Small Cap Research

BUY (Unchanged)

Change in Numbers

TP: Bt 40.00 (From: Bt 38.00)

Upside : 14.3%

27 SEPTEMBER 2021

Central Plaza Hotel (CENTEL TB)

Light at end of the tunnel

We maintain our BUY on CENTEL despite a further foreign tourism recovery delay due to an expected improving performance of its food business post-lockdown and hotel businesses from domestic travel which should see pent-up demand released next year.

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Maintaining BUY

This report is a part of *Hotel Sector – Delayed recovery,* dated 27 September 2021. We maintain our BUY on CENTEL with a DCF-based 12-month TP (2022F base year) of Bt40.0 (from Bt38.0). *First*, despite our earnings cuts (Exhibit 1) from an expected foreign tourism recovery delay to 2H22F, we expect CENTEL to see a rebound from 4Q21F at its food business and from early 2022F at its hotel business with pent-up demand for domestic travel being unlocked. We expect a sharp fall in its loss to Bt208m in 2022F vs. Bt2.1bn loss in 2021F. *Second*, CENTEL has the strongest balance sheet vs. peers' at a 0.9x gross interest-bearing debt-to-equity (GIBD/E) ratio in 2022F vs. its 2.0x covenant, which implies no capital increase risk. *Third*, we see CENTEL as inexpensive with its 22.6x PE in a full-recovery year in 2024F, far below 28.0x in the pre-COVID 2019. And we project its 2024F earnings to surpass 2019's by 22%.

Recovery from 4Q21F

We expect CENTEL's recovery to begin from 4Q21F despite the delay in the return of foreign tourists to 2H22F. We estimate its food business (59% of 2019 revenue) to start recovering in 4Q21F after the lockdown in 3Q21. We project food sales to grow 14% and the business to turn a profit in 2022F. We also expect its hotel business (41% of 2019 revenue) to make a far lower loss in 2022F with a turnaround from early 2022F after pent-up demand is released for domestic travel amid the government's tourism stimulus campaigns. Due to its strong 4-star Centara brand with room rate discounts, we expect CENTEL to gain market share. We expect occupancy rates at 17%, 37% and 63% and food same-store sales growth at -17%, 7% and 8% in in 2021-23F.

2024F earnings to surpass 2019 level

We expect foreign tourist arrivals of 6m, 26m and 39m in 2022-24F vs. 40m in 2019. For CENTEL, due to cost cutting at both its food and hotel businesses, we estimate its operating margin to turn around from -18.4% in 2021 to 9.1% in 2023F and 10.6% in 2024F vs. 8.6% in 2019. We estimate its earnings in 2024F of Bt2.1bn to surpass its 2019 level of Bt1.7bn by 22%.

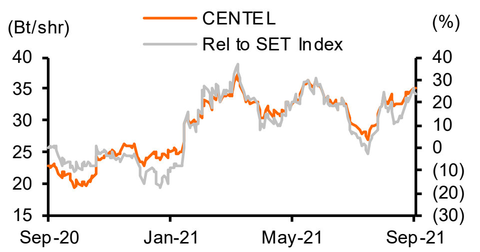
Strong balance sheet

CENTEL's balance sheet is the strongest in the sector at a 1.1x gross interest-bearing debt-to-equity (GIBD/E) ratio in 1Q21 vs. its 2.0x covenant. It has decided, like ERW, to do a land revaluation of Bt9.6bn in 2Q21 to bring down the ratio further to 0.7x in 2Q21. It has net cash on hand of Bt3bn in 2Q21 and an unused credit line with banks of Bt7bn. Note that at the current COVID crisis level, its cash burn is about Bt400m/month. Therefore, we do not foresee a capital call risk for CENTEL even under a no-recovery scenario for the next one and a half years.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	12,907	10,382	13,917	18,124
Net profit	(2,775)	(2,103)	(208)	1,468
Consensus NP	—	(1,848)	(49)	1,410
Diff frm cons (%)	—	*na*	*na*	*4.1*
Norm profit	(1,550)	(2,103)	(208)	1,468
Prev. Norm profit	—	(1,244)	319	1,709
Chg frm prev (%)	—	*na*	*na*	*(14.1)*
Norm EPS (Bt)	(1.1)	(1.6)	(0.2)	1.1
Norm EPS grw (%)	na	na	na	na
Norm PE (x)	na	na	na	32.2
EV/EBITDA (x)	33.7	41.6	18.5	12.0
P/BV (x)	4.8	2.7	2.7	2.5
Div yield (%)	0.0	0.0	0.0	0.6
ROE (%)	na	na	na	8.2
Net D/E (%)	84.8	83.2	94.6	89.8

