THAILAND	Sector Note	27 SEPTEMBER 2021
Sector Weighting	Neutral	

Thailand Hotel Sector

Delayed recovery

Sector Valuation			Current	Target	Norm EPS grw		— Norm PE —		— EV/EBITDA —		— Div yield —	
	BBG		price	price	2021F	2022F	2021F	2022F	2021F	2022F	2021F	2022F
Company	Code	Rec.	(Bt)	(Bt)	(%)	(%)	(x)	(x)	(x)	(x)	(%)	(%)
Central Plaza Hotel	CENTEL TB	BUY	35.00	40.00	na	na	na	na	41.6	18.5	0.0	0.0
The Erawan Group	ERW TB	SELL	3.06	2.70	na	na	na	na	na	43.1	0.0	0.0
Minor Int'l	MINT TB	BUY	32.75	39.00	na	na	na	750.1	48.5	14.0	0.0	0.0

Source: Thanachart estimates, Based on 23 September 2021 closing prices

We remain NEUTRAL on the Thai hotel sector. We now see foreign tourism recovery only in 2H22F while still assuming pent-up demand for domestic travel in 2022F. MINT, which is turning around faster from its overseas exposure, replaces CENTEL as our top sector pick.

Slow recovery for Thai tourism

We push out our assumption for a foreign tourism recovery to 2H22F from 4Q21F. We estimate 6m, 26m and 39m foreign tourist arrivals in 2022-24F vs. 40m in 2019 and 7m in 2020, when 1Q20 still enjoyed the pre-COVID high season. Meanwhile, we foresee stronger pent-up demand being released for domestic travel in 2022F as people will still likely be careful about traveling abroad. Overall, we cut our sector earnings by 68% and 4% in 2022-23F and expect them to be flat in 2024F with a higher loss in 2021F. We estimate a Bt17.1bn loss for the sector in 2021F and profits of Bt480m, Bt8.6bn, Bt12.0bn in 2022-24F. We expect the industry to return to the 2019 profit level in 2024F.

Balance sheet situation

The sector's adjusted EBITDA was negative at Bt10.8bn in 2020. With 20-30% cost cutting from the 2019 level, we estimate an EBITDA loss of Bt5bn in 2021F before turning positive at Bt14bn in 2022F. We see ERW still having the highest balance sheet risk. Although its capital call and land revaluation supported its equity and reduced its net D/E ratio, we still estimate its net D/E ratio at 1.7x in 2021F while MINT at 1.3x still has assets to sell with its overseas business turning around. We expect CENTEL, at a 0.8x net D/E ratio, to pass through this difficult cycle without a capital increase.

Maintaining our NEUTRAL stance

We stay NEUTRAL on the hotel sector. While its recovery is delayed into 2H22F, the sector has recapitalized and should tolerate weak cash flows for another year. Investment timing wise, the sector could be back on the market's radar from 1Q22F, ahead of the actual reopening in 2H22F. We expect the sector's earnings to return to pre-COVID level in 2019 in 2024F but the PE of 22.4x in 2024F is cheaper than the 31.7x in 2019.

Replacing CENTEL with MINT as our top pick

MINT is now our top sector pick, replacing CENTEL. We expect MINT to be able to turn a profit in 2022F on the back of its overseas portfolio turning around while CENTEL and ERW will likely make losses for another year. MINT has recapitalized and still plans to sell more of its overseas assets to strengthen its balance sheet a bit further. On a PE multiple basis, all three companies are trading at quite similar levels of 21-23x PE on normalized earnings in 2024F. However, we think ERW should trade at a discount to its peers because of its balance sheet risk and weak earnings prospects in 2021-22F.

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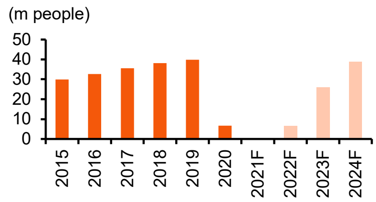
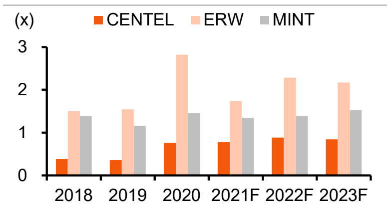
Slow Recovery In Foreign Tourists



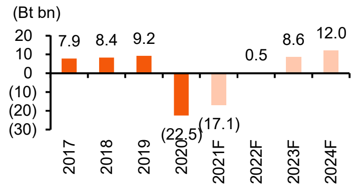
Sources: Company data, Thanachart estimates

Net D/E Ratio



Sources: Company data, Thanachart estimates
Note: Exclude lease liabilities and COVID-19 impairment

2024F New Normalized Earnings



Sources: Company data, Thanachart estimates

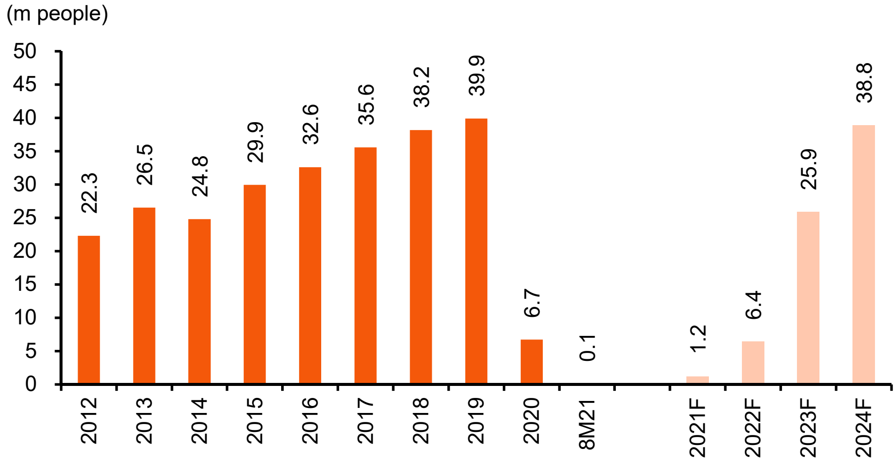
Thanachart Securities

Slow recovery for Thai tourism

We foresee a foreign tourist recovery being delayed to 2H22F from 4Q21F

Tourism sector was hit hard in 2Q21-3Q21 because of the severity of the COVID-19 pandemic and the country's lockdown. Though we believe the sector's fundamentals remain robust over the long term because of Thailand's strong competitiveness in terms of rich natural resources, good transportation infrastructure, pricing, safety and security, we are cautious about a foreign tourist recovery and we push out our assumption for this to 2H22F from 4Q21F. We estimate 6m, 26m and 39m foreign tourist arrivals in 2022-24F vs. 40m in 2019 and 7m in 2020, when 1Q20 still benefited from the pre-COVID high season.

