Maybank Securities

Hotels

Thailand

Thailand Hotels

POSITIVE

Back to expansion mode

Initiate hotel sector with MINT as Top Pick

We have a POSITIVE view on Thailand's hotel sector given promising earnings recovery in FY24-25E together with new hotel expansions. We expect limited impact to domestic hotel operators from sluggish recovery in Chinese tourist arrivals given their ability to penetrate other markets such as India, Russia and the Middle East. MINT is our Top Pick for its attractive valuation and quality growth, supported by corporate demand in Europe, recovery in Thai hotel and restaurant earnings, and a cleaner balance sheet to support expansion.

Demand growth to outstrip supply additions

We expect minor impact from upcoming hotel supply, especially in important tourism destinations such as Bangkok and Phuket. Data from realtor CBRE as of 9M23 shows 8,360 hotel rooms under construction in Bangkok to add to supply in 2024-25 (+11% from 9M23) whereas demand growth is likely to reflect the rise in foreign tourist arrivals. However, one area of concern is the luxury segment in central Bangkok given new additional rooms that could push supply to record highs in 2023-24.

Margin improvements to drive bottom-line growth

Apart from continued recovery in RevPAR, we expect hotel operating margins to grow along with demand from MICE activities and benefits of economies of scale. We expect operational costs to rise at a much slower pace than revenue as utility and food raw material prices start to normalize. We also expect minimal impact from staff shortages as rising 'service charges' (domestic terminology for wages) convince workers to rejoin the hospitality industry. We also foresee insignificant impact from minimum wages hikes as service charges are well above daily pay.

MINT our Top Pick

MINT is our top pick given its strong earnings growth profile and cheapest valuation in the sector. Its hotel and F&B outlets have resumed growth both under owned hotels and JV models. We believe corporate client arrivals will hit pre-pandemic peaks in FY24, spurring room rate and F&B growth and higher operating margins. We also rate CENTEL a BUY as the prime beneficiary of recovery in Chinese tourists amid declining domestic food and utility costs. We forecast CENTEL to deliver industry-leading earnings growth at a FY24-27E CAGR of 24% while its valuation remains attractive on PEG 1.1x vs. sector at 1.7x. We rate ERW a HOLD as medium term positives are priced in. We expect FY23E net profit to hit a new high before FY24E growth tapers relative to sector (+10% YoY vs peers at 19%) on a high RevPAR base and loss recognition from Japan operations.

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Terms defined

ADR - Average daily rate
RevPAR - Revenue per available room
MICE - Meetings, Incentives, Conference & Exhibitions
F&B - Food and beverage

Maybank Securities (Thailand) Plc (MST) and Central Plaza Hotel Plc (CENTEL) have a common director, Ms Sopawadee Lertmanaschai. However, the securities analytical comment is based on the individual assumptions of Maybank Securities' research department.

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x) 23E	P/E (x) 24E	P/B (x) 23E	P/B (x) 24E	Div yld (%) 23E	Div yld (%) 24E
Minor Int'l	MINT TB	4,315	Buy	27.25	35.25	30	23.1	19.5	2.1	1.9	0.0	0.0
Central Plaza	CENTEL TB	1,652	Buy	43.25	50.00	16	49.7	35.1	3.0	2.7	0.0	0.0
Erawan Group	ERW TB	667	Hold	5.20	5.45	5	34.4	31.2	3.7	3.3	0.0	0.0

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1. Slow Chinese tourist recovery not a deal breaker

1.1 Beyond recovery in 2024

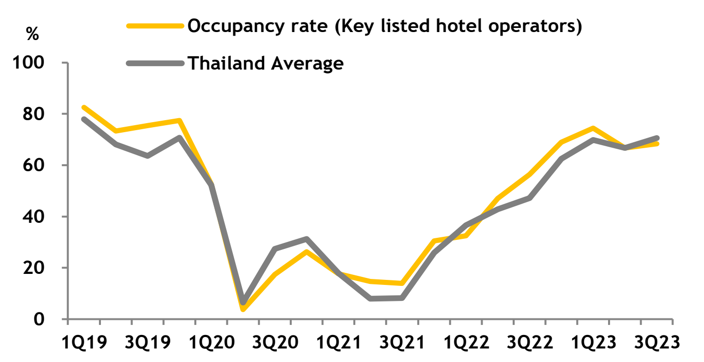
Thai hotels will benefit from continued recovery in foreign tourists in FY24. Increasing MICE activities and lower cost per operating hotel room are also key earnings growth drivers. Local guests and visitors from Europe, the Middle East, and India have been supporting sector RevPAR growth of more than 10% above 2019 levels and this is likely to expand further in FY24E. Slower-than-expected return of Chinese tourists (10M23 arrivals only 30% of 10M19) will not derail the listed hotel growth profile in FY24E as group tour arrivals from mainland China are not significant revenue contributors to most listed hotel operators. Group tours accounted for 40% of tourist arrivals from China pre-Covid.

We believe Thailand may have lost its attraction to Chinese tourists mainly due to safety concerns, especially among younger travelers. Sentiment has been weakening since two Chinese crime movies, Lost in the Stars and No More Bets, were released in mainland China in June'23 and August'23, respectively. The films depict Southeast Asia as a region troubled by murder, gang crime and fraud cases, which damaged Thailand's attractiveness. Sentiment was further aggravated by the deadly shooting incident at the Siam Paragon mall in downtown Bangkok in early October.

Thailand plummeted to sixth place in 3Q23 from first place in 1Q23, with only 10% of respondents choosing Thailand as one of their future destinations, according to the data from China Trading Desk, a Singapore-based digital marketing company that polled over 10,000 Chinese respondents on their upcoming international travel plans. Singapore, Europe, and South Korea are among the countries that will benefit from the change in Chinese tourist preferences.

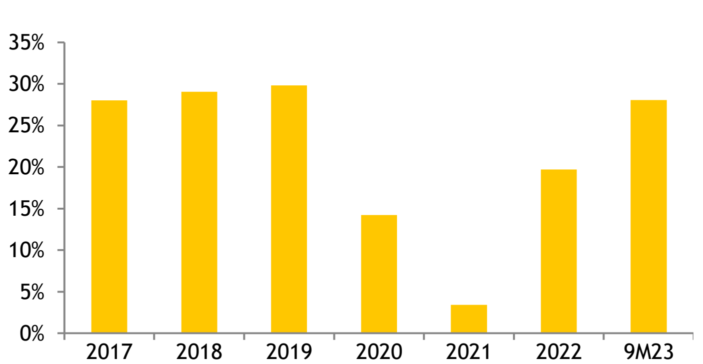
As of 10M23, the Civil Aviation Administration of China (CAAC) reported China's passenger traffic on international routes at 27.2m. This is only 38% of the 10M19 level of 71.7m. Thailand is still lagging other key international markets such as Singapore, Malaysia and South Korea in terms of winning market share of the mainland tourist outflow. However, the difference doesn't appear to imply any structural change in Chinese tourist perceptions of travelling in Thailand.

Fig 1: Hotel occupancy rate (listed operators and Thailand average)



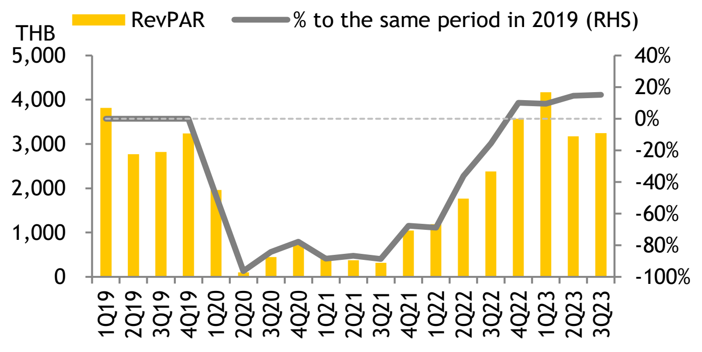
Source: MOTS, MST (Key listed operator include MINT, CENTEL, ERW, AWC, SHR, VRANDA)

Fig 2: % of revenue from conference/seminar to total revenue



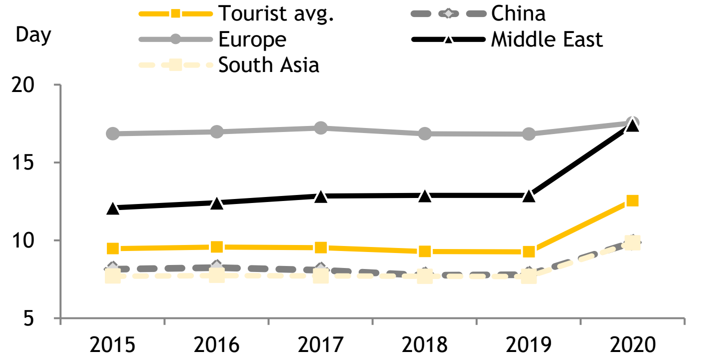
Source: MOTS, MST

Fig 3: RevPAR (Key listed hotel operators) and % of pre-COVID level



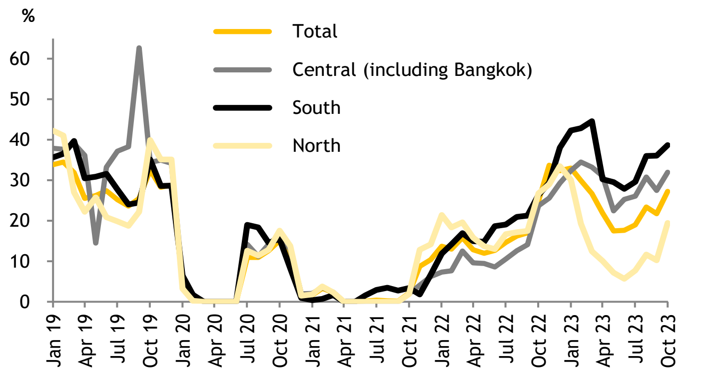
Source: Company, MST (Key listed operator include MINT, CENTEL, ERW, AWC, SHR, VRANDA)

Fig 4: Length of stay by nationality of foreign visitors



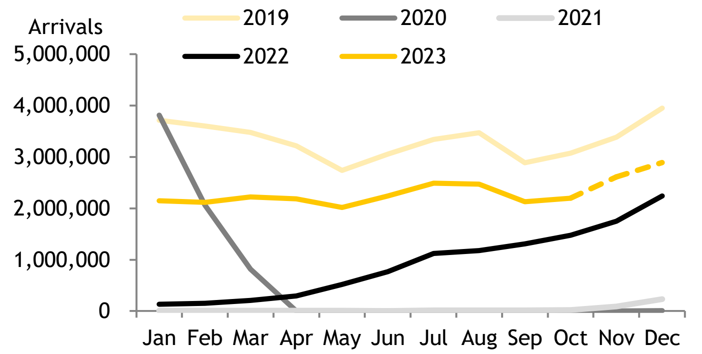
Source: MOTS, MST

Fig 5: 3-month advanced booking rate by region (%)



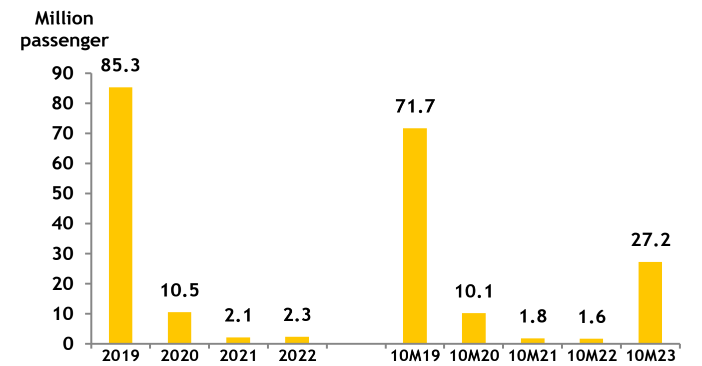
Source: MOTS, MST

Fig 6: Monthly foreign tourist arrivals in Thailand



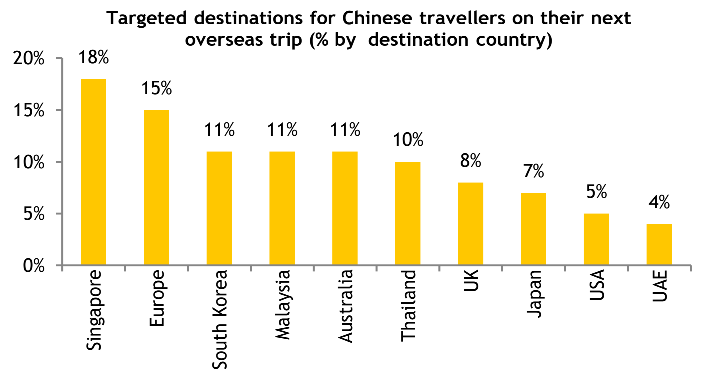
Source: MOTS, MST

Fig 7: Passengers handled by CAAC on international routes



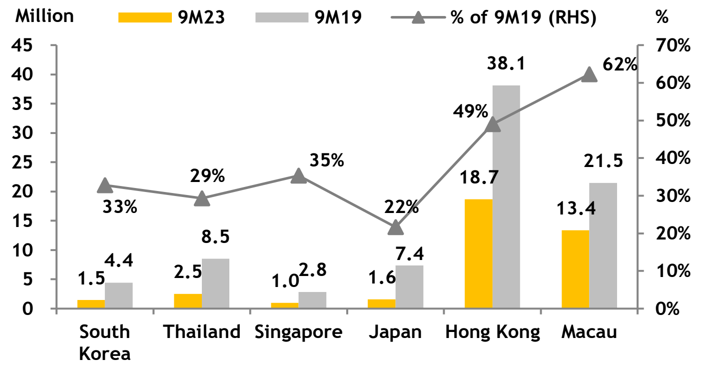
Source: Civil Aviation Administration of China (CAAC), MST

Fig 8: Survey of Chinese on upcoming international travel plans



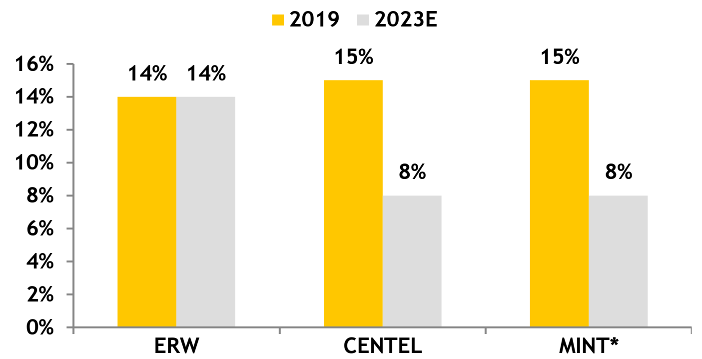
Source: China Trading Desk, MST

Fig 9: Outbound Chinese tourists destinations



Source: Bloomberg, MST

Fig 10: Percentage of room revenue generated by Chinese guests

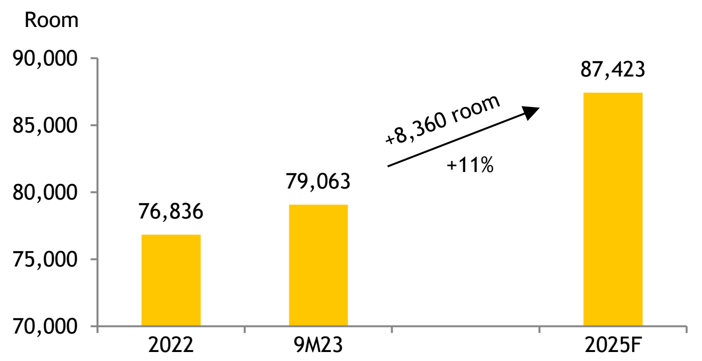


Source: Company, MST MINT (only Thai hotel portfolio)*

2. Minor concern over upcoming hotel supply

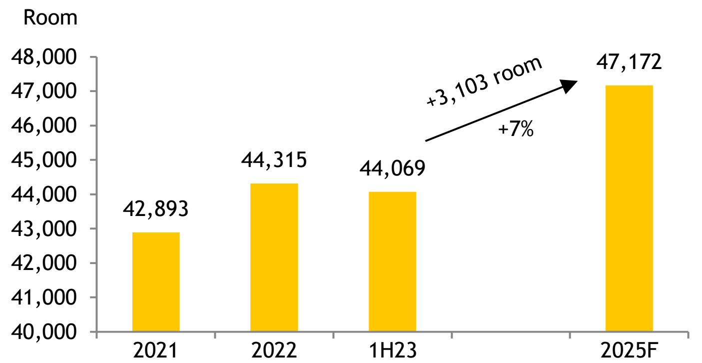
We anticipate limited impact from upcoming hotel supply especially in key tourism destinations such as Bangkok and Phuket. According to data from CBRE as of 9M23, there are 8,360 hotel rooms under development in Bangkok slated to open in 2024-25 (+11% from 9M23). Phuket has 3,103 room under construction, or equivalent to 7% growth from 1H23 to 2025. Currently, we do not see any major threats on the supply side in other key tourist provinces such as Pattaya, Chiang Mai and Hua Hin. Based on existing new hotel pipelines, demand growth is likely to outpace supply addition at least until 2025. The one exception is the luxury segment in central Bangkok which must be closely monitored given additional rooms that could push supply to record highs in 2023-24. Nevertheless, we anticipate absorption rates to remain firm as certain luxury hotels in Bangkok are running at high occupancy rates (average 80%) with ADR at around 20% above pre-Covid levels. This implies demand is still strong following an influx of high-spending foreign tourists.

Fig 11: Bangkok hotel supply



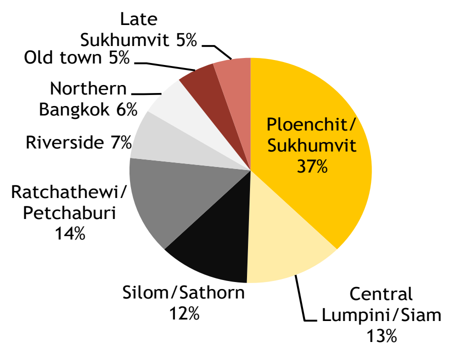
Source: CBRE, MST

Fig 12: Phuket hotel supply



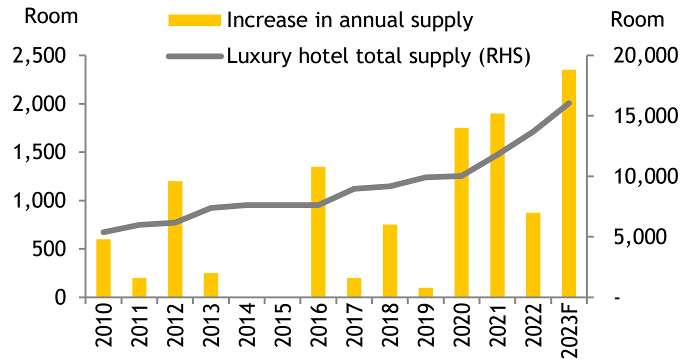
Source: CBRE, MST

Fig 13: Bangkok hotel supply by area as of 9M23



Source: CBRE, MST

Fig 14: Luxury hotel supply in Bangkok



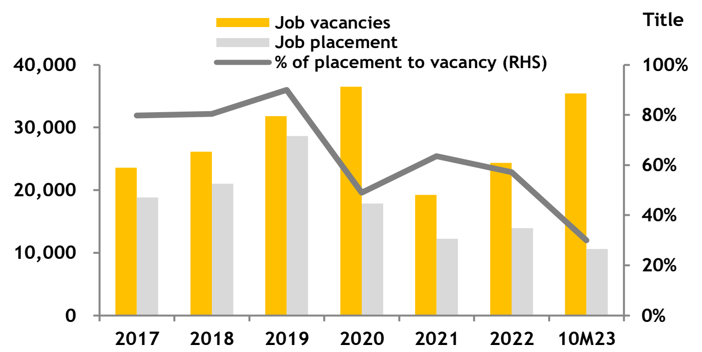
Source: Colliers, MST

3. Stabilizing cost of hotel operations

We expect hotel operating margins to continue to expand along with recovery in demand from foreign tourists and local MICE activities. This is because we expect operating costs to increase at a much slower pace than revenue as prices of utility and food raw materials will start to normalize to pre Russia-Ukraine war levels. We expect manpower expenses (32-38% of operating cost for domestic hotel operators) to continue to increase in FY23-24E as the operators are still dealing with staff shortages. Bangkok and Phuket are highly competitive in attracting staff during high season, particularly for temporary positions, by offering various benefits and service charges. The impact could be minimized in FY24E as we anticipate the labour force to revert back to 2019 levels along with a service charge payment.

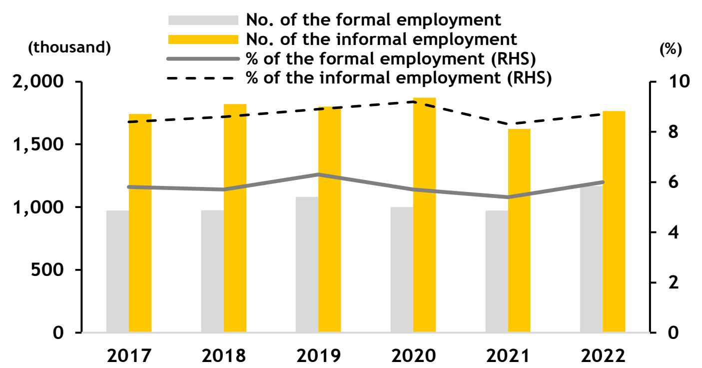
However, the potential rise in the minimum wage to THB400/day (from nationwide average of THB350/day now) may hit hotel bottom-lines. From our channel checks, all operators are paying their staff at well above the standard level. CENTEL expects 0.2% impact relative to its hotel revenue, while we assume equally small impacts for other domestic operators if the service charge can be classified as a minimum daily benefit for their employees. Currently, the service charge stands at above THB20,000 per month for 4-5 star hotels located in Bangkok and Phuket, which is higher than the pre-Covid level.

Fig 15: Job vacancies: Accommodation and food service



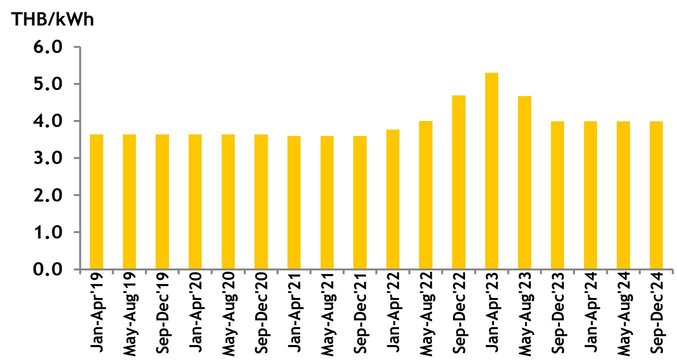
Source: Labour Market information administration Division, MST

Fig 16: No. of employees in accommodation and food service



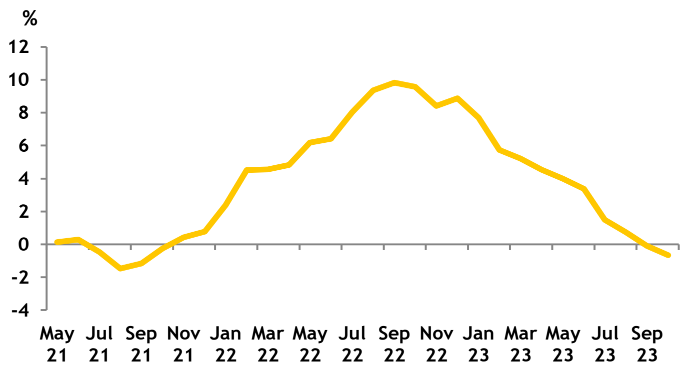
Source: Ministry of labour, MST

Fig 17: Electricity tariff in THB per kWh



Source: ERC, MST

Fig 18: Thailand food inflation rate (YoY % change)



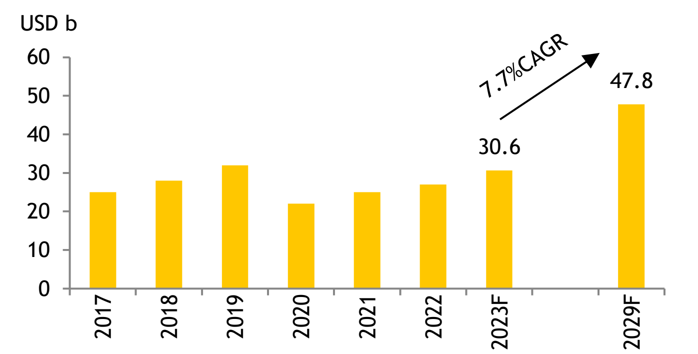
Source: Trading Economics, MST

4. Food business offers significant growth opportunity

4.1 Plenty of room to expand

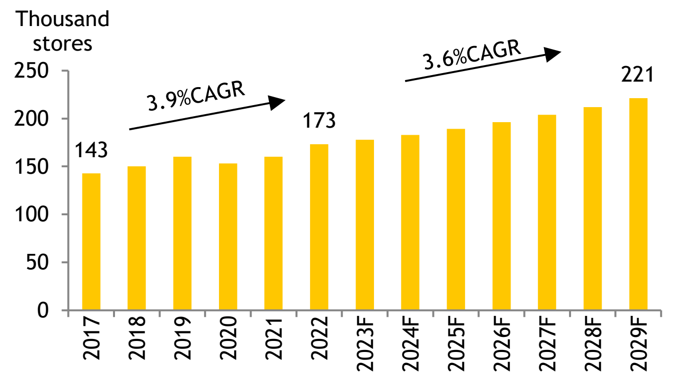
We expect MINT and CENTEL to continue to grow their food business networks and revenues (21% and 56% of their respective 9M23 revenues) along with the growing local foodservice market. The research firm Mordor Intelligence estimates Thailand's foodservice market value to hit USD30.6b in 2023, and to rise further to USD47.8b by 2029, representing a CAGR of 7.7% compared with 1.7% during 2017-2022.

Fig 19: Thailand foodservice market



Source: Mordor Intelligence

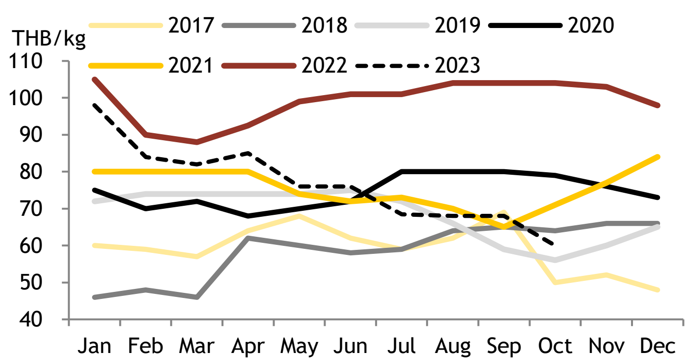
Fig 20: Number of outlets in Thailand



Source: Mordor Intelligence

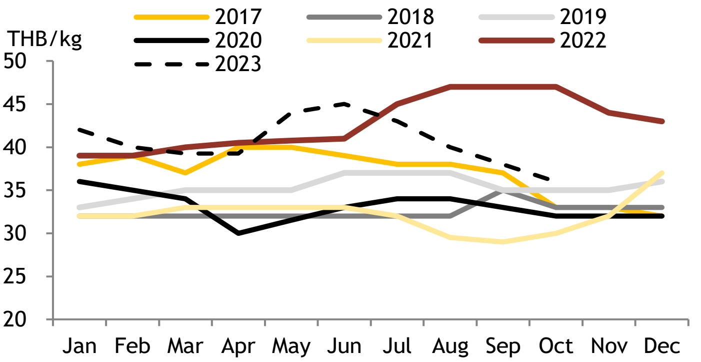
The largest segment in the foodservice market in 2022 is quick service restaurants (QSR) with market share at 51%. This segment is likely to show an 8.2% CAGR during the forecast period (+9.5% in 2019-2022). Chicken and pork-based fast food remain the top preferences, with a per capita consumption of nearly 22kg in 2022. Growing influence of Western lifestyles and a large number of young adults (18-35 years) are key drivers of the QSR market growth as the younger cohort tends to enjoy eating out and to prefer fast food restaurants. Thailand had the highest consumption of fast food in ASEAN in 2020 with 40% of consumers frequenting fast food restaurants at least four times a week. The move toward health-conscious diets could represent downside risk, but the introduction of plant-based menus provides an alternative.

Fig 21: Swine prices at farm gate



Source: Mordor Intelligence

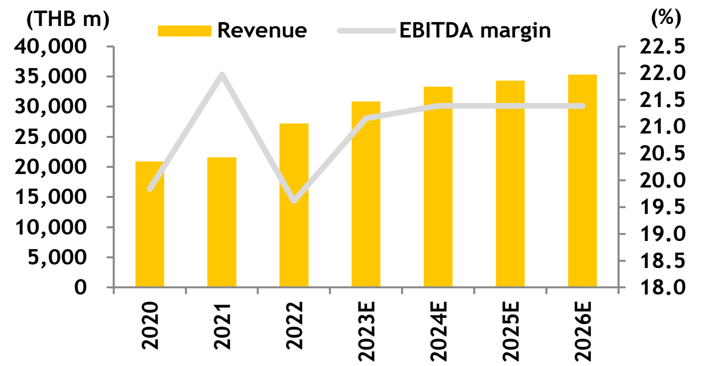
Fig 22: Broiler prices at slaughterhouse



Source: Mordor Intelligence

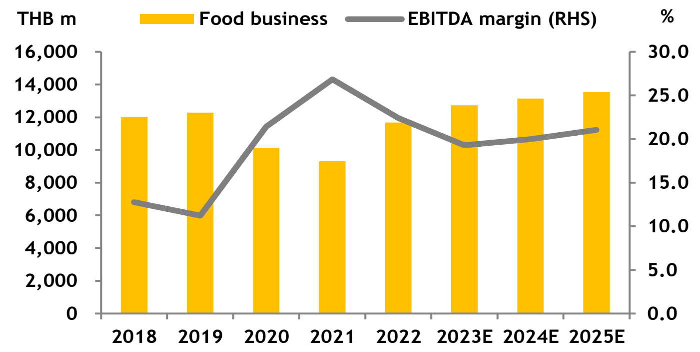
We expect MINT and CENTEL to expand their restaurant networks at a slower pace than growth in the overall QSR market given rising veganism and health-conscious trends together with significant growth in popularity of shabu and hot pot dining styles. We are aware of upcoming competition as the foodservice market is fragmented, with the top five companies commanding less than 2% market share. However, the growth rate in terms of EBITDA from food business remained strong in FY23-25E (+6% CAGR for MINT, +8% CAGR for CENTEL). This was supported by reduction in key raw material prices (roughly half of food business COGS), utility costs (roughly 4-5% of revenue) and continued improvement in SSSG, especially at branches in tourist destinations.

Fig 23: MINT food business performance and forecasts



Source: Company, MST

Fig 24: CENTEL food business performance and forecasts

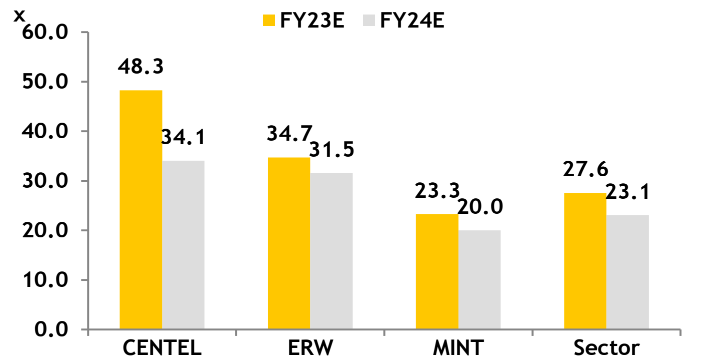


Source: Company, MST

5. We pick MINT for its attractive valuation

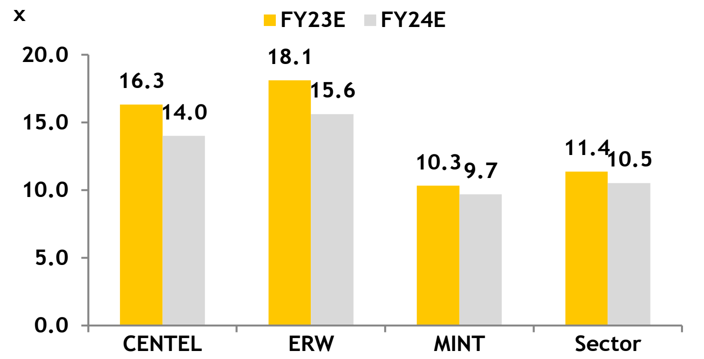
MINT is our Top Pick given its strong earnings growth profile and cheapest valuation in the sector in terms of PE and EV/EBITDA multiples. Based on our projections, CENTEL offers industry-leading growth in FY24-26E at a 30% earnings CAGR while its valuation remains attractive on a PEG (CAGR FY24-26E) of 1.1x vs. sector at 1.7x. ERW's valuation is demanding at 32x PE in FY24E compared with the sector at 23x. We forecast EWR's net profit to show a 12% CAGR in FY24-26E, which is below peers' 14%. However, we have not included ERW's potential upside from hotel expansion in Thailand, Japan and the Philippines.