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 23-Sep-21 (Bt)	35.00
Market Cap (US$ m)	1,420.4
Listed Shares (m shares)	1,350.0
Free Float (%)	72.4
Avg Daily Turnover (US$ m)	3.1
12M Price H/L (Bt)	37.25/19.50
Sector	Tourism
Major Shareholder	Chirathivat family 62%

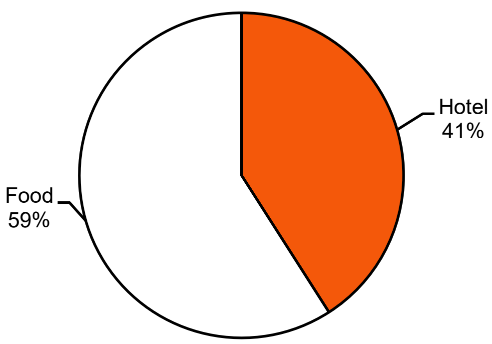
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Changes In Our Key Assumptions And Earnings Revisions

	2019A	2021A	2021F	2022F	2023F	2024F
# of rooms (owned & leased)						
- New	4,475	4,260	4,443	4,443	4,883	4,883
- Old			4,443	4,443	4,883	4,883
- Change (%)			—	—	—	—
Occupancy rate (%)						
- New	75.2	28.5	16.7	37.0	62.9	73.3
- Old			20.3	46.3	71.4	76.8
- Change (pp)			*(3.6)*	*(9.3)*	*(8.5)*	*(3.5)*
ARR growth (%)						
- New	(1.7)	(10.9)	(16.6)	13.4	10.0	5.7
- Old			(21.8)	15.1	12.6	9.0
- Change (pp)			*5.1*	*(1.7)*	*(2.6)*	*(3.3)*
# food stores (owned)						
- New	1,064	1,105	1,209	1,255	1,295	1,327
- Old			1,209	1,255	1,295	1,327
- Change (%)			—	—	—	—
% SSSG						
- New	(6.5)	(23.3)	(16.6)	7.3	7.8	3.4
- Old			(9.4)	1.9	3.4	2.1
- Change (pp)			*(7.2)*	*5.4*	*4.4*	*1.3*
Gross margin (%)						
- New	41.2	31.5	31.0	39.1	41.4	42.1
- Old			35.4	40.5	41.9	42.8
- Change (pp)			*(4.4)*	*(1.4)*	*(0.5)*	*(0.7)*
SG&A to sales (%)						
- New	32.6	45.2	49.5	39.2	32.3	31.5
- Old			44.0	36.5	31.7	30.2
- Change (pp)			*5.5*	*2.7*	*0.5*	*1.3*
Normalized profit (Bt m)						
- New	1,722	(1,550)	(2,103)	(208)	1,468	2,093
- Old			(1,244)	319	1,709	2,163
- Change (%)			*n.a.*	*n.a.*	*(14.1)*	*(3.2)*

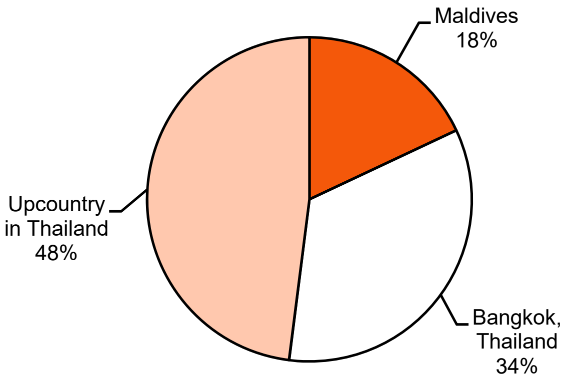
Sources: Company data; Thanachart estimates