Ex 1: International Tourist Arrivals



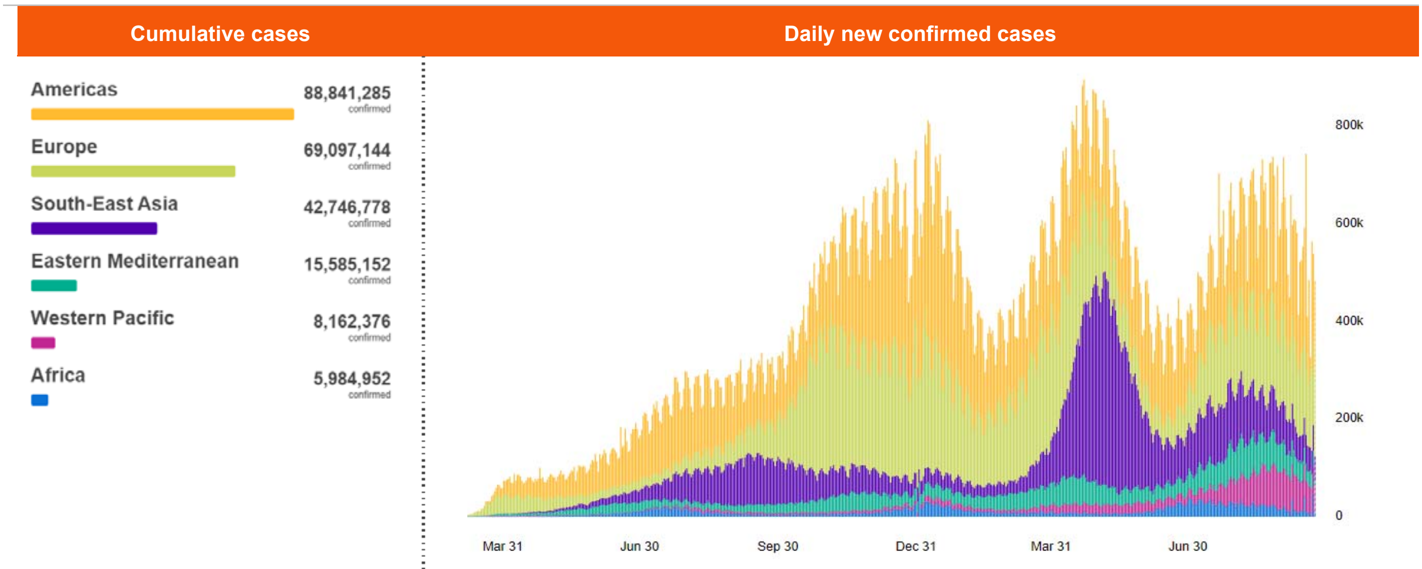
Sources: TAT, Thanachart estimates

The key reasons behind our cautious view on international tourists delaying their visits are as follows:

Global daily high new cases and long-haul travel concerns

1) Even with more widespread vaccinations, global daily new COVID-19 cases remain high. We therefore expect travel hesitancy, particularly among elderly people still concerned about travelling. Though we expect travel demand to resume quickly, this will likely be in their own countries or in regions which they are more familiar with.

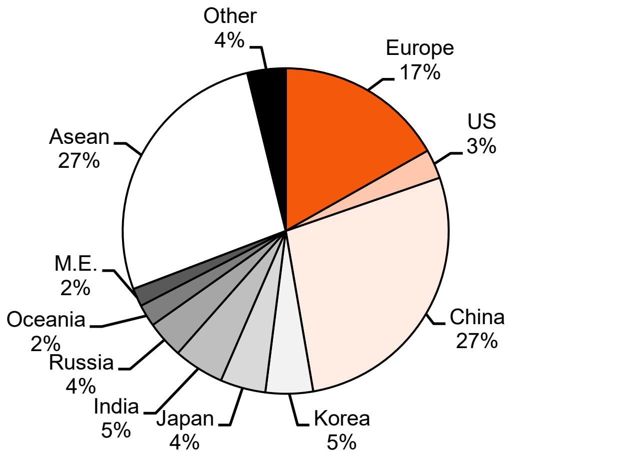
Ex 2: Globally Confirmed COVID-19 Cases



Source: WHO

Note: As of 24 September 2021

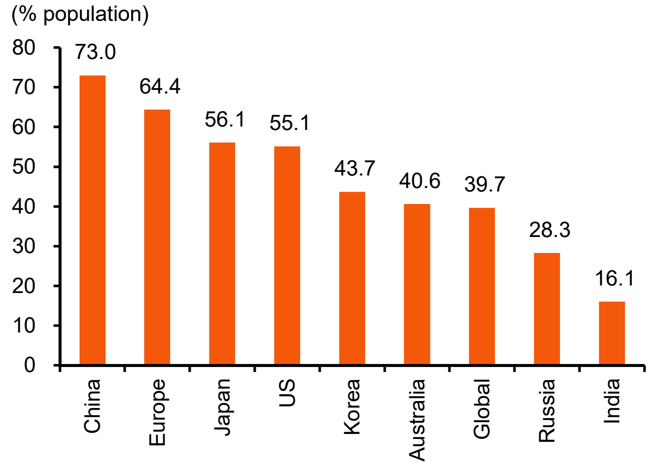
Ex 3: Thailand's Key International Tourist Arrivals



Source: TAT

Note: * 2019 data

Ex 4: % Fully Vaccinated Key Tourists Visiting Thailand



Source: Bloomberg

Note: As of 25 September 2021

Govt's reopening roadmap remains at risk

2) We believe the government's roadmap to reopen the country remains at risk. For the reopening of the country to international tourists, starting with the Phuket Sandbox and Samui Plus schemes in July this year, demand has been lukewarm and below government's target. The number of international arrivals in Phuket from 1 July-25 September 2021 stands at 36,764 and the number of international arrivals in Samui from 15 July-25 September 2021 is at 862. The surge in COVID infections in Phuket to above 200 cases/day over the past one month, despite 74% of the population being fully vaccinated (two doses) and the almost full utilization of ICU and IPD beds to serve for COVID cases in Phuket are also risks.

3) The US, UK and Australia travel warnings on visiting Thailand will still likely continue to pressure the number of international visitors. Meanwhile, the Ministry of Foreign Affairs of China has not yet allowed Chinese citizens to travel outbound.

4) Thai government has just announced to delay the second and the third phases of the roadmap due to the vaccination rate in those provinces being below target (70% of population in those provinces needs to be fully vaccinated).