Fig 25: PE multiple



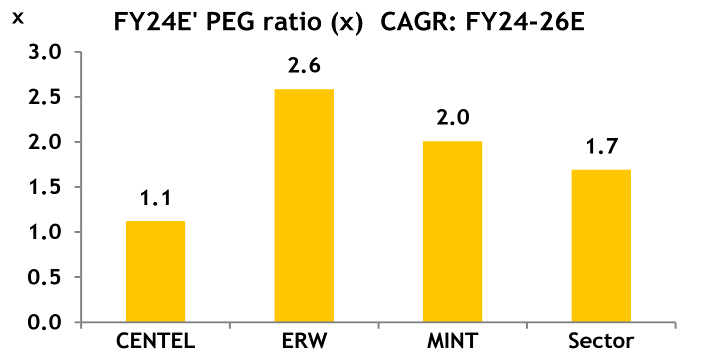
Source: Company, MST

Fig 26: EV/EBITDA



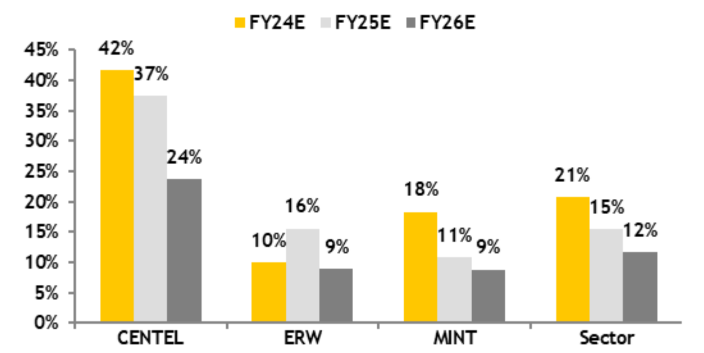
Source: Company, MST

Fig 27: PEG ratio



Source: Company, MST

Fig 28: EPS Growth



Source: Company, MST

Fig 29: Regional peer comparison

Ticker	Name	Rating	Price (LC)	TP (LC)	M.Cap (USDm)	P/E (x) FY23E	P/E (x) FY24E	P/BV (x) FY23E	P/BV (x) FY24E	ROE (%) FY23E	ROE (%) FY24E	Yield (%) FY23E	Yield (%) FY24E	EV/EBITDA (x) FY23E	EV/EBITDA (x) FY24E	EPS Growth (%) FY23E	EPS Growth (%) FY24E	3-year CAGR (FY22-25E) Core EPS CAGR (%)
Europe/North America																		
NHH SM	NH Hotel Group	NR	3.8	4.3	1,813	14.5	12.5	1.7	1.5	11.4	13.6	2.4	5.1	6.4	5.7	14.8	15.2	15.5
MEL SM	Melia Hotels Int'l	NR	5.7	6.9	1,373	12.6	11.5	2.5	2.1	19.3	19.2	0.0	1.0	7.9	7.2	(9.6)	10.0	7.4
69 HK	Shangri-La Asia	NR	5.2	8.5	2,379	10.1	9.3	0.6	0.6	4.5	4.8	0.8	2.4	12.1	10.7	248.6	7.6	na
MAR US	Marriott Int'l	NR	210.0	209.1	61,660	24.4	21.9			0.0	0.0	0.9	1.1	15.9	15.1	18.3	11.3	13.8
AC FP	Accor SA	NR	31.7	39.3	9,171	16.9	15.3	1.5	1.6	11.2	10.2	3.3	3.5	10.3	9.5	23.0	9.9	14.9
IHG LN	Intercontinental	NR	6,166.0	6,055.5	12,709	21.2	19.0			(34.7)	(37.4)	2.2	2.4	13.8	13.0	75.7	11.8	29.1
Average					*89,104*	*12.4*	*11.2*	*1.1*	*1.0*	*1.5*	*1.3*	*1.2*	*1.9*	*8.3*	*7.7*	*61.8*	*10.9*	*9.0*
Thailand																		
MINT TB	Minor Int'l	Buy	27.50	35.25	4,375	23.3	19.7	2.1	1.9	9.0	9.9	0.0	0.0	6.8	6.3	208.4	18.3	59.3
CENTEL TB	Central Plaza Hotel	Buy	43.50	50.00	1,670	50.0	35.3	3.0	2.7	6.0	7.8	0.0	0.0	13.6	11.8	133.5	41.6	65.7
ERW TB	Erawan Group	Hold	5.25	5.45	676	34.7	31.5	3.7	3.3	10.7	10.6	0.0	0.0	15.2	13.0	399.2	10.1	na
AWC TB	Asset World Corp	NR	3.74	5.45	3,283	79.1	40.4	1.4	1.3	1.4	3.2	0.4	0.7	36.2	27.1	(61.8)	95.7	(3.6)
SHR TB	S Hotels & Resorts	NR	2.68	3.46	261	198.5	31.9	0.6	0.6	0.3	1.7	0.1	0.4	12.7	11.4	225.0	523.1	246.9
Avarege					*10,265*	*42.8*	*17.6*	*1.2*	*1.1*	*3.0*	*3.7*	*0.1*	*0.1*	*9.4*	*7.7*	*180.9*	*137.7*	*46.0*
Global retail' average					***99,369***	***16.7***	***8.6***	***0.6***	***0.6***	***1.3***	***1.5***	***0.3***	***0.6***	***5.2***	***4.5***	***115.9***	***68.6***	***15.5***

*Note: * NR = Not Rated estimates and TP based on Bloomberg*

Source: MST, Bloomberg

Minor International (MINT TB)

Sustainable growth with attractive valuation

BUY

Share Price	THB 27.25
12m Price Target	THB 35.25 (+30%)

Attractive risk-reward at current valuation

We initiate coverage of MINT with BUY as we expect strong earnings while valuation remains the cheapest in the sector. We forecast FY24-26 net profit CAGR of 10% as both hotels and F&B stores resume expansion with potential upside from acquisitions. We have a DCF-based TP of THB35.25 (6.8% WACC, 2% terminal growth). Valuation at forward FY24E PE of 20x is much lower than Thai hotel peers at 23x on average.

To benefit from growing business travel

We forecast 8% YoY growth in EBITDA for the hotel business in FY24E, driven by business travellers. We believe the number of business trips in FY24 could exceed pre-pandemic levels, leading to continued room rate and F&B growth as well as higher operating margins. Stabilizing economic growth and normalizing flight capacity are driving business travel recovery. This segment generated half of MINT's European hotel revenue and more than a quarter of its Thai hotel revenue and should cushion the impact of fading pent-up post-Covid leisure segment demand. We also expect a resilient European hotel operation (despite risks of recession in Europe) given the limited impact on hotel room nights during the European debt crisis in 2012 and global financial crisis in 2008/09.

Expecting continued restaurant revenue growth

We expect food revenue to expand at a 4.6% CAGR in FY23-26E, supported by the expansion of the company's owned and franchised restaurant network to 2,711 branches in 2026 (+8 stores every quarter from 4Q23 onwards vs an average of +13 stores per quarter in FY20-22). EBITDA margin will also improve due to lower food costs and utility prices.

Strong financial status to support further expansion

We forecast EBITDA in FY24-25E to exceed THB40b per year, providing options for either funding future M&A deals or debt servicing. The company also has THB36b un-utilized credit facilities (THB4.9b from MINT-W7 and W9) and THB20b cash on hand. This could support expansion of hotels to 600 locations (from 536 currently) and restaurants to 3,400 outlets (from 2,607 as of 3Q23). We see these projects as potential upside.

FYE Dec (THB m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	69,481	119,929	148,336	157,267	160,664
EBITDA	14,541	30,660	39,361	42,245	43,762
Core net profit	(9,314)	2,022	6,801	8,047	8,924
Core EPS (THB)	(1.79)	0.38	1.18	1.40	1.55
Core EPS growth (%)	nm	nm	208.4	18.3	10.9
Net DPS (THB)	0.00	0.00	0.00	0.00	0.00
Core P/E (x)	nm	84.1	23.1	19.5	17.6
P/BV (x)	2.2	2.4	2.1	1.9	1.8
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	(19.5)	6.2	9.3	10.3	10.5
ROAA (%)	(2.5)	0.6	1.9	2.2	2.4
EV/EBITDA (x)	18.5	9.0	6.8	6.3	6.0
Net gearing (%) (incl perps)	134.9	115.5	110.7	101.9	91.3
Consensus net profit	-	-	6,644	7,716	8,854
MIBG vs. Consensus (%)	-	-	2.4	4.3	0.8

Boonyakorn Amornsank
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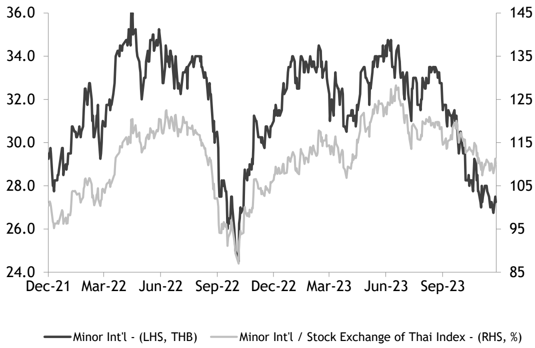
Company Description

Operates hotels, mixed-use projects, resturant chains under franchises and owned brands in 63 countries.

Statistics

52w high/low (THB)	34.75/26.75
3m avg turnover (USDm)	11.2
Free float (%)	63.0
Issued shares (m)	5,596
Market capitalisation	THB152.5B
	USD4.3B
Major shareholders:	
MINOR HOLDINGS (THAI) LIMITED	15.9%
Thai NVDR Co., Ltd.	11.0%
Mr. Niti Ostanukrau	9.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	(17)	(11)
Relative to index (%)	(2)	(7)	4

Source: FactSet

Terms defined

ADR - Average daily rate
RevPAR - Revenue per available room
MICE - Meetings, Incentives, Conference & Exhibitions

Other stock(s) mentioned

ACCOR - (AC FP, Non rated, CP EUR3.82)
IHG- (IHG LN, Non rated, CP GBP6,590)
Marriott Int.- (MAR US, Non rated, CP USD208)
Hyatt - (H US, Non rated, CP USD121)

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Tear Sheet Insert

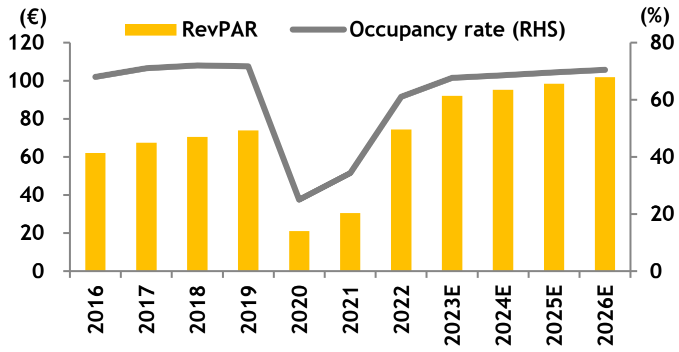
Hotels

Thailand

Value Proposition

- MINT operates 536 hotels, 2,607 restaurants and 278 retail stores in 63 countries around the world.
- About 60% of its normalised hotel revenue is from Europe where local travellers account for the majority of MINT's hotel guests. Therefore, MINT's RevPAR has outperformed other listed hoteliers in Thailand.
- Nevertheless, it is also more exposed to the Ukraine-Russia war in terms of increase in costs than other Thai hoteliers - due to its sizable presence in Europe.
- However, we expect strong RevPAR at above pre-Covid levels to fully offset the cost pressure.

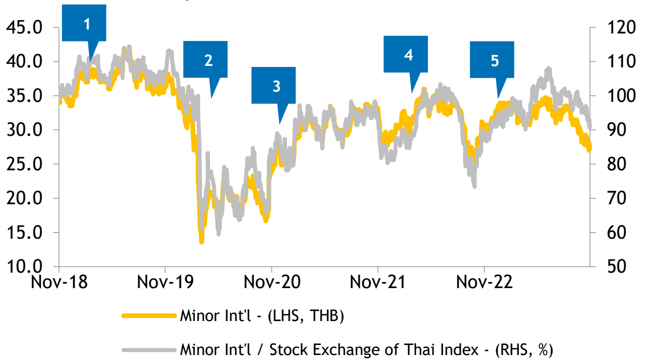
MINT's Europe hotel performance



Source: Company

Price Drivers

Historical share price trend



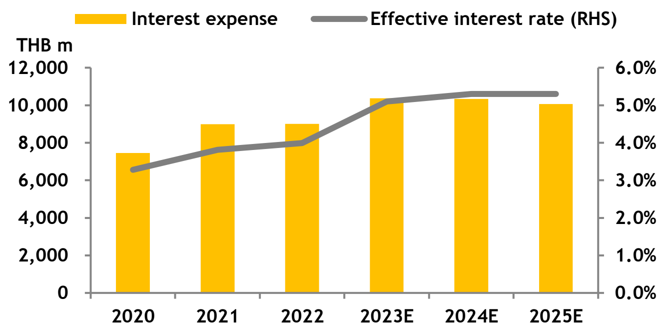
Source: Company, MST

1. Completed the tender offer for NH Hotel Group (NHH SM: not rated) and secured a 94% stake in NHH with total transaction value of THB88b.
2. Covid-19 now a global pandemic, resulting in worldwide lockdowns and shutdowns.
3. Covid was relatively contained in 4Q20, especially in Thailand.
4. Omicron was relatively contained by March 22.
5. Europe hospital businesses have recovered ahead of Asia.

Financial Metrics

- We expect MINT's core profit to surpass FY19 level in FY24E thanks chiefly to continued solid operations in Europe and recovery in the Thai hotel and food business performances.
- We forecast interest expense to remain stable in FY24E compared to FY23E as solid EBITDA and continued debt payments will cover the impact of rising interest rates.

Interest expense and effective interest rates



Source: Company

Swing Factors

Upside

- Stronger-than-expected in business travel that should support further ADR (average daily rate) growth and margins for the hotel business.
- Higher-than-expected SSSG for food business, especially in China, which has been recovering at a sluggish pace.
- Decreasing food cost and utility expense will enhance margins further.

Downside

- Slower-than-expected recovery in domestic consumption could affect SSSG for the food business.
- Digital disruption by major platforms such as Airbnb and food delivery service could pose more downside risk.
- Stronger THB may negatively impact revenues and margins, in terms of FX translation.
- Higher-than-expected interest rate could hit earnings and decisions on future capex allocation.

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Risk Rating & Score[1]	27.0 (Medium risk)
Score Momentum[2]	+1.1
Last Updated	7 Nov 2023
Controversy Score[3] (Updated: 7 Nov 2023)	Category 1-Low

Business Model & Industry Issues

- MINT takes ESG seriously and there are clear ESG policies in place. MINT has a clear goal of becoming a net-zero carbon organisation by 2050.
- The company has published its policies on its website and thus, should be highly visible to all stakeholders. Especially for employees, guidelines state clearly how to take action, should they have any corporate governance issues.
- Furthermore, MINT has clear succession plans for senior management, which is good for corporate governance and makes business sense.

Material E issues

- MINT has a clear environmental policy to reduce waste that emphasises on the 4Rs – Reuse, Reduce, Replace and Recycle.
- MINT targets to become a net-zero carbon organisation by 2050.
- It aims to reduce energy intensity, water intensity and carbon dioxide emissions – all by 20% for Minor Hotels from 2016-2023.
- It also plans to use 75% less single-use plastic from 2018-2024.
- MINT promotes biodiversity conservation. Over 50 of its hotels are in, adjacent to, or derive income from natural-protected areas in the life cycle of IUCN Red List species.

Material S issues

- MINT has established a 5-year sustainability policy that has 13 goals to achieve, with the focus inter alia on people development, sustainable value chain, environment production, good corporate governance and share value creation.
- In 2021, MINT achieved the long-term sustainability goal of 1m people developed and supported by 2023, and launched a new goal of 3m people developed and supported by 2030.

Key G metrics and issues

- MINT publishes its corporate governance policy on its website (www.minor.com).
- MINT's employees are given corporate governance training right after they join and thereafter, once a year.
- The remuneration committee determines the salary and bonuses of senior management every year, based on the individual's and corporate's performances.
- MINT paid THB194m to its management in 2022.
- The longest serving one third of the board of directors is replaced every year.
- Four out of 11 directors on the board of directors are independent and 2 are women.
- MINT has a clear policy of related-party transactions e.g. the selling prices set should be in line with market prices and not too favourable or unfavourable.
- PWC has been the auditor since 2001.
- In 2022, MINT paid THB142m (for THB2m for MINT and THB140 m for subsidiaries) to PWC for the auditing. No other type of fees has been paid.
- All members in the audit committee are independent.
- MINT provides whistle-blower service where staff can anonymously report corporate governance issues directly to the president of the audit committee, through e-mail, or physical documents. The president of the audit committee will follow up and report the progress of outstanding issues every three months.
- The board of directors reviews and approves CEO and senior management's succession plans every year.
- MINT received a MSCI ESG rating of AA and received the Highly Commended Sustainability Awards in 2022 from the Stock Exchange of Thailand
- Management's salaries are paid based on the fixed salary and bonus.

  MINT also has an Employee Joint Investment Programme that staff can choose to participate in.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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	Quantitative Parameters (Score: 59)					
	Particulars	**Unit**	**2019**	**2020**	**2021**	**2022**
E	Scope 1 GHG emissions	m tCO2e	87,575	107,777	144,833	243,782
	Scope 2 GHG emissions	m tCO2e	246,485	182,596	205,077	257,326
	Total	**m tCO2e**	**334,060**	**290,373**	**349,910**	**501,108**
	Scope 3 GHG emissions	m tCO2e	28,767	26,186	489,776	810,844
	Total	**m tCO2e**	**362,827**	**316,559**	**839,686**	**1,311,952**
	Scope 1 & 2 emissions intensity per room sold	tCO2e/room sold	0.102	0.041	0.040	0.027
	Energy consumption intensity per room sold	kWhr/Room sold	261	147	138	91
	Water consumption per room sold	cu m/Room sold	0.42	0.33	0.29	0.12
	% of waste diverted away from landfill	%			24.4%	9.5
	Green energy % of total usage	%		11.2%	12.2%	13.2
S	% of women in workforce	%	52%	51%	52%	51%
	% of women in management roles	%	13%	13%	9%	17%
	% of local suppliers	%	95%	95%	91%	94%
	Employee attrition rate	%	46%	58%	51%	57%
	Lost time injury frequency (LTIF) rate	rate	6.24	4.19	3.52	5.06
	Employee training per employee	hours	115	26	27	35
G	Board salary as % of reported net profit	%	0.01%	0.02%	0.01%	0.01%
	Independent directors on the Board	%	36.36%	36.36%	36.36%	40.00%
	Female directors on the Board	%	18.18%	18.18%	18.18%	20.00%

Qualitative Parameters (Score: 100)

a) Is there an ESG policy in place and is there a standalone ESG committee or is it part of the risk committee?

Yes. MINT's Sustainability strategy is developed by the Corporate Sustainability department and headed by the Head of Sustainability and sponsored by the Group CEO and C-Suit Officers. MINT's Sustainability Committee was established to oversee development and implementation of sustainability strategies and it reports into the Sustainability and Risk Management Oversight Committee.

b) Is the senior management salary linked to fulfilling ESG targets?

Yes. CEOs of each business groups have ESG targets, which are extended to their subordinates.

c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?

Yes.

e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?

Yes. 1) purchased goods and services, 2) capital goods and 3) fuel and energy related activities not included in Scope 1 and Scope 2

f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?

- *Drive efforts through the "4R" approach: Reduce, Reuse, Recycle natural resources such as water and energy and discharges such as greenhouse gas, and Replace existing materials with more environmental and sustainable alternatives.*
- *Promote environment friendly or green initiatives including renewable energy, where applicable*
- *Reduce consumption of disposable items by changing employees' behaviours and adapting operations process*
- *Educate customers to be environmental advocates*

g) Does carbon offset form part of the net zero/carbon neutrality target of the company?

Yes, MINT has committed to be a "net-zero carbon organization by 2050". Residual carbon offset is step 4 of MINT's net-zero carbon approach after: 1) goal announcement; 2) carbon inventory (review of scope 1, 2 and 3); and 3) 4R implementation.

Target (Score: 100)

Particulars	Target	Achieved
20% reduction in energy intensity for Minor Hotels by 2023 (baseline 2016)	-20%	-65%
20% reduction in carbon dioxide emission intensity for Minor Hotels by 2023 (baseline 2016)	-20%	-75%
20% reduction in water intensity for Minor Hotels by 2023 (baseline 2016)	-20%	-70%
75% reduction of single-use plastic by 2024 (Baseline 2018)	-75%	-25%
3m people developed and supported by 2030	3m	>0.48m
Net zero carbon emission by 2050	By 2050	N/A
50% reduction in organic waste to landfill for Minor Hotels by 2030 (Baseline 2021)	-50%	N/A

Impact

NA

Overall Score: 79

As per our ESG matrix, Minor International (MINT TB) has an overall score of 79.

ESG score	Weights	Scores	Final Score
Quantitative	50%	59	29
Qualitative	25%	100	25
Target	25%	100	25
Total			**79**

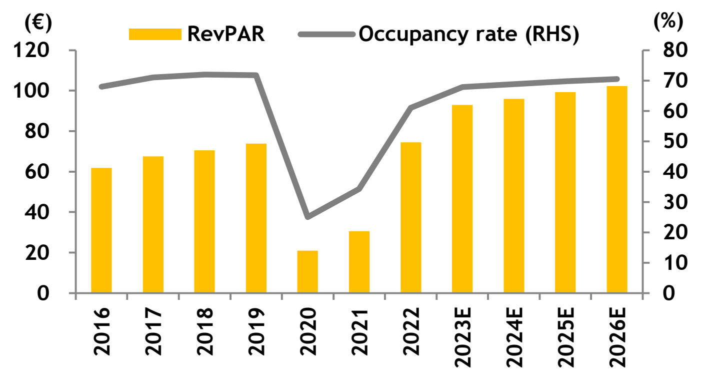
As per our ESG assessment, MINT has an established framework, internal policies, and tangible medium/long-term targets but needs to make headway in improving its quantitative "G" metrics YoY, especially in terms of female participation at the board level. MINTs overall ESG score is 79, which makes its ESG rating above average in our view (average ESG rating = 50, refer to Appendix I for our ESG Assessment Scoring).

1. Investment thesis

1.1 Beyond full recovery

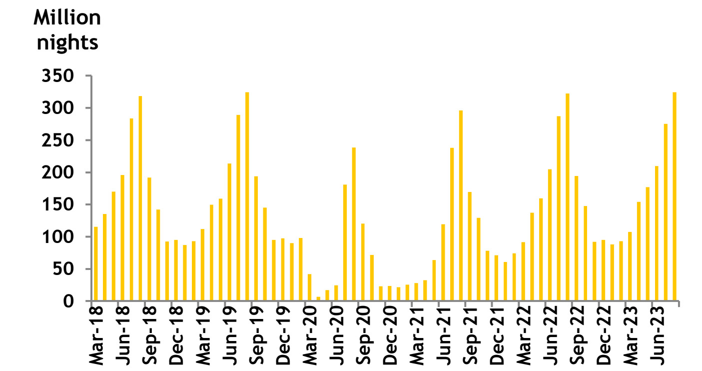
We forecast FY23 core profit of THB6.8b, similar to THB7.1b in FY19. Rise in cost of debt is likely the reason preventing the bottom line from exceeding pre-pandemic levels, even though hotel and food revenue recovered beyond the downturn period. We forecast FY24 and FY25 core profit to grow 18% and 11% YoY, respectively. First, we expect demand for business travel in Europe and leisure travel in Thailand to continue to grow, supporting RevPAR growth of 30% and 20% above FY19 levels, respectively (vs 25% and 5% in FY23E). Second, we expect increased management fees and franchise income due to expansion of managed hotels and food chains as the capex cycle resumed in late FY23E. Lastly, we expect operating margin to increase substantially as MINT benefits from greater economies of scale and moderate decreases in food and utility prices.

Fig 1: NH hotels performance



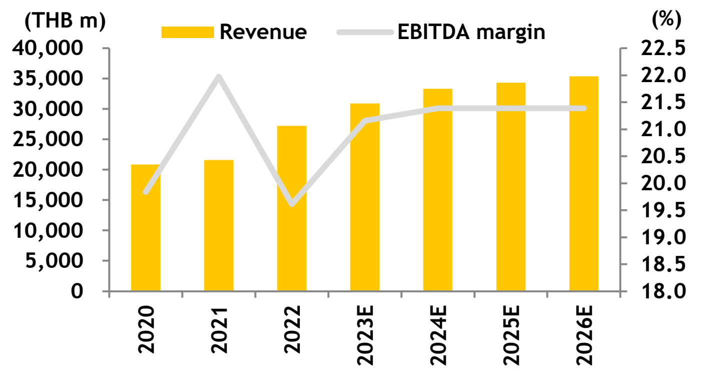
Source: Company, MST, NHH

Fig 2: Nights spent at hotels in Spain, Italy, Benelux, Germany, France



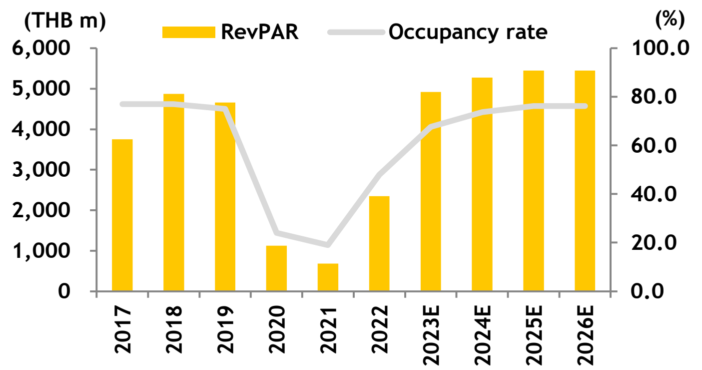
Source: Company, EURO Stat

Fig 3: Performance of MINT's food business



Source: Company, MST

Fig 4: Performance of hotels owned by MINT

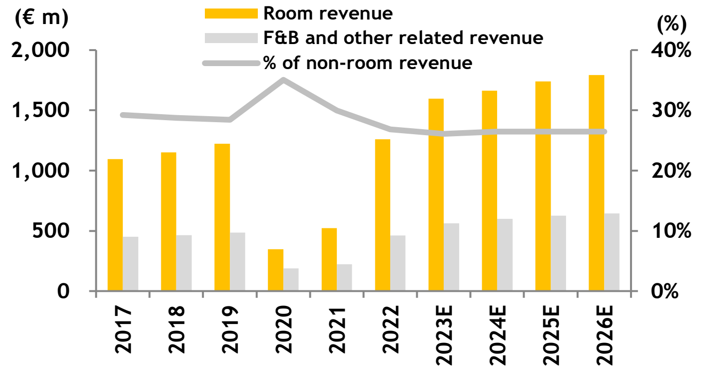


Source: Company, MST

1.2 Business travel as the key organic driver in FY24-25E

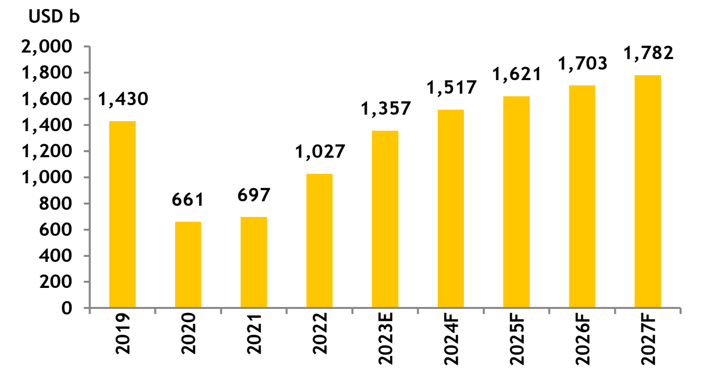
As corporate travel continues to recover, we expect hotel operators to benefit, albeit with the potential shift in customer preferences towards more economical options given the impact of high inflation and slow improvement in purchasing power. We believe three/four-star chains, such as NH hotels, will benefit more than other segments under this circumstance. MINT's hotel chain in Europe will resume expansion in FY24 with five new hotels in its pipeline under the owned-leased scheme and more than a 1,000 rooms under the management platform. We expect corporate clients to contribute 50% of total NHH's room revenue in FY24 (up from 45% in FY23) as they increase travel. Growth in corporate travel will help increase margins further as this segment tends to spend more on MICE (meetings, incentives, conferences and exhibitions) and F&B services than the leisure segment.

Fig 5: NH Hotels room revenue and non-room revenue forecasts



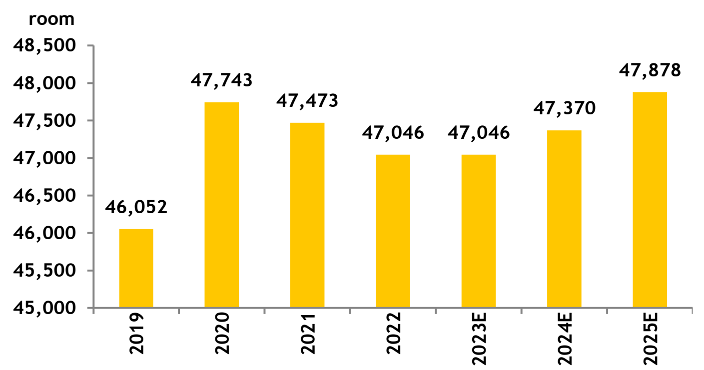
Source: Company, MST, NHH

Fig 6: Business travel spending forecasts



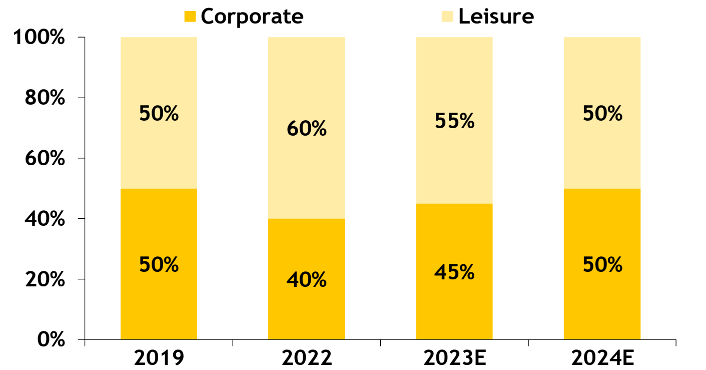
Source: Company, GBTA, Rockport Analytics

Fig 7: NH Hotels room count (expansion based on pipeline as 3Q23)



Source: Company, MST, NHH

Fig 8: NH Hotels revenue breakdown by guest types

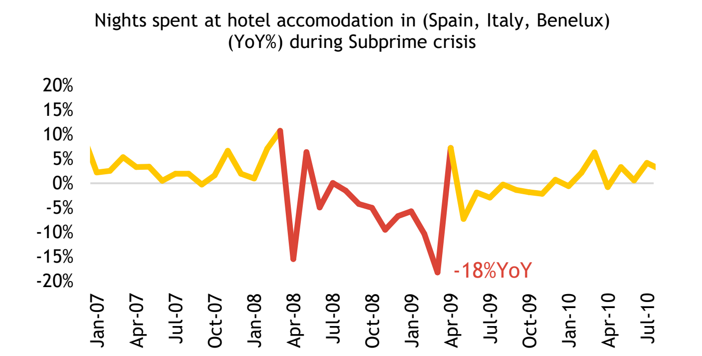


Source: Company, MST

1.3 Impact from recession in Europe likely to be limited

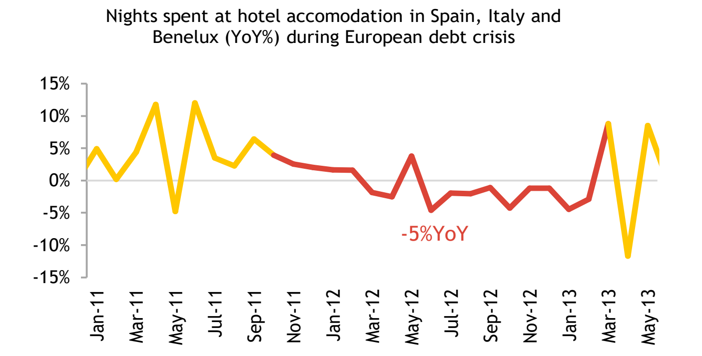
Despite concerns Europe may slip into recession in 2024, we believe MINT's hotel operations there will be relatively resilient. During economic slowdowns in Europe, the maximum decline in the number of nights travellers spend at tourist accommodation in Spain, Italy and Benelux was 18% during the subprime crisis in 2008/2009 and 5% amid the European debt crisis. Tourism in Europe has proven to be relatively resilient to macroeconomic impact as local travellers account for more than 80% of guests. If there's a recession in Europe, we expect only 5-18% downside to NH's hotel revenue even without factoring in pent-up demand from business travel. From NH hotel's historical data, the sharpest fall in RevPAR was 19%, which occurred in FY09. Note that The World Bank forecasts Europe's GDP to expand by 0.7% YoY in 2024E, up from 0.5% growth in 2023E.

Fig 9: Hotel operators performance during sub-prime crisis



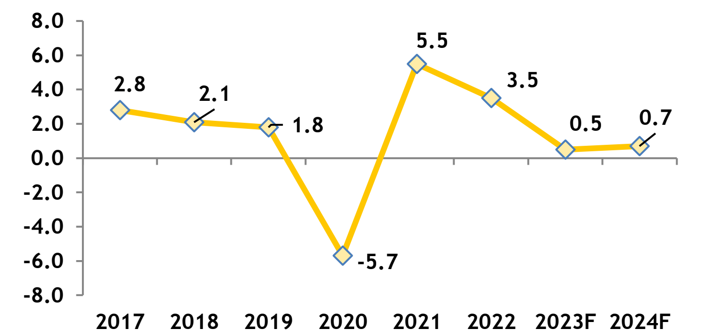
Source: EURO STAT, MST

Fig 10: Hotel operators performance during European debt crisis



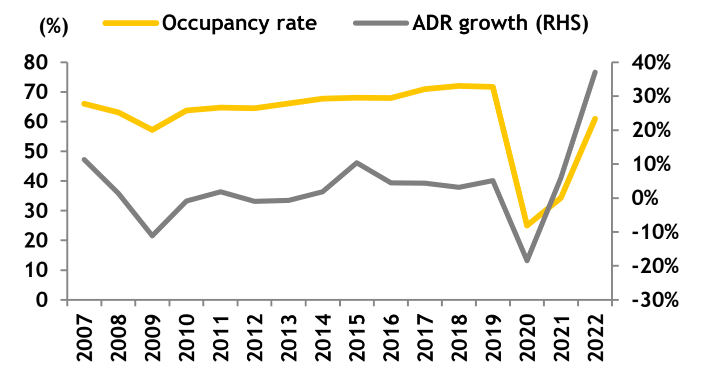
Source: EURO STAT, MST

Fig 11: GDP growth in EU (annual %)



Source: World Bank , MST

Fig 12: Occupancy rate and ADR growth of NH hotels



Source: NH hotel , MST

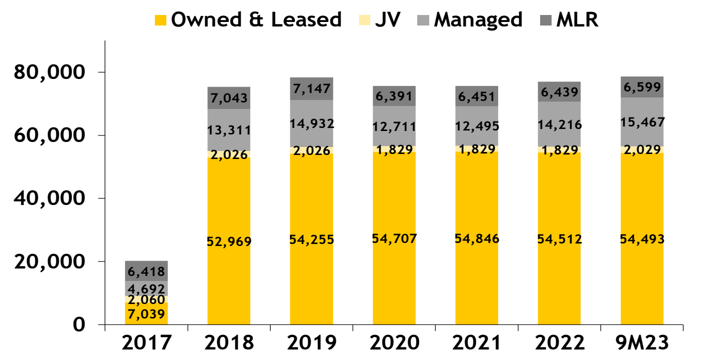
2. Corporate information

2.1 Well-diversified source of revenue

MINT has a well-diversified business portfolio as it operates hotel and food chain brands in 63 countries, offering investors the widest exposure to the global market and premium branded hospital services among Thai-listed companies.

