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Mexico's Tourism Giant Grupo Posadas Facing Financial Problems

by *Carlos Navarro*

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In a year when Mexico is struggling to keep its tourism viable, one of its most prominent tourism-related businesses, hotel chain Grupo Posadas, is facing myriad financial and legal problems that have affected the company's solvency and damaged its image. The company, founded by the powerful Azcárraga family in 1970, runs more than 100 hotels in Mexico, Chile, Brazil, Argentina, and other countries under brand names like Fiesta Americana, Fiesta Inn, and Caesar Park. In late June, the chain acknowledged major financial problems and said it had hired the services of an international investment bank to seek investors.

Related to Grupo Posadas' financial problems is the bankruptcy of Mexicana airlines, which the Azcárraga family acquired from the federal government in 2005 ([SourceMex, Dec. 7, 2005](#)). The company pulled out of Mexicana last year, reportedly selling it for a very low price. In making the transaction, Posadas was able to unload a huge debt ([SourceMex, Aug. 4, 2010](#)), but some aspects of the transaction are being questioned. The pilots union (Asociación Sindical de Pilotos Aviadores (ASPAA)) has submitted a complaint to the Procuraduría General de la República (PGR) charging Grupo Posadas with withholding crucial information from the market related to transactions involving the airline company.

The company's financial problems generally flew under the radar, but rumors surfaced in late June that Grupo Posadas was facing severe liquidity problems, in part because of the downturn in the Mexican tourism industry.

At that point, Grupo Posadas was forced to issue a short statement acknowledging that it was working on various options to capitalize the company and confirming that it had hired the services of British investment bank Rothschild to assist in the process. The company said it reached an agreement with its main investors to boost capital by US\$50 billion by the third quarter of this year and said it is open to a buyout. "We are open to evaluating all options," the company said.

Grupo Posadas' financial and legal problems are not expected to have a major impact on the bottom line for Mexico's tourist sector. But the situation represents another black eye for an industry struggling to attract foreign visitors, who are staying away because of drug-related violence and a global economic slump ([SourceMex, Oct. 13, 2010](#)) and ([March 3, 2011](#)). The H1N1 outbreak in 2009 also contributed to a decrease in visitors to Mexico ([SourceMex, Aug. 5, 2009](#)) and ([April 14, 2010](#)).

The company, which has been working with Rothschild for weeks, kept quiet about its financial problems and offered the opposite scenario in recent months. As recently as April, the company said the number of hotels under the Fiesta Inn brand would expand this year and reach 90 properties by 2014, said the Mexico City daily newspaper .

Posadas' financial problems led to speculation that government entities like the Fondo Nacional de Fomento al Turismo (FONATUR) would step in with assistance. But officials denied that such a

move is in the works. "[Our agency] does not have the resources or the mandate to intervene," said FONATUR director Adriana Pérez Quesnel.

Pérez Quesnel acknowledged having some conversations with Posadas vice president Pablo Azcárraga about the company's financial situation. "What he told me is that they are looking for new capitalization structures, and it could be through a sale or through new investors," said the FONATUR director.

Analysts said a buyout is a very real option. "Posadas would seek to bring in new investors, and the possibility of selling control of the group is not to be ruled out if Rothschild finds an offer that is attractive to the Mexican firm," columnist Alberto Aguilar wrote in .

Some analysts suggest that, despite the large number of hotels under its name, the company might not possess the assets that would make it sufficiently attractive to investors. Of the 112 hotels under its control, only about one-third are owned by the company. "This means that the vast majority of the hotels, about 50%, are simply under Posadas management and the other 15% are leased," columnist José Yuste wrote in the Mexico City daily newspaper .

Yuste said Posadas is in dire need of funds to complete some planned projects, including a US\$400 million development in the Riviera Maya in Quintana Roo state and its expansion in South America ahead of the 2014 World Cup and 2016 Summer Olympics in Brazil.

Posadas accused of concealing crucial information related to bankrupt airline

The company's unwillingness to be open about its financial situation is also at the root of its legal dispute with ASPA. Fernando Perfecto Cruz, the union's secretary-general, said Grupo Posadas failed to notify the market when it reduced its stake in Mexicana's holding company from 100% or when Mexicana took out several bank loans. It also charges that Posadas did not advise its investors when Mexicana and its subsidiaries sought bankruptcy protection last year.

In its complaint to the PGR in late June, ASPA specifically names Posadas chairman Gastón Azcárraga Andrade and former Mexicana president Manuel Borja as the ones who perpetrated the fraud. Perfecto accused Azcárraga of hiding "important results and indicators of liquidity, solvency, profitability, and utilization of assets" while the company ran Mexicana de Aviación. These omissions, said the union leader, "may have exacerbated the company's crisis."

In mid-July, the pilots union amended the complaint to include the allegation that company directives did not disclose relevant tax information.

Mexicana, which remains under bankruptcy protection in both Mexico and the US, has not operated since its forced shutdown in August 2010. In early 2011, the airline announced a plan to resume operations in the near term ([SourceMex, Jan. 5, 2011](#)), but the scheme fell through because bids submitted by investor groups were deemed inadequate. For now, the carrier remains in the hands of a court-appointed receiver, which will have to decide whether Mexicana is able to resume operations under new ownership or whether it must be liquidated. Some analysts believe the second option is the most likely course of action, since no viable investor has stepped up to acquire Mexicana.

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