Ex 2: Revenue Breakdown By Business In 2019



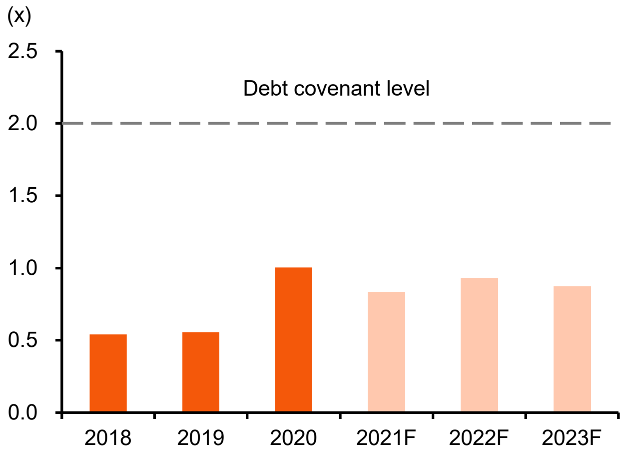
Source: Company data

Ex 3: Hotel Revenue Breakdown By Geography In 2019



Source: Company data

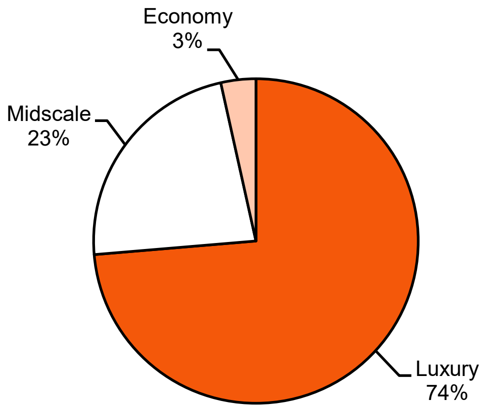
Ex 4: Gross Interest-Bearing Debt To Equity Ratio*



Sources: Company data, Thanachart estimates

Note: Excludes lease liabilities and COVID-19 impairment

Ex 5: Hotel Revenue Breakdown By Segment In 2019



Source: Company data

Ex 6: 12-month DCF-based TP Calculation Using A Base Year of 2022F

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA excl. depre from right of use	1,727	3,625	4,558	5,165	5,545	5,825	6,084	6,321	6,553	6,790	7,034	—
Free cash flow	(1,872)	(393)	505	1,311	2,657	3,423	4,150	4,860	5,069	5,283	5,502	109,693
PV of free cash flow	(1,867)	(348)	419	1,012	1,922	2,321	2,637	2,894	2,830	2,656	2,582	51,475

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	1.0
WACC (%)	6.4
Terminal growth (%)	2.0
Enterprise value - add investments	68,534
Net debt (2021F)	14,664
Minority interest	193
Equity value	53,677
# of shares	1,350
Target price/share (Bt)	**40.00**

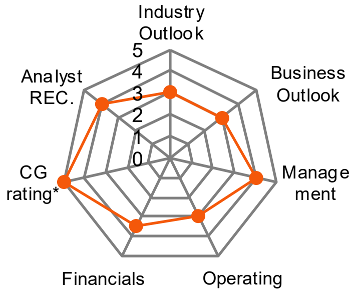
Sources: Company data, Thanachart estimates

COMPANY DESCRIPTION

Central Plaza Hotel Plc (CENTEL) owns and operates hotels in Thailand and abroad with its owned brands – Centara Grand, Centara, Centra, and COSI. CENTEL also manages hotels across Thailand and abroad. The company runs restaurant franchises including key brands such as KFC, Mister Donut, Auntie Anne's and Ootoya.

Source: Thanachart

COMPANY RATING



Rating Scale	
Very Strong	**5**
Strong	**4**
Good	**3**
Fair	**2**
Weak	**1**
None	**0**

Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Well-received owned hotel brands in Thailand such as Centara Grand, Centara and COSI.
- Well-balanced risk profile of hotel and food businesses.
- Strong financial position.

W — Weakness

- Heavy exposure to Thailand's tourism industry.
- Thailand's upscale hotel oversupply.
- Dependent on domestic consumption.

O — Opportunity

- Strategic investments and acquisitions locally and globally.
- Robust growth in the booming tourism and consumption areas, particularly in Thailand and some high-growth tourist destinations globally.

T — Threat

- Fierce competition among hotel operators leading to obstacles to unlocking its profitability.
- Competition among restaurant operators.
- Natural disaster and pestilence

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	34.39	40.00	16%
Net profit 21F (Bt m)	(1,848)	(2,103)	na
Net profit 22F (Bt m)	(49)	(208)	na
Consensus REC	**BUY: 12**	**HOLD: 5**	**SELL: 5**

HOW ARE WE DIFFERENT FROM THE STREET?