As of 3Q23, MINT operated 536 hotels with a combined 78,588 rooms, under both owned and global brands. The company's hotel operations came under four main categories. First, the company's owned & leased hotels operate under Anantara, AVANI, TIVOLI, OAKS, NH Collection, NH, nhow, Elewana Collection, Four Seasons, St. Regis, JW Marriott and Radisson Blu brands. As of 3Q23, the company had 54,493 rooms under this scheme. Second, Management Letting Rights business model under the Oaks and Avani brands in Australia and New Zealand. The company currently has 6,599 rooms under operation. Third, hotel management business allows MINT to expand its brand network without injecting heavy capital, resulting in higher ROIC and profitability relative to other platforms. At present, MINT operates 15,467 rooms under this asset-light model. Lastly, mixed-use business comprises residential developments and Anantara vacation clubs (AVC), which is a point-based shared ownership business, offering members long-term access to hotel facilities.

Fig 13: MINT's hotel rooms by ownership type



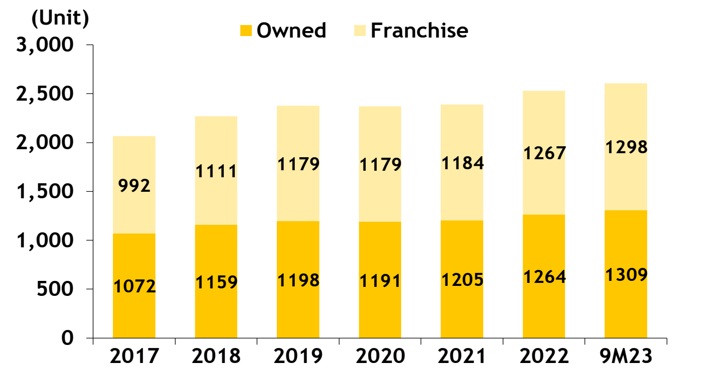
Source: Company, MST

Fig 14: Key hotel brands under MINT's portfolio

Source: Company, MST

As of 3Q23, Minor Food operates 12 food franchise restaurant chains with 2,607 outlets in 24 countries, mainly in Thailand, China and Australia. Its major brands are market leaders and popular across various food categories and include The Pizza Company, Swensen's, Sizzler, Dairy Queen, Burger King, Bonchon, Riverside and The Coffee Club. The company's long-term strategy is to continue to focus on revitalizing its brand portfolio, accelerating restaurant expansion and acquisition of new brands to diversify its customer base. Since the start of the pandemic, the company also has increased its focus on food delivery services, both on its own platform and through third-party delivery platforms.

Fig 15: MINT's restaurants by ownership types



Source: Company, MST

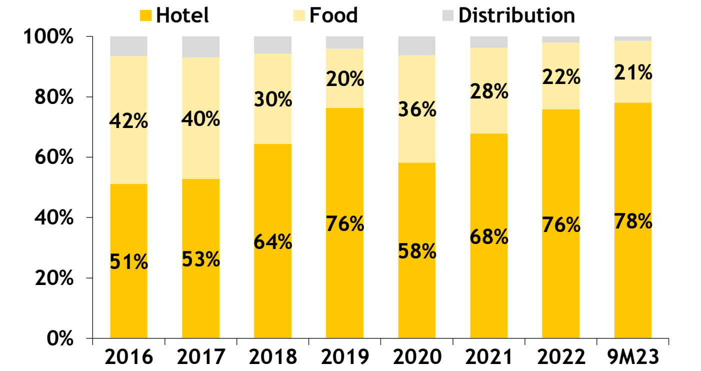
Fig 16: Key restaurant brands under MINT's portfolio

Source: Company, MST

2.2 Hotel business contribution reverted back to 2019 level

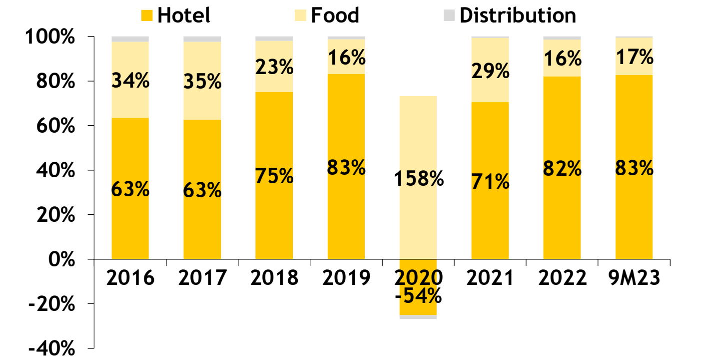
Hotels and related services businesses contributed 76% of total group revenue and 82% of EBITDA in FY22. The contribution remains unchanged compared to the FY19 level. Revenue from the food and beverage business accounted for 22% of group revenue and 16% of EBITDA in FY22. Minor Lifestyle has been contributing less revenue compared to the pre-Covid level at 2% of total FY22 revenue and 1% of EBITDA. As of 3Q23, this business consists of 279 retail stores in Thailand, which operate under brands such as Anello, Bossini, Charles & Keith for fashion, and Zwilling J.A. Henckels, Joseph, and BergHOFF for home & kitchenware.

Fig 17: Revenue breakdown by segment



Source: Company, MST

Fig 18: EBITDA breakdown by segment



Source: Company, MST

3. Investment Focus

3.1 The resurgence of business travel

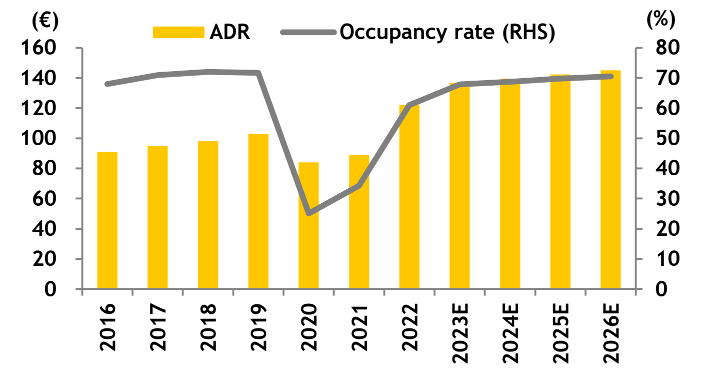
A year for corporate demand

We expect MINT's room rate to remain at a high level and expand by 2% CAGR in FY23-25E, thanks to recovery in accommodation demand by corporate clients to beyond pre-pandemic levels. This should ease concerns of fading pent-up demand for leisure travel, which has been driving ADR to a high base since early 2022.

Business travel is a term that encompasses many activities that support a number of business components, such as sales, training, customer support, incentives, professional development, team building, and conferences. Corporate clients tend to spend more on F&B and other related services the properties offer, which will help increase facilities' utilization without incurring much additional cost. As such, these clients also help improve operating margins for the properties.

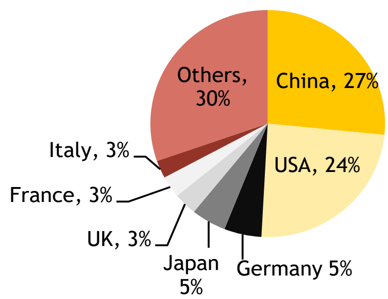
Based on data from Global Business Travel Association, we believe business travel spending will recover to its pre-Covid level in 2023 before rising to USD1.4t (+12%YoY) in 2024. The figure could go up USD1.8t by the end of 2027. Stabilizing economic growth and normalizing flight capacity are the key driving factors. Spain, Italy, the Netherlands and Western European countries like France and Germany contributed almost 15% of the total business travel spending in 2023 while delivered a 32%YoY growth combined.

Fig 19: NH Hotels operating metrics



Source: Company, MST

Fig 20: Business travel spending value in 2023 by country



Source: GBTA, Rockport Analytics

Three/four-star hotels likely to benefit the most

We believe MINT will benefit from the uptrend in business travel as its NH Hotels chain has a network that covers all tourist destinations in Europe while its four-star properties are likely to fit the needs of budget-conscious business travellers. According to industry research, we expect overall corporate travel budgets in 2024 to increase 8-9% YoY, but a sizable portion of these travellers are planning to cut costs by booking lower-tier hotels due to macroeconomic uncertainty and high room rates. This trend could be negative for US-listed luxury and upper-scale hotel chains like Hyatt (H US: not rated), Marriott (MAR US: not rated), and Hilton (HLT US: not rated), but it is likely to benefit European chains like InterContinental Hotels Group (IHG LN: not rated) and NH Hotels (NHH SM: not rated), which operate in the mid-scale and economy segments.

3.2 Expansion plan still on-going

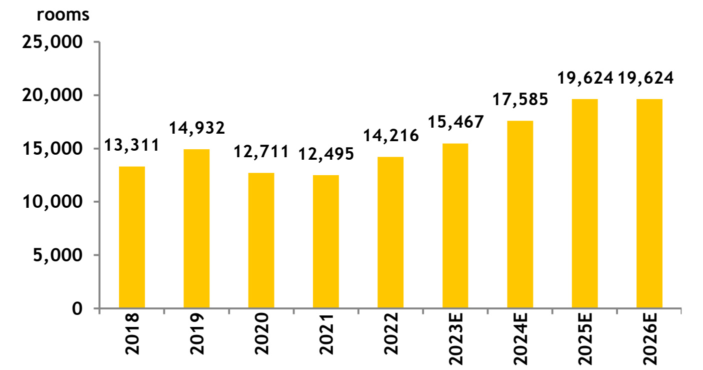
Sign of new investment cycle

The company's investments and developments have been put on hold since the pandemic started while we did not see any sizable projects in the past year after Covid-19 restrictions had eased. We believe the new investment cycle has begun from 2H23, supported by improving cash flow position and higher confidence towards demand and, despite rising cost of fund following a series of interest rate increases.

The company recently announced its partnership with asset management firm 'Swiss Life Asset Managers' to launch three NH Hotels in Paris, with one of the properties to be rebranded as a five-star NH Collection hotel in 2025 following a renovation. The three hotels the under management scheme in the French capital will join the group's portfolio of six properties in France, located in Marseille, Lyon, Toulouse and Nice. We expect these properties to enjoy high ADRs while the 2024 Olympics may help boost RevPAR further.

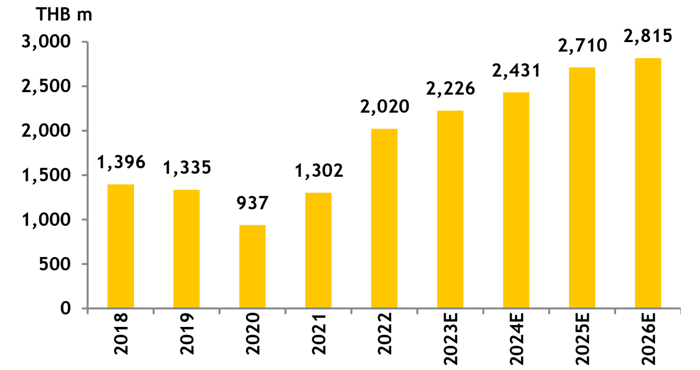
Apart from NH's focus countries such as Italy, Germany, Portugal and Spain, the group is always looking for new opportunities in Nordic countries such as Finland and Denmark to tap demand for tourists who want luxury and premium experiences. The projects will come under the brand NH Collection with owned & leased hotel scheme. This market will support the company's growth profile given lower competition and higher ADR relative to Western and Southern European markets.

Fig 21: Expected number of hotel rooms under managed



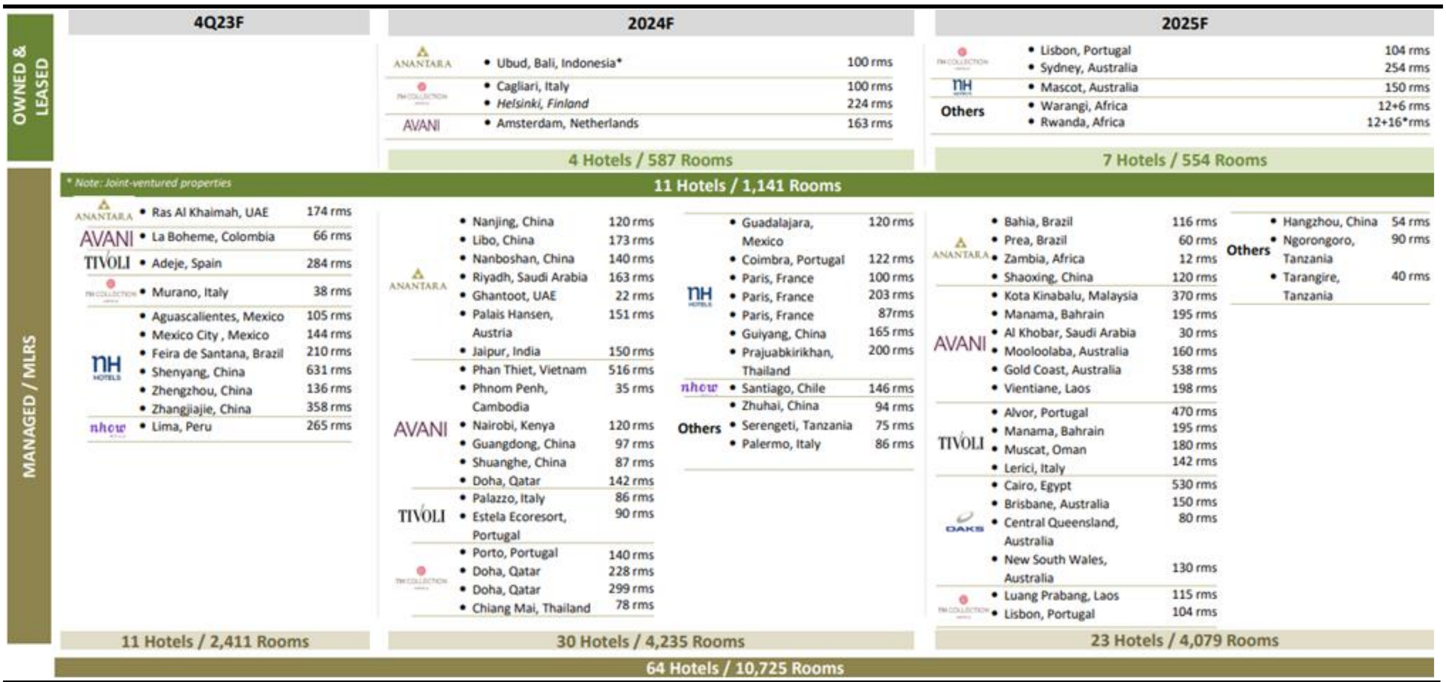
Source Company:, MST

Fig 22: Forecasted revenue from managed hotels



Source Company:, MST

Fig 23: Hotel expansion pipeline

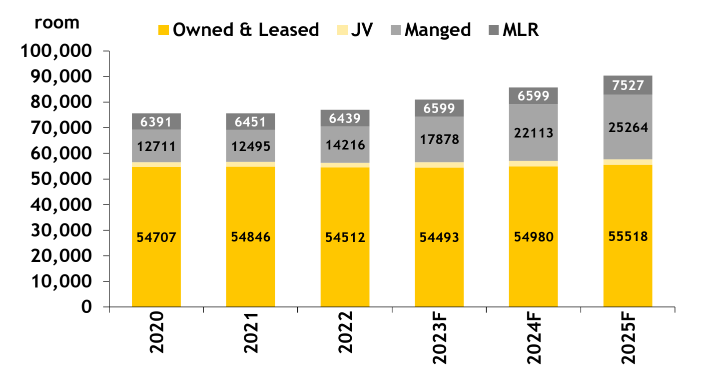


Source: Company

Managed hotels remain the key growth driver

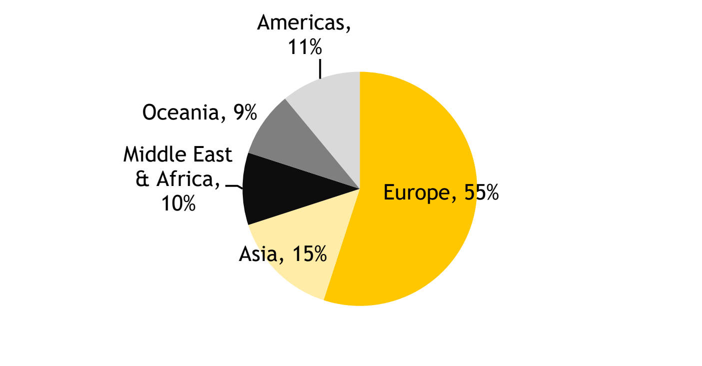
Hotels projects in the expansion pipeline mainly comprise properties under management contracts. We expect MINT to generate THB2.7b in management fees in FY25E (+34% from FY22). However, we see THB700m upside risk to our forecast if all hotels in development start on schedule. However, we have factored in only 50% of the total room counts as we anticipate some projects will be postponed. The company is still looking for new opportunities, especially in Asia and the Middle East, to increase its network coverage under this asset-light model, which generates higher ROIC and profitability relative to other business models. The fee is normally charged as a percentage of revenue on a fixed rate within a range of 3-4% and an additional 6-9% share of gross profit.

Fig 24: MINT targets to have 90,454 rooms under its hotel portfolio



Source: Company, MST

Fig 25: Forecast room number contribution by geography in 2025E



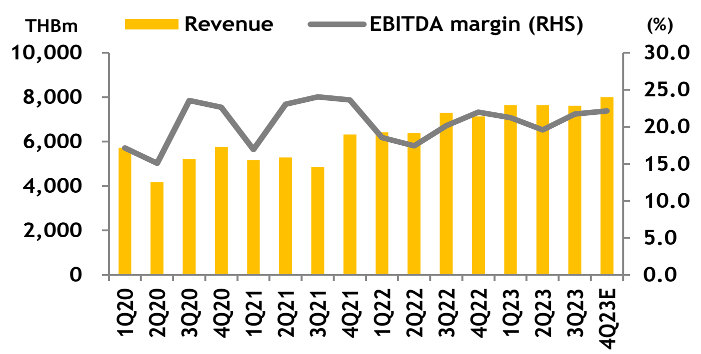
Source: Company, MST

3.3 Continuing growth for Food businesses

We expect MINT's food revenue to grow at a 4.6% CAGR in FY23-26E, supported by expansion of the company's owned and franchise restaurant network to 2,711 branches in 2026 (+8 stores each quarter from 4Q23 onwards vs an average of +13 stores per quarter in FY20-22). Also, the continuing acquisition of new food brands could provide upside to our forecasts and valuations. Recently, MINT completed the acquisition of 100% of the Bonchon and Sizzler brand franchisors, which allows the company to use these exclusive master franchise licences to expand its network in Thailand (Sizzler can be franchised worldwide except in the US, Puerto Rico and Guatemala).

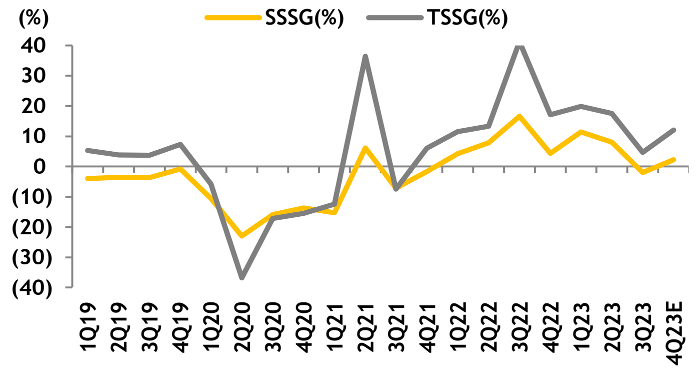
We assume SSSG of 3% in FY24E and 2% from FY25E onwards, which is in line with private consumption growth forecasted by the Bank of Thailand. The company will also benefit from improvement in EBITDA margin that will be driven by lower food costs and utility prices along with other restaurant chains. However, potential increase in minimum wage remains a downside risk, but we expect the impact to be limited as its staff normally earn more than the national average.

Fig 26: Food business performance



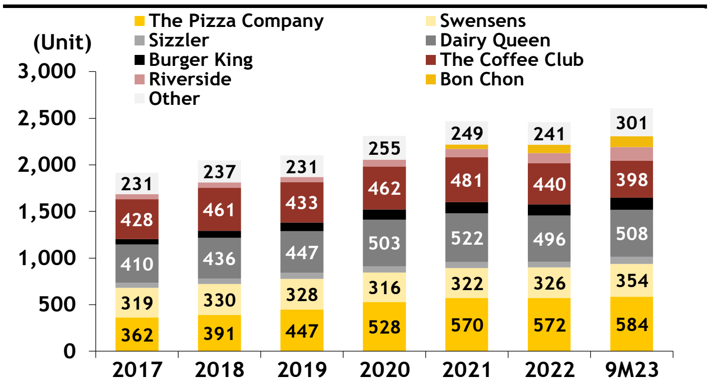
Source: Company, MST

Fig 27: Food business performance



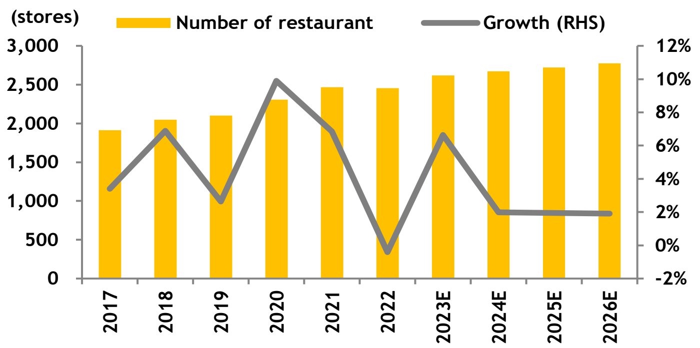
Source: Company, MST

Fig 28: Number of restaurants - breakdown by brand



Source: Company, MST

Fig 29: Number of restaurants and growth rate



Source: Company, MST

4. Financial analysis

4.1 Strong 3Q23 profit before heading to low season

MINT's 3Q23 net profit was THB2.1b. Stripping out extra items, core profit of THB2.3b was in line with market projection (+13% YoY -24% QoQ). The QoQ drop was due to seasonal impact to hotels in Europe under NH Hotels, as RevPAR fell from a high base in 2Q23 (-9% QoQ, +13% YoY) while recovery in food EBITDA margin and Thai hotels was unable to offset the impact. The YoY increase in core profit was supported by organic increase in ADR and occupancy rate for NHH hotels, Thailand and Oceania, offsetting weak RevPar in the Maldives.

Europe will enter the low season. Coupled with higher interest expense and absence of pent-up demand in Europe with sluggish recovery in business traveling, these could translate into YoY and QoQ contractions in 4Q23 earnings.

Fig 30: Quarter earnings performance

Income Statement Yr-end Dec (THBm)	3Q22	4Q22	1Q23	2Q23	3Q23	%QoQ	%YoY	9M	%YoY	9M as % 2023E	2023E
Total revenue	34,516	34,302	31,258	39,738	38,904	-2%	13%	109,900	28%	74%	148336
Cost of goods sold	(18,825)	(18,273)	(18,483)	(20,828)	(20,688)	-1%	10%	(59,999)	21%	74%	(80,562)
Gross profit	15,690	16,028	12,775	18,910	18,216	-4%	16%	49,901	38%	74%	67,774
SG&A	(11,183)	(11,303)	(11,924)	(12,879)	(12,576)	-2%	12%	(37,379)	21%	73%	(51,525)
Operating profit	4,508	4,725	850	6,032	5,640	-6%	25%	12,522	138%	77%	16,249
EBITDA	10,046	9,196	6,565	12,422	11,361	-9%	13%	30,349	36%	76%	39,861
Other income	605	(117)	897	1,472	728	-51%	20%	3,097	30%	75%	4,115
EBIT	5,112	4,608	1,747	7,504	6,368	-15%	25%	15,619	104%	77%	20,364
Interest expense	(2,289)	(2,501)	(2,434)	(2,889)	(2,902)	0%	27%	(8,225)	26%	79%	(10,375)
EBT	2,823	2,108	(686)	4,615	3,466	-25%	23%	7,395	549%	74%	9,990
Income tax	(816)	428	(186)	(1,394)	(1,060)	-24%	30%	(2,640)	70%	88%	(2,997)
Equity income	171	46	261	19	47	148%	-73%	327	266%	82%	400
Minority interests	(168)	(203)	(35)	(235)	(180)	-23%	7%	(450)	1244%	76%	(591)
Core profit	2,011	2,379	(647)	3,005	2,273	-24%	13%	4,631	nm.	68%	6,801
Extra items	2,597	(468)	(329)	250	(129)	nm.	nm.	(208)	nm.		0
Net income	4,608	1,911	(976)	3,255	2,144	-34%	-53%	4,423	95%	65%	6,801
EPS (THB)	0.88	0.36	-0.19	0.62	0.41	-34%	-53%	0.84	95%	65%	1.29
Ratio analysis											
Gross margin (%)	45.5	46.7	40.9	47.6	46.8	-0.8	1.4	45.4	3.2		45.7
SGA/Total revenue (%)	32.4	33.0	38.1	32.4	32.3	-0.1	-0.1	34.0	-2.1		34.7
Operating profit margin (%)	13.1	13.8	2.7	15.2	14.5	-0.7	1.4	11.4	5.3		11.0
Net profit margin (%)	13.4	5.6	-3.1	8.2	5.5	-2.7	-7.8	4.0	1.4		4.6

Source: Company, MST

4.2 Expect revenue to enter growth phase

We forecast core revenue to grow at a 4% CAGR in FY23-25E, supported by both the hotel and food businesses. We expect hotel revenue to grow by 6% YoY in FY24E and 2% YoY in FY25E by assuming organic average ADR growth for the overall hotel portfolio of 2% with occupancy rate returning to pre-Covid levels. We forecast revenue from the food business to increase by 8% YoY in FY24E and 3% YoY in FY25E, supported by continued chain expansion at 32 stores per year both under owned and franchised platforms. In addition, we expect profit margin to increase due to benefits from economies of scale and as cost-inflation fades.

Fig 31: Revenue and profitability

Revenue & profitability	FY21A	FY22A	FY23E	FY24E	FY25E
Hotels and related services	41,186	86,774	110,919	117,297	119,701
Mixed use	5,016	4,455	5,458	5,502	5,547
Total hotel revenue	46,202	91,229	116,377	122,799	125,249
YoY growth (%)	41	97	28	6	2
Food revenue (THB m)	20,509	26,193	29,623	32,025	32,973
YoY growth (%)	5	28	13	8	3
Distribution revenue (THB m)	2770	2507	2336	2443	2443
YoY growth (%)	-24	-9	-7	5	0
Total revenue (THB m)	69,481	119,929	148,336	157,267	160,664
YoY growth (%)	24	73	24	6	2
Profitability					
Gross profit (THB m)	22,064	52,175	67,774	72,125	73,967
Gross profit margin (%)	31.8	43.5	45.7	45.9	46.0
SG&A expenses (THB m)	30,417	42,189	51,525	53,399	54,239
SG&A to sales ratio (%)	43.8	35.2	34.7	34.0	33.8
EBITDA (THB m)	14,967	31,662	40,261	43,045	44,562
EBITDA margin (%)	21.5	26.4	27.1	27.4	27.7
Net Profit (THB m)	(13,167)	4,286	6,801	8,047	8,924
Net profit margin (%)	(18.9)	3.6	4.6	5.1	5.6

Source: Company, MST

Fig 32: Key assumptions

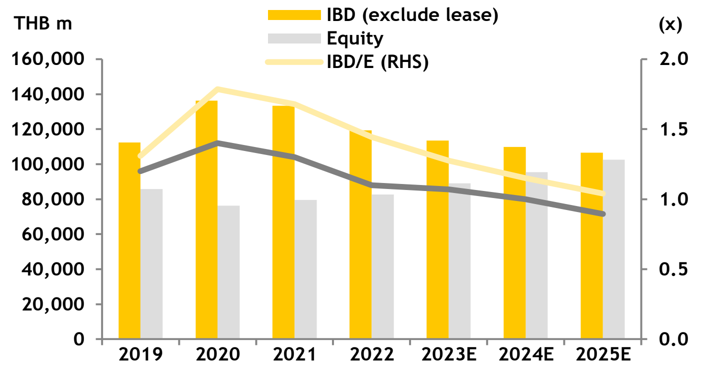
Key Assumptions	FY21A	FY22A	FY23E	FY24E	FY25E
NH Hotels (owned & leased)					
Occupancy rate (%)	34	61	68	69	70
ADR (€)	89	122	136	139	141
growth (%)	6	37	12	2	2
RevPAR (€)	31	74	92	96	99
Thailand (owned hotels)					
Occupancy rate (%)	19	48	67	74	76
ADR (THB)	3,529	4,891	7,260	7,495	7,660
growth (%)	-35	39	48	3	2
RevPAR (THB)	6,756	10,154	9,853	10,330	10,615
MLR (Ocenia)					
Occupancy rate (%)	65	80	79	79	80
ADR (THB)	4348	5430	5478	5625	5625
growth (%)	0	25	1	3	0
RevPAR (THB)	2814	4344	4327	4416	4472
Food business					
No. of owned food stores	1,205	1,264	1,312	1,324	1,336
No. of franchised stores	1,184	1,267	1,303	1,323	1,343
SSSG (%)	-5	8	9	3	2

Source: Company, MST

4.3 Rising interest rates no longer a concern

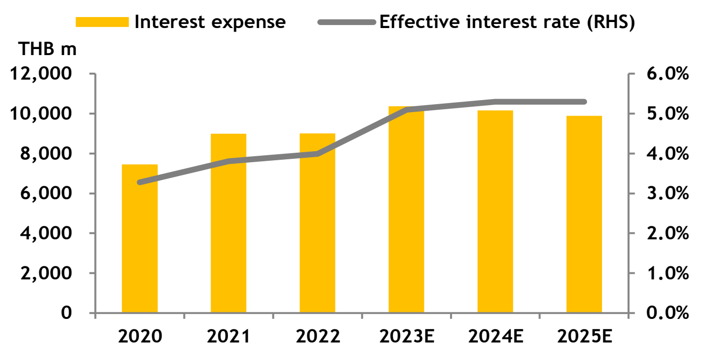
MINT plans to repay THB6-7b of debt in 4Q23 after THB25b was repaid in 9M23. Due to our forecast annual EBITDA of around THB40b in FY24-25E, we expect the company to repay more debt to reduce its interest expense amid a high interest rate environment. However, the magnitude of debt servicing will not be as high as FY23 as the company's capex cycle will resume in FY24. We assume an effective interest rate of 5.3% in FY24E-25E, which is also management's guidance (vs 5.0% in FY23E). For every 10bps rise in interest rate, we estimate a THB100m increase in interest expenses or earnings impact of -0.9%. To minimize further increase in the cost of debt, MINT has converted more than 60% of foreign-currency loans (except AUD) into fixed interest rate while targeting to trim its net interest-bearing debt-to-equity ratio to below 1.0x by end-FY24 from 1.1x as of FY23.

Fig 33: MINT's gearing ratio (exclude lease liabilities)



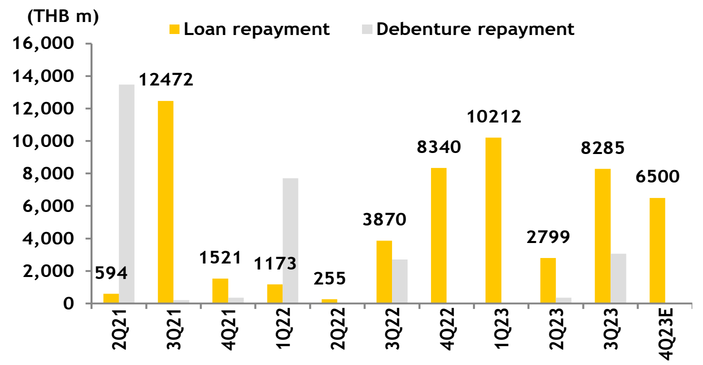
Source: Company, MST

Fig 34: MINT's cost of debt and interest expense



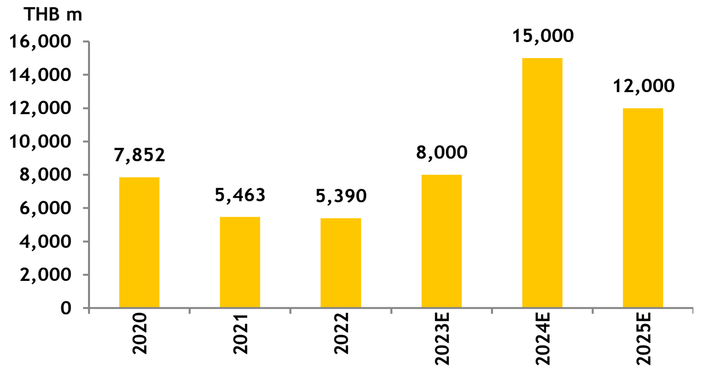
Source: Company, MST

Fig 35: MINT's quarterly debt repayments



Source: Company, MST

Fig 36: MINT's capex



Source: Company, MST

5. Financial analysis

Our DCF-based TP of THB35.25 (6.8% WACC, 2% terminal growth) implies 25x FY24E PE. MINT trades at a forward PE of 20x, a discount to the average of 24x for its hotel peers. It looks even cheaper compared to its historical P/BV at it remains at a discount to its pre-Covid levels.

Fig 37: MINT forward (1-year) P/BV

Source: Company, MST

Fig 38: DCF methodology

Y	0	1	2	3	4	5	6	7	8	9	10
	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577
MINT: Forecast by MST (Bt m)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
EBIT	21,728	22,803	23,579	24,395	25,149	25,728	26,449	27,187	27,969	28,716	29,507
Less: corprate tax	(6,301)	(6,613)	(6,838)	(7,075)	(7,293)	(7,461)	(7,670)	(7,884)	(8,111)	(8,328)	(8,557)
NOPAT	**15,427**	**16,190**	**16,741**	**17,321**	**17,856**	**18,267**	**18,779**	**19,303**	**19,858**	**20,388**	**20,950**
Add: Depreciation & amortizati	20,517	20,959	21,042	21,116	20,453	20,297	20,378	20,477	20,593	20,722	20,864
Less: lease liabilities	(15,968)	(16,412)	(16,065)	(15,762)	(15,497)	(15,265)	(15,062)	(14,884)	(14,729)	(14,592)	(14,473)
Change in net working capital	(1,216)	(740)	(760)	(623)	(572)	(505)	(575)	(590)	(610)	(600)	(600)
Less: CAPEX	(15,000)	(13,000)	(11,000)	(9,700)	(8,700)	(8,500)	(8,500)	(8,500)	(8,500)	(8,500)	(8,500)
Free Cash Flow	3,760	6,997	9,958	12,351	13,540	14,294	15,020	15,806	16,613	17,418	18,241
Terminal Value											387,826
PV of FCFF	3,760	6,551	8,731	10,140	10,408	10,288	10,123	9,975	9,816	9,637	9,450
PF of TV											200,921
FCFF and Terminal Value	299,801										
Cash (add)	16,631										
Debt (less)	113,601										
Equity value	202,832										
Share	5,755										
Target Stock price	35.25										
WACC calculation assumption	MINT										
Market value of Debt (THB m)	111,249										
Corporate Tax rate (T)	29.0%										
Rf	3.0%										
Market equity risk premium	7.4%										
Leveraged Beta	1.0										
Cash+ST Inv on balance sheets (Bt m)	13,787										
g	2.0%										
Ke	10.4%										
Equity weight	50%										
Debt weight	50%										
WACC	6.8%										

Source: Company data, MST

6. Risks

6.1 Rise in energy costs

Potential rise in utility costs remains a key concern. We estimate around 6% downside risk to our FY24E net profit forecast for every 25% increase in utility expense relative to our forecasts. This is based on the assumption that utilities account for 7% of the hotel business' costs (excluding depreciation). Prolonged war in the Ukraine and the Middle East could result in higher natural gas prices. However, the company has managed the issue effectively in the past by deploying hedging tools and adjusting its ADR to cover the increased expense.

