM
	million	million
OPERATING ACTIVITIES		
Loss before taxation	(354,300)	(15,300)
Depreciation and amortisation	200,000	190,000
Increase/ (Decrease) in inventories	48,960	(43,015)
Increase/ (Decrease) in trade receivables	45,000	(34,412)
Increase/ (Decrease) in prepaid expenses and other receivables	(15,660)	(8,603)
(Increase)/ Decrease in trade payables	(50,000)	(35,670)
	<u>(126,000)</u>	<u>53,000</u>