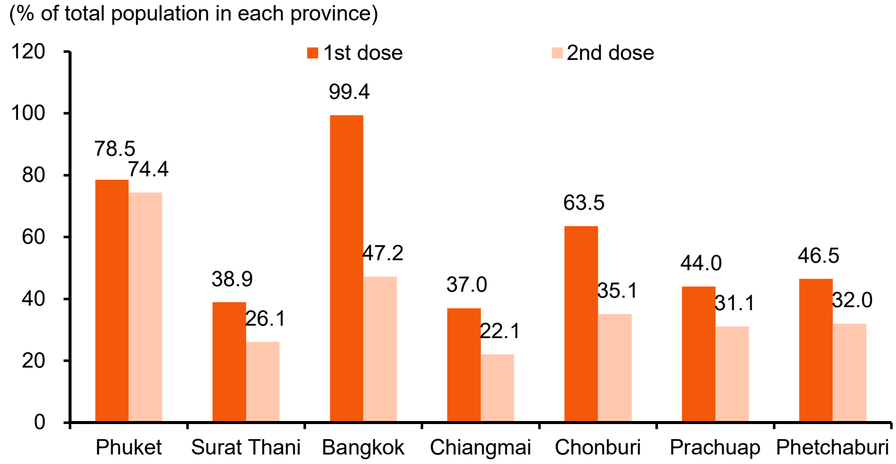
Details of the Thai government's roadmap to reopen the country are as shown in the exhibit 5.

Ex 5: Thai Government's Roadmap To Reopening

Timeline	Programs	Conditions
Phase I		
1 July 2021	Phuket Sandbox	▪ Vaccinated tourists with a vaccine approved by Thailand's Ministry of Public Health (MoPH) or the World Health Organization (WHO) (Sinovac, AstraZeneca, Pfizer, Janssen, Moderna, Sinopharm and Sputnik V) are allowed to visit Phuket without quarantine under the "Phuket Sandbox" program. ▪ Would-be visitors need to have been in countries/territories approved by Thailand's Centre for COVID-19 Situation Administration (CCSA) for 21 days or more and they also need to be fully vaccinated at least 14 days before travel and have tested negative for COVID-19 using the RT-PCR method no longer than 72 hours before travel. Travellers who have recovered from COVID-19 also need to get fully vaccinated. ▪ They have to book and have paid for accommodation for no less than 14 nights, i.e., that includes at least seven nights in Phuket at an SHA Plus hotel and they have to have booked and paid for RT-PCR tests that cover the entire duration of their stay in Thailand.
15 July 2021	Samui Plus	▪ The program covers specific areas and routes in Surat Thani province's three islands of Koh Samui, Koh Phangan and Koh Tao.
16 August 2021	Phuket Sandbox 7+7 Extension	▪ The program enables fully vaccinated international travellers to reduce their mandatory stay in Phuket from 14 to seven days, after which another seven nights can be spent in any of the extension areas in Krabi (Koh Phi Phi, Koh Ngai, Railay, Klong Muang and Tup Kaek), Phangnga (Khao Lak or Koh Yao), or Surat Thani (Koh Samui, Koh Phangan, or Koh Tao).
Phase II		
1-30 November 2021 (Delayed from 1 October 2021)	10 provinces Phang-nga (whole province), Krabi (whole province), Bangkok, Chiang Mai (Muang, Mae Taeng, Mae Rim an, Doi Tao), Chonburi (Pattaya city, Bang Lamung, Jomtien and Bangsaray), Phetchaburi (Cha-am), Prachuap Khiri Khan (Hua Hin, Nong Kae), Ranong (Koh Phayam), Loey (Chiang Khan) and Buriram (Muang)	▪ Thailand plans to reopen 10 more destinations to vaccinated foreign tourists with negative RT-PCR test results. ▪ No hotel quarantine is required but they need to travel in a sealed area or sealed route. ▪ Need to do RT-PCR test for three times ▪ Domestic travellers need to be fully vaccinated or have negative RT-PCR test results or have negative ATK test results no longer than seven days.
Phase III		
1-31 December 2021 (Delayed from mid-October 2021)	20 provinces Chiang Rai, Lamphun, Mae Hong Son, Phrae, Phetchabun, Sukhothai, Nong Khai, Khon Kaen, Nakhon Ratchasima, Rayong, Trat, Ayutthaya, Pathum Thani, Samut Prakan, Nakhon Si Thammarat, Narathiwat, Yala, Songkhla, Phatthalung and Trang	▪ Thailand plans to reopen 20 more destinations to vaccinated foreign tourists with negative RT-PCR test results. ▪ No hotel quarantine is required but they need to travel in a sealed area. ▪ Need to do RT-PCR test for one time ▪ Domestic travellers need to be fully vaccinated or have negative RT-PCR test results or have negative ATK test results no longer than 7-14 days depending on situation.
Phase IV		
1 January 2022	13 provinces Surin, Sa Kaeo, Chanthaburi, Tak, Nakhon Phanom, Mukdahan, Bueng Kan, Udonthani, Ubon Ratchathani, Nan, Kanchanaburi, Ratchaburi and Satun	▪ Thailand plans to reopen 13 more destinations to vaccinated foreign tourists with negative RT-PCR test results. ▪ No hotel quarantine and can travel in all reopening areas. ▪ Need to do RT-PCR test or ATK test for one time depending on situation.

Source: Thanachart compilation

Ex 6: Vaccination Rate In Reopening Provinces



Source: covid-19.researcherth.co

Note: As of 25 September 2021

Domestic travel to grow faster and stronger than international tourists

However, we expect to see domestic travel demand grow faster and stronger than international tourists for three reasons:

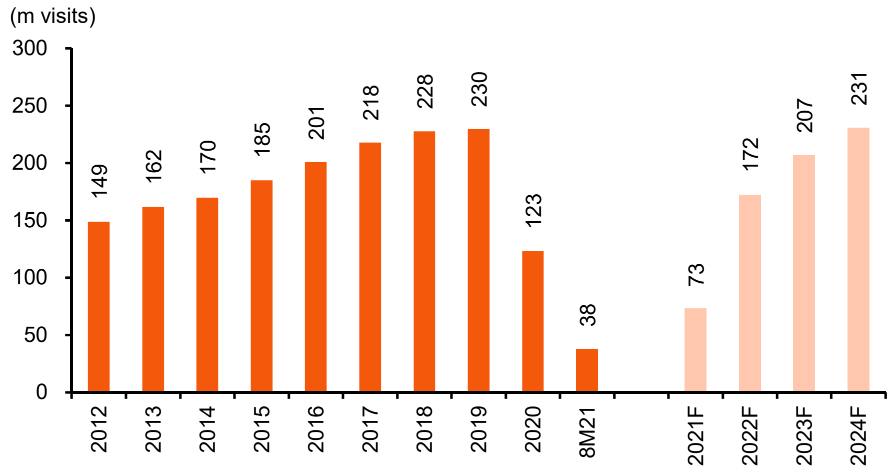
1) We expect Thai people to still be careful about traveling overseas because of virus concern, and therefore limit traveling in the domestic market.

2) With greater vaccine supply in Thailand from July until the end of this year, the daily vaccination rate has accelerated. Based on a vaccination rate of around 700,000 doses/day, we believe 70% of the total population in Thailand will be fully vaccinated (two doses) by the end of this year, encouraging mobility.

3) The government's domestic tourism stimulus schemes including "We Travel Together" Phase 3 from 24 September 2021 to 31 January 2022 and "Tour Tiew Thai" from 8 October 2021 to 31 January 2022 should also stimulate domestic travel demand.

We therefore estimate the number of visits by Thais to improve in 4Q21F and we foresee the total number of visits by Thais at 73m, 172m and 207m in 2021-23F.