Management has hedged the price of electricity for about one-third of expected consumption for FY24 at a similar price level to that of FY23. Hedges for natural gas total 70% of expected gas consumption. The company is currently negotiating with suppliers to increase its hedged position. Impact from high energy costs was lower than expected in FY23 due to ADR pass-through and effective hedging tools as utility cost-to-revenue ratio remains below expectation (4.5-4.6% of revenue vs previous target of 5-6% of revenue).

Fig 39: Sensitivity on utility cost

	% increase in utility cost			
2024E	**25%**	**50%**	**75%**	**100%**
Hotel cost	84,842	84,842	84,842	84,842
% of utility	7%	7%	7%	7%
(THBm)	5,939	5,939	5,939	5,939
Europe portion (%)	70%	70%	70%	70%
(THBm)	4,157	4,157	4,157	4,157
Utility cost +%	5,197	6,236	7,275	8,315
Hedging (%)	33%	33%	33%	33%
THBm impact	693	1,386	2,080	2,773
Impact Net-Tax	499	998	1,497	1,996
Net profit FY24E	8,047	8,047	8,047	8,047
Downside (%)	-6%	-12%	-19%	-25%

Source: Company, MST

6.2 Concentration in certain markets

The company could be exposed to risk of being reliant on certain geographies and key international markets, which could affect MINT’s financial performance. It could be influenced by factors such as macroeconomic conditions, political uncertainty, climate change, civil unrest, terrorism and local diseases.

The company is diversifying its brand portfolio to cover various market segments; from upscale and luxury hotels, and from burgers to pizzas to Thai cuisine. Expanding geographical coverage across Europe, Asia Pacific, Oceania, Africa, Middle East and Americas also reduces its reliance on any single country. It has also diversified its customer base with no single country accounting for more than 30% of revenue.

6.3 Risk from economic slowdown

Recession in certain countries may reduce both leisure and business travel, but likely not as much as other service sectors. According to data from Euro Stat, the number of nights spent at accommodations contracted by only 5-18% during past economic crises and it recovered quickly once the economy improved.

Impact from prolonged economic slowdown and high inflation might cause the MICE clients to switch to virtual meetings, which was widely used since the pandemic and this trend could continue. According to industry research, the loss to physical meetings is projected to drop slightly from 18% in 2023 to 14-15% in 2024/25, implying a decline in virtual meetings and potentially a further boost to corporate travel spending. However, online meetings could quickly regain traction again should there be an economic downturn.

6.4 Risk from increase in rent for leased assets

Nearly half of MINT’s hotels are on leases, which could hurt profitability if either new leases are renewed at higher costs or operating revenue drops while the company continues to pay fixed rents. The fixed costs for operating leased hotels, restaurants and retail outlets may render any cost-cutting efforts less effective compared to the managed and franchised businesses. However, the latter provides less return potential than owned and leased models.

MINT has been proactively negotiating lease terms with landlords and increasing the variable component to protect profitability, especially during downturns. In addition, the company maintains good relationships with landlords and is constantly looking for opportunities to renew leases based on the current terms.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	nm	38.8	23.1	19.5	17.6
Core P/E (x)	nm	84.1	23.1	19.5	17.6
P/BV (x)	2.2	2.4	2.1	1.9	1.8
P/NTA (x)	2.2	2.4	2.1	1.9	1.8
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	0.5	10.4	12.9	11.4	13.5
EV/EBITDA (x)	18.5	9.0	6.8	6.3	6.0
EV/EBIT (x)	nm	24.3	13.4	12.2	11.5
INCOME STATEMENT (THB m)					
Revenue	69,481.0	119,928.7	148,336.0	157,266.6	160,664.2
EBITDA	14,541.1	30,660.1	39,360.7	42,245.0	43,761.9
Depreciation	(18,649.1)	(18,108.0)	(18,318.7)	(19,329.1)	(19,759.9)
Amortisation	(1,292.6)	(1,167.0)	(1,177.7)	(1,188.4)	(1,199.1)
EBIT	(5,400.6)	11,385.1	19,864.3	21,727.6	22,802.9
Net interest income /(exp)	(8,352.1)	(8,137.6)	(9,874.5)	(9,830.8)	(9,563.3)
Associates & JV	(208.7)	135.5	400.0	300.0	300.0
Exceptionals	(3,852.5)	2,264.5	0.0	0.0	0.0
Other pretax income	0.6	2.0	0.0	0.0	0.0
Pretax profit	(17,813.4)	5,649.6	10,389.7	12,196.7	13,539.5
Income tax	3,638.0	(1,126.9)	(2,996.9)	(3,450.1)	(3,839.5)
Minorities	1,008.9	(236.3)	(591.4)	(699.7)	(776.0)
Discontinued operations	3,852.5	(2,264.5)	0.0	0.0	0.0
Reported net profit	(13,166.5)	4,286.4	6,801.4	8,047.0	8,924.1
Core net profit	(9,314.0)	2,021.8	6,801.4	8,047.0	8,924.1
BALANCE SHEET (THB m)					
Cash & Short Term Investments	25,096.5	22,966.1	16,631.4	13,787.3	13,739.5
Accounts receivable	14,638.0	17,052.3	20,883.8	21,962.8	22,498.5
Inventory	3,490.2	3,909.2	4,665.3	4,737.5	4,877.3
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	129,463.2	122,211.5	122,191.6	128,694.9	133,301.2
Intangible assets	69,578.3	67,690.9	67,213.2	66,724.8	66,225.7
Investment in Associates & JVs	10,594.0	9,868.8	9,868.8	9,868.8	9,868.8
Other assets	116,772.7	114,511.0	118,812.4	117,583.2	115,823.2
Total assets	**369,632.9**	**358,209.8**	**360,266.4**	**363,359.4**	**366,334.1**
ST interest bearing debt	17,877.3	21,752.0	7,728.1	6,352.4	6,211.2
Accounts payable	18,393.6	21,806.5	24,506.8	25,610.7	26,170.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	114,483.4	96,600.9	105,872.8	103,520.4	100,309.2
Other liabilities	139,386.0	135,441.0	134,549.0	133,560.0	132,042.0
Total Liabilities	**290,140.5**	**275,600.8**	**272,656.9**	**269,043.6**	**264,732.4**
Shareholders Equity	68,022.7	71,058.9	75,468.1	81,474.6	87,984.6
Minority Interest	11,469.8	11,550.0	12,141.5	12,841.2	13,617.2
Total shareholder equity	**79,492.4**	**82,609.0**	**87,609.5**	**94,315.8**	**101,601.8**
Total liabilities and equity	**369,632.9**	**358,209.8**	**360,266.4**	**363,359.4**	**366,334.1**
CASH FLOW (THB m)					
Pretax profit	(17,813.4)	5,649.6	10,389.7	12,196.7	13,539.5
Depreciation & amortisation	19,941.8	19,275.0	19,496.4	20,517.5	20,959.0
Adj net interest (income)/exp	(8,352.1)	(8,137.6)	(9,874.5)	(9,830.8)	(9,563.3)
Change in working capital	481.1	461.8	(1,887.3)	(47.4)	(116.1)
Cash taxes paid	0.0	(1,126.9)	(2,996.9)	(3,450.1)	(3,839.5)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	5,144.6	22,238.3	27,519.8	32,162.5	33,525.8
Capex	(4,383.3)	(4,587.4)	(7,300.0)	(14,300.0)	(12,300.0)
Free cash flow	761.4	17,650.9	20,219.8	17,862.5	21,225.8
Dividends paid	(50.9)	(71.0)	(2,871.9)	(2,040.4)	(2,414.1)
Equity raised / (purchased)	31.4	61.2	479.6	0.0	0.0
Change in Debt	(6,676.9)	(11,528.7)	(4,752.0)	(3,728.1)	(3,352.4)
Other invest/financing cash flow	4,843.4	(8,242.7)	(19,410.3)	(14,938.1)	(15,507.2)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(1,091.6)	(2,130.4)	(6,334.8)	(2,844.1)	(47.8)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	24.2	72.6	23.7	6.0	2.2
EBITDA growth	1,275.4	110.9	28.4	7.3	3.6
EBIT growth	nm	nm	74.5	9.4	4.9
Pretax growth	nm	nm	83.9	17.4	11.0
Reported net profit growth	nm	nm	58.7	18.3	10.9
Core net profit growth	nm	nm	236.4	18.3	10.9
Profitability ratios (%)					
EBITDA margin	20.9	25.6	26.5	26.9	27.2
EBIT margin	nm	9.5	13.4	13.8	14.2
Pretax profit margin	nm	4.7	7.0	7.8	8.4
Payout ratio	0.0	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	nm	3.6	4.6	5.1	5.6
Revenue/Assets (x)	0.2	0.3	0.4	0.4	0.4
Assets/Equity (x)	5.4	5.0	4.8	4.5	4.2
ROAE (%)	(19.5)	6.2	9.3	10.3	10.5
ROAA (%)	(2.5)	0.6	1.9	2.2	2.4
Liquidity & Efficiency					
Cash conversion cycle	(31.0)	(39.6)	(38.3)	(37.0)	(37.7)
Days receivable outstanding	69.8	47.6	46.0	49.0	49.8
Days inventory outstanding	27.2	19.7	19.2	19.9	20.0
Days payables outstanding	127.9	106.8	103.5	106.0	107.5
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	0.9	0.7	0.9	0.8	0.9
Leverage & Expense Analysis					
Asset/Liability (x)	1.3	1.3	1.3	1.4	1.4
Net gearing (%) (incl perps)	134.9	115.5	110.7	101.9	91.3
Net gearing (%) (excl. perps)	134.9	115.5	110.7	101.9	91.3
Net interest cover (x)	na	1.4	2.0	2.2	2.4
Debt/EBITDA (x)	9.1	3.9	2.9	2.6	2.4
Capex/revenue (%)	6.3	3.8	4.9	9.1	7.7
Net debt/ (net cash)	107,264.1	95,386.7	96,969.5	96,085.5	92,781.0

Source: Company; Maybank IBG Research

Maybank Securities

Hotels

Thailand

Central Plaza Hotel (CENTEL TB)

Strongest growth in the hotel sector

BUY

Share Price	THB 43.25
12m Price Target	THB 50.00 (+16%)

Strongest earnings growth among peers

We initiate coverage of CENTEL with a BUY as we forecast FY24-26E earnings CAGR of 30%, the highest growth in the industry, while valuation remains attractive with PEG (FY24-26E) at 1.1x vs sector average of 1.7x. We expect CENTEL to benefit the most from the eventual return of Chinese tourists and declining domestic food and utility costs. Upside to our earnings forecasts could come from expansion of its hotel and quick service restaurant (QSR) businesses. We have a DCF-based TP of THB50.0 (6.9% WACC, 2% terminal growth).

Food business is a steady earnings driver

We expect EBITDA for the food business (42% of 9M23 EBITDA) to recover strongly in FY24-FY25E mainly due to lower raw material price and utility costs, equivalent to roughly 30% and 5% of food revenue, respectively. CENTEL targets to double food revenue by FY27 by opening more branches (both self-owned and under JVs). It has sufficient capital to fund acquisitions.

Slower growth appears to be priced in

CENTEL will open two new owned hotels in Maldives in FY24-25E, which will double room capacity to 539 rooms. We are seeing signs of a slowdown in new hotel supply in the Maldives and we expect CENTEL's RevPAR to bottom out in FY24E. The two new hotels will contribute THB1.1-1.2b of revenue in FY25E, driven by demand from Chinese guests who tend to stay at resorts with a shorter duration rather than long vacations at guest houses.

Outstanding EPS growth at low valuation

The street may revise down forecasts for CENTEL as the market has likely not factored in much impact from continued weak Maldives hotel performance and partial hotel closures at key destinations. Despite downside risk, we believe these factors are priced in and will not derail our forecast 30% FY24-26E profit CAGR. CENTEL trades at 1.1x FY24E PEG vs sector average 1.7x and we thus think now is a good entry point into the stock.

FYE Dec (THB m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	11,197	17,488	21,904	24,408	26,818
EBITDA	2,008	4,380	5,462	6,466	7,401
Core net profit	(1,733)	503	1,175	1,664	2,287
Core EPS (THB)	(1.28)	0.37	0.87	1.23	1.69
Core EPS growth (%)	nm	nm	133.5	41.6	37.4
Net DPS (THB)	0.00	0.00	0.00	0.00	0.00
Core P/E (x)	nm	134.8	49.7	35.1	25.5
P/BV (x)	2.3	3.7	3.0	2.7	2.5
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	(12.4)	2.2	6.1	8.1	10.2
ROAA (%)	(4.1)	1.0	2.2	2.9	3.7
EV/EBITDA (x)	27.3	18.4	13.5	11.8	10.3
Net gearing (%) (incl perps)	66.9	64.7	74.7	78.5	71.9
Consensus net profit	-	-	1,268	1,771	2,168
MIBG vs. Consensus (%)	-	-	(7.4)	(6.1)	5.5

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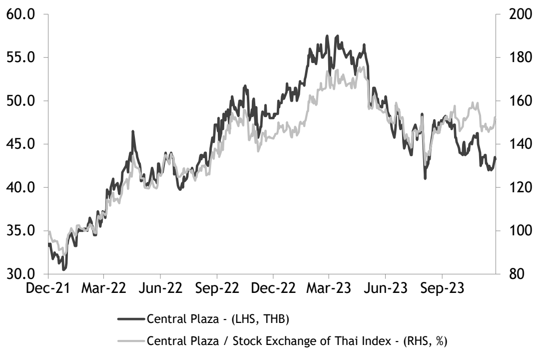
Statistics

52w high/low (THB)	57.50/41.00
3m avg turnover (USDm)	5.2
Free float (%)	76.3
Issued shares (m)	1,350
Market capitalisation	THB58.4B
	USD1.7B

Major shareholders:

Tiang Chirathivat Co., Ltd.	5.0%
Thai NVDR Co., Ltd.	4.9%
Mr. Niti Ostanukrau	3.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	(7)	(10)
Relative to index (%)	(4)	4	6

Source: FactSet

Maybank Securities (Thailand) Plc (MST) and Central Plaza Hotel Plc (CENTEL) have a common director, Ms Sopawadee Lertmanaschai. However, the securities analytical comment is based on the individual assumptions of Maybank Securities' research department.

Terms defined
ADR - Average daily rate
RevPAR - Revenue per available room
MICE - Meetings, Incentives, Conference & Exhibitions

Other stock(s) mentioned
Central Pattana (CPN TB, CP THB65.50, BUY THB75.0)
Central Retail Corporation (CRC TB, CP THB38.50, Not rated)

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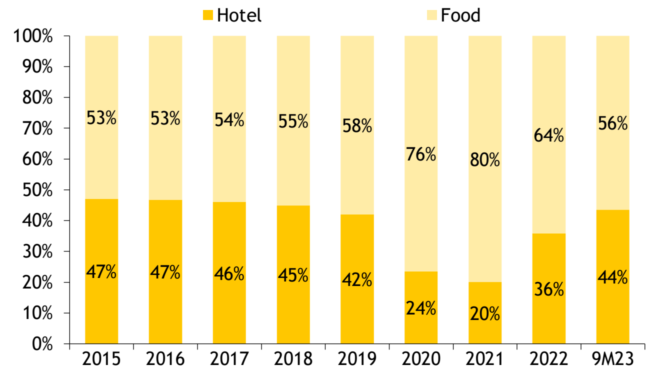
Tear Sheet Insert

Value Proposition

- CENTEL has a well-diversified source of revenue divided into food and hospitality businesses in Thailand, the Maldives, Dubai and Japan.
- Revenue contribution from the hotel business has recovered to pre-Covid-19 levels at 44% of total revenue in 9M23 whereas the food business contributed 56%.
- The company has been expanding its hotel business overseas under both self-owned hotels and managed platforms. It recently opened a hotel in Japan and it plans to increase the number of hotels in the Maldives.

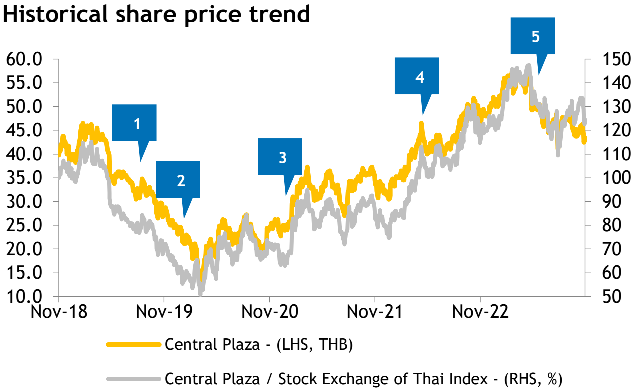
CENTEL's revenue breakdown



Source: Company, MST

Price Drivers

Historical share price trend



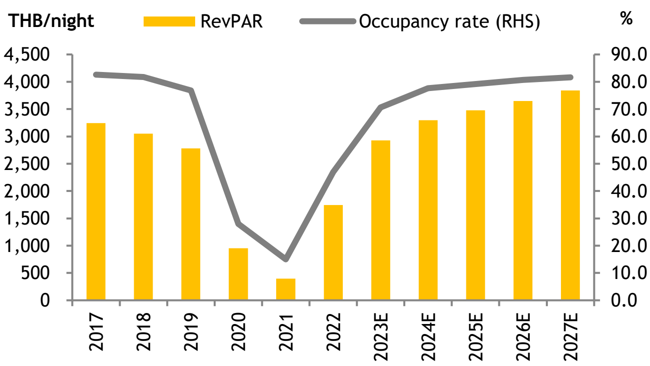
Source: Company, MST

1. Earnings fell due to renovation of Centara Grand Central World and higher lease expense for Hua Hin hotel.
2. The pandemic hit Thailand. Lockdown hurt hotel occupancy rates.
3. Covid-19 in 4Q20 was relatively tame and social distancing eased.
4. Thailand's full re-opening was a catalyst for the share price.
5. Slowdown in the pace of earnings recovery due to higher-than-expected increase in expenses from hotel opening in Japan, weak performance in the Maldives as room supply rose, and, concerns about sluggish recovery in Chinese guests.

Financial Metrics

- Covid-19 outbreak in Thailand peaked in FY21 and hence, CENTEL made a core loss of THB1.7b in FY21.
- CENTEL turned profitable at THB398m in FY22, ahead of domestic peers, thanks to strong recovery in occupancy rate and food business revenue.
- We expect core profit to recover further to THB1.2b in FY23E and THB1.7b in FY24E as Thailand tourism continues to recover with less costs pressure.

CENTEL's hotel RevPAR in Thailand



Source: Company

Swing Factors

Upside

- Easing cost pressure reflected by lower-than-expected inflation.
- Higher-than-expected SSSG in the food business due to on-going improvement in food delivery business as well as the dine-in sales.
- THB depreciation could lead to more tourist arrivals.

Downside

- More cost pressure, both in the hotel and restaurant businesses.
- Lower-than-expected SSSG in the food business due to the still-challenging economic conditions.
- THB appreciation could lead to fewer tourist arrivals.
- Lower-than-expected occupancy rate in Japan could lead to more loss from operation.

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Risk Rating & Score[1]	28.0 medium risk
Score Momentum[2]	+4.2
Last Updated	27 Apr 2023
Controversy Score[3] (Updated: 20 Nov 2023)	No evidence of controversies

Business Model & Industry Issues

- CENTEL has a clear policy to improve ESG. Especially for the hotel operations, it pays much more attention to conserving the environment through waste reduction, energy conservation, reduction of water consumption and recycling.
- Both the restaurant and hotel businesses are labour intensive and CENTEL regularly provides scholarships to young students who could intern with the company and later be employed. We think the strategy is commercially sound because it provides a stable stream of human resources for the businesses.
- Due to the pandemic that particular affects the hotel business, a liquidity risk emerges. We think CENTEL's low net D/E of 0.8x at end of FY22E (below 1.5x covenant) is reasonable and should enable it to stay afloat during and after the pandemic.

Material E issues

- Electricity intensity was 77.59 kWh/occupied room in 2022, increasing by 4% from 2019 and decreasing by 42% compared to 2021.
- In 2022, 1,852.41 tonnes of waste was recycles. The average amount of recyclable waste per occupied room was 1.27 kilograms in 2022, a decrease of 38% from 2021.
- In 2022, 9 hotels in Thailand and the Maldives implemented a water-management policy by reusing treated water for watering plants and lawns to reduce water consumption. 329.56m litres of water was reused in 2022.

Material S issues

- CENTEL targets 100% of employees to receive occupational health and safety training. There was zero workplace accident and zero lost-time injury.
- In 2022, CENTEL, in collaboration with Thammasat Business School (CONC), developed the curriculum for the leadership development programme for food business employees to prepare them for team leadership and business operation roles.
- CENTEL is committed to supporting improvement in the quality of life of people in the communities and society in areas where the company operates. In 2022, the company conducted the project with a total cost of THB1.87m.

Key G metrics and issues

- The board of directors must have at least 5 directors, and one third of whom are independent. At least half of the directors must reside in Thailand.
- There are 5 independent directors out of the 13 directors on the board of directors, three of whom are female.
- EY is CENTEL's auditor and CENTEL paid THB1.56m to EY for audit fee in 2022.
- In 2022, the 7-member executive management team were paid THB49.5m.
- Each member on the 3-member Audit Committee can serve up to 3 years.
- The company has a clear policy to fight corruption within the firm and outside and it provides online anti-corruption training to staff. In its orientation programme, all new employees also have to learn about anti-corruption.
- CENTEL has a strict "No-gift policy" for all employees.
- The company has a whistle-blowing policy and provides many channels (email, phone, and post) for all stakeholders to report any wrongdoings.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update – a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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	Quantitative Parameters (Score: 29)					
	Particulars	**Unit**	**2020**	**2021**	**2022**	**MINT (2022)**
E	Scope 1 GHG emissions	m tCO2e	22,780	15,219	34,956	243,782
	Scope 2 GHG emissions	m tCO2e	67,070	59,324	98,625	257,326
	Total	**m tCO2e**	**89,850**	**74,542**	**133,581**	**501,108**
	Scope 3 GHG emissions	m tCO2e	18,319	16,876	25,817	810,844
	Total	**m tCO2e**	**108,169**	**91,419**	**159,398**	**1,311,952**
	GHG emission intensity per occupied room	kCO2e/Room	123.78	125.28	58.29	27
	Energy consumption intensity per room sold	kWh/Room	444	481	142	91
	Water consumption per occupied room	'litres/Room	2858.34	3043.84	1558.77	120
	GHG emission intensity per food revenue	(tCO2e)/ revenue	5.59	5.84	5.44	7.0
	Green energy % of total usage	%	0.10%	0.26%	0.24%	13.2%
S	% of women in workforce	%	59%	64%	63%	51%
	% of women in management roles	%	10.7%	6.1%	29%	17%
	% of local suppliers	%	96%	94%	93%	94%
	Employee turnover rate	%	21%	27%	31%	57%
	Lost time injury frequency (LTIF) rate	Per 1 Mil. hours	2.90	1.60	0.30	5.06
	Employee training per employee		8.9	21.6	18.4	35
G	Board salary as % of reported net profit	%	0.61%	0.69%	0.28%	0.37%
	Independent directors on the Board	%	38.50%	38.50%	28.60%	40.0%
	Female directors on the Board	%	30.8%	23.08%	35.70%	20%

Qualitative Parameters (Score: 100)

a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?

Yes. CENTEL's Sustainability strategy is developed by the Corporate Sustainability department headed by Head of risk management and sustainability and sponsored by Group CEO and C-Suit Officers. The CEO will report to the Risk and Corporate Governance Committee.

b) is the senior management salary linked to fulfilling ESG targets?

Yes. CEOs of each business groups have ESG targets, which also partially link to their performances

c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?

Yes.

e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?

Yes, These include : 1) water consumption, 2) employee air travels, and 3) amount of waste for landfills

f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?

- '- The hotel business has organized an activity 'Earth Hour' with hotel guests and employees continuously participating in activities in each hotel every year, with an aim to raise awareness and participation in energy consumption reduction.

- Promote environmental friendly or green initiatives including renewable energy, where applicable

g) Does carbon offset form part of the net zero/carbon neutrality target of the company?

Yes, CENTEL plans to plant 200,000 trees to absord CO2 as part of its Net Zero plan

Target (Score: 100)

Particulars	**Target**	**Achieved**
20% reduction in energy consumption per sqm. by 2029 (baseline 2019)	-20%	-84%
20% reduction in carbon dioxide emission per sqm. by 2029 (baseline 2019)	-20%	-45%
To reduce water consumption per sqm. by 20% within 2029	-20%	-46%
Waste to landfill per occupied room decreased by 20% from 2019.	-20%	-11%
Increase the ratio of recyclable waste more than 50%	50%	37%
Net zero carbon emission by 2050	By 2050	N/A

Impact

NA

Overall Score: 64

As per our ESG matrix, Central Plaza Hotel (CENTEL TB) has an overall score of 64.

ESG score	**Weights**	**Scores**	**Final Score**
Quantitative	50%	29	14
Qualitative	25%	100	25
Target	25%	100	25
Total			**64**

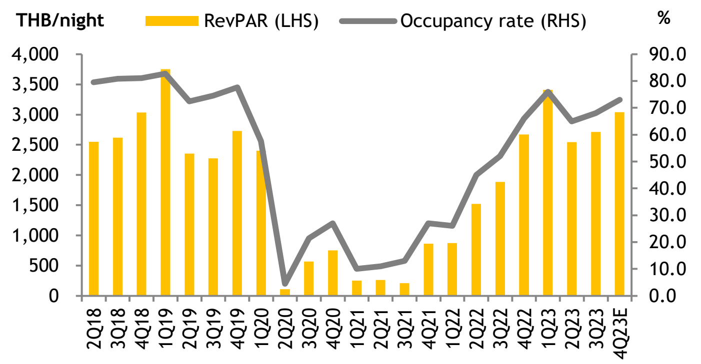
As per our ESG assessment, CENTEL has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "S" metrics YoY especially in terms of employee turnover rate and training hours. CENTELs overall ESG score is 64, which makes its ESG rating above average in our view (average ESG rating = 50) refer to Appendix I for our ESG Assessment Scoring).

1. Investment thesis

1.1 Expect solid rebound in FY23E earnings

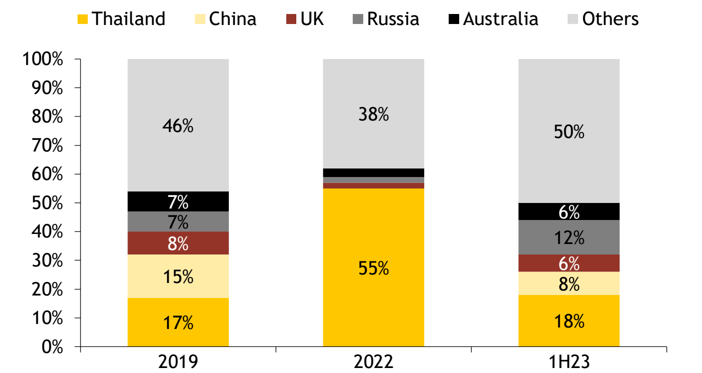
CENTEL's earnings in 9M23 rebounded sharply from FY22, supported by the hotel business in Thailand as average RevPAR has already returned to pre-pandemic levels, thanks to pent-up demand from domestic tourists as well as visitors from Russia, China, the UK and Australia. These offset the negative impact of falling Maldives hotel RevPAR, continued increase in operating costs for the food business, and, pre-opening expenses of its first hotel in Japan.

Fig 1: Quarterly hotel performance in Thailand



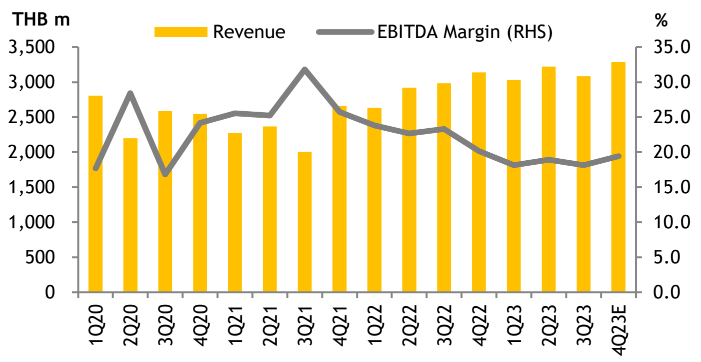
Source: Company data, MST

Fig 2: Guest breakdown by nationality (room night spent at hotels)



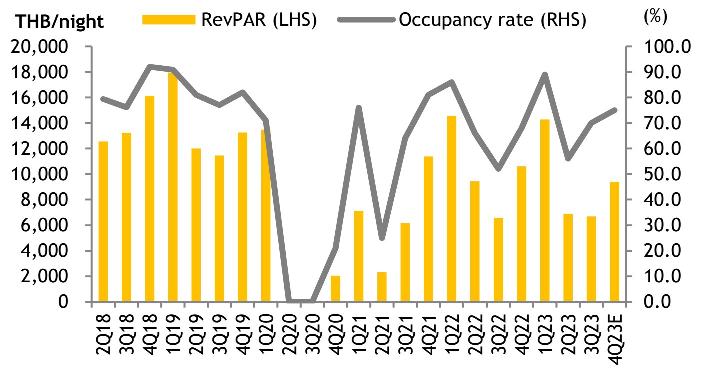
Source: Company data, MST

Fig 3: Quarterly food business performance



Source: Company data, MST

Fig 4: Quarterly Maldives hotel performance



Source: Company data, MST

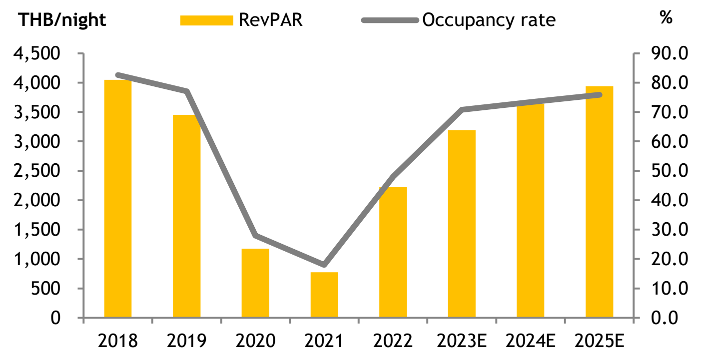
Looking forward to 4Q23, we expect net profit to expand strongly QoQ due to the high season for Thailand, the Maldives, and Japan's hospitality businesses and lower costs pressure as food and utility prices have started to decline. However, we expect YoY contraction mainly due to impact from hotel renovation and weak Maldives hotel performances.

We expect CENTEL's core profit to reach a 4-year high in FY23E of THB1.2b compared with THB503m in FY22, thanks to strong operational management in terms of room rate pricing amid gradual recovery in occupancy rate for Thai hotels. The strong results should be achieved despite pressure from weak performance in the Maldives, rising utility and food costs for the food business, and, initial expenses incurred for Centara Grand Hotel Osaka.

1.2 Expect full recovery in FY24E

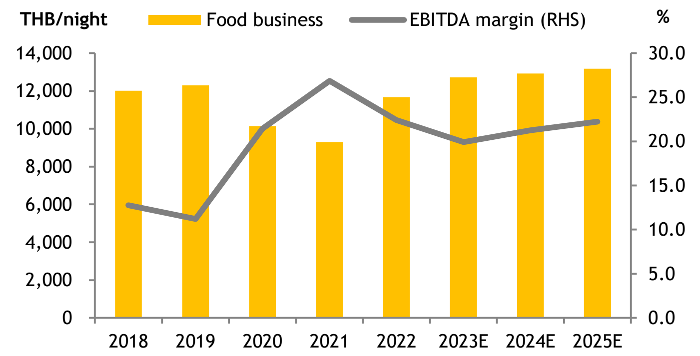
We expect full recovery in revenue for the company's hotel and food businesses (47% and 53% of total FY24E revenue). We also expect foreign tourist arrivals, especially from China, which contributed 15% of room night spent at the company's hotels before Covid, to recover too. The performance of Maldives hotels (13% of total hotel revenue in FY24E) could recover along with demand from Chinese tourists, which will help offset the impact from rising guest house supply. We expect the hotel in Japan to contribute 12% of total hotel revenue while generating earnings right after the Sakura season in 2Q24.

Fig 5: Group average RevPAR for owned hotels (excl. Dubai)



Source: Company data, MST

Fig 6: Food revenue and EBITDA margin



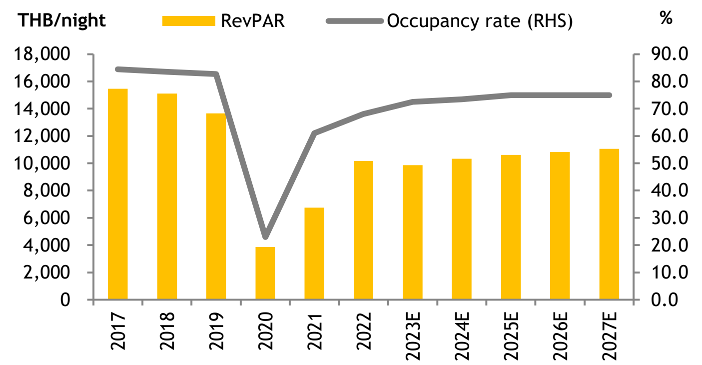
Source: Company data, MST
Note: EBITDA margin in Fy18-19 has not accounted impact from TFRS16

We forecast CENTEL to book a net profit of THB1.7b for FY24E (+42% YoY) due to four main drivers. First, we expect continued increase in leisure travel demand, resulting in average RevPAR for Thai hotels being 8% above the average level (+13%YoY) in FY18. Second, we expect improvement in margins for the food business owing to cost reductions, mainly utilities and food raw material prices. Third, Centara Grand Hotel Osaka, which fully commenced operations in July'23, is likely to generate earnings after incurring pre-opening costs (excluding lease-related expenses) of around THB100m in 1H23. Last, we expect a mild recovery in RevPAR for the Maldives hotel portfolio as we anticipate competition will ease.