- Despite our 2021-22F earnings being below the Bloomberg consensus forecasts, our TP is above the Street's, which we attribute to us having a more bullish view on the recovery in the Thai tourism industry in the longer term.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Thailand's political situation and natural disasters are the key downside risks to our call.
- Slower-than-expected Thai and international tourist demand recovery is the key downside risk to our numbers.
- Weaker-than-expected domestic and global economic and consumption growth provide downside risk to our numbers.
- More intense competition in Thai and global tourism would have a negative impact on our numbers.

Source: Thanachart

2021-22F earnings are impacted by the COVID-19 crisis

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	20,737	12,907	10,382	13,917	18,124
Cost of sales	12,189	8,837	7,161	8,469	10,627
Gross profit	**8,549**	**4,070**	**3,221**	**5,448**	**7,497**
% gross margin	41.2%	31.5%	31.0%	39.1%	41.4%
Selling & administration expenses	6,770	5,831	5,134	5,455	5,845
Operating profit	**1,779**	**(1,761)**	**(1,913)**	**(8)**	**1,652**
% operating margin	8.6%	-13.6%	-18.4%	-0.1%	9.1%
Depreciation & amortization	2,037	3,421	3,403	3,444	3,708
EBITDA	**3,816**	**1,660**	**1,490**	**3,436**	**5,359**
% EBITDA margin	18.4%	12.9%	14.4%	24.7%	29.6%
Non-operating income	453	342	407	462	549
Non-operating expenses	0	0	0	0	0
Interest expense	(214)	(669)	(677)	(677)	(707)
Pre-tax profit	**2,018**	**(2,087)**	**(2,183)**	**(223)**	**1,494**
Income tax	261	(435)	(33)	0	22
After-tax profit	**1,757**	**(1,652)**	**(2,150)**	**(223)**	**1,472**
% net margin	8.5%	-12.8%	-20.7%	-1.6%	8.1%
Shares in affiliates' Earnings	29	(21)	(53)	(36)	16
Minority interests	(65)	123	100	50	(20)
Extraordinary items	23	(1,225)	0	0	0
NET PROFIT	**1,744**	**(2,775)**	**(2,103)**	**(208)**	**1,468**
Normalized profit	**1,722**	**(1,550)**	**(2,103)**	**(208)**	**1,468**
EPS (Bt)	1.3	(2.1)	(1.6)	(0.2)	1.1
Normalized EPS (Bt)	1.3	(1.1)	(1.6)	(0.2)	1.1

Healthier balance sheet compared with peers'

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	4,661	4,406	2,335	2,420	2,493
Cash & cash equivalent	2,812	2,824	1,090	890	590
Account receivables	765	514	427	572	745
Inventories	871	782	589	650	757
Others	214	286	230	308	401
Investments & loans	524	513	513	513	513
Net fixed assets	17,964	17,368	28,317	30,082	32,109
Other assets	4,440	13,063	11,440	10,854	10,245
Total assets	**27,590**	**35,350**	**42,606**	**43,869**	**45,361**
LIABILITIES:					
Current liabilities:	5,129	7,798	8,045	8,890	9,361
Account payables	2,649	1,873	1,570	1,972	2,475
Bank overdraft & ST loans	551	1,725	2,366	2,601	2,612
Current LT debt	1,562	2,024	2,678	2,944	2,957
Others current liabilities	367	2,176	1,432	1,373	1,317
Total LT debt	**5,751**	**7,740**	**10,711**	**11,775**	**11,828**
Others LT liabilities	2,566	9,597	6,227	5,840	5,468
Total liabilities	**13,446**	**25,135**	**24,983**	**26,505**	**26,656**
Minority interest	473	293	193	143	163
Preferreds shares	0	0	0	0	0
Paid-up capital	1,350	1,350	1,350	1,350	1,350
Share premium	970	970	970	970	970
Warrants	0	0	0	0	0
Surplus	32	62	62	62	62
Retained earnings	**11,318**	**7,541**	**15,048**	**14,840**	**16,161**
Shareholders' equity	13,670	9,923	17,430	17,222	18,542
Liabilities & equity	**27,590**	**35,350**	**42,606**	**43,869**	**45,361**