Ex 7: Thai Tourists



Sources: TAT, Thanachart estimates

Ex 8: COVID-19 Vaccine Coverage And Procurement In Thailand In 2021

Vaccine brands	# of doses (m doses)										
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Government's vaccines												
Sinovac	0.2	0.8	1.5	4.0	1.5	5.0	6.5	6.0	6.0	-	-	**31.5**
Astra Zeneca	0.1				5.4	6.9	5.8	8.0	10.0	13.0	14.0	**63.2**
Pfizer	-						1.5	2.0	8.0	10.0	10.0	**31.5**
Total	**0.3**	**0.8**	**1.5**	**4.0**	**6.9**	**11.9**	**13.8**	**16.0**	**24.0**	**23.0**	**24.0**	**126.2**
Alternative vaccines												
Sinopharm					1.0	3.0	5.0	10.0	6.0	12.5	12.5	**50.0**
Moderna											2.0	**2.0**
Grand total	**0.3**	**0.8**	**1.5**	**4.0**	**7.9**	**14.9**	**18.8**	**26.0**	**30.0**	**35.5**	**38.5**	**178.2**
Accumulated supply	**0.3**	**1.1**	**2.6**	**6.6**	**14.5**	**29.4**	**48.2**	**74.2**	**104.2**	**139.7**	**178.2**	

Source: Department of Disease Control

Ex 9: COVID-19 Vaccinations In 2021

As of the end of	Accumulated doses				# Vaccines	
	1st dose	2nd dose	3rd dose	Total (1+2)	Remaining demand (1+2+3)	Remaining supply
March	158,497	33,248	—	191,745		
April	1,095,230	381,848	—	1,477,078		
May	2,539,491	1,125,368	—	3,664,859		
June	7,110,854	2,816,844	—	9,927,698		
July	13,802,916	3,883,058	—	17,685,974		
August	23,795,098	8,212,750	592,153	32,007,848		
25 September	**31,053,241**	**17,218,055**	**810,587**	**48,271,296**		
Government's target	**56,000,000**	**50,000,000**	**6,000,000**	**106,000,000**		
% of total population	**80%**	**70%**				
(At end-December 2021)						
26 September-31 December	**24,946,759**	**32,781,945**	**5,189,413**	**57,728,704**	**62,918,117**	**129,118,117**
Vaccine administered in September @ c. 700,000 doses/day				Imply 3 months to achieve target		

Sources: Minister of Public Health, Thanachart estimates

Ex 10: Domestic Tourism Stimulus Schemes

<table>
<tr><th>Stimulus schemes</th><th>Details</th></tr>
<tr><td>We Travel Together - Phase 3</td><td>

- The scheme is scheduled to run from 24 September 2021 to 31 January 2022.
- For Thai people aged 18 years and above.
- It will cover two million room nights. The participants in the scheme will have to book hotel rooms at least seven days in advance, starting from 24 September 2021. One person can stay 15 nights. This includes room nights that people already used in phases I and II.
- The government subsidizes 40% of the room rate, at no more than Bt3,000/room/night, subsidizes 40% of the airfare, at no more than Bt2,000/person or Bt3,000/person depending on each province's conditions and gives e-vouchers for food worth Bt600/night.

</td></tr>
<tr><td>Tour Tiew Thai</td><td>

- The scheme is scheduled to run from 8 October 2021 to 31 January 2022.
- For Thai people age 18 years and above.
- It will cover one million people.
- This scheme is designed to provide a subsidy of 40% on tour packages of no more than Bt5,000/trip, to a million local tourists.
- One tour company can serve 1,000 Thai tourists.

</td></tr>
</table>

Source: TAT

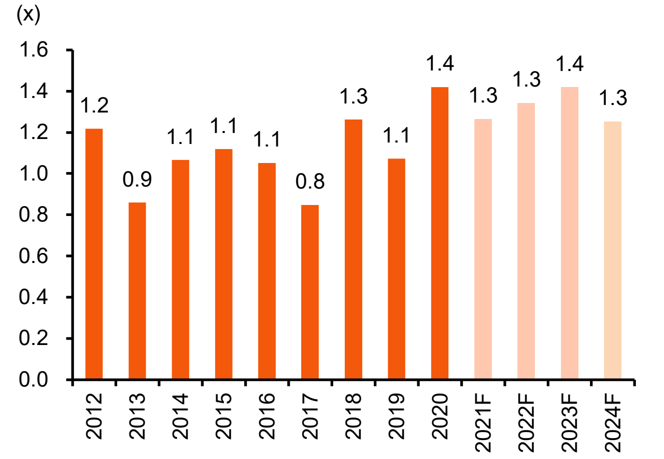
Balance sheet situation

Improving balance sheets and cash flows in 2022F but still unhealthy

The COVID-19 pandemic around the world and international travel bans caused the sector's adjusted EBITDA to turn to negative Bt10.8bn in 2020. We therefore saw hotel operators adopt drastic cost-cutting measures, starting in 2H20, of around 20-30% from 2019's level. Although the cost cutting is continuing into this year, with more of a hit to the top-line due to the rising severity of the COVID-19 situation in Thailand, we still estimate the sector's EBITDA loss at Bt5bn in 2021F. However, with a recovery of Thai tourists from the beginning of next year and international tourists in 2H22, while some cost cuts are permanent, we therefore estimate the sector's EBITDA to turn positive at Bt14bn in 2022F.

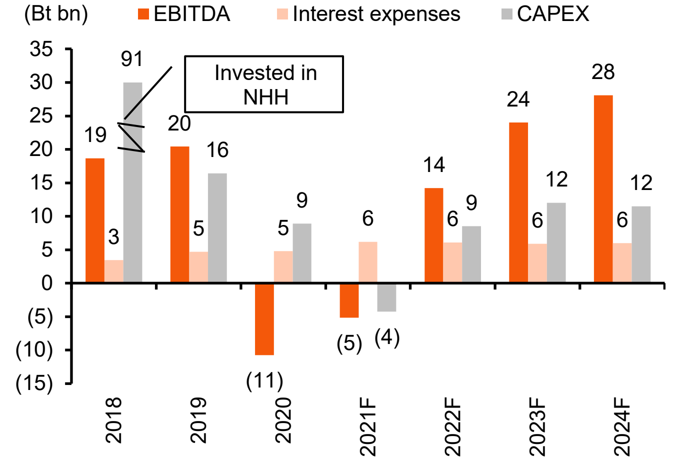
We therefore foresee the sector's cashflow streams continuing to be at risk over the short term with the sector's EBITDA (excluding rights of use) loss at Bt5bn in 2021F vs. the sector's interest expenses (excluding interest from lease agreements) of Bt6bn. Operators will therefore likely need to use cash on hand, unused credit lines or asset rotations to support their operational and financial expenses this year. Looking ahead to 2022F, despite our expectation for EBITDA to turn positive at Bt14bn, compared to interest expenses at Bt6bn and capex plans of Bt9bn, we foresee the sector's cashflow streams remaining weak.