1.3 Maldives expansion amid challenging market condition

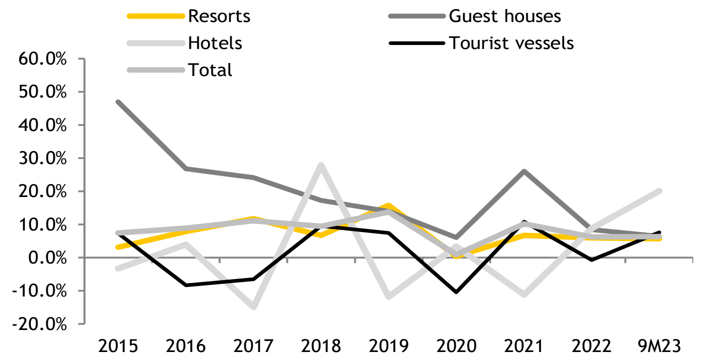
Expansion of CENTEL's hotel business (self-owned hotels) will focus mainly in the Maldives in FY24-25. CENTEL will double its room capacity in the Maldives to 539 rooms. Competition in the Maldives is increasing due to new hotels supply and guest houses. CENTEL's RevPAR in the Maldives has been contracting in the past four years before reaching its low in 2020. We expect ADR (average daily rate) and occupancy to remain at 25% and 10% below pre-pandemic levels due to competition. However, we believe the worst has passed as the supply of new rooms is slowing down. We expect CENTEL's two new hotels in the Maldives to contribute THB1.1-1.2b in revenue pa from FY25 onwards, supported mainly by demand from Chinese guests who tend opt for short stays of 4-5 days at luxury resorts rather than longer stays at guest houses.

Fig 7: Performance of CENTEL's Maldives hotel portfolio



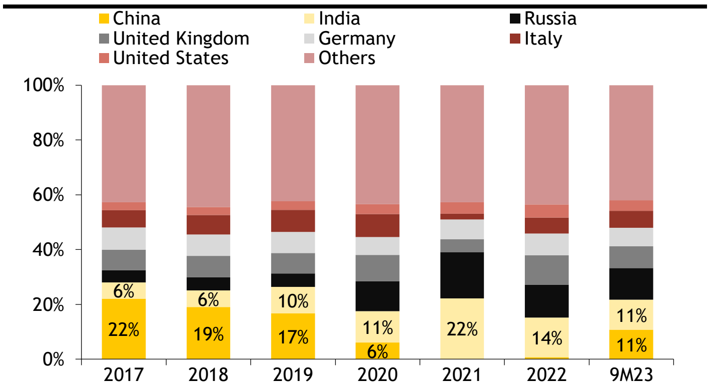
Source: Company data, MST

Fig 8: % change in no. of registered beds in Maldives by accommodation types



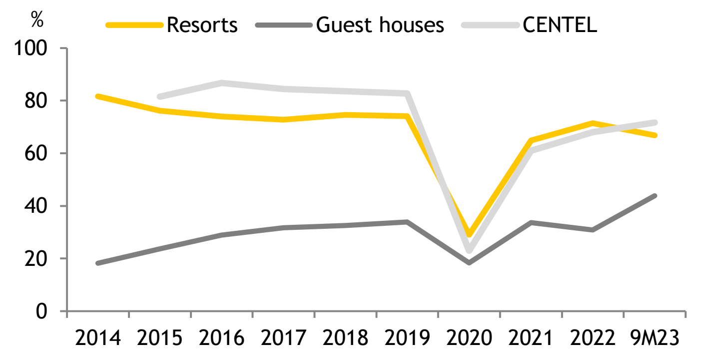
Source: Company data, MST

Fig 9: Tourist arrivals in the Maldives by nationality



Source: Company data, MST

Fig 10: Occupancy rates for accommodations in the Maldives



Source: Company data, MST

1.4 Potential downside risks from lease extension for key hotel properties

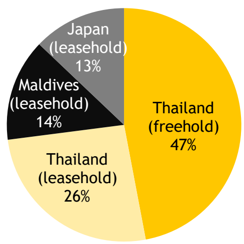
We expect substantial increases in rent of 30% by FY33 from approximately THB2.0b/annum in FY23E. This is based on the assumption that rent for Centara Grand Ladprao Bangkok and Centara Grand Central World will be equivalent to 25% of revenue when its leases expire in FY28 and FY32 respectively.

According to SRTA, the entity that manages assets for the State Railway of Thailand, CENTEL used to pay THB7.7m in rent pa for land lease of Centara Grand Hua Hin before the previous lease ended on 15 May 2019. During the last year of the extension period, it paid THB9.4m. We estimate the new rent could go up to a range of THB160m to THB190m per year under the 30-year contract, or equivalent to a quarter of revenue generated from the Hua Hin property.

Centara Grand Ladprao Bangkok's lease contract is attached with Central Pattana (CPN TB, BUY, TP THB75.0), which leased the land from SRTA to operate a mall at the strategic Northern Bangkok area. Renewal of this contract (which will expire in Dec'28) is under negotiations and CPN's management intends to renew it if the new rental rate is reasonable. Meanwhile, the lease for Central World will expire in 2032, and therefore we expect negotiations to begin in the coming years.

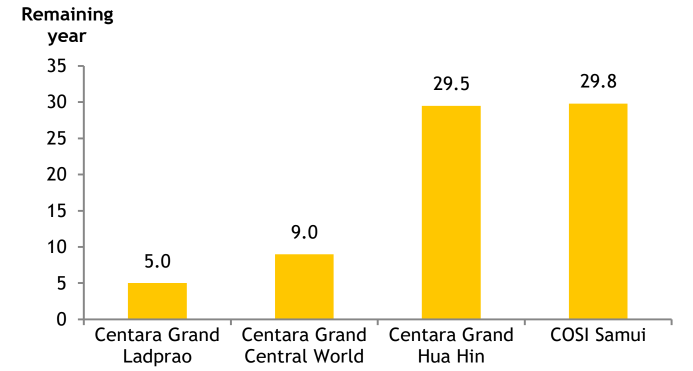
We expect the renewed rent for Centara Grand Ladprao Bangkok and Centara Grand Central World will be triple from the current rate, which is already incorporated into our model. We estimate THB1.7 per share impact to our target price for every 20% that the renewed rental rate exceeds our base-case scenario of THB900m pa.

Fig 11: Estimated hotel revenue by asset types in FY24E



Source: Company data, MST

Fig 12: Remaining leasehold life for Thailand hotels as of 2023



Source: Company data, MST

2. Corporate information

2.1 Corporate background

CENTEL was founded in 1980 by the Chirathivat family to operate a hospitality business in Thailand. The family also operates The Central Group of Companies, or Central Holding, its family-owned holding company in Thailand, which is involved in merchandising, real estate, retailing, hospitality and restaurants. The group's subsidiaries that are listed on the SET include Central Pattana (CPN TB: CP THB65.50, BUY THB75.0) and Central Retail Corporation (CRC TB: CP THB38.50, Not rated). Currently the family and the group own 62% of the shares in CENTEL.

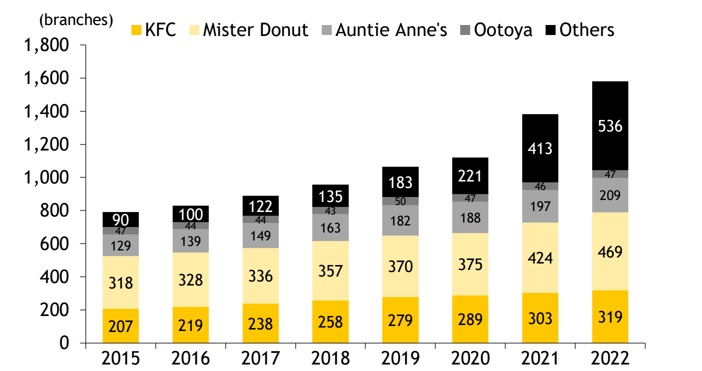
Fig 13: Hotel and food brands under CENTEL

Source: Company data, MST

2.2 Revenue comes from two core businesses

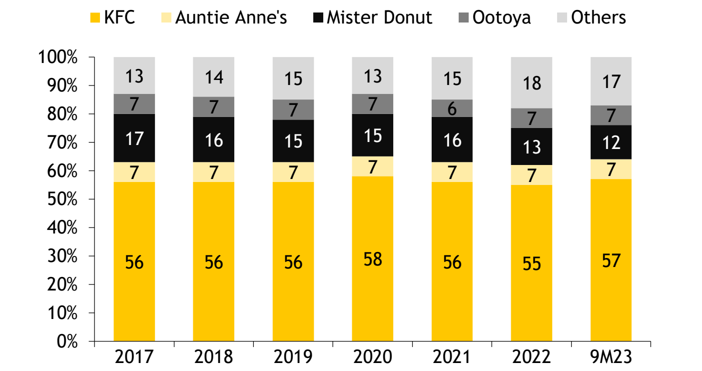
The food business accounted for 64% and 59% of total revenue and EBITDA in FY22, respectively. As of Jun'23, this division consists of a total of 1,590 branches in Thailand. The food business operates under 20 global restaurant chain brands, which can be divided into 10 franchised brands, five owned brands and five joint-venture brands. The top four brands (KFC, Pepper Lunch, Auntie Anne's and Mister Donut) contributed 82% of total food revenue in FY22.

Fig 14: Number of food branches breakdown by brands



Source: Company data, MST

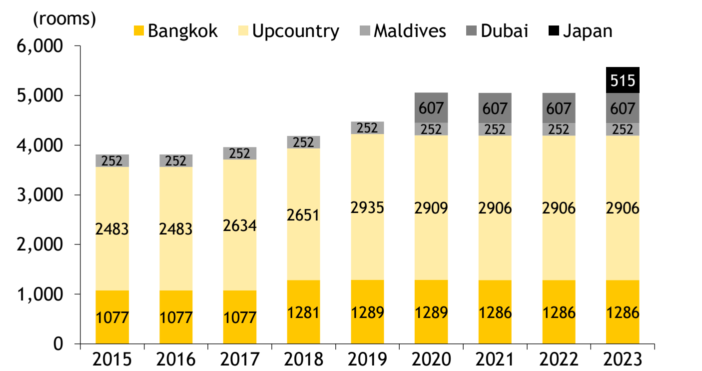
Fig 15: Food revenue breakdown by brands



Source: Company data, MST

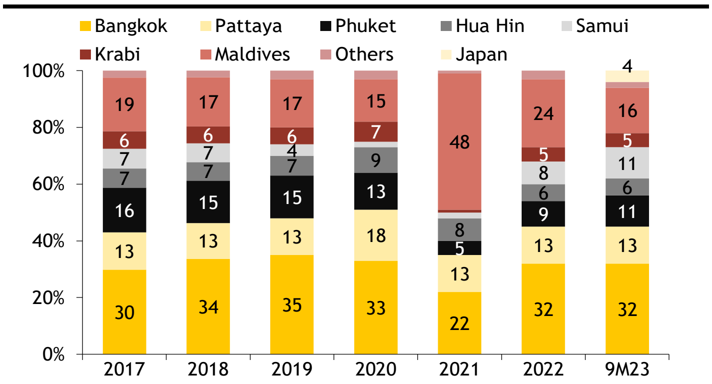
The hotel business contributed 36% and 41% of total revenue and EBITDA in FY22 respectively. This business consists of 19 owned hotels in Thailand, the Maldives and Dubai with 5,051 rooms in total as well as 31 managed hotels in Thailand, Vietnam, Sri Lanka, Indonesia (Bali), Oman and Qatar with 5,335 rooms. The hotel business operates under the Centara Reserve, Centara, Centara Grand, Centra by Centara, Centara Boutique Collection and COSI brands.

Fig 16: Number of hotels breakdown by locations



Source: Company data, MST

Fig 17: Hotel revenue breakdown by locations



Source: Company data, MST

Fig 18: List of CENTEL's owned hotels owned by CENTEL

List of owned hotels	Stars	Opened	No. of rooms	% Ownership	Location
Centara Grand at Central Plaza Ladprao Bangkok	5	2Q 1983	565	100%	Thailand
Centara Grand Beach Resort & Villas Hua Hin	5	1Q 1986	251	64%	Thailand
Centra by Centara Hotel Mae Sot	3	4Q 1989	113	100%	Thailand
Centara Hotel Hat Yai	4	4Q 1995	248	100%	Thailand
Centara Villas Samui	4	2Q 2000	102	100%	Thailand
Centara Villas Phuket	4	2Q 2000	72	100%	Thailand
Centara Grand Beach Resort & Villas Krabi	5	4Q 2005	192	100%	Thailand
Centara Kata Resort Phuket	4	2Q 2006	163	100%	Thailand
Centara Karon Resort Phuket	4	2Q 2006	335	100%	Thailand
Centara Grand at Central World	5	4Q 2008	509	100%	Thailand
Centara Grand Mirage Beach Resort Pattaya	5	4Q 2009	553	100%	Thailand
Centara Grand Island Resort & Spa Maldives	5	4Q 2009	112	74%	Maldives
Centara Grand Beach Resort Phuket	5	4Q 2010	261	100%	Thailand
Centara Government Complex Hotel & Convention Centre	3	4Q 2012	212	100%	Thailand
Centara Ras Fushi Resort & Spa Maldives	4	1Q 2013	140	75%	Maldives
COSI Samui Chaweng Beach	2	1Q 2017	150	100%	Thailand
Cosi Pattaya Wong Amat Beach	2	4Q 2019	282	100%	Thailand
Centara Reserve Samui	6	4Q 2021	184	25%	Thailand
Centara Mirage Beach Resort Dubai	4	4Q 2021	607	40%	Dubai
Centara Grand Hotel Osaka	5	3Q 2023	515	100%	Japan

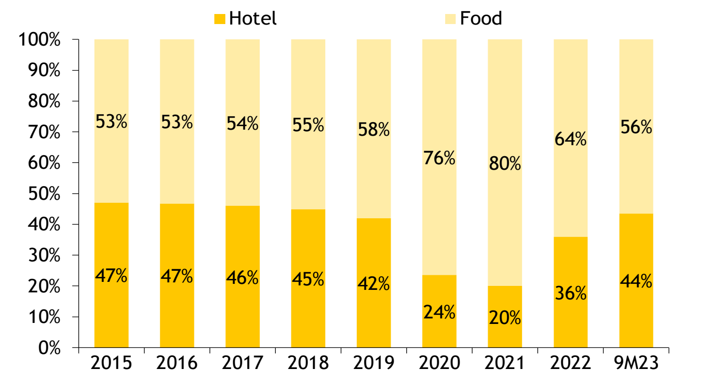
Source: Company data, MST

2.3 No substantial change in revenue/EBITDA mix post-Covid

The company's revenue from hotels has declined since FY17, from 49% of total revenue to the lowest of 20% in FY21 as the pandemic hit the entire industry. It recovered to 36% and 44% in FY22 and 1H23, respectively. EBITDA from hotels also recovered along with the turnaround in operations to 58% of total EBITDA in 9M23 from the bottom in FY21 of -25%.

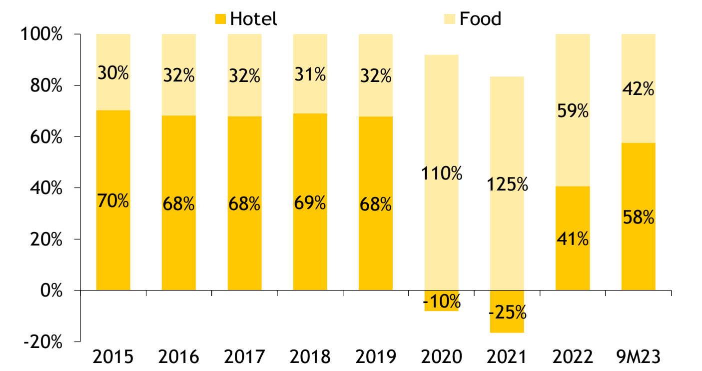
Revenue contribution from the food business has increased after opening more branches, reaching 80% of total revenue in FY21 as food delivery alleviated the impact from social distancing policy and closure of restaurants. EBITDA remained positive in the past decade, but contribution has been decreasing from 59% of total EBITDA in FY22 to 40% in 1H23 as hotel operations are normalized while EBITDA margin for the food unit continued to fall due to costs pressure.

Fig 19: Revenue breakdown by businesses



Source: Company data, MST

Fig 20: EBITDA breakdown by businesses



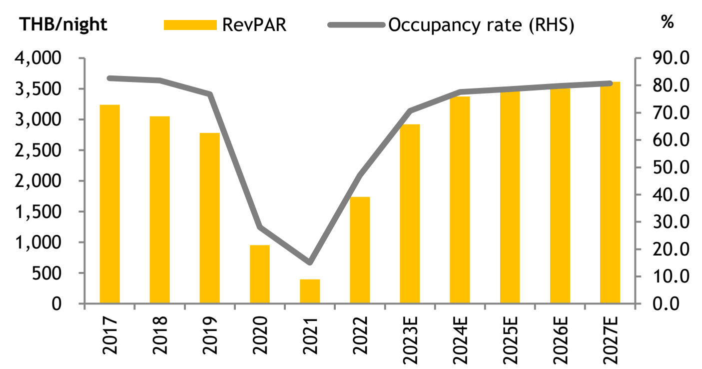
Source: Company data, MST

3. Investment Focus

3.1 Benefit from return of Chinese tourists

We expect average RevPAR for hotels in Thailand to surpass the 2018 level by 8% in FY24E (vs. 4% discount in FY23E) as we anticipate full recovery in Chinese tourist arrivals. The inflow from the mainland should benefit CENTEL the most relative to other listed hotel peers as Chinese guests accounted for 15% of total room nights spent at CENTEL's hotel establishments in 2019. Bangkok hotels (35% and 32% of CENTEL's hotel revenue in FY19 and 1H23) and key destinations in southern provinces such as Phuket, Krabi and Samui (25% and 28% of CENTEL's hotel revenue in FY19 and 1H23) are the main attractions for Chinese tourists.

Fig 21: Hotel metrics (Thailand portfolio)



Source: Company data, MST

Fig 22: Hotel renovation plans

Projects	Renovation start	Normal operation	No. of room	% revenue portion	Expect ADR growth (%)
Centara Grand Mirage Beach Resort Pattaya	3Q23	3Q24	553	13%	10-15%
Centara Karon Resort Phuket*	3Q23	3Q24	335	5%	10-15%
Centara Grand Beach Resort & Villas Hua Hin	2025	late 2027	251	7%	20%

*Source: Company data, MST * Centara Karon Resort Phuket will fully close*

We assume occupancy rate of CENTEL's Thailand hotels for FY24 to rise to 78% from 71% in FY23E, but still below 82-83% during FY16-18. This is because we anticipate potential impact from property closures for renovation, including Centara Karon Resort Phuket (full closure starting in 3Q23), Centara Grand Mirage Beach Resort Pattaya (partial closure starting in 3Q23) and Centara Grand Beach Resort & Villas Hua Hin (partial closure starting in 2H24). These properties have 1,139 room keys in total and contributed almost a quarter of total hotel revenue during pre-Covid period. However, we expect the benefits of pent-up demand to remain, supporting ADR for hotels in Thailand to stand at 17% above FY18 level (8% in FY23), which should help offset the impact of sluggish recovery in occupancy rates.

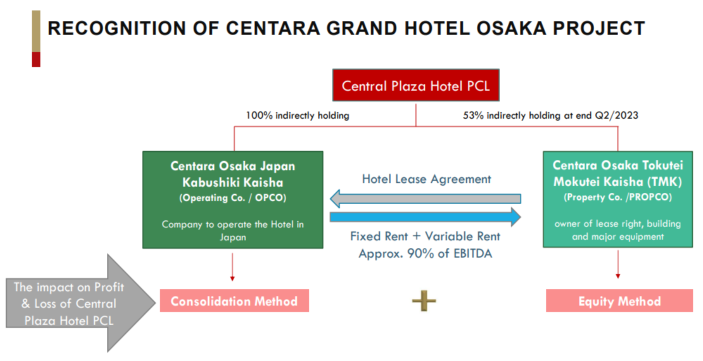
Management guided that renovations could take a year to complete, but expects this will increase ADR for those properties by at least 10-15% after completion. We have not factored in the full benefits of this uplift into our model as we conservatively anticipate downside risk to ADR from competition in Pattaya City and Hua Hin due to new hotel supply. However, these properties are the flagship Centara provincial hotels that can serve a variety of guest types, ranging from family vacations to group tours. Therefore, we assume average RevPAR for the upcountry segment to grow by 6% CAGR in FY24-27E.

3.2 New hotel in Japan could generate a profit

We expect Centara Grand Hotel Osaka to make up 12% of CENTEL's hotel revenue while contributing a small net profit in FY24E. The company will also receive rental income in the form of shared profit as it directly owns 53% of a JV called TMK, which is the owner of lease rights, buildings and major equipment. On the other hand, the performance from hotels will be consolidated into CENTEL. The complicated structure of operation should help minimize tax expense. We expect an occupancy rate of around 70-75% for the project, achieving positive bottom line from operations given an estimated ADR of THB6,800-7,000/night. Nevertheless, we expect minimal impact if occupancy rate falls below the target, as equity income from fixed-variable rents (approximately 90% of EBITDA generated from the property) will act as an earnings buffer.

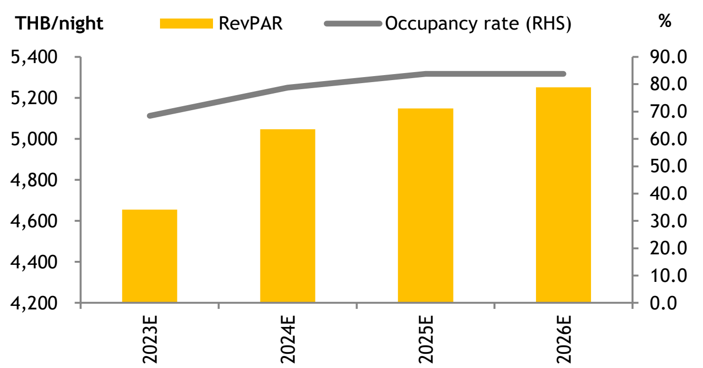
We have a positive view on Centara Grand Hotel Osaka as it will help fill in the earnings gap of Thai hotels in 2Q24, when Spring approaches with the iconic cherry blossom season that typically last from late March to April. Autumn in the third quarter is another peak season in Japan for visitor arrivals due to the vibrant foliage across the country.

Fig 23: Centara Grand Hotel Osaka holding structure



Source: Company data, MST

Fig 24: Centara Grand Hotel Osaka forecasted performance

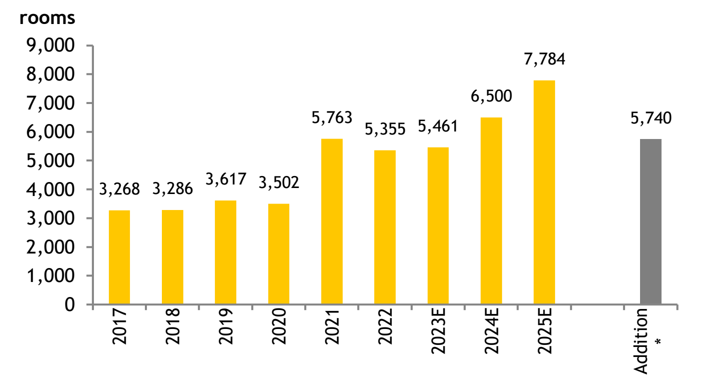


Source: Company data, MST

3.3 Growth in managed hotels as a key driver

Based on the company's hotel expansion pipeline, a number of CENTEL hotels will come under the management platform, in which the company earns fees from lending the 'Centara' brands and overseeing day-to-day operations for the property owners. Management fee income contributed around THB200-230m per annum before Covid before reaching a new high of THB234m in FY22 as the number of hotel rooms under management more than doubled to 5,355 rooms from 2,550 rooms in 2019.

Fig 25: Number of managed hotels (*contracted projects pending)



Source: Company data, MST

Fig 26: Summary of hotel openings in the pipeline

Year	2024	2025	2026 onwards	2023	2024	2025	2026 onwards	Total
No. of room	Owned and JV			Managed hotels				
Cambodia							240	240
China							596	596
Laos					322	48	548	918
Maldives	145	142					231	518
Myanmar							402	402
Qatar							761	761
Turkey							449	449
Thailand			130	224	371	551	1279	2555
Vietnam						481	2134	2615
Total rooms	145	142	130	224	693	1080	6640	9054
Total hotels	1	1	1	1	6	4	28	42

Source: Company data, MST

Looking forward, we expect management fee to almost quadruple to THB860m in FY26E if all the new hotels (with a total of 2,897 rooms) commence on time, as shown in the schedule. We have not included the remaining projects with 5,740 rooms that have already signed management contract, but were postponed to FY26 and onwards. We estimate income from management fees could go up to THB1.4b if all contracted hotels come online prior to FY27. But due to financial instability for some project owners after the pandemic and as banks have become more stringent in lending requirements, we expect less than half of the remaining 5,740 rooms will eventually be built. Given the high uncertainty for these projects, we have not included them in our forecasts.

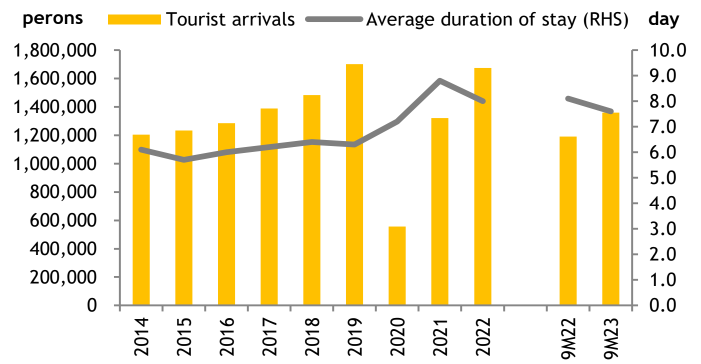
3.4 Maldives

The company plans to open two new hotels in the Maldives, including the Grand-Mirage concept with 145 room keys to be commenced in 4Q24, and another luxury resort with 142 room keys to be opened by 1Q25. The two properties, which target the family vacation segment, will double CENTEL's capacity in the Maldives to 539 rooms. This should lead to 70% revenue growth in this segment compared to its base in FY19.

We are aware of potential shift in tourist behaviour towards more economical options when spending on accommodation. The growing number of guest houses have put pressure on resort operators to lower their room rates in order to reduce vacancy rates, especially during low seasons. We do not expect another upcycle in ADR in the near term as threats from rising guest house supply remain. According to data from the Maldives' ministry of tourism, growth rate in guest house supply eased in FY22 and 9M23, but occupancy rates for this type of accommodation is still climbing to record high levels. This is due to the rising number of visitors from India to Russia who normally prefer guest houses to luxury resorts given their longer stays (8-9 days vs 5 days for Chinese visitors).

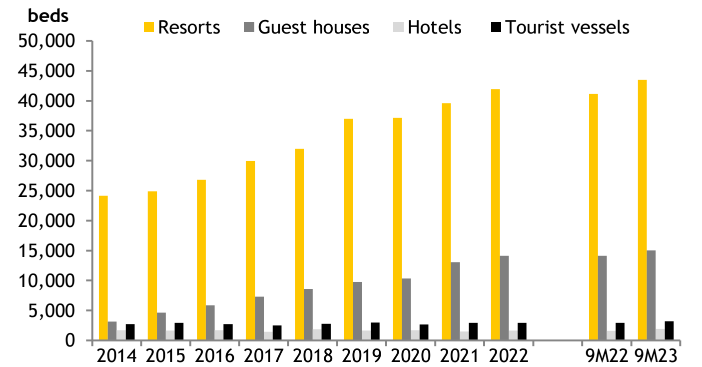
We expect room rate growth for CENTEL properties in the Maldives to slow down in FY23E and FY24E as the benefits of pent-up demand fades. We believe our RevPAR assumption for FY24-FY26E will be around 30% lower than FY17-18 as it already accounts for the impact from the oversupply situation in the Maldives. Faster-than-expected recovery in Chinese visitor arrivals and limited increase in guest house supply are the key earnings upside risks. We believe the Maldives still has potential to attract more foreign tourists in the long term. The largest airport in the Maldives, Velena International Airport, is currently undergoing a USD1b expansion, which will be completed in 2025. The new runway will be able to accommodate wide-body aircrafts, such as the A380, while facilities will also be able to accommodate 7.5m passengers a year by 2030, almost five times the 2022 level.

Fig 27: Number of tourist arrivals in Maldives and their average days of stay



Source: Company data, MST

Fig 28: Number of beds in Maldives by accommodation type



Source: Company data, MST

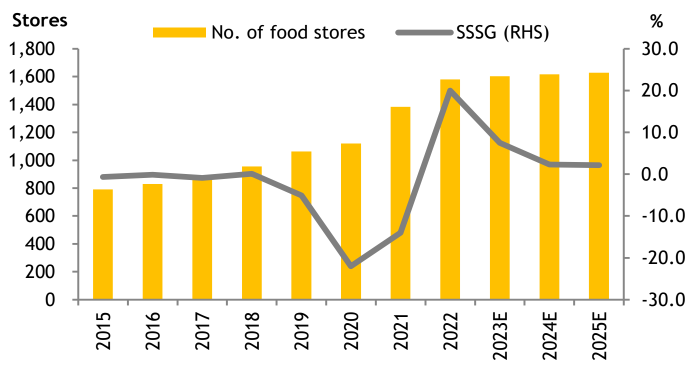
3.5 Food business as a cash cow

We believe CENTEL's food business will continue to generate consistent earnings for the company, driven by branch expansion. Our revenue assumptions include 12 new food stores per year starting from FY24E onwards, and SSSG of 2% pa, which is in line with long-term GDP growth in Thailand forecasted by the Bank of Thailand (BOT). We think these assumptions are conservative despite rising competition.

We expect EBITDA to recover strongly in FY24-FY25E, mainly due to lower food raw material prices and electricity costs, which is roughly equivalent to 30% and 5% of food revenue, respectively. Broilers account for around 40% of total food cost, followed by palm oil and flour at 10% and 5%, respectively. Prices for these items have been falling since mid-2023, which should help increase profit margins in FY24E.

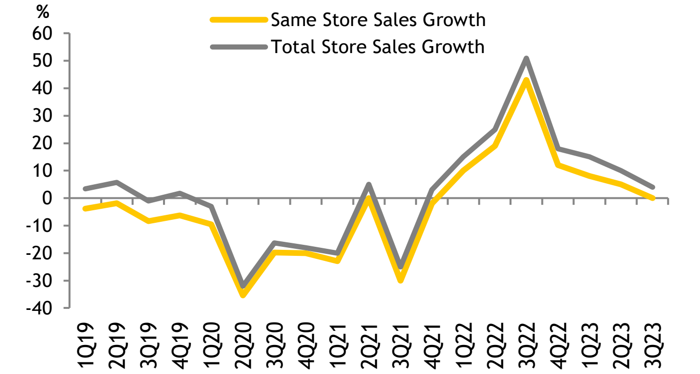
Overhead costs remain the main concern, and could possibly increase further after the new government promised to raise minimum wages. However, we expect EBITDA margins to expand as a drop in raw material cost and utilities will outweigh higher personnel expenses. Over the longer term, economies of scale (i.e. from bulk purchasing, consolidated back-office related expenses and centralized kitchen management) will help CENTEL maintain its EBITDA margin.

Fig 29: Number of CENTEL food branches and SSSG (%)



Source: Company data, MST

Fig 30: CENTEL's quarterly SSSG (%)



Source: Company data, MST

4. Financial analysis

4.1 Growth supported by inorganic and organic expansion

We forecast revenue growth of 25% YoY in FY23 before stabilizing at 6% CAGR in FY24-27E. Our key revenue assumptions include: 1) opening of two new hotels in the Maldives in 4Q24-1Q25 and 12 new food branches per year; 2) ADR growth of 3-4% during post-recovery period; 3) steady growth in occupancy rate from 78% in FY24E to 82% in FY27E; and 4) SSSG for food business of 2% from FY24 and onwards.

We expect net profit margin to recover gradually before reaching a record high in FY27E of 10.8% compared to the previous record in FY18 of 10.2%. Profitability improvement will be supported mainly by greater economies of scale.

Fig 31: Revenue breakdown and profitability

Revenue & profitability	FY21A	FY22A	FY23E	FY24E	FY25E
Hotel revenue (THB m)					
Bangkok	513	2,093	3,226	3,490	3,875
Up-country	700	2,878	4,518	5,075	5,573
Maldives	1,120	1,570	1,315	1,472	2,523
Japan	0	0	886	1,390	1,484
Total hotel revenue	2,334	6,541	9,945	11,426	13,455
YoY growth (%)	-25	180	52	15	18
Food revenue (THB m)	9,127	11,553	12,591	12,983	13,363
YoY growth (%)	-9	27	9	3	3
Total revenue (THB m)	11,461	18,094	22,535	24,408	26,818
Other income (THB m)	332	549	924	777	913
Profitability					
Gross profit (THB m)	3,584	6,994	9,299	10,862	12,196
Gross profit margin (%)	31.3	38.7	41.3	44.5	45.5
SG&A expenses (THB m)	5,075	6,295	7,826	8,548	9,191
SG&A to sales ratio (%)	44.3	34.8	34.7	35.0	34.3
EBITDA (THB m)	2,008	4,380	5,462	6,466	7,401
EBITDA margin (%)	17.5	24.2	24.2	26.5	27.6
Net Profit (THB m)	(1,733)	398	1,175	1,664	2,287
Net profit margin (%)	(15.1)	2.2	5.2	6.8	8.5

Source: Company data, MST

Fig 32: Key assumptions

Key Assumptions	FY21A	FY22A	FY23E	FY24E	FY25E
Thailand					
No. of hotel rooms	4,191	4,192	4,192	4,192	4,192
Occupancy rate (%)	15	47	71	78	79
ADR (THB)	2,621	3,688	4,144	4,248	4,393
growth (%)	-24	41	12	3	3
RevPAR (THB)	397	1,742	2,927	3,298	3,478
Maldives					
No. of hotel room	252	252	252	397	539
Occupancy rate (%)	61	68	72	70	73
ADR (THB)	11,025	15,002	13,599	13,985	14,066
growth (%)	-35	36	-9	3	1
RevPAR (THB)	6,756	10,154	9,853	9,789	10,201
Japan					
No. of hotel room	0	0	515	515	515
Occupancy rate (%)	0	0	69	79	84
ADR (THB)	0	0	6,597	6,968	7,177
growth (%)	0	0	0	6	3
RevPAR (THB)	0	0	4,519	5,514	6,038
Food business					
No. of food stores	1,383	1,580	1,604	1,616	1,628
SSSG (%)	-14	20	7	2	2

Source: Company data, MST

4.2 Disappointing 3Q23 earnings due to hotel operation

3Q23 net profit was THB74m. Striping out deferred tax expense, 3Q23 core profit was THB106m (+293% YoY +28% QoQ). Equity income was the main culprit as it turned negative to THB55m, mainly from initial depreciation expenses from lease liabilities from its hotel operation in Osaka, Japan (THB27m share of losses from Japan) and extra expenses from its Dubai hotel operation (40% stake) despite of RevPARat above operating level.