Sources: Company data, Thanachart estimates

Food and hotel management helps to support cash flow in 2021F

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	2,018	(2,087)	(2,183)	(223)	1,494
Tax paid	(340)	336	57	(8)	(6)
Depreciation & amortization	2,037	3,421	3,403	3,444	3,708
Chg In w orking capital	(35)	(436)	(23)	196	222
Chg In other CA & CL / minorities	(89)	1,756	(765)	(165)	(150)
Cash flow from operations	**3,591**	**2,991**	**490**	**3,245**	**5,268**
Capex	(2,127)	(1,071)	(12,610)	(3,500)	(4,000)
Right of use	0	(10,397)	0	(1,000)	(1,000)
ST loans & investments	0	0	0	0	0
LT loans & investments	9	11	0	0	0
Adj for asset revaluation	(99)	29	0	0	0
Chg In other assets & liabilities	(485)	5,825	(3,489)	(510)	(498)
Cash flow from investments	**(2,701)**	**(5,602)**	**(16,099)**	**(5,010)**	**(5,498)**
Debt financing	619	3,625	4,266	1,565	77
Capital increase	0	0	0	0	0
Dividends paid	(877)	0	0	0	(147)
Warrants & other surplus	0	(1,002)	9,610	0	0
Cash flow from financing	**(259)**	**2,623**	**13,876**	**1,565**	**(70)**
Free cash flow	**1,464**	**1,920**	**(12,120)**	**(255)**	**1,268**

Inexpensive valuation, in our view

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	27.4	na	na	na	32.2
Normalized PE - at target price (x)	31.4	na	na	na	36.8
PE (x)	27.1	na	na	na	32.2
PE - at target price (x)	31.0	na	na	na	36.8
EV/EBITDA (x)	13.7	33.7	41.6	18.5	12.0
EV/EBITDA - at target price (x)	15.5	37.7	46.1	20.5	13.2
P/BV (x)	3.5	4.8	2.7	2.7	2.5
P/BV - at target price (x)	4.0	5.4	3.1	3.1	2.9
P/CFO (x)	13.2	15.8	96.5	14.6	9.0
Price/sales (x)	2.3	3.7	4.6	3.4	2.6
Dividend yield (%)	1.6	0.0	0.0	0.0	0.6
FCF Yield (%)	3.1	4.1	(25.7)	(0.5)	2.7
(Bt)					
Normalized EPS	1.3	(1.1)	(1.6)	(0.2)	1.1
EPS	1.3	(2.1)	(1.6)	(0.2)	1.1
DPS	0.6	0.0	0.0	0.0	0.2
BV/share	10.1	7.4	12.9	12.8	13.7
CFO/share	2.7	2.2	0.4	2.4	3.9
FCF/share	1.1	1.4	(9.0)	(0.2)	0.9

Sources: Company data, Thanachart estimates

Cost cutting helps to boost margin

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	(3.0)	(37.8)	(19.6)	34.0	30.2
Net profit (%)	(19.9)	na	na	na	na
EPS (%)	(19.9)	na	na	na	na
Normalized profit (%)	(20.9)	na	na	na	na
Normalized EPS (%)	(20.9)	na	na	na	na
Dividend payout ratio (%)	42.6	0.0	0.0	0.0	20.0
Operating performance					
Gross margin (%)	41.2	31.5	31.0	39.1	41.4
Operating margin (%)	8.6	(13.6)	(18.4)	(0.1)	9.1
EBITDA margin (%)	18.4	12.9	14.4	24.7	29.6
Net margin (%)	8.5	(12.8)	(20.7)	(1.6)	8.1
D/E (incl. minor) (x)	0.6	1.1	0.9	1.0	0.9
Net D/E (incl. minor) (x)	0.4	0.8	0.8	0.9	0.9
Interest coverage - EBIT (x)	8.3	na	na	na	2.3
Interest coverage - EBITDA (x)	17.8	2.5	2.2	5.1	7.6
ROA - using norm profit (%)	6.4	na	na	na	3.3
ROE - using norm profit (%)	13.0	na	na	na	8.2
DuPont					
ROE - using after tax profit (%)	13.2	na	na	na	8.2
- asset turnover (x)	0.8	0.4	0.3	0.3	0.4
- operating margin (%)	10.8	na	na	na	12.1
- leverage (x)	2.0	2.7	2.9	2.5	2.5
- interest burden (%)	90.4	147.1	144.9	(49.0)	67.9
- tax burden (%)	87.1	na	na	na	98.5
WACC (%)	6.4	6.4	6.4	6.4	6.4
ROIC (%)	8.6	(9.4)	(10.1)	(0.0)	4.8
NOPAT (Bt m)	1,549	(1,761)	(1,885)	(8)	1,627
invested capital (Bt m)	18,722	18,587	32,094	33,651	35,349

Sources: Company data, Thanachart estimates

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