Ex 11: The Sector's Net IBD/E*



Sources: Company data, Thanachart estimates
Note: * Exclude lease liabilities and COVID-19 impairment

Ex 12: Unhealthy Cash Flow Status In The Short Term

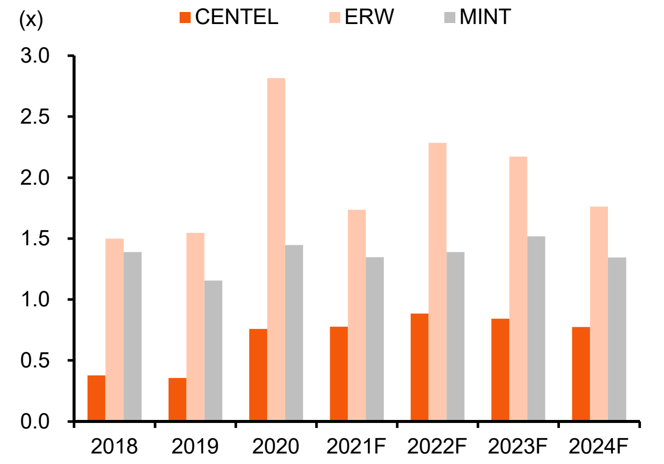


Sources: Company data, Thanachart estimates
Note: EBITDA excludes rights of use

We still see ERW having the highest balance sheet risk

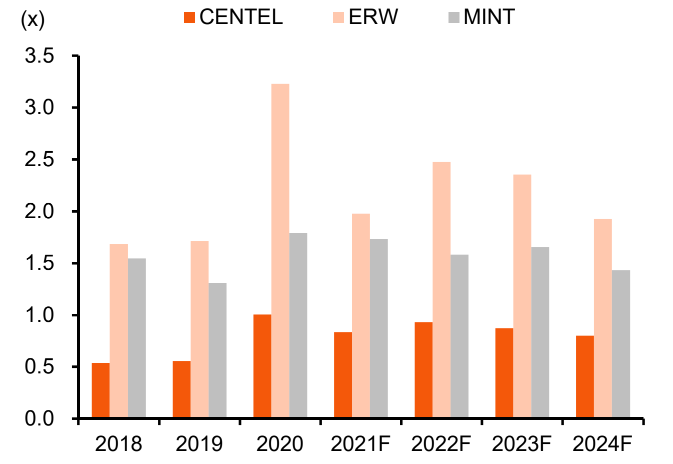
Among the three hotels under our coverage, we see ERW still having the highest balance sheet risk. Although it conducted a capital call and a land revaluation to support its equity and reduce its net D/E, we still estimate its net D/E ratio at 1.7x in 2021F while MINT's at 1.3x still has assets to sell with the overseas business turning around. We expect CENTEL, at a 0.8x net D/E ratio, to get through this difficult cycle without a capital increase.

Ex 13: Each Stock's Net IBD/E*



Sources: Company data, Thanachart estimates
Note: * Exclude lease liabilities and COVID-19 impairment

Ex 14: Each Stock's Gross IBD/E*



Sources: Company data, Thanachart estimates
Note: * Exclude lease liabilities and COVID-19 impairment

Earnings revisions

We cut our sector earnings estimates in 2021-23F

We revise down our hotel sector earnings from a Bt16bn loss to a Bt17bn loss in 2021F and cut our earnings by 68% in 2022F and 4% in 2023F because of our expectation of delays to the tourism and economic recovery in Thailand. However, we fine tune up our earnings in 2024F on the back of MINT's stronger-than-expected operations in overseas markets. Details of our earnings revisions, new TPs and recommendations for each stock are shown below in Exhibits 15 and 16.

Ex 15: Our Earnings Revisions

Stock code	Earnings (Bt m)											
	New				Old				Change (%)			
	2021F	2022F	2023F	2024F	2021F	2022F	2023F	2024F	2021F	2022F	2023F	2024F
CENTEL	(2,103)	(208)	1,468	2,093	(1,244)	319	1,708	2,163	n.a.	n.a.	(14.1)	(3.2)
ERW	(2,074)	(949)	203	649	(1,580)	(439)	386	705	n.a.	n.a.	(47.5)	(7.9)
MINT	(12,935)	1,637	6,936	9,280	(13,257)	1,638	6,873	9,066	n.a.	(0.1)	0.9	2.4
Sector	**(17,112)**	**480**	**8,606**	**12,022**	**(16,081)**	**1,518**	**8,968**	**11,934**	**n.a.**	**(68.4)**	**(4.0)**	**0.7**

Source: Thanachart estimates

Ex 16: Our Recommendation And TP Changes

Stocks	Recommendation		TP (Bt/share)		Changes in our key assumptions
	New	Old	New	Old	
CENTEL	BUY	BUY	40.0	38.0	▪ Our 2021-24F earnings are cut mainly to reflect a weaker-than-expected recovery in its hotel and food businesses because of a slow recovery in the Thai tourism industry and the economy. ▪ Our TP is lifted due to the rollover of our valuation base year to 2022F.
ERW	SELL	SELL	2.7	2.6	▪ Our 2021-24F earnings are cut mainly to reflect a weaker-than-expected recovery in its hotel business because of a slow recovery in the Thai tourism industry and the economy. ▪ Our TP is lifted due to the rollover of our valuation base year to 2022F.
MINT	BUY	HOLD	39.0	31.0	▪ We fine tune our 2021-22F earnings to reflect the stronger-than-expected operation of its overseas business and weaker-than-expected operation in Thailand. ▪ We lift our 2023F earnings and TP to reflect its stronger-than-expected overseas operation and the rollover of our valuation base year to 2022F.

Source: Thanachart estimates

Maintaining our NEUTRAL stance

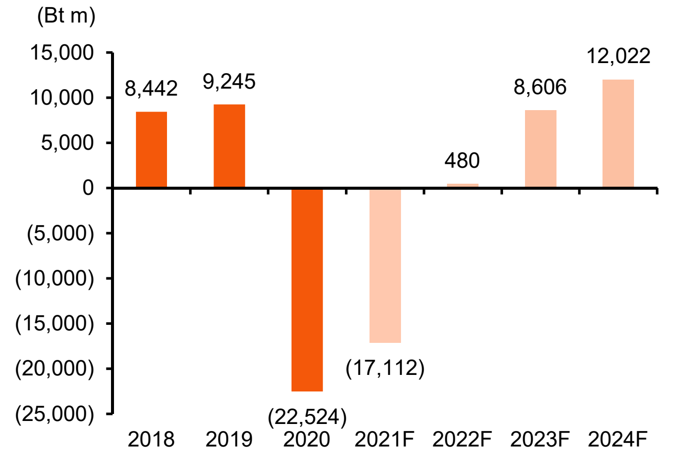
Maintain NEUTRAL on Thai tourism recovery delays into 2H22F

We maintain our NEUTRAL weighting on the hotel sector. While we expect the Thai tourism recovery to be delayed into 2H22F, the sector has recapitalized and should be able to tolerate weak cash flows for another year as mentioned in the balance sheet situation section.