Revenue was in line with the market at THB5.2b (+18%YoY + 3%QoQ) as RevPAR recovered from the low season for Thai hotels in 3Q23 despite continued weakness in Maldives RevPAR during its low season and concerns about new room supply.

We expect earnings to recover QoQ in 4Q23 due to the high season in the Maldives and as Thai hotels will benefit from lower food and utility costs. However, we expect YoY contraction mainly due to impact from hotel renovation and weak Maldives hotel performances.

Fig 33: Quarterly earnings performance

Income Statement Yr-end Dec (THBm)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	%QoQ	%YoY	9M	%YoY	9M as % 2023E	2023E
Total revenue	3,678	4,189	4,430	5,192	5,530	5,057	5,208	3%	18%	15,795	28%	72%	21904
Cost of goods sold	(2,285)	(2,519)	(2,669)	(3,021)	(3,049)	(3,045)	(3,121)	2%	17%	(9,215)	23%	73%	(12,605)
Gross profit	1,392	1,671	1,760	2,171	2,481	2,012	2,088	4%	19%	6,581	36%	71%	9,299
SG&A	(1,413)	(1,619)	(1,605)	(1,658)	(1,837)	(1,800)	(1,850)	3%	15%	(5,487)	18%	70%	(7,826)
Operating profit	-21	51	155	513	644	213	237	11%	53%	1,094	487%	74%	1,473
EBITDA	951	1,009	1,091	1,509	1,673	1,174	1,220	4%	12%	4,068	33%	72%	5,662
Other income	204	150	143	231	308	193	208	8%	45%	709	43%	63%	1,124
EBIT	184	201	298	744	952	406	445	10%	49%	1,803	164%	69%	2,597
Interest expense	(172)	(177)	(184)	(193)	(186)	(273)	(280)	2%	52%	(739)	38%	71%	(1,047)
EBT	11	25	114	551	767	132	164	24%	45%	1,063	610%	69%	1,550
Income tax	(35)	12	(51)	(65)	(84)	(81)	(24)	-71%	-53%	(189)	158%	68%	(279)
Equity income	0	(18)	(48)	23	(27)	10	(55)	nm	14%	(72)	8%	119%	(60)
Minority interests	(21)	3	12	(11)	(52)	22	20	-8%	63%	(11)	109%	29%	(36)
Core profit	(44)	22	27	498	604	83	106	28%	293%	792	nm.	67%	1,175
Extra items	0	0	(105)	0	25	38	(32)	nm	nm	31	nm.		0
Net income	(44)	22	(78)	498	629	121	74	-39%	nm	823	nm.	70%	1,175
EPS (THB)	-0.03	0.02	-0.06	0.37	0.47	0.09	0.05	-39%	nm	0.61	nm.	70%	0.87
Ratio analysis													
Gross margin (%)	37.9	39.9	39.7	41.8	44.9	39.8	40.1			41.7			42.5
SGA/Total revenue (%)	38.4	38.7	36.2	31.9	33.2	35.6	35.5			34.7			35.7
Operating profit margin (%)	-0.6	1.2	3.5	9.9	11.6	4.2	4.6			6.9			6.7
Net profit margin (%)	-1.2	0.5	-1.8	9.6	11.4	2.4	1.4			5.2			5.4

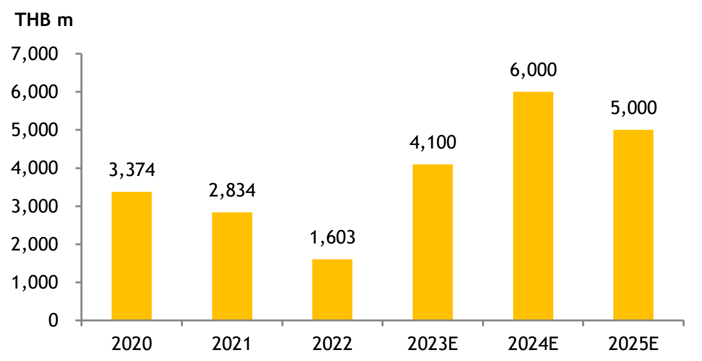
Source: Company data, MST

4.3 Growth supported

We expect operating cash flow of THB4.5b in FY23E, surpassing the level in FY19 due to increase in EBITDA. However, we forecast operating FCFF (EBITDA after tax, lease payments and capex) in FY24-25E to remain in negative territory as capex will be allocated for new hotels in the Maldives and Japan.

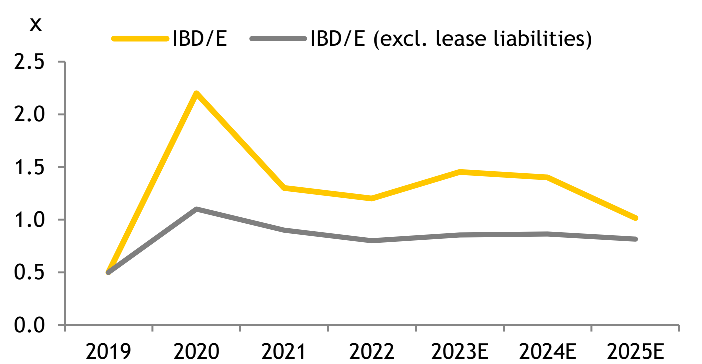
We forecast interest-bearing debt ratio (excluding lease liabilities) to increase to 0.85x in FY23E and to 0.86x in FY24E from 0.81x in FY22 as we expect interest-bearing debt to rise to support hotel expansion overseas. We expect interest expense to rise to THB1.0b in FY23E and THB1.1b in FY24E mainly from lease liabilities for its hotel in Japan, rising cost of debt and loan burden. In our view, higher average cost of debt should not inhibit CENTEL's growth as the company's interest-bearing debt-to-equity ratio remains manageable at 1.2x and below its debt covenant at 2.0x.

Fig 34: Capex investment (THB m)



Source: Company data, MST

Fig 35: Interest-bearing debt/equity ratio (%)

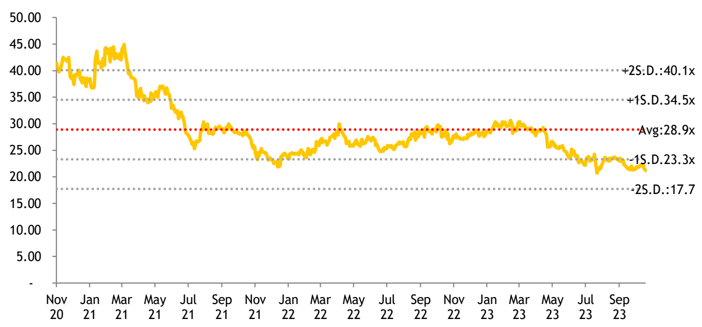


Source: Company data, MST

5. Valuation

We re-initiate coverage of CENTEL with a BUY and a DCF-based TP of THB50.0 (6.8% WACC, 3% terminal growth). Current valuation of FY24E PE of 35x is at a premium to its hotel peers (average of 23x). As we forecast 30% earnings CAGR for FY24-26E, however, CENTEL is trading at just 1.1x FY24E PEG vs 1.7x for the hotel sector on average. Additionally, it looks attractive in terms of P/BV as it's trading at close to its historical five-year mean. Meanwhile, 1-year forward EV/EBITDA remains at a discount relative to pre-Covid level, mainly due to strong growth in EBITDA.

Fig 36: Forward (1-year) EV/EBITDA - 3-year band



Source: Company data, MST

Fig 37: Forward (1-year) P/BV – 5-year band

Source: Company data, MST

Fig 38: DCF methodology

Y	0	1	2	3	4	5	6	7	8	9	10
	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577
CENTEL: Forecast by MST (THB m)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
EBIT	3,092	3,917	4,637	5,058	5,496	5,480	5,674	5,872	6,090	5,869	6,081
Less: corprate tax	(431)	(593)	(734)	(829)	(926)	(932)	(979)	(1,026)	(1,076)	(1,038)	(1,086)
NOPAT	2,661	3,324	3,903	4,229	4,570	4,548	4,695	4,846	5,014	4,831	4,995
Add: Depreciation & amortization	3,374	3,484	3,528	3,575	3,548	3,598	3,650	3,686	3,725	3,764	3,806
Less: lease liabilities	(1,905)	(1,860)	(1,819)	(1,782)	(1,749)	(1,719)	(1,692)	(1,668)	(1,646)	(1,626)	(1,609)
Change in net working capital	(220)	(190)	(113)	(96)	(105)	(67)	(71)	(74)	(109)	(73)	(73)
Less: CAPEX	(6,000)	(5,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(2,500)	(2,500)	(2,500)	(2,500)
Free Cash Flow	(2,090)	(241)	2,499	2,926	3,265	3,360	3,582	4,291	4,484	4,396	4,619
Terminal Value											125,205
PV of FCFF	(2,090)	(226)	2,191	2,402	2,510	2,418	2,414	2,707	2,649	2,432	2,393
PF of TV											64,850
FCFF and Terminal Value	84,650										
Cash	1,768										
Debt	18,915										
Equity value	67,503										
Share	1,350										
Target Stock price	50.0										
WACC calculation assumption	CENTEL										
No of shares (mn)	1,350										
Market value of Debt (Bt mn)	18,915										
Corporate Tax rate (T)	20%										
Rf	3.0%										
Market equity risk premium	7.4%										
Leveraged Beta	1.00										
Cash+ST Inv on balance sheets (Bt m)	1,768										
Terminal growth (g)	3.0%										
Ke	10%										
Kd	3.0%										
We	55%										
Wd	45%										
WACC	6.8%										

Source: Company data, MST

6. Risks

6.1 Risk from competition

There is intense competition in both room rates and the labour market within the industry. The company has developed an effective strategy to compete in the hospitality sector by focusing on marketing strategies that emphasize its superior locations and quality of service. This will involve development and training of hotel staff and a strategy to engage directly with customers through various means, including the Centara Privilege Club and Centara The1 programme, as well as a comprehensive marketing strategy to enhance the brand.

In the highly competitive restaurant business, the company plans to maintain its leading position in the market by continuously launching new products, improving its restaurants to meet various target customer groups and their changing behaviours, exploring new locations to reach more consumers, expanding its sales channels through delivery and online services, and improving customer services to be able to respond to their need, which requires convenience and speed.

6.2 Risk from macroeconomic risk and political certainty

The company may not be able to avoid macroeconomic and geopolitical risks, which include terrorism and international conflicts. To limit the impact, the company has diversified its source of income by reducing its reliance on one key hotel property and customers from any particular country. According to the company data, there was no single country that contributed more than 20% of total room revenue during pre-pandemic periods.

6.3 Risk from renewal of land lease

The company's key properties, such as Centara Grand Ladprao Bangkok and Centara Grand Central World, are operating on land owned by the State Railway of Thailand (SRTA) and Crown Property Bureau, respectively. The lease for these properties will mature in 2028 and 2032 and we have already factored in a substantial rise in rent. We estimate the company is paying around THB2.0b in rent pa, which the majority are paid in the form of depreciation under lease contract. In our base-case scenario, we expect 30% increase in rent in 2032 to around THB2.6b under the assumption that rent paid to the landlords are subjected to 25% revenue sharing from these properties. Higher-than-expected rent will represent downside to our earnings forecasts.

6.4 Risk from volatility in foreign exchange rate

The company and its associates have certain income in foreign currencies, such as income from hotel management in other countries, dividends received from hotels in other countries, and income from travel agents in other countries. On the other hand, the company has certain expenses in foreign currencies, such as franchise fees for the QSRs and payments for certain raw materials bought from abroad. In general, the company and its affiliates use their best efforts to offset the net foreign currency amount in order to reduce the effect of foreign exchange rate fluctuations.

When expanding the business to foreign markets, the company is exposed to foreign-exchange risk through the currency that its foreign business uses in its operations. Regarding investments, the company will borrow in the same currency as the expected cash flow from operations of the foreign businesses to benefit from natural hedge. The company continuously monitors exchange rate fluctuations and it’s ready to use financial instruments to prevent risks if necessary.

6.5 Risk from raw material price fluctuation

The price of raw materials used in the food business can vary and will be affected by various factors, such as weather conditions, labour issues, and the spread of communicable diseases in animals or plants. If the company is unable to minimize the risk, it will significantly impact operations. The company consistently controls the cost of raw materials by planning raw material procurement in advance based on the company’s annual sales plan, categorizing the types of raw materials, and purchasing each type of raw material with an objective to increase the purchase quantity and bargaining power in price.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	nm	144.3	49.7	35.1	25.5
Core P/E (x)	nm	134.8	49.7	35.1	25.5
P/BV (x)	2.3	3.7	3.0	2.7	2.5
P/NTA (x)	2.3	3.7	3.0	2.7	2.5
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	nm	4.1	2.4	4.2	4.8
EV/EBITDA (x)	27.3	18.4	13.5	11.8	10.3
EV/EBIT (x)	nm	64.5	30.8	24.6	19.5
INCOME STATEMENT (THB m)					
Revenue	11,197.0	17,487.7	21,904.5	24,408.4	26,818.2
EBITDA	2,007.7	4,380.3	5,462.3	6,466.1	7,401.3
Depreciation	(3,075.0)	(3,036.1)	(2,963.4)	(3,265.4)	(3,369.0)
Amortisation	(92.5)	(96.4)	(102.1)	(108.5)	(115.0)
EBIT	(1,159.8)	1,247.7	2,396.8	3,092.2	3,917.4
Net interest income /(exp)	(611.0)	(546.9)	(846.7)	(938.3)	(952.4)
Associates & JV	(64.1)	(43.6)	(60.0)	10.0	10.0
Exceptionals	0.0	(105.0)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	(1,834.9)	552.3	1,490.1	2,163.9	2,975.0
Income tax	77.5	(137.8)	(279.0)	(430.8)	(593.0)
Minorities	24.2	(16.4)	(36.3)	(69.3)	(95.3)
Discontinued operations	0.0	105.0	0.0	0.0	0.0
Reported net profit	(1,733.2)	398.1	1,174.8	1,663.8	2,286.7
Core net profit	(1,733.2)	503.1	1,174.8	1,663.8	2,286.7
BALANCE SHEET (THB m)					
Cash & Short Term Investments	3,354.4	3,136.6	2,148.6	1,768.3	2,404.2
Accounts receivable	801.4	1,227.4	1,261.8	1,387.2	1,530.5
Inventory	747.8	1,023.9	1,113.4	1,198.6	1,236.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	29,875.5	29,215.2	30,597.8	33,544.2	35,356.0
Intangible assets	681.7	695.9	693.8	685.3	670.3
Investment in Associates & JVs	3,920.6	4,564.9	5,564.9	6,564.9	7,564.9
Other assets	9,211.2	8,301.6	14,979.1	14,691.1	14,434.2
Total assets	**48,592.5**	**48,165.6**	**56,359.4**	**59,839.6**	**63,196.0**
ST interest bearing debt	5,097.8	5,999.9	3,557.4	3,897.5	4,010.5
Accounts payable	2,669.3	3,459.8	3,640.3	3,910.6	4,217.2
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	10,586.7	9,354.6	13,606.2	15,017.7	15,816.3
Other liabilities	11,807.0	10,461.0	15,454.0	15,179.0	14,935.0
Total Liabilities	**30,160.9**	**29,274.9**	**36,257.6**	**38,004.6**	**38,979.1**
Shareholders Equity	18,076.4	18,518.1	19,692.9	21,356.7	23,643.4
Minority Interest	355.3	372.6	408.9	478.3	573.5
Total shareholder equity	**18,431.7**	**18,890.7**	**20,101.8**	**21,835.0**	**24,217.0**
Total liabilities and equity	**48,592.6**	**48,165.6**	**56,359.4**	**59,839.6**	**63,196.0**
CASH FLOW (THB m)					
Pretax profit	(1,834.9)	552.3	1,490.1	2,163.9	2,975.0
Depreciation & amortisation	3,167.5	3,132.6	3,065.5	3,373.9	3,484.0
Adj net interest (income)/exp	(611.0)	(546.9)	(846.7)	(938.3)	(952.4)
Change in working capital	497.9	26.4	56.7	59.7	126.0
Cash taxes paid	0.0	(137.8)	(279.0)	(430.8)	(593.0)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	1,422.1	3,668.1	4,380.4	7,346.2	6,709.0
Capex	(1,617.8)	(871.1)	(3,000.0)	(4,900.0)	(3,900.0)
Free cash flow	(195.7)	2,797.0	1,380.4	2,446.2	2,809.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	3,610.2	(867.8)	1,809.2	1,751.6	911.5
Other invest/financing cash flow	(2,793.8)	(2,147.0)	(4,177.6)	(4,578.0)	(3,084.6)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	620.7	(217.8)	(988.1)	(380.2)	635.9

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	(13.2)	56.2	25.3	11.4	9.9
EBITDA growth	4.9	118.2	24.7	18.4	14.5
EBIT growth	nm	nm	92.1	29.0	26.7
Pretax growth	nm	nm	169.8	45.2	37.5
Reported net profit growth	nm	nm	195.1	41.6	37.4
Core net profit growth	nm	nm	133.5	41.6	37.4
Profitability ratios (%)					
EBITDA margin	17.9	25.0	24.9	26.5	27.6
EBIT margin	nm	7.1	10.9	12.7	14.6
Pretax profit margin	nm	3.2	6.8	8.9	11.1
Payout ratio	0.0	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	nm	2.3	5.4	6.8	8.5
Revenue/Assets (x)	0.2	0.4	0.4	0.4	0.4
Assets/Equity (x)	2.7	2.6	2.9	2.8	2.7
ROAE (%)	(12.4)	2.2	6.1	8.1	10.2
ROAA (%)	(4.1)	1.0	2.2	2.9	3.7
Liquidity & Efficiency					
Cash conversion cycle	(50.1)	(53.9)	(50.4)	(50.1)	(50.5)
Days receivable outstanding	21.2	20.9	20.5	19.5	19.6
Days inventory outstanding	36.2	30.4	30.5	30.7	30.0
Days payables outstanding	107.4	105.1	101.4	100.3	100.1
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	0.6	0.6	0.6	0.5	0.6
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.6	1.6	1.6	1.6
Net gearing (%) (incl perps)	66.9	64.7	74.7	78.5	71.9
Net gearing (%) (excl. perps)	66.9	64.7	74.7	78.5	71.9
Net interest cover (x)	na	2.3	2.8	3.3	4.1
Debt/EBITDA (x)	7.8	3.5	3.1	2.9	2.7
Capex/revenue (%)	14.4	5.0	13.7	20.1	14.5
Net debt/ (net cash)	12,330.0	12,217.8	15,015.1	17,146.9	17,422.6

Source: Company; Maybank IBG Research

December 11, 2023

Maybank Securities

Hotels

Thailand

Erawan Group (ERW TB)

Short-term positive factors priced in

HOLD

Share Price	THB 5.20
12m Price Target	THB 5.45 (+5%)

Initiate with HOLD and DCF-based TP of THB5.45

We re-initiate coverage of ERW with a HOLD rating and a DCF-based TP of Bt5.45 (6.4% WACC, 2% terminal growth) as we believe that medium-term positives are priced in. While FY23E net profit could hit a new high, we expect FY24E growth to taper off relative to sector (+10% YoY vs. peers at 21%) due to high base of RevPAR and losses in Japan. Valuation is unattractive at 32x FY24E PE compared with the sector's 23x. Upside risk includes further hotel expansion in Thailand, Japan and the Philippines whereas downside risk could come from higher lease expenses.

Strong growth in RevPAR for Bangkok hotels in FY23E unlikely to be repeated

We expect ERW to book record high net profit in FY23E at THB685m, the strongest rebound among domestic listed hoteliers. However, high base of average daily room rate (ADR) and occupancy rates at key Bangkok properties in FY23E will provide less room for net profit growth in FY24E. (+10% YoY). While ERW's cost management remains effective, we expect diminishing gains from economies of scale given the high base and potential downside from lease adjustment at Grand Hyatt Erawan.

Consensus is too optimistic on FY24-25E EPS growth

We think the consensus is too optimistic at 13% earnings growth in FY24E vs. ours at 10% as we see two major headwinds. The first is potential operating loss from new hotel openings in Japan. The second is growing hotel supply, especially in the luxury segment which will likely limit RevPAR growth.

New budget hotel to drive medium-term growth

We forecast FY24-26E net profit CAGR of 12%, supported by revenue recognition from new HOP INN openings in Thailand, the Philippines and Japan, organic ADR growth, and higher rental income from the ERW mall. Upside risks to our earnings forecasts are aggressive expansion in budget hotels given the favourable market outlook for this segment.

FYE Dec (THB m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	1,485	4,629	6,965	7,939	8,451
EBITDA	(636)	1,055	2,140	2,509	2,736
Core net profit	(2,021)	(229)	685	754	871
Core EPS (THB)	(0.45)	(0.05)	0.15	0.17	0.19
Core EPS growth (%)	nm	nm	nm	10.1	15.6
Net DPS (THB)	0.00	0.00	0.00	0.00	0.00
Core P/E (x)	nm	nm	34.4	31.2	27.0
P/BV (x)	2.3	3.6	3.7	3.3	2.9
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	(41.7)	(3.8)	11.3	11.2	11.5
ROAA (%)	(9.3)	(1.0)	3.0	3.1	3.5
EV/EBITDA (x)	nm	27.7	15.1	12.9	11.6
Net gearing (%) (incl perps)	164.5	155.8	135.2	120.8	99.2
Consensus net profit	-	-	728	818	937
MIBG vs. Consensus (%)	-	-	(5.9)	(7.8)	(7.0)

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Company Description

ERW owns and operates hotels in the luxury, midscale, economy and budget segments in Thailand and the Philippines.

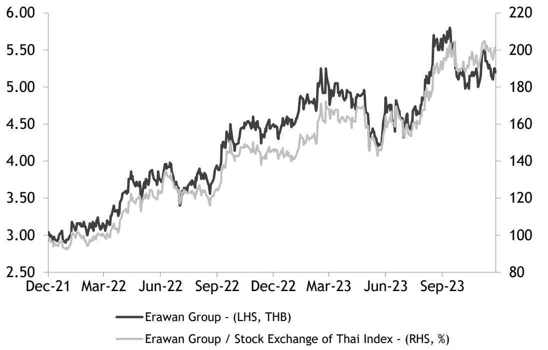
Statistics

52w high/low (THB)	5.80/4.14
3m avg turnover (USDm)	2.6
Free float (%)	58.2
Issued shares (m)	4,532
Market capitalisation	THB23.6B
	USD667M

Major shareholders:

Chodthanawat Co., Ltd	16.7%
Mid-Siam Capital Co., Ltd	14.1%
Mitr Phol Sugar Co., Ltd	5.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	(5)	17
Relative to index (%)	2	6	37

Source: FactSet

Terms defined
ADR - Average daily rate
RevPAR - Revenue per available room
MICE - Meetings, Incentives, Conference & Exhibitions

Other stock(s) mentioned
ACCOR - (AC FP, Non rated, CP EUR3.82)
IHG- (IHG LN, Non rated, CP GBP6,590)
Marriott Int.- (MAR US, Non rated, CP USD208)
Hyatt - (H US, Non rated, CP USD121)

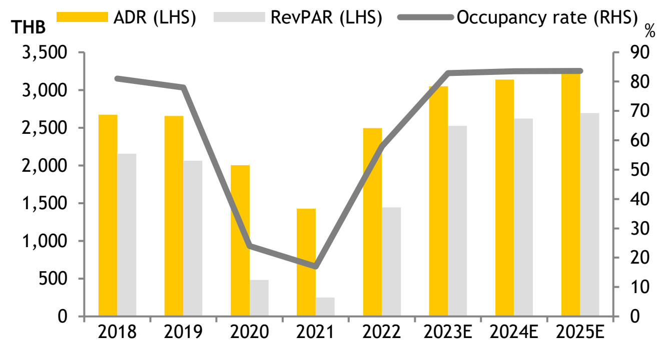
ESG@MAYBANK IBG
Tear Sheet Insert

SEE PAGE 77 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Value Proposition

- The ERW Group is a Thai hotel investment company with a diversified portfolio ranging from luxury to mid-scale, economy and budget. It owns and operates hotels under brands like Grand Hyatt, JW Marriott, and HOP INN. It operates 76 hotels with 10,068 rooms in Thailand and the Philippines.
- Thailand's Covid lockdown severely hurt ERW's hotel occupancy which hit a low of 9% in 2Q20 and recovered to above 81% in 9M23.
- HOP INN (budget segment) contributed 23% of FY22 EBITDA and proved the most resilient segment as it caters to local business travellers who were relatively unaffected by seasonality and weak demand from foreign tourists.
- ERW plans to expand the budget HOP INN segment to 134 locations in the Asia Pacific region by 2030 (105 in Thailand, 15 in Japan and 14 in the Philippines).

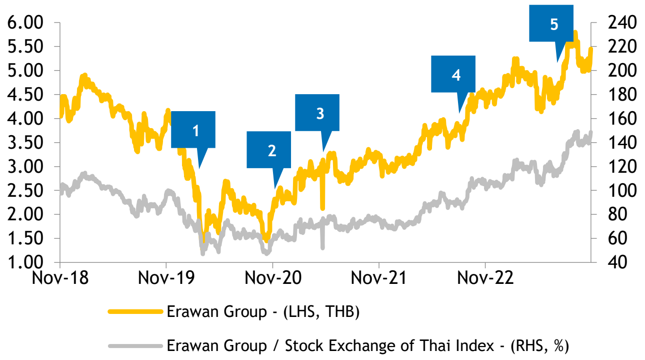
Non-HOP INN hotels performance



Source: Company

Price Drivers

Historical share price trend



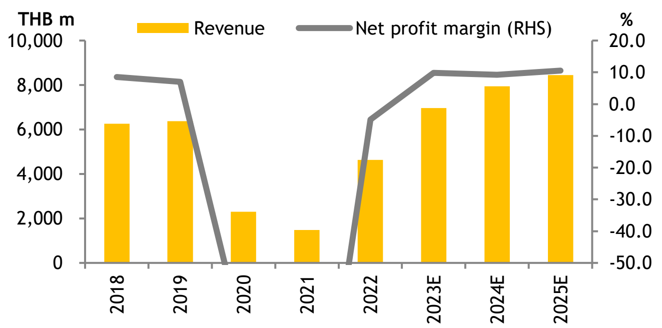
Source: Company, MST

1. Covid-19 became a global pandemic, resulting in worldwide lockdowns and shutdowns.
2. Covid was relatively contained in 4Q20, especially in Thailand.
3. The company raised THB2.1b in capital to support operations during the Covid-19 crisis.
4. Full international border reopening in Jul-22.
5. Outperformed operational results ahead of other domestic hotel peers.

Financial Metrics

- We forecast revenue and earnings to hit a record high in FY23E, the strongest rebound among domestic listed hotel peers despite the overall industry not fully recovering in terms of foreign tourist arrivals.
- We forecast interest bearing debt ratio to decline to 1.7x in FY23 from 1.8x in FY22, mainly thanks to an increase in equity. ERW'S capital structure is supportive of future investment.

Revenue and net profit margin



Source: Company

Swing Factors

Upside

- Stronger-than-expected tourist arrivals of 35m in FY24E.
- Better-than-expected recovery in the mid-scale and economy segments that have not recovered fully.
- Better-than-expected occupancy during the initial opening of hotels in Japan.

Downside

- Weaker-than-expected tourist arrivals of 35m in FY24E.
- Slower-than-expected recovery in the mid-scale and economy segments that have not recovered fully.
- THB appreciation could lead to fewer international tourists and translational loss impact from overseas operations.
- Higher-than-expected operating cost that will be arise from hospitality labour shortage.

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Risk Rating & Score[1]	29.5 Medium risk
Score Momentum[2]	-4.3
Last Updated	26 Oct 2023
Controversy Score[3] (Updated: 26 Oct 2023)	No evidence of controversies

Business Model & Industry Issues

- Every hotel brand under ERW commits to zero greenhouse gas emissions by 2050 through efficient energy, water and waste management along with environmentally friendly procurement
- The company has a Corporate Social Responsibility (CSR) policy of reducing waste, especially food waste and reducing plastic usage at its premises.
- In 2023, ERW was included in the list of ESG Turnaround companies with nine other securities certified by the ThaiPat Institute and the Thai Securities and Exchange Commission (SEC) for its outstanding sustainability performance in the tourist and leisure sector in Thailand.

Material E issues

- In 2022, ERW was able to reduce its energy use by 3% in compared to the 2019 level.
- In 2022, ERW increased its percentage of treated wastewater before disposal to 48%. It aims to reduce water usage by 5% per year.
- 80% of hotels have changed 100% of light bulbs to LED.
- ERW has a policy to reduce the consumption of single-use plastics. It aims to reduce waste destined for landfill by 50% within 2025 through the 4R principles of Reduce, Reuse, Recycle, and Resource.

Material S issues

- Hotels within the group delivered food, alcohol gel, consumables to neighbouring communities and the public.
- The company held a HOP INN internship project that aimed to train vocational and university students for hotel work. The purpose is to produce hotel staff that meet market demands within the tourism industry while offering job opportunities for students.
- ERW has conducted an annual capacity-building plan every year, focusing on training staff in tandem with individual development plans (IPD). ERW also regularly monitors and assess staff IPDS.

Key G metrics and issues

- There are 11 members on the board of directors: of whom 3 are female, 5 are non-executive and 4 are independent. Each director serves up to three years.
- Independent directors can remain in office for three years each term but their term will not exceed nine consecutive years unless the Nomination and Corporate Governance Committee requests the board to consider it on a special case.
- The board of directors is subject to an annual performance evaluation.
- In 2022, ERW paid THB3.6m to directors, or 0.1% of total revenues.
- KPMG Phoomchai Audit Company Limited is ERW's auditor and in 2022, the company paid THB7.6m in audit fees for both the company and its subsidiaries.
- There are three directors in the audit committee, all of whom are independent.
- Independent directors can hold less than 1 percent of ERW's total shares with voting rights in the company, its affiliated and associated companies, or any other person with possible conflicts of interest.
- Anyone can report CSR issues through ERW's website and ERW's compliance team will investigate. The whistle-blower can choose to keep his or her identity secret.
- ERW has an anti-corruption policy. The company has established a policy and criteria on giving or accepting gifts to ensure that there is no corruption involved.
- The company has a risk management plan. A crisis management team has also been formed to manage the risk during Covid. For example, ERW focused on upgrading cleanliness and safety standards at its hotels starting from the early days of the pandemic.
- The company has a dividend policy of paying not less than 40% of net profit.

[1]***Risk Rating & Score*** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]***Score Momentum*** - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]***Controversy Score*** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

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	Quantitative Parameters (Score: 42)					
	Particulars	Unit	2020	2021	2022	CENTEL 2022
E	Scope 1 GHG emissions	m tCO2e	NA	NA	NA	34,956
	Scope 2 GHG emissions	m tCO2e	NA	NA	NA	98,625
	Total	**m tCO2e**	**29,050**	**28,780**	**41,924**	**133,581**
	Scope 3 GHG emissions	m tCO2e	NA	NA	NA	25,817
	Total	**m tCO2e**	**29,050**	**28,780**	**41,924**	**159,398**
	GHG emission intensity per occupied room	kgCO2e/room	8.08	9.95	6.34	58.29
	Electricity consumption intensity per room	MWh/room	8.1	9.9	6.3	43.7
	Water intensity per occupied room	cu m/room	227.53	253.91	179.53	568.95
	% of waste diverted away from landfill	%	NA	NA	NA	36%
	Green energy % of total usage	%	NA	NA	NA	0.24%
S	% of women in workforce	%	54%	55%	55%	63%
	% of women in management roles	%	59%	62%	58%	29%
	Customer satisfaction score	%	79%	80%	79%	NA
	Employee turnover rate	%	49%	25%	32%	31%
	No. of case - Recordable work-related injuries	rate	28	33	73	NA
	Employee training per employee	hours	40.8	32.8	27.0	18.4
G	Board salary as % of reported net profit	%	1.92%	2.47%	1.06%	0.28%
	Independent directors on the Board	%	36.36%	36.36%	36.36%	28.60%
	Female directors on the Board	%	27.27%	27.27%	27.27%	35.70%

Qualitative Parameters (Score: 67)

a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?

Yes, sustainability committee consists of representatives of executives from various departments with the president as chairman of the board.

b) is the senior management salary linked to fulfilling ESG targets?

Not specified

c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?

No.

e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?

Yes, but only for water consumption

f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?

'- The Erawan Group Plc., aims to reduce waste destined for landfill by 50% within 2025 through the 4R principles of Reduce, Reuse, Recycle, and Resource.

- Staff are encouraged to be aware of the importance of smart water use, for example, not to keep water tap running to avoid wasting water, dispense the right amount of water from a water dispenser.

- Install timers to control on-off switches and alternately turn on/off lighting to promote adequate and energy-saving.

g) Does carbon offset form part of the net zero/carbon neutrality target of the company?

Ensure that all hotels (100% owned and managed by the company) provide services related to energy reduction and carbon offset by the year 2027.

Target (Score: 71)

Particulars	Target	Achieved
Replacing light bulbs with LED bulbs. Every hotel embarked on a replacement project on a zone basis in 2019. We plan to meet the 100% goal in 2025.	100%	80%
Reduce energy intensity by 4% per year	-4%	-36%
The target is to reduce water usage by 5% per year.	-5%	-30%
Increase the share of clean energy by 10% by the year 2030.	10%	NA
Net zero carbon emission by 2050	By 2050	NA
Aims to reduce waste destined for landfill by 50% within 2025	-50%	NA

NA

Overall Score: 55

As per our ESG matrix, The Erawan Group (ERW TB) has an overall score of 55.

ESG score	Weights	Scores	Final Score
Quantitative	50%	42	21
Qualitative	25%	67	17
Target	25%	71	18
Total			**55**

As per our ESG assessment, ERW has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "S" metrics YoY especially in terms of employee turnover rate and recordable work-related injuries. ERWs overall ESG score is 55, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

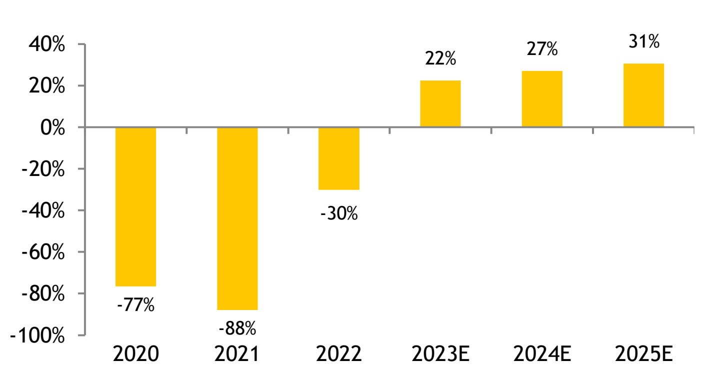
1. Solid earnings recovery with conservative investments

1.1 Expect record high earnings in FY23E

ERW's hotel performance in 9M23 has already reached the pre-pandemic level, thanks to pent-up demand from key foreign tourist markets led by China, US, Singapore and India. This led to strong growth in ADR, which increased to above the pre-pandemic level even though the overall number of foreign tourists recovered to less than 70% compared with the 2019 level. Looking forward to 4Q23, we expect net profit to expand strongly QoQ due to the high season, but could drop YoY given pre-opening expense that will arise from hotels in Japan and higher interest charges given the higher interest rate environment. We expect the 1Q24E results to exceed the level we have seen in 1Q23 at THB239m, but still be slightly below the record high at THB286m booked in 1Q18 when interest expense was much lower.

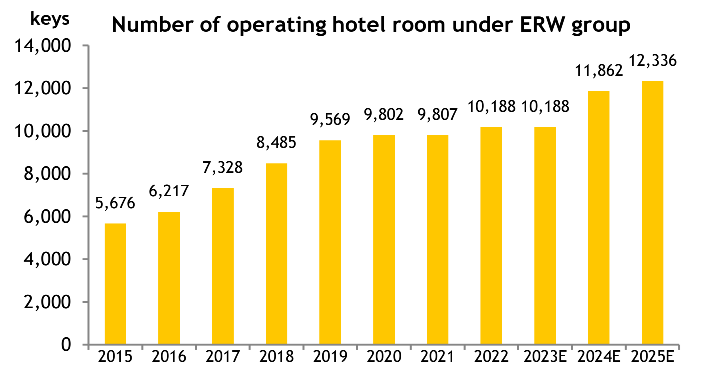
We expect ERW to book record high net profit in FY23E at THB685m compared with a THB224m loss in FY22, the strongest rebound among Thailand's listed hoteliers. This is thanks to good operational management in terms of room rate pricing and effective cost control, despite pressures from rising utility, employee and food costs.

Fig 1: Group RevPAR (Excl. HOP INN) compared to 2019 level



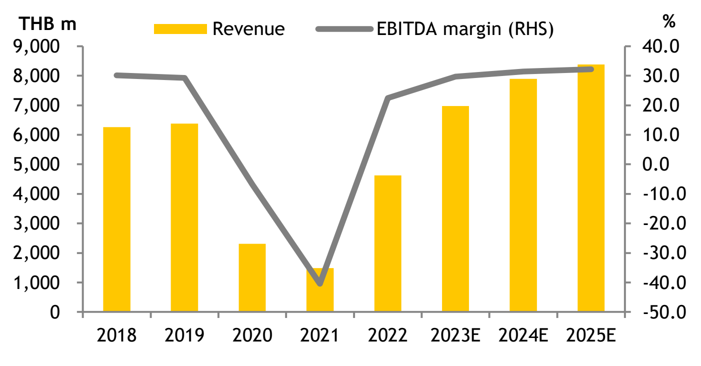
Source: Company, MST

Fig 2: Number of rooms in ERW portfolio



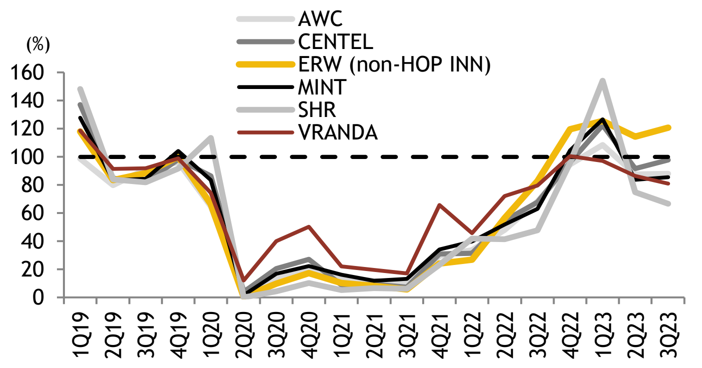
Source: Company, MST

Fig 3: Full recovery is expected to be seen from 2023 onwards



Source: Company, MST

Fig 4: Non-HOP INN RevPAR as % of 2019 average level (Thailand properties)



Source: Company, MST

1.2 Expect continued growth in FY24E

We expect to see full earnings recovery in the hospitality business in FY24E as the number foreign tourists and tourism revenue approaches 2019 levels at 35m arrivals and THB3.0tn total spending, respectively.

We forecast ERW to book record-high annual net profit in FY24E at THB754m (+10% YoY). First, we expect continued increase in travel demand, especially from Chinese tourists who contributed about 14% of the company's room revenue in 2019 vs. 16% in 2Q23 and 14% in 3Q23. This will likely drive average RevPAR for the non-HOP INN segments to 27% above 2019's average level (+4% YoY).

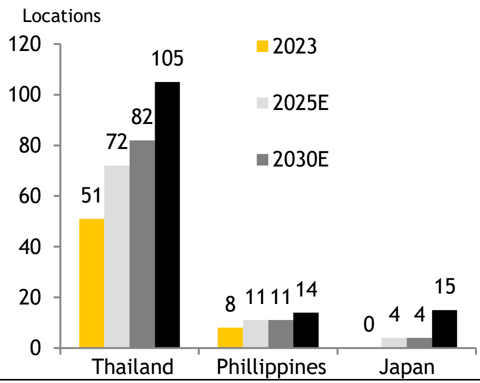
Second, we expect continued benefits from greater economies of scale as we assume operating cost per room to reduce in contrast to growing RevPAR. We also believe effective cost control along with declining utility expense (electricity price drops 15% YoY in FY24E) will further enhance margins. Third, we expect growth from HOP INN expansion in Thailand and the Philippines as the company plans to open 15 new domestic budget hotels in FY24, and three new HOP INN locations in the Philippines. Lastly, higher rental income from renovated leasable space at ERW mall at the busy Ratchaprasong intersection should help spur growth. The new space fully opened for business in June'23.

1.3 Upside from future investments

Domestic HOP INN expansion as a key growth driver

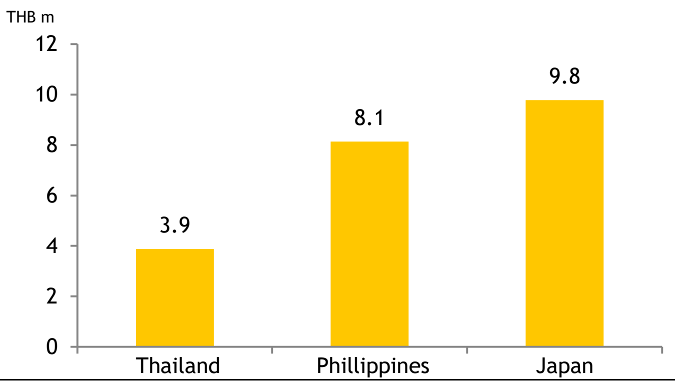
We expect solid expansion in HOP INN chains in Thailand in FY24 after muted growth in FY23. The number of new openings could rise to the company target at 15 branches which will gradually open from 2Q24 until year-end 2024. We expect the 15 branches to add 1,185 rooms (79 keys for every location) or +27% to the existing portfolio. Currently, 8-10 locations are under construction while the remainder have yet to secure their land bank. We expect another six locations to be opened in FY25 (+9% YoY to 5,984 keys). We estimate THB3.9m net profit upside, or 0.4% of our FY25, forecast for every new HOP INN location with the standard 79 rooms. If management can reach its ambitious goal of 100 locations within FY30 (vs. 82 in our assumption), then we estimate THB70m net profit upside, or 6% for our forecast during the period.

Fig 5: Number of HOP INN locations vs. ERW's target in FY30



Source: Company, MST

Fig 6: Estimated earnings upside per HOP INN in each country



Source: Company, MST

Adding more hotels to overseas portfolio

ERW plans to open three new HOP INN in the Philippines in FY24 with total size of 489 rooms (+33%), which will increase the number of operating hotels in the Philippines to 11, 10 HOP INN and 1 mid-scale hotel in Cebu city. We estimate THB8m, or 0.7% net profit upside from each of the four pending projects (160 rooms per location) that may reach the management target of 15 locations in FY30.

The company will also start operating four new budget hotels in Japan after it completed its THB1.7b acquisition in Sept-23. Meanwhile, ERW aims to have ten hotels in Japan in total by 2030, which could generate THB110m net profit upside under the assumption that each location contains an average of 90 rooms with similar hotel parameters applied as estimated in the Fig 41.

1.4 Risks

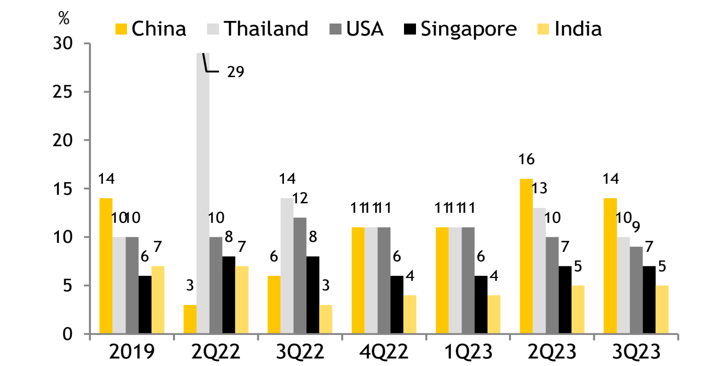
Sluggish recovery in international tourism unlikely to hurt ERW's performance

Lower-than-expected recovery in foreign tourists following a slowdown in global recovery could hurt earnings in FY23-24E. However, according to management guidance, its top five markets have already seen room revenue rates rebound to 2019 levels since 2Q23 despite a slower-than-expected recovery in overall foreign tourist numbers. Therefore, we expect limited downside to ERW's net profit in FY24E even if total arrivals do not meet the Tourism Authority of Thailand's (TAT) target of 40m arrivals.

Expect limited earnings downside from potential increase in lease expenses

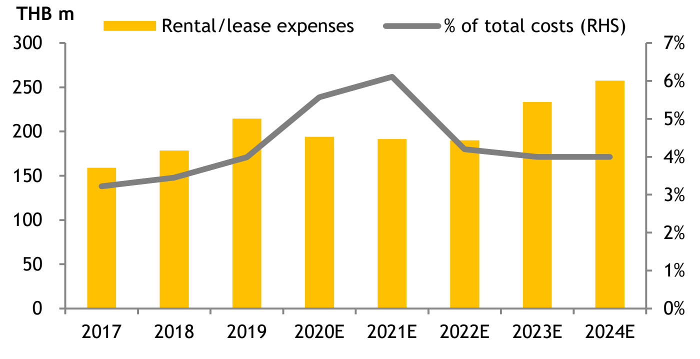
Management disclosed that the property lease for the luxury Grand Hyatt Erawan Hotel with the government authority expired in 1H20 and is already in an extension period. The company expects to sign a new lease in the near-term, although we expect a substantial increase in rental rate. We estimate that it has been paying rental expense of between THB180-215m p.a. in FY18-FY22 (booked as depreciation since 2020). In the new contract, we expect the lease to rise to THB258m p.a. in FY24E. We also estimate that every THB10m increase in rental expense p.a. would reduce FY24E earnings by 1%. Nevertheless, we see limited upside risk to our lease expense assumption as the lessor holds 26.36% of Grand Hyatt Erawan shares via The Syndicate of Thai Hotels & Tourist Enterprises Ltd. which is the land and building owner.

Fig 7: % of room revenue to Thailand portfolio (excl. HOP INN)



Source: Company, MST

Fig 8: Estimated lease/rental payments to landlords



Source: Company, MST

2. Corporate information

2.1 Business description

The Erawan Group PCL was established on 29 Dec 1982. The company and its subsidiaries' core businesses are hotel development and operations. As of 3Q23, the company owned 76 hotels with 10,188 rooms and one retail & office building for rent at Ratchaprasong intersection in Bangkok, one of the most popular retail destinations for foreign tourists. Its hotel portfolio covers all segments including luxury, midscale, economy and budget with properties located in Thailand and the Philippines.

Cooperating with big name global hotel chains

As a pure hotel operator, the company operates the hotels of well-known international hotel brands. Erawan has management agreements with three global hospitality chains (1) Hyatt (H US: not rated) (2) Marriott (MAR US: not rated) and (3) InterContinental Hotels Group (IHG LN: not rated) , and operates those assets under 5 five different brands. The management company oversees the day-to-day operations of the properties, including sales, marketing, and guest services while ERW is responsible for paying management fees, other fixed charges, ground rent and debt-capital costs. For most of the mid-scale to economy segments, ERW manages these properties under franchise agreement with ACCOR (AC FP: not rated), which is the franchiser of ERW properties under the Novotel, Mercure, ibis Styles and ibis hotel brands. It also operates the Holiday Inn in Cebu City, Philippines under a franchise agreement.

Fig 9: Luxury and mid-scale hotels under hotel management agreement

Source: Company

Fig 10: Mid-scale and economy hotels under franchise agreement

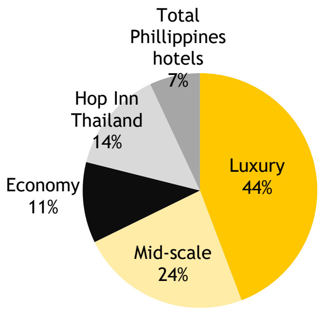
Source: Company

Leading player in budget hotel chains under HOP INN

Recently, ERW expanded its footprint in the budget hotel segment both in Thailand (since 2014) and the Philippines (since 2016) under its own HOP INN brand. As of 3Q23, the company owned 51 locations with 4,320 HOP INN rooms, mostly located in outer Bangkok and key provinces for business travellers and tourist destinations. In the Philippine portfolio, ERW also owns six HOP INN locations in Manila City and one property in Cebu city.

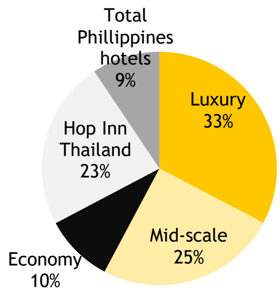
2.2 Diverse market segments to serve all travel habits

Fig 11: Hotel revenue breakdown by segment in FY22



Source: Company, MST

Fig 12: Hotel EBITDA breakdown by segment in FY22



Source: Company, MST

Luxury segment as earnings buffer

The company's revenue contribution is classified into six portions, according to tier of hotel service segment, namely Luxury, Mid-scale, Economy, Budget under HOP INN Thailand, HOP INN Philippines, and, rental income from retail and office space. Three key properties under its luxury segment; Grand Hyatt Erawan, JW Marriott, and The Naka Island, Phuket together generated 44% and 40% of total core revenue in 2022 and 9M23, respectively.

Fig 13: Grand Hyatt Erawan Bangkok

Source: Company

Fig 14: Naka Island, Phuket

Source: Company

Fig 15: JW Marriott-hotel-Bangkok

Source: Company

Grand Hyatt Erawan Bangkok

The 5-Star Hotel located at Rajdamri Road in the heart of Bangkok with 380 keys. The hotel offer a full-range of luxury hospitality services including well known restaurants, conference rooms, various guest rooms beginning from standard room to villa with garden view certified by the standard of the Hyatt group. Foreigners comprise 85% of guests while the rest are Thai visitors.

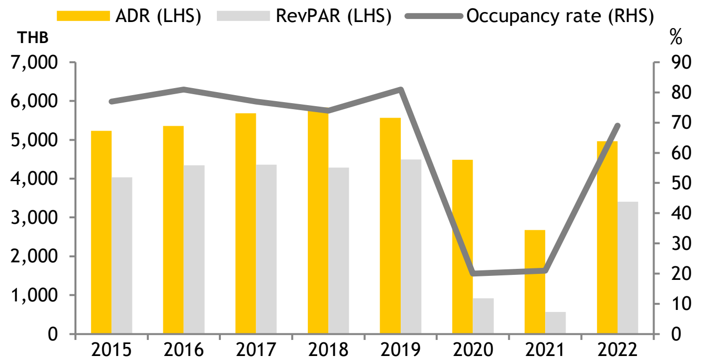
JW Marriott Hotel Bangkok

A 5-star hotel with 441 room keys located at Sukhumvit Soi 2 Road, near the business district and along a mass transit line, able to attract business groups and tourists, especially from the Middle East. Foreign visitors accounted for 90% while the rest were local guests.

The Naka Island, a Luxury Collection Resort & Spa, Phuket

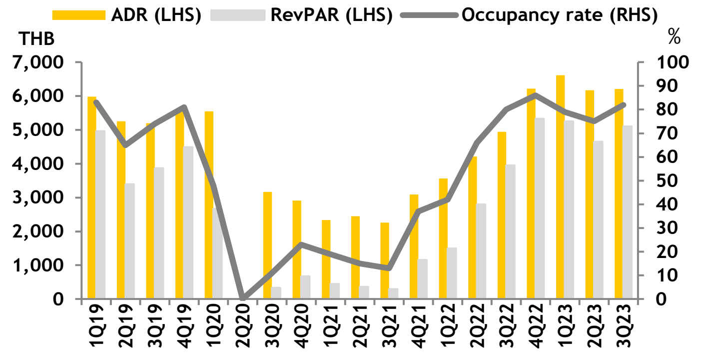
A 5-star luxury resort with 90 room keys managed by Marriott International. It offers a wide range of room types, including standard deluxe and pool villa rooms. The resort located on Naka Yai Island where the guests receive personalized service, including recreational activities such as island tours, cooking classes, and outdoor sports. Foreign guests account for 70% while the rest are Thai visitors.

Fig 16: Luxury hotel yearly performance



Source: Company, MST

Fig 17: Luxury hotel quarterly performance



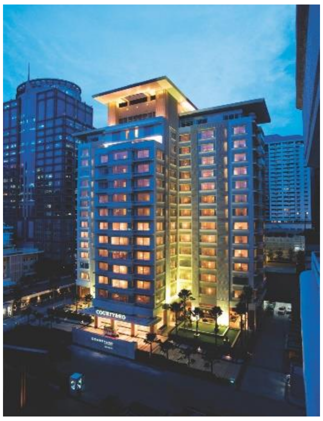
Source: Company, MST

Given the pent-up demand for leisure travel during the early stage of reopening and thanks to its location advantage, the company's luxury properties have outperformed other segments and peers in terms of RevPAR while generating superior EBITDA margins, driven by ADR that exceeded pre-Covid levels by 15-20%. The luxury segment generated 33% and 28% of the company's EBITDA in 2022 and 9M23, respectively.

Mid-scale segment under several well-known brands

Mid-scale contributed 23% and 27% of core revenue during 2022 and 9M23 respectively. This segment is led by four brands: Novotel, Mercure, Holiday Inn, and Courtyard by Marriott Bangkok.

Fig 18: Courtyard by Marriott Bangkok

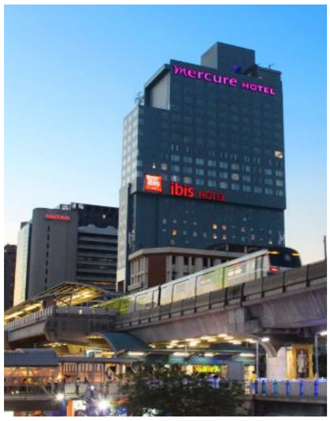


Source: Company

Fig 19: Novotel Bangkok Sukhumvit 4

Source: Company

Fig 20: JW Marriott-hotel-Bangkok



Source: Company

Courtyard by Marriott Bangkok

A 4-star hotel with 316 room keys located close to mass transit lines within walking distance to business and shopping areas such as Central World shopping centre. This property offers attractive room prices despite being in a prime location at the heart of Bangkok. More than 80% of guests are from overseas while the rest are domestic travellers.

Novotel Bangkok Sukhumvit 4

A 4-star hotel with 185 rooms located at Soi Sukhumvit 4 (nearby BTS Nana), and operates under framework of Accor Group. The hotel is close to business-retail districts with easy access to mass transit lines. Foreigners make up 90% of guests while the rest are Thai visitors.

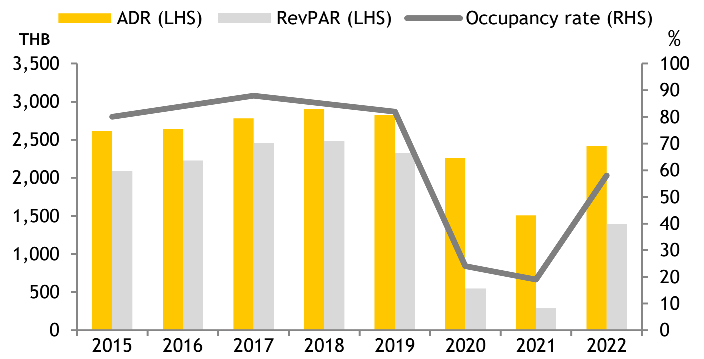
Mercure Hotels

ERW owns three Mercure hotels with two properties in central Bangkok and another in Pattaya. These are 4-star hotels with 900 rooms that operate under the framework of Accor Group. The highlight of these hotels is that they are located near to shopping and business destinations. Domestic guests are 35% of the total while the remainder are foreigners.

Holiday Inn Pattaya

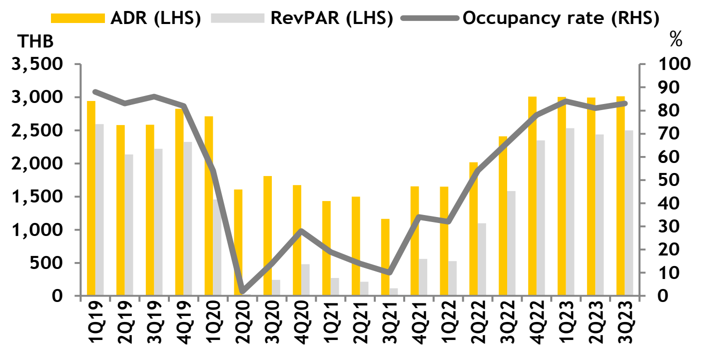
A 4-star hotel with 200 room keys at North Pattaya beach. The hotel rooms are designed for all guests to see a view of Pattaya bay. International visitors account for 72% of total arrivals at this property.

Fig 21: Mid-scale hotel yearly performance



Source: Company, MST

Fig 22: Mid-scale hotel quarterly performance



Source: Company, MST

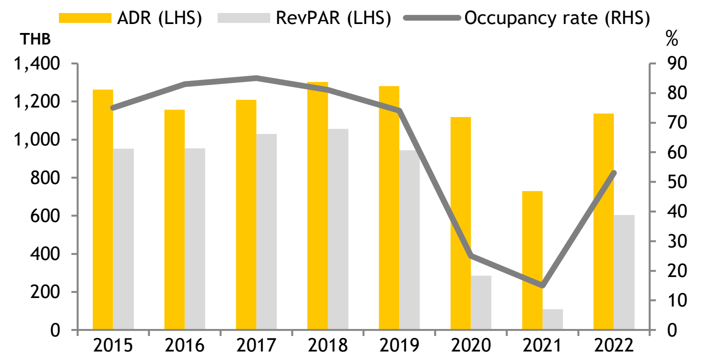
Solid operating performance of mid-scale hotels started to kick in at the beginning of the high season in late 2022 where RevPAR reached pre-Covid levels while delivering record-high EBITDA margins due to good cost management. ERW generated 25% of its EBITDA from mid-scale hotels in 2022 and 31% in 9M23.

The largest ibis' franchisee in Thailand

The economy segment generated 11% of total core revenue in 2022 and 13% in 9M23. It has eight 3-star hotels with 1,813 room keys operated under the ibis Styles and ibis brands, located in major Thai tourist destinations such as Bangkok, Phuket and Pattaya. These properties offer reasonable prices with standard rooms, cleanliness, safety, comfort, and facilities for local business travellers. Domestic travellers account for 40% of guests while the remainder are foreigners.

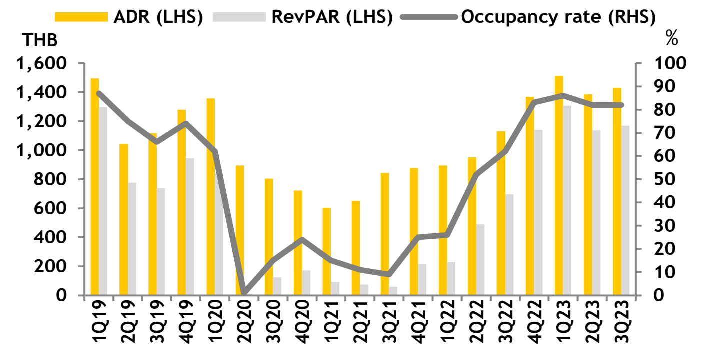
We note that ibis Pattaya and ibis Phuket Patong were sold to Erawan Hotel Growth Property Fund (ERWPF) and leased back to ERW for operation. As of 4 Sept 2023, the company holds 20% of ERWPF shares, but is looking to purchase back 100% of the remaining stake. ERW has already submitted a letter of intent to purchase the remaining shares to SCB Asset Management Co. Ltd., as the management company of ERWPF. The final offer price should be announced soon, but we assume a high possibility that the offer will be accepted.

Fig 23: Economy hotel segment annual performance



Source: Company, MST

Fig 24: Economy hotel quarterly performance



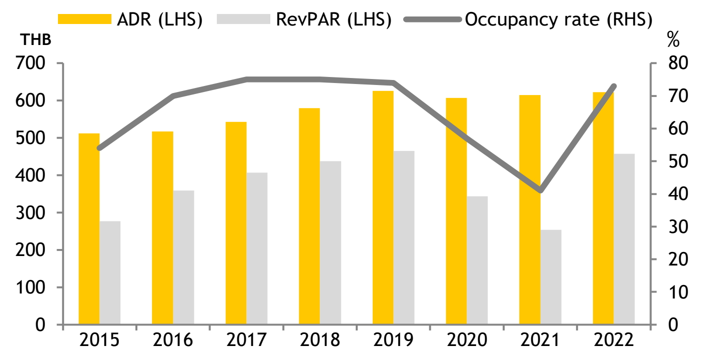
Source: Company, MST

ERW generated 10% and 16% of the company's EBITDA from mid-scale hotels in 2022 and 9M23, respectively. The mid-scale segment typically provides higher margins relative to other segments as it is managed by ERW itself with low operating cost per room.

Leading budget hotel player in Thailand

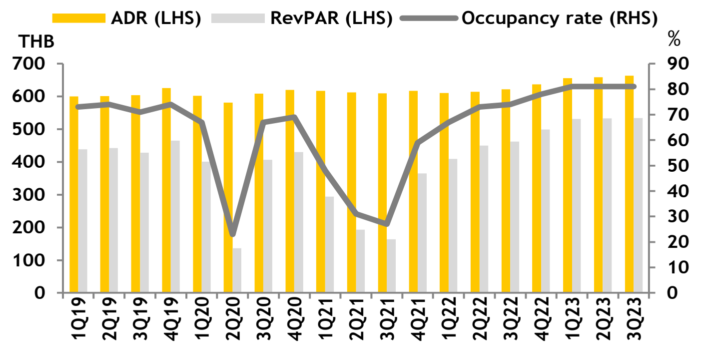
HOP INN (TH) generated 14% of core revenue in 2022 and 12% in 9M23. HOP INN hotels in provincial areas generally have 61-158 rooms while locations in Bangkok and its vicinity have 79-133 rooms. As of 3Q23, there were HOP INN hotels in 51 locations throughout Thailand, including Bangkok and its vicinity, major provincial centres and tourist destinations. The properties offer economical room rates, convenient car parking, security, internet to support corporate customers and private group tours. The majority of the guests are Thai with a small proportion of foreign visitors.

Fig 25: HOP INN Thailand yearly performance



Source: Company, MST

Fig 26: HOP INN Thailand hotel quarterly performance



Source: Company, MST

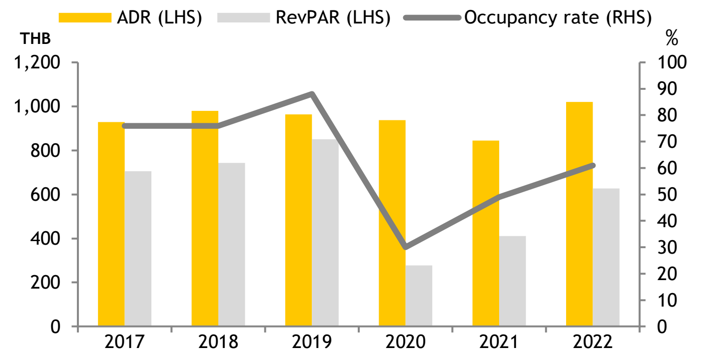
ERW has been expanding HOP INN hotels since 2014 kicking off with 3% EBITDA contribution in 2015. This portion reached 23% in 2022 as this segment was least impacted by the pandemic. EBITDA margin in the past five years stood at 40-45%, higher than other hotel segments as it is managed by ERW with no expense paid to franchisors.

Philippines hotel expansion

Philippine operations contributed 7% of total core revenue in 2022 and 9M23. As of 3Q23, there are six HOP INN hotels in operation in Manila city, and one hotel in Cebu City totalling 1,291 rooms with each hotel containing 144-231 rooms. The key difference of HOP INN hotel Philippines is that there are different room types and meeting rooms in some hotels. Domestic tourists remain the key market for these properties and contribute 87% of total guests.

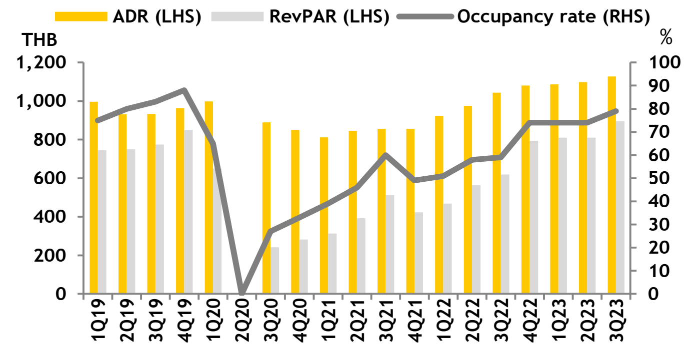
Holiday Inn Cebu City, Philippines established in 2022 is a 4-star hotel operated under IHG hotel management standards. The hotel comprised 180 rooms in the business district of Cebu City, which is ideal for business travellers. The property relies heavily on Filipinos who make up roughly 60% of total guests.

Fig 27: HOP INN Philippines yearly performance



Source: Company, MST

Fig 28: HOP INN Philippines hotel quarterly performance



Source: Company, MST

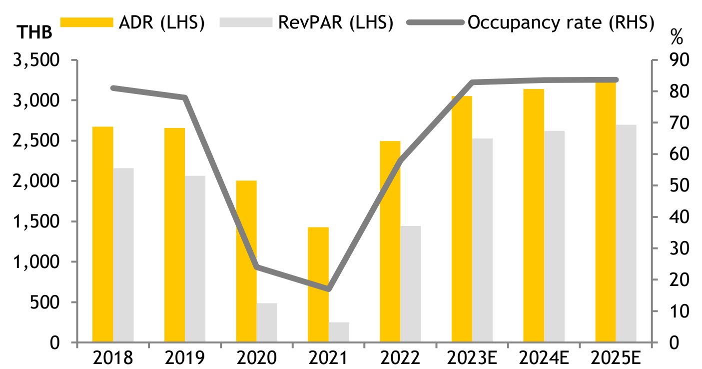
The company introduced the Philippine operation in 2016 and started to generate positive EBITDA in 2018 at 3% of total group core EBITDA before climbing to 9% in 2022 thanks to its hotel portfolio expansion and strong local business travel demand.

3. Investment focus

3.1 Beyond full-recovery in FY24

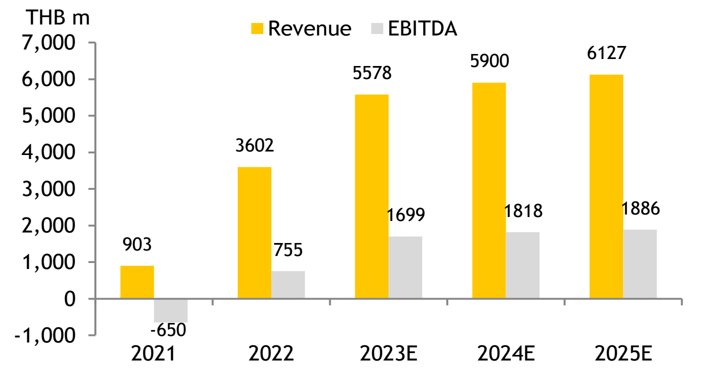
As of 9M23, guests from key international markets have already rebounded to exceed pre-pandemic levels. This has been led by Chinese, American, Singaporean, and Indian visitors, which have recovered by 124%, 123%, 128%, 122% and 98% YoY, respectively, in terms room revenue for the non-HOP INN segment. We expect the trend to persist in 4Q23 amid the high season while we expect RevPAR in FY23 to exceed that of 2019. This will translate into record high levels of revenue and net profit, despite headwinds such as labour shortages, increasing interest rates, and, inflating electricity and food costs. We forecast occupancy rates for non-HOP INN hotels to hit a six-year high at 83% while occupancy rates at HOP INN Thailand could hit an unprecedented 81%. Moreover, we expect ADR for non-HOP INN and Thai HOP-INN to surpass 2019 levels by 15% and 6%, respectively, an improvement from 6% and 1% discounts below 2019 levels in 2022. This translates to RevPAR at 22% and 16% premiums to pre-Covid levels.