Investment timing wise, the sector could be back on the market's radar from 1Q22F, ahead of the real reopening of the country in 2H22F. We expect the sector's earnings to turn positive at Bt480m in 2022F from making losses for two consecutive years of Bt23bn in 2020 and Bt17bn in 2021F.

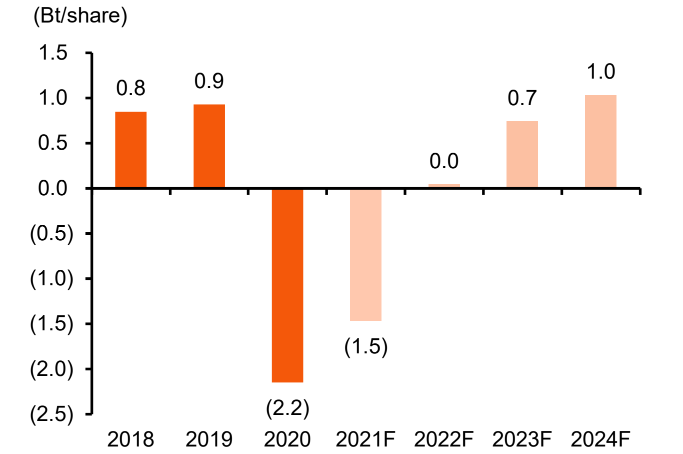
In terms of valuation, we see the Thai tourism industry as having sound long-term fundamentals while we also expect travel demand to recover after the pandemic subsides in the longer term. We therefore leave out the abnormally bad years of 2021-23F and look at the sector's valuation in 2024F when we expect sector demand to almost return to normal and estimate sector earnings to get back to 2019 pre-COVID level in 2024F. The sector's 2024F PE of 22.4x and EV/EBITDA of 13.7x are cheaper than its pre-COVID levels of 31.7x and 17.4x in 2019 and 32.2x and 20.6x in 2018.

Ex 17: Sector's Earnings



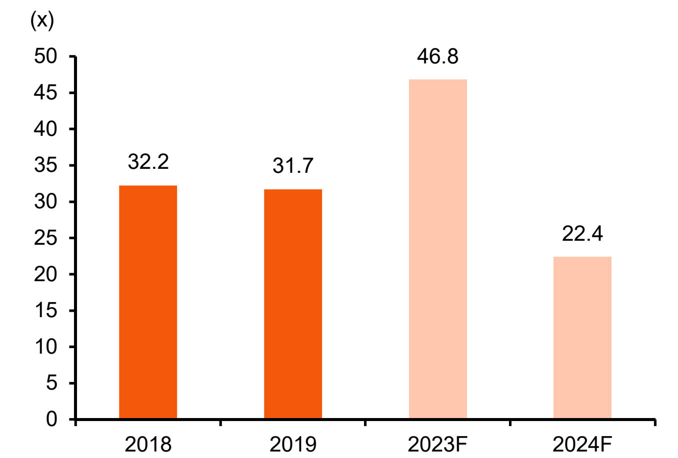
Sources: Company data, Thanachart estimates

Ex 18: Sector's EPS



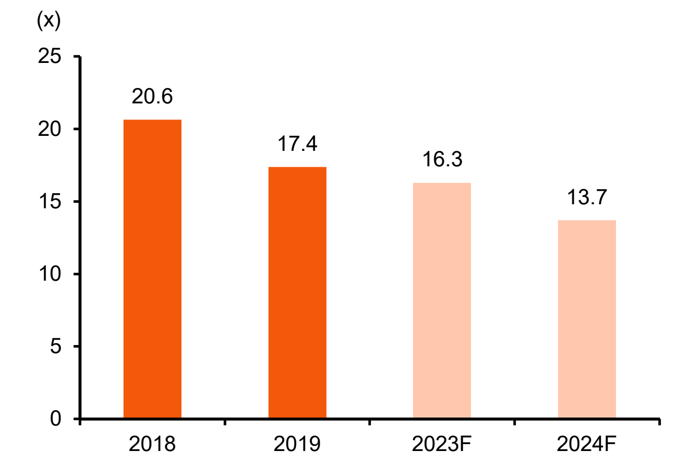
Sources: Company data, Thanachart estimates

Ex 19: Sector's PE



Sources: Company data, Bloomberg, Thanachart estimates

Ex 20: Sector's EV/Adjusted EBITDA



Sources: Company data, Bloomberg, Thanachart estimates

Note: EBITDA excludes right of use

Replace CENTEL with MINT as our top sector pick

MINT is now our top sector pick

MINT is now our top sector pick, replacing CENTEL. We expect MINT to be able to turn a profit in 2022F because of its overseas portfolio turning around while CENTEL and ERW will likely make losses for another year. MINT has recapitalized and it still plans to sell more of its overseas assets to strengthen its balance sheet a bit further. On a PE basis, all three companies are not trading very differently at 21-23x PE on normalized earnings in 2024F. But we think ERW should trade at a discount to its peers because of its balance sheet risk and soft earnings in 2021-22F.

Ex 21: Financial Summary

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	55,812	64,294	97,441	117,615
Net profit	(21,407)	(13,372)	1,637	6,936
Consensus NP	—	(13,639)	1,571	6,445
Diff from cons (%)	—	*na*	*4.2*	*7.6*
Norm profit	(19,388)	(12,935)	1,637	6,936
Prev. Norm profit	—	(13,257)	1,638	6,873
Chg from prev (%)	—	*na*	*(0.1)*	*0.9*
Norm EPS (Bt)	(4.3)	(2.6)	0.0	1.0
Norm EPS growth (%)	na	na	na	2,158.4
Norm PE (x)	na	na	750.1	33.2
EV/EBITDA (x)	723.7	48.5	14.0	11.2
P/BV (x)	2.6	2.8	2.8	3.0
Div yield (%)	0.0	0.0	0.0	1.1
ROE (%)	na	na	2.4	10.5
Net D/E (%)	144.8	138.8	143.3	156.8

Sources: Company data, Thanachart estimates
Note: Based on 23 Sep 2021 closing prices

Ex 22: MINT (Market cap: US$5,118m; TP: Bt39.0; BUY)

- As MINT has a strong presence in international markets in both the hotel and food businesses, mainly in Europe via its subsidiary NHH, Australia and China, we expect MINT's overseas businesses to grow faster than its Thailand operation.
- Among the three hotel stocks under our coverage, we see MINT as only one to be able to make a profit in 2022F. Meanwhile, we expect CENTEL and ERW to make losses due to the slow recovery in Thai tourism.
- Given NHH's improving operation, its asset rotation and warrant exercise, we see the company's financial status and cashflow stream improving.
- MINT's PE at 23.1x on normalized earnings in 2024F is cheaper than its pre-COVID level in 2018-19 of 31x.