Fig 29: Expect organic growth from domestic hotels (excl. HOP INN)



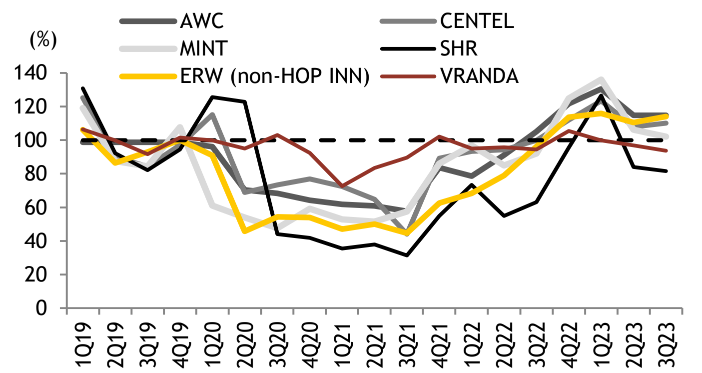
Source: Company, MST

Fig 30: Group hotels performance (excl. HOP INN)



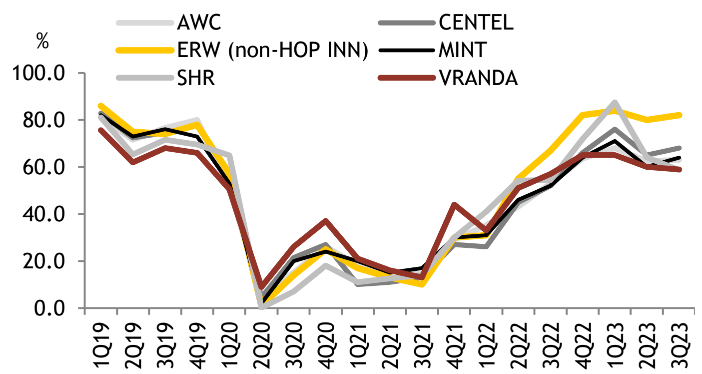
Source: Company, MST

Fig 31: Non-HOP INN ADR as % of 2019 average level (Thailand)



Source: Company, MST

Fig 32: Occupancy rate remained high even i low season



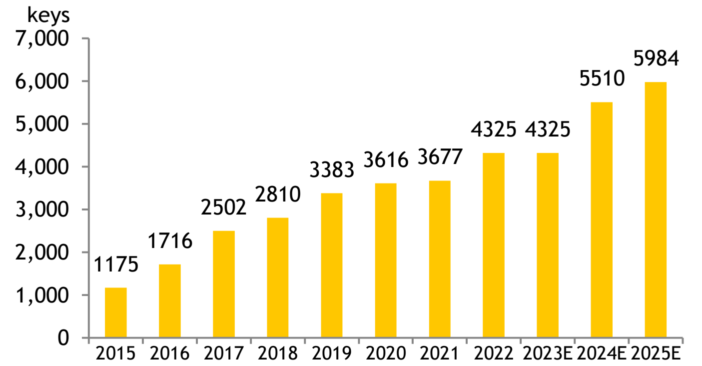
Source: Company, MST

3.2 HOP INN remains a growth engine

Budget hotels in Thailand remain an opportunity

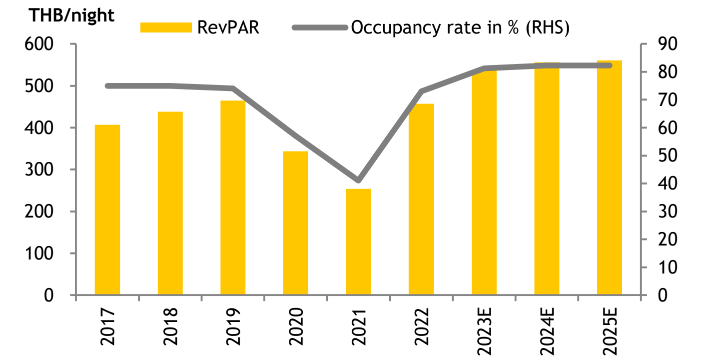
HOP INN brand is the company's spearhead to lift domestic revenue. Given its low investment cost of roughly THB0.7-0.8m per room, short construction period and low payback period of 10-15 years, this continued expansion should help maintain ERW's cash flow position. Based on ERW's current plan to open 15 new HOP INN locations by 2024, we expect EBITDA from domestic HOP INN properties to double to THB522m in FY25E compared with the FY22 level. Management's ambitious goal to hit 100 branches within FY30 (vs. our 82 assumption in FY30) offers THB70m net profit upside potential, or 6% of our FY30 profit forecast. We believe there is significant potential demand to be tapped due to; 1) the government's measures to promote secondary tourism cities which will help spur local spending, and, 2) low competitive environment relative to other hotel segments as there is no large hotel chain that focuses on expanding budget hotels. Among domestic brands, we note that GO hotel by CPN focuses on premium budget while B2 focuses on the premium segment.

Fig 33: Number of HOP INN hotel in Philippines



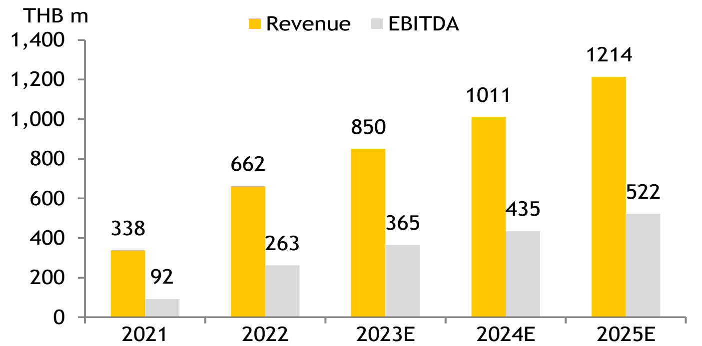
Source: Company, MST

Fig 34: HOP INN hotel parameter



Source: Company, MST

Fig 35: Thailand HOP INN performance



Source: Company, MST

Fig 36: List of key players in chained budget hotels

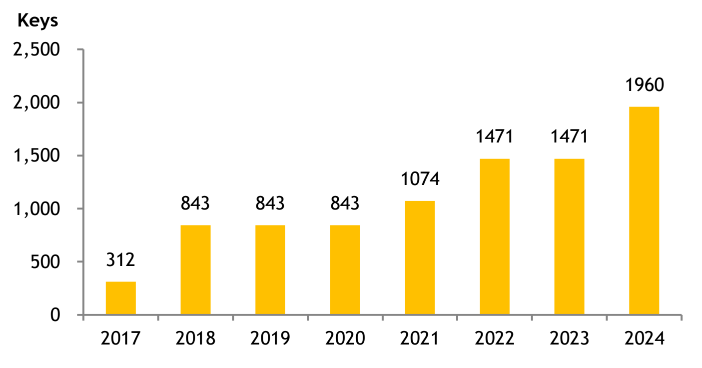
	B2	HOP INN	GO Hotel	Red Planet
no.of branches	62	51	4	5
no. of room	3936	4325	316	815
highest branches	Chiang Mai	Bangkok	EEC	Bangkok
Room rate (range)	THB 500-1,000	THB 550-900	THB 700-1,000	THB 600-1,200
Target locations	100 (by 2025)	100 (by 2030)	25 (by 2027)	unspecified

*Source: B2, HOP INN, Go Hotel, Red Planet, MST *no. of branch as of June'23*

New Philippine hotel operation

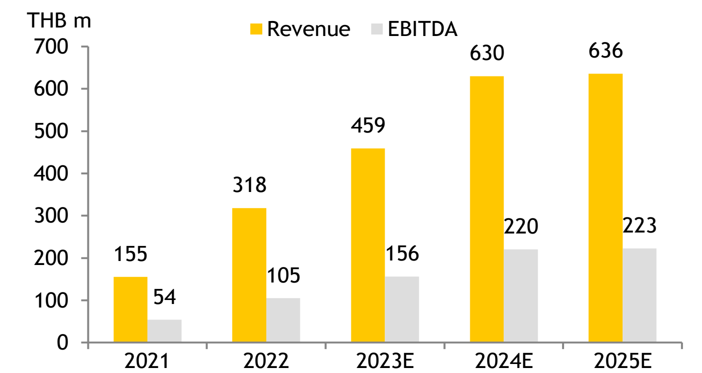
There are three new HOP INN hotels that are expected to commence operation in the Philippines including projects in urbanized cities namely Manila, Davao, and, Lloilo. These will add 489 room keys to the Philippine portfolio to 1,960 units (+33%) and are estimated to add around THB60m EBITDA for the group. The company is expected to have at least 15 locations in 2030 from ten current operating-developing projects. The pending four locations could add approximately THB32m upside potential to our net profit forecast by 2030.

Fig 37: Number of hotel4s in Philippines



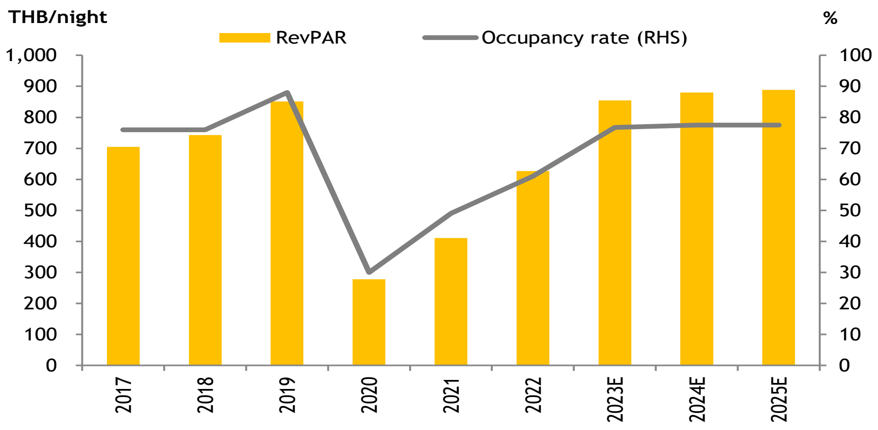
Source: Company, MST

Fig 38: Philippine hotel performance



Source: Company, MST

Fig 39: Philippines HOP INN operating metrics



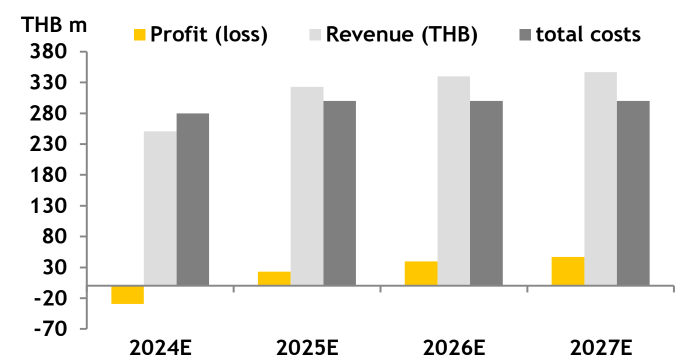
Source: Company, MST

Expanding in Japan

The company has invested THB1.7bn in four hospitality projects in Japan with 373 rooms. The projects include three locations in Tokyo and one in Kyoto, which are expected to commence operation by 1Q24. We are cautious toward the deal as the investment cost per room is expensive relative to green-field investment for budget hotels in Thailand and the Philippines. However, the projects could command ADR of up to JPY11,000-12,500/night or equivalent to THB 2,800-3,200/night, which is 4.0-5.0 times higher than Thai HOP INN. Nevertheless, we expect the company to incur THB70m in pre-opening cost in 2H23 before booking roughly THB30m net loss in FY24E, assuming occupancy at 61%, ADR at 3,000/night, and operating costs of THB35m/quarter. Higher-than-expected ADR could limit the net loss. We expect these four HOP INN properties in Japan to generate THB40-45m annual net profit for the company starting from FY25E.

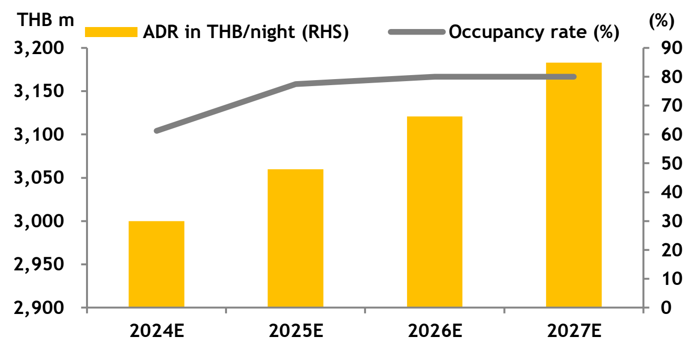
ERW aims to have 15 hotels in Japan by FY30. Apart from four hotels that will open in 1Q24, we estimate net profit upside from the remaining eleven at THB110m under the assumption that each location contains 90 rooms with similar hotel parameters to those stated below.

Fig 40: Projected performance of Japan hotels



Source: Company, MST

Fig 41: Japan hotel metrics



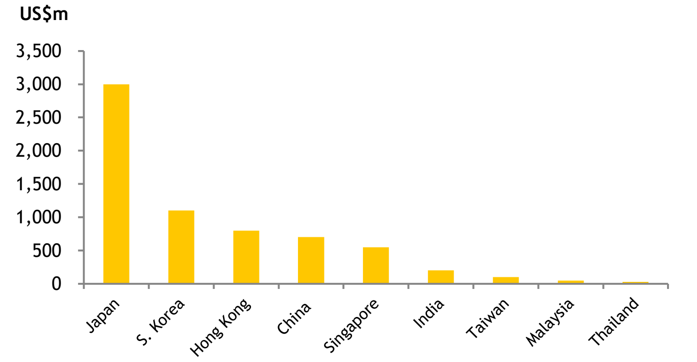
Source: Company, MST

Fig 42: Estimated hotel performance in Japan

Projects	No.1	No.2	No.3	No.4
Location	Lidabashi in Tokyo	Kyoto	Ueno in Tokyo	Asakusa in Tokyo
Land Acquisition	yes	yes	yes	No
Lease term:	-	-	-	30 year
Expected ADR (JPY)	12,500	11,000	12,500	12,500

Source: Company, MST

Fig 43: Hotel deal volume by destination in 1H23 (US$ m)



Source: Real Capital Analytics, Colliers

According to STR, a hospitality analytics firm, hotel revenues in Tokyo are expected to approach 2019 levels by the end of FY23 before heading to a growth phase in FY24, as the new hotel pipeline remains reasonably balanced compared to operating supply. However, operating margins could be substantially lower in Tokyo compared to pre-pandemic levels, as line items such as utility and labour-related costs continue to outweigh total revenue growth. Solid hospitality industry recovery in Japan, limited supply-side growth at 2.1% in 2016-2024E and low interest rates could be the reasons that attracted the highest foreign investment flow to the hospitality industry compared with other Asian countries in 2023, according to Colliers's research.

4. Financial analysis

4.1 Solid operations drove 3Q23 earnings growth

ERW reported 3Q23 net profit of THB148m (+5% QoQ turnaround from 3Q22 loss of THB12m), in-line with the Bloomberg consensus estimates. QoQ earnings expansion supported by Luxury and Thai HOP INN segments (31% and 17% of group EBITDA) as RevPAR exceeded the 3Q19 level by 32% and 25%, respectively, thanks to both high occupancy rate and ADR. (RevPAR for HOP INN Thailand hit a record high despite the low season)

We expect 4Q23 earnings to expand QoQ due to the high season and solid recovery in Chinese guests (14% of room revenue in 2019 and 9M23), which should drive revenue of the high margin mid-scale and economy segments. However, core profit will likely drop YoY in 4Q23 as the company will incur set-up costs for four new hotels in Japan, expected to be around THB40m (THB8m already recognized in 3Q23). These pre-opening expenses are incurred ahead of the hotels' actual opening starting from 1Q24.

Fig 44: Quarterly earnings performance

Income Statement Yr-end Dec (THBm)	3Q22	4Q22	1Q23	2Q23	3Q23	%QoQ	%YoY	9M	%YoY	9M as % 2023E	2023E
Total revenue	1,283	1,733	1,753	1,623	1,736	7%	35%	5,112	77%	73%	6,965
Cost of goods sold	(827)	(973)	(993)	(948)	(990)	4%	20%	(2,931)	34%	74%	(3,976)
Gross profit	456	759	760	675	746	10%	63%	2,181	205%	73%	2,990
SG&A	(362)	(452)	(419)	(441)	(454)	3%	25%	(1,315)	42%	72%	(1,822)
Operating profit	94	307	341	234	292	25%	210%	867	nm.	74%	1,167
EBITDA	320	576	580	474	532	12%	66%	1,586	228%	74%	2,144
Other income	6	43	21	18	7	-61%	20%	47	3%	71%	66
EBIT	100	350	363	252	299	19%	198%	914	nm.	74%	1,234
Interest expense	(114)	(122)	(135)	(143)	(150)	5%	32%	(428)	27%	74%	(582)
EBT	(13)	228	228	109	149	37%	nm.	485	nm.	74%	652
Income tax	5	6	6	5	3	-49%	-44%	14	-28%	219%	7
Equity income	3	13	3	21	3	-84%	-2%	28	79%	92%	30
Minority interests	(6)	(21)	1	(2)	(7)	263%	12%	(8)	-181%	223%	(3)
Core profit	(11)	227	239	133	148	11%	nm.	520	nm.	76%	685
Extra items	(0)	13	0	9	0	nm	nm.	9	nm.	nm.	0
Net income	(12)	240	239	142	148	4%	nm.	529	nm.	77%	685.2
EPS (THB)	0.00	0.05	0.05	0.03	0.03	4%	nm.	0.12	nm.	77%	0.15
Ratio analysis											
Gross margin (%)	35.5	43.8	43.4	41.6	43.0			42.7			42.9
SGA/Total revenue (%)	28.2	26.1	23.9	27.2	26.2			25.7			26.2
Operating profit margin (%)	7.3	17.7	19.5	14.4	16.8			17.0			16.8
Net profit margin (%)	-0.9	13.8	13.6	8.7	8.5			10.3			9.8

Source: Company, MST

4.2 Conservative assumptions

We forecast total revenue growth to recover strongly in FY23E by 51% before a moderate expansion phase at 4% CAGR in FY24-26E. Our key revenue assumptions include 1) Number of hotels in line with the company's FY24 expansion plan with six HOP INN in Thailand to be opened in FY25 and two locations each year from FY26 onwards, 2) ADR growth at 1-3% during post-recovery period, 3) Steady occupancy rates in long-term, and 4) Rental income remains 40% below pre-the Covid level from FY24 onwards.

We expect margin expansion from FY25E onwards as we assume limited benefit from economies of scale in the long-term given slower pace of expansion.

Fig 45: Revenue and profitability forecasts

Revenue & profitability	FY21A	FY22A	FY23E	FY24E	FY25E
Room revenue	961	3,396	5,357	6,093	6,493
Luxury	187	1,133	1,704	1,804	1,851
Mid-scale	174	849	1,536	1,576	1,627
Economy	99	439	809	822	844
HOP INN Thailand	338	662	849	1,010	1,213
HOP INN Phillippines	162	313	459	630	636
HOP INN Japan	-	-	-	251	323
Food and related service revenue	422	1,167	1,519	1,706	1,818
Rental income	71	65	89	140	140
Total revenue	1,454	4,629	6,965	7,939	8,451
YoY growth (%)	-36%	212%	50%	14%	6%
Profitability					
Gross profit	-734	1,475	2,990	3,524	3,806
Gross profit margin (%)	-50.5	31.9	42.9	44.4	45.0
SG&A expenses	915	1,377	1,822	2,069	2,154
SG&A to sales ratio (%)	62.9	29.8	26.2	26.1	25.5
EBITDA	-633	1,058	2,133	2,513	2,740
EBITDA margin (%)	-43.6	22.9	30.6	31.7	32.4
Net Profit	-2,050	-224	685	754	871
Net profit margin (%)	-141.0	-4.8	9.8	9.5	10.3

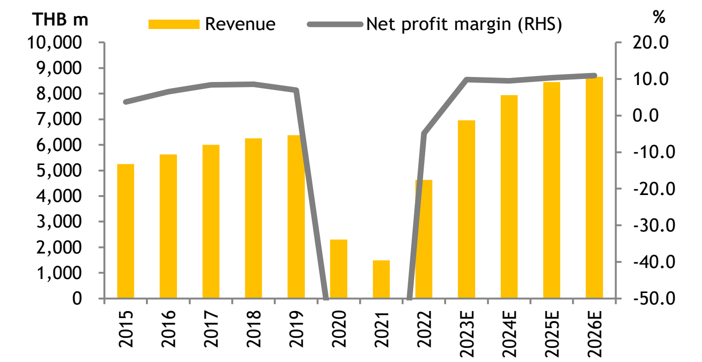
Source: Company, MST

Fig 46: Assumptions

Key Assumptions	FY21A	FY22A	FY23E	FY24E	FY25E
Non-HOP INN hotels					
No. of hotel room	5,265	4,392	4,392	4,392	4,392
Occupancy rate (%)	17	58	83	84	84
ADR	1,429	2,496	3,049	3,138	3,223
growth (%)	(29)	75	22	3	3
RevPAR	250	1,444	2,526	2,621	2,695
HOP INN Thailand					
No. of hotel room	3,677	4,205	4,325	5,510	5,984
Occupancy rate (%)	41	73	81	82	82
ADR (THB)	615	622	662	675	682
growth (%)	1	1	6	2	1
RevPAR (THB)	254	457	538	556	561
HOP INN Phillippines					
No. of hotel room	1,074	1,471	1,471	1,960	1,960
Occupancy rate (%)	49	61	77	78	78
ADR (THB)	845	1,020	1,113	1,136	1,147
growth (%)	-10	21	9	2	1
RevPAR (THB)	411	627	855	880	889
HOP INN Japan					
No. of hotel room	0	0	0	373	373
Occupancy rate (%)	0	0	0	61	78
ADR (THB)	0	0	0	3,006	3,060
growth (%)	0	0	0	-	2
RevPAR (THB)	0	0	0	1,841	2,371

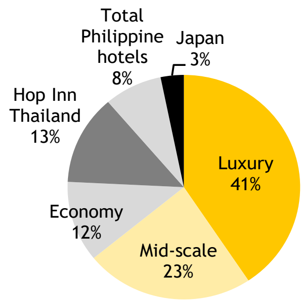
Source: Company, MST

Fig 47: Revenue and net profit forecasts



Source: Company, MST

Fig 48: Hotel revenue breakdown by segment in FY24E



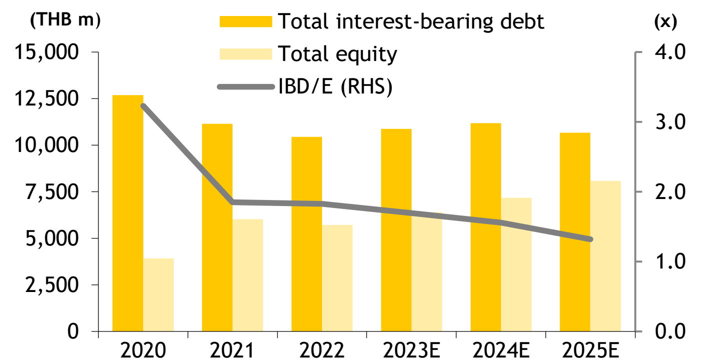
Source: Company, MST

4.3 Capital structure remains supportive of further expansion

We expect operating cash flow to reach more than THB1.0b in FY23-24E following an increase in EBITDA. However, we forecast operating FCFF (EBITDA after tax, lease payments and capex) to remain in negative territory until FY23-24 amid the expansion period for HOP INN hotels in Thailand and Japan before turning positive in FY25E.

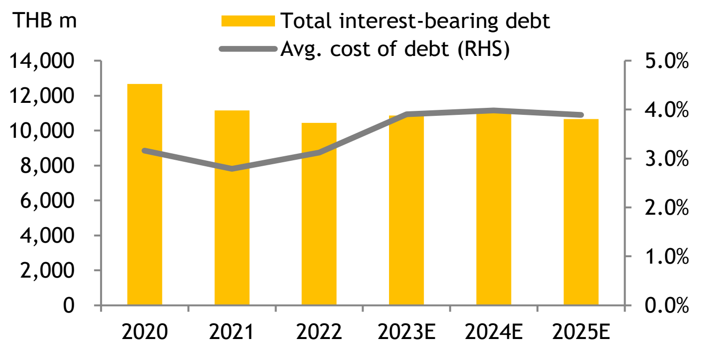
We forecast interest bearing debt ratio to decline to 1.7x in FY23E and 1.6x in FY24E from 1.8x in FY22 due to an increase in equity base (+12% YoY in FY23E and FY24E) and falling interest-bearing debt. Higher average cost of debt is unlikely to limit the company's growth as IBD/E ratio has been below its debt covenant at 2.5x. As of 3Q23, the company has THB1.4b cash on hand and more than THB6.7b in credit lines.

Fig 49: Expect IBD/E ratio to come down gradually



Source: Company, MST

Fig 50: Rising cost of debt should not dilute growth

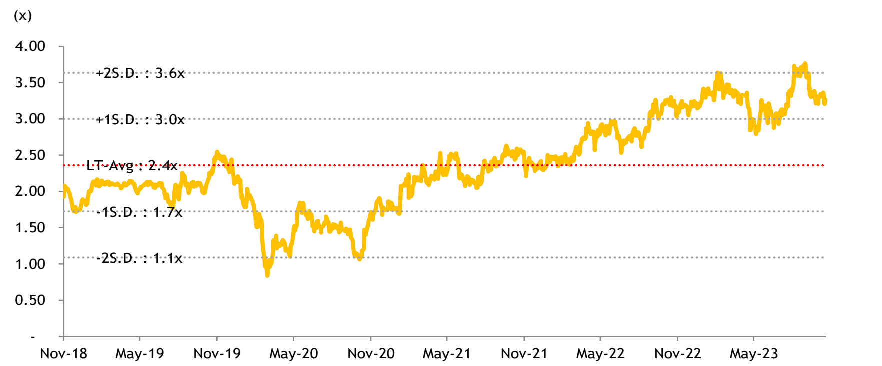


Source: Company, MST

5. Valuation

We re-initiate coverage on ERW with a HOLD rating and a DCF-based TP of Bt5.45 (6.4% WACC, 2% terminal growth) Current valuation at forward PE of 32x vs. sector average at 23x makes ERW less attractive relative to peers. ERW looks even more expensive compared to its historical P/BV in the past five years.

Fig 51: Forward (1-year) P/BV – 5 year band



Source: Company, MST

Fig 52: DCF methodology

Y	0	1	2	3	4	5	6	7	8	9	10	11	12	13
	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580
ERW: Forecast by MST (Bt m)	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
EBIT	1,515	1,515	1,712	1,795	1,841	1,890	1,956	2,025	2,095	2,145	2,197	2,250	2,305	2,360
Less: corprate tax	(303)	(303)	(342)	(359)	(368)	(378)	(391)	(405)	(419)	(429)	(439)	(450)	(461)	(472)
NOPAT	1,212	1,212	1,369	1,436	1,473	1,512	1,565	1,620	1,676	1,716	1,758	1,800	1,844	1,888
Add: Depreciation & amortization	994	1,024	1,048	1,070	1,091	1,088	1,084	1,080	1,096	1,112	1,128	1,145	1,161	1,178
less: lease liabilities	(479)	(475)	(470)	(466)	(463)	(459)	(455)	(452)	(449)	(446)	(443)	(441)	(438)	(436)
Change in net working capital	(32)	(19)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(11)	(11)	(11)	(10)
Less: CAPEX	(1,530)	(1,030)	(830)	(750)	(750)	(750)	(700)	(700)	(600)	(600)	(600)	(600)	(600)	(600)
Free Cash Flow	165	712	1,107	1,279	1,341	1,382	1,484	1,538	1,712	1,772	1,832	1,894	1,956	2,020
Terminal Value														46,416
PV of FCFF	165	669	977	1,061	1,045	1,011	1,020	993	1,039	1,010	982	953	925	898
PF of TV														20,621
FCFF and Terminal Value	33,369													
Cash	2,198													
Debt	10,865													
Equity value	24,701													
Share	4,532													
Target Stock price	5.45													

WACC calculation assumption	ERW
Market value of Debt (Bt mn)	10,865
Corporate Tax rate (T)	20%
Rf	3.0%
Market equity risk premium	7.4%
Leveraged Beta	1.00
Cash+ST Inv on balance sheets (Bt m)	2,198
Terminal growth (g)	2.0%
Ke	10%
Kd	4.0%
We	45%
Wd	55%
WACC	6.4%

Source: Company, MST

6. Risks

6.1 Competition risk

The hospitality business is a highly competitive space in Thailand as new players continue to enter the market with more room supply, especially in the Bangkok and key tourism provinces, and therefore these may impact the company's financial performance and growth.

The company always make sure that its hotels are competitive within their marketplace with a special focus on sales, marketing, revenues and distribution channels. Moreover, the company diversifies its business risk by developing the budget segment in secondary cities where competition is less intense.

6.2 Risk from investment expansion to overseas

EWR plans to expand in international markets and therefore is exposed to foreign exchange fluctuations, new laws and regulations governing hotel operations as well as the process of applying for essential permits. The company closely oversees investment projects by conducting due diligence and making detailed investment planning. Furthermore, ERW conducts natural currency hedging, hiring specialists with expertise in countries in which it invests to limit risk from overseas operations.

6.3 Risk from bearing higher cost of land lease

The company's key property, the Grand Hyatt Erawan hotel, was leased from a Thai government agency from 1991 under long-term contact. Management has disclosed that the lease expired in 2020 and is currently in an extension period. We expect that the new lease will have a substantially higher rental rate than the previous term. We estimate that the company was paying THB180-215m p.a. in rental expense in 2018-2022 (paid in the form of depreciation under lease contract, starting from 2020). We estimate every THB10m change in rental expense will impact FY24E earnings by 1%.

6.4 Risk from macro-economics and political uncertainty

Macro-economic risks could weaken the overall economy and directly impact the hospitality sector at all levels. The company may not be able to avoid geopolitical risk that may involve a world war, terrorism and international conflicts. To minimize the impact, ERW has diversified its risks by reducing its reliance on customers from any particular country. According to the company, there is no single international hotel guest market that contributed more than 20% of total room revenue in the past five years.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	nm	nm	34.4	31.2	27.0
Core P/E (x)	nm	nm	34.4	31.2	27.0
P/BV (x)	2.3	3.6	3.7	3.3	2.9
P/NTA (x)	2.3	3.6	3.7	3.3	2.9
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	nm	5.2	nm	nm	0.8
EV/EBITDA (x)	nm	27.7	15.1	12.9	11.6
EV/EBIT (x)	nm	nm	26.2	21.3	18.5
INCOME STATEMENT (THB m)					
Revenue	1,485.5	4,628.6	6,965.3	7,938.6	8,450.9
EBITDA	(636.3)	1,055.0	2,139.6	2,508.8	2,735.6
Depreciation	(894.7)	(977.0)	(1,005.1)	(1,027.2)	(1,047.0)
Amortisation	(15.1)	(17.0)	(18.8)	(20.7)	(22.6)
EBIT	(1,571.9)	183.1	1,229.8	1,514.8	1,711.7
Net interest income /(exp)	(521.1)	(457.9)	(581.6)	(625.2)	(605.1)
Associates & JV	9.5	28.6	30.0	10.0	10.0
Exceptionals	(29.3)	4.8	0.0	0.0	0.0
Other pretax income	3.1	2.7	4.0	4.0	4.0
Pretax profit	(2,109.7)	(238.6)	682.1	903.6	1,120.5
Income tax	(45.7)	25.6	6.5	(134.0)	(222.1)
Minorities	105.2	(11.1)	(3.4)	(15.4)	(27.0)
Discontinued operations	29.3	(4.8)	0.0	0.0	0.0
Reported net profit	(2,050.2)	(224.2)	685.2	754.1	871.5
Core net profit	(2,021.0)	(229.0)	685.2	754.1	871.5
BALANCE SHEET (THB m)					
Cash & Short Term Investments	1,242.1	1,531.8	2,197.7	2,504.8	2,651.2
Accounts receivable	99.9	159.8	192.6	218.7	233.3
Inventory	39.3	43.5	60.5	63.5	64.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	14,474.4	14,536.0	15,888.7	16,656.7	16,894.5
Intangible assets	38.1	34.9	49.8	62.8	74.0
Investment in Associates & JVs	47.8	62.6	62.6	62.6	62.6
Other assets	6,508.6	5,343.2	5,301.7	5,262.6	5,225.9
Total assets	**22,450.2**	**21,711.8**	**23,753.6**	**24,831.8**	**25,206.3**
ST interest bearing debt	795.5	782.5	586.6	511.1	426.7
Accounts payable	142.7	234.5	240.7	265.5	280.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	10,355.9	9,665.1	10,278.5	10,667.3	10,240.6
Other liabilities	5,133.0	5,308.0	6,238.0	6,208.0	6,181.0
Total Liabilities	**16,427.5**	**15,990.2**	**17,343.4**	**17,651.9**	**17,128.0**
Shareholders Equity	6,012.1	5,698.5	6,383.7	7,137.8	8,009.3
Minority Interest	10.7	23.1	26.6	42.0	68.9
Total shareholder equity	**6,022.7**	**5,721.6**	**6,410.3**	**7,179.8**	**8,078.3**
Total liabilities and equity	**22,450.2**	**21,711.8**	**23,753.6**	**24,831.8**	**25,206.3**
CASH FLOW (THB m)					
Pretax profit	(2,109.7)	(238.6)	682.1	903.6	1,120.5
Depreciation & amortisation	935.7	871.8	909.8	994.0	1,023.9
Adj net interest (income)/exp	(518.0)	(455.2)	(577.6)	(621.2)	(601.1)
Change in working capital	(17.6)	38.7	(43.7)	(4.1)	(1.5)
Cash taxes paid	0.0	0.0	0.0	(134.0)	(222.1)
Other operating cash flow	59.5	14.4	3.1	(149.4)	(249.1)
Cash flow from operations	(1,151.7)	831.5	1,048.5	1,109.9	1,183.7
Capex	(189.6)	226.4	(2,000.0)	(1,500.0)	(1,000.0)
Free cash flow	(1,341.4)	1,057.9	(951.5)	(390.1)	183.7
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	2,014.0	0.0	0.0	0.0	0.0
Change in Debt	(1,576.6)	(670.5)	417.5	313.4	(511.1)
Other invest/financing cash flow	523.5	(97.6)	1,199.9	383.9	473.8
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(380.5)	289.7	665.9	307.1	146.3

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	(35.6)	211.6	50.5	14.0	6.5
EBITDA growth	nm	nm	102.8	17.3	9.0
EBIT growth	nm	nm	571.5	23.2	13.0
Pretax growth	nm	nm	nm	32.5	24.0
Reported net profit growth	nm	nm	nm	10.1	15.6
Core net profit growth	nm	nm	nm	10.1	15.6
Profitability ratios (%)					
EBITDA margin	nm	22.8	30.7	31.6	32.4
EBIT margin	nm	4.0	17.7	19.1	20.3
Pretax profit margin	nm	nm	9.8	11.4	13.3
Payout ratio	0.0	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	nm	nm	9.8	9.5	10.3
Revenue/Assets (x)	0.1	0.2	0.3	0.3	0.3
Assets/Equity (x)	3.7	3.8	3.7	3.5	3.1
ROAE (%)	(41.7)	(3.8)	11.3	11.2	11.5
ROAA (%)	(9.3)	(1.0)	3.0	3.1	3.5
Liquidity & Efficiency					
Cash conversion cycle	5.0	(6.7)	(7.7)	(6.3)	(6.5)
Days receivable outstanding	21.4	10.1	9.1	9.3	9.6
Days inventory outstanding	6.9	4.7	4.7	5.1	5.0
Days payables outstanding	23.3	21.5	21.5	20.6	21.1
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	1.8	1.2	1.7	2.0	2.2
Leverage & Expense Analysis					
Asset/Liability (x)	1.4	1.4	1.4	1.4	1.5
Net gearing (%) (incl perps)	164.5	155.8	135.2	120.8	99.2
Net gearing (%) (excl. perps)	164.5	155.8	135.2	120.8	99.2
Net interest cover (x)	na	0.4	2.1	2.4	2.8
Debt/EBITDA (x)	nm	9.9	5.1	4.5	3.9
Capex/revenue (%)	12.8	nm	28.7	18.9	11.8
Net debt/ (net cash)	9,909.3	8,915.8	8,667.4	8,673.6	8,016.2

Source: Company; Maybank IBG Research

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Malaysia

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