Ex 23: Financial Summary

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 from cons (%)	—	*na*	*na*	*4.1*
Norm profit	(1,550)	(2,103)	(208)	1,468
Prev. Norm profit	—	(1,244)	319	1,709
Chg from prev (%)	—	*na*	*na*	*(14.1)*
Norm EPS (Bt)	(1.1)	(1.6)	(0.2)	1.1
Norm EPS growth (%)	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

Sources: Company data, Thanachart estimates
Note: Based on 23 Sep 2021 closing prices

Ex 24: CENTEL (Market cap: US$1,420bn; TP: Bt40.0; BUY)

- With the slow recovery of Thai tourism and the domestic consumption slowdown, we replace CENTEL with MINT as our top sector pick.
- We expect CENTEL to experience a recovery from 4Q21F at its food business and from early 2022F at its hotel business with pent-up demand for domestic travel. We expect a sharp fall in its loss to Bt208m in 2022F vs. Bt2.1bn loss in 2021F.
- CENTEL has the strongest balance sheet among peers with a 0.9x gross interest-bearing debt-to-equity (GIBD/E) ratio in 2022F vs. a 2.0x covenant ratio, which implies no capital increase risk.
- 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 estimate its 2024 earnings to surpass 2019's by 22%.

Ex 25: Financial Summary

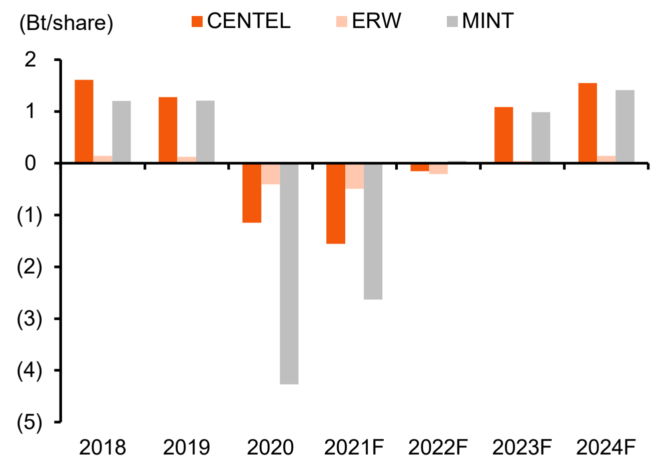
Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	2,306	1,312	2,906	5,350
Net profit	(1,715)	(2,204)	(949)	203
Consensus NP	—	(2,102)	(503)	229
Diff from cons (%)	—	*na*	*na*	*(11.4)*
Norm profit	(1,585)	(2,074)	(949)	203
Prev. Norm profit	—	(1,580)	(439)	386
Chg from prev (%)	—	*na*	*na*	*(47.5)*
Norm EPS (Bt)	(0.4)	(0.5)	(0.2)	0.0
Norm EPS growth (%)	na	na	na	na
Norm PE (x)	na	na	na	68.4
EV/EBITDA (x)	na	na	43.1	13.3
P/BV (x)	3.1	2.3	2.7	2.6
Div yield (%)	0.0	0.0	0.0	0.3
ROE (%)	na	na	na	3.9
Net D/E (%)	281.6	177.4	234.2	222.4

Sources: Company data, Thanachart estimates
Note: Based on 23 Sep 2021 closing prices

Ex 26: ERW (Market cap: US$417bn; TP: Bt2.70; SELL)

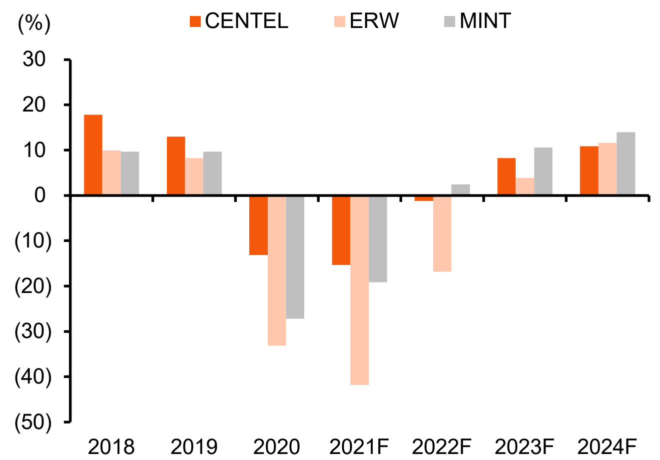
- Though we expect ERW's portfolio to benefit from domestic travel stimulus packages due to 96% of its revenue being contributed by the domestic market, with the slow recovery of foreign tourists visiting Thailand, we expect ERW's earnings to rebound slower than peers'.
- We estimate ERW to make higher losses than peers' at Bt2.1bn and Bt949m in 2021-22F.
- With its high gearing and huge losses, we foresee ERW's financial status and cash flow stream remaining at risk. We also see a risk of another capital call for ERW next year.
- With ERW's financial risk, we think it deserves to trade at a discount compared to peers' PEs.

Ex 27: Core EPS Comparison



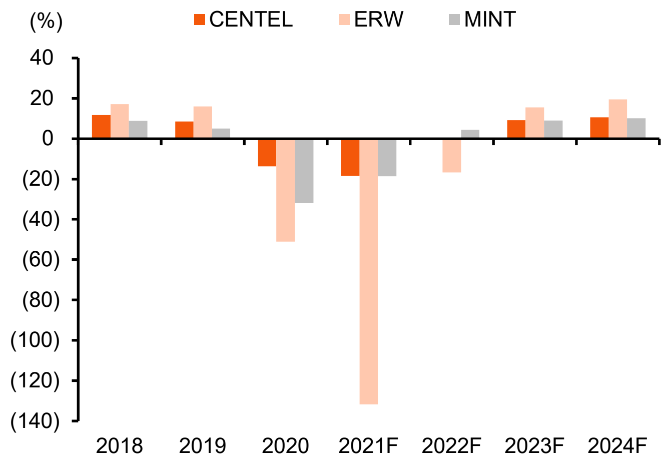
Sources: Company data, Thanachart estimates

Ex 28: ROE Comparison



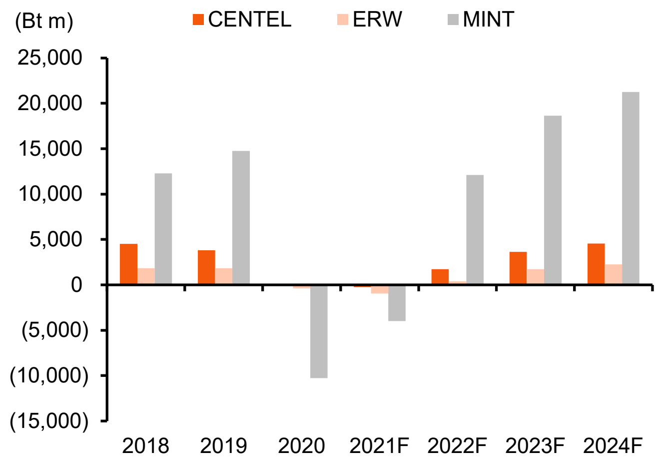
Sources: Company data, Thanachart estimates

Ex 29: Operating Margin Comparison



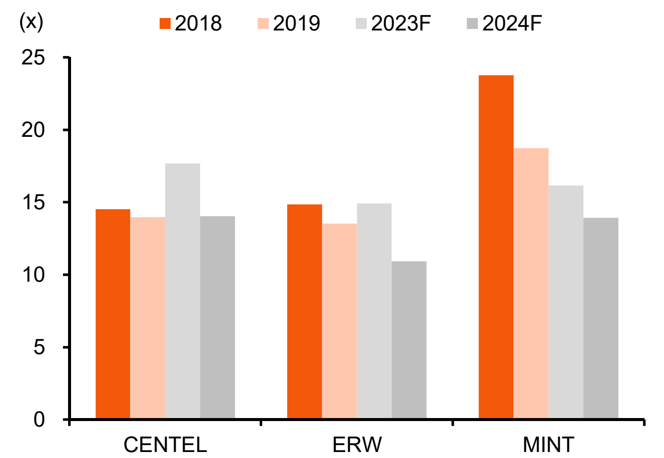
Sources: Company data, Thanachart estimates

Ex 30: EBITDA – Excluding Rights Of Use



Sources: Company data, Thanachart estimates

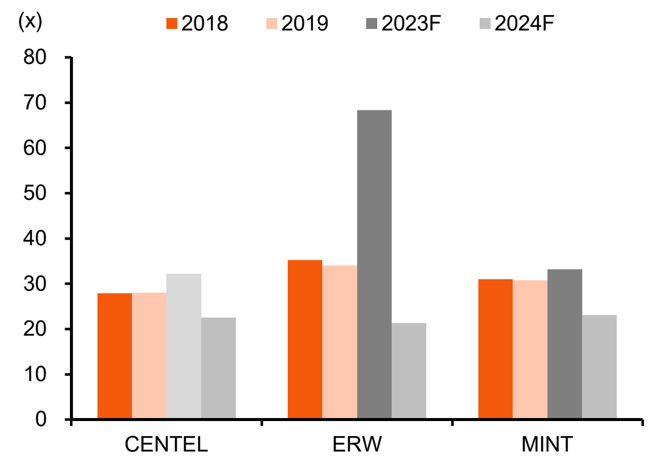
Ex 31: EV/Adjusted EBITDA Comparison



Sources: Company data, Thanachart estimates

Note: EBITDA excludes right of use

Ex 32: PE Comparison



Sources: Company data, Thanachart estimates

Risks

The key upside/downside risks to our NEUTRAL sector call would be the following:

1) If travel demand among Thai and international tourists resumes at stronger or slower levels than our current expectation, this would cause higher or lower numbers of Thai and international tourists.

2) If competition in the global and Thai tourism sector is above or below our expectation, this would have a negative or positive impact on the ability to raise the average room rate.

3) If consumption in Thailand and overseas markets, mainly Australia, China and Singapore, are stronger or weaker than our expectations, this would cause better or lower SSSG in the food business in those countries.

4) If competition in quick service restaurants (QSR) in Thailand and overseas markets is above or below our expectations, this would provide upside or downside risks to our SSSG assumptions.

5) If there is stronger or less investment in new greenfield/brownfield hotel or food projects than our expectations, this would pose an upside or downside risk to our earnings forecasts.

Ex 33: Sector Valuation Comparison

		CENTEL	ERW	MINT	Sector
Rating		**BUY**	**SELL**	**BUY**	**Neutral**
Target price	**Thanachart**	**40.00**	**2.70**	**39.00**	
	Consensus	34.39	3.00	35.16	
Consensus rec.	Buy	12.0	5.0	21.0	
	Hold	5.0	9.0	3.0	
	Sell	5.0	7.0	2.0	
Market cap. (US$ m)		1,420	417	5,118	
Sales (Bt m)	2020A	12,907	2,306	55,812	71,025
	2021F	10,382	1,312	64,294	75,988
	2022F	13,917	2,906	97,441	114,263
	2023F	18,124	5,350	117,615	141,089
Norm profits (Bt m)	2020A	(1,550)	(1,585)	(19,388)	(22,524)
	2021F	(2,103)	(2,074)	(12,935)	(17,112)
	2022F	(208)	(949)	1,637	480
	2023F	1,468	203	6,936	8,606
Sales growth (%)	2020A	(37.8)	(63.9)	(52.4)	(50.8)
	2021F	(19.6)	(43.1)	15.2	7.0
	2022F	34.0	121.5	51.6	50.4
	2023F	30.2	84.1	20.7	23.5
Norm EPS growth (%)	2020A	na	na	na	na
	2021F	na	na	na	na
	2022F	na	na	na	na
	2023F	na	na	2,158.4	1,694.8
Gross margin (%)	2020A	31.5	36.5	15.3	19.0
	2021F	31.0	9.8	23.3	24.1
	2022F	39.1	47.7	36.5	37.1
	2023F	41.4	53.9	40.9	41.5
SG&A/Sales (%)	2020A	45.2	87.5	47.3	48.3
	2021F	49.5	141.6	41.9	44.7
	2022F	39.2	64.4	32.2	33.9
	2023F	32.3	38.4	32.0	32.3
Norm profit margin (%)	2020A	(12.0)	(68.7)	(34.7)	(31.7)
	2021F	(20.3)	(158.0)	(20.1)	(22.5)
	2022F	(1.5)	(32.7)	1.7	0.4
	2023F	8.1	3.8	5.9	6.1
ROE (%)	2020A	na	na	na	na
	2021F	na	na	na	na
	2022F	na	na	2.4	0.5
	2023F	8.2	3.9	10.5	9.7
Norm PE (x)	2020A	na	na	na	na
	2021F	na	na	na	na
	2022F	na	na	750.1	339.1
	2023F	32.2	68.4	33.2	46.8
Dividend yield (%)	2020A	0.0	0.0	0.0	0.0
	2021F	0.0	0.0	0.0	0.0
	2022F	0.0	0.0	0.0	0.0
	2023F	0.6	0.3	1.1	0.9
Net D/E (x) *	2020A	0.8	2.8	1.4	1.4
	2021F	0.8	1.7	1.3	1.3
	2022F	0.9	2.3	1.4	1.3
	2023F	0.8	2.2	1.5	1.4

Source: Thanachart estimates

Note: * Exclude lease liabilities and COVID-19 impairment

Valuation Comparison

Ex 34: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth 21F (%)	EPS growth 22F (%)	PE 21F (x)	PE 22F (x)	P/BV 21F (x)	P/BV 22F (x)	EV/EBITDA 21F (x)	EV/EBITDA 22F (x)	Div yield 21F (%)	Div yield 22F (%)
Accor SA	AC FP	France	na	na	na	72.5	2.2	2.2	na	17.6	0.0	1.3
Indian Hotels	IH IN	India	na	na	na	na	6.0	6.5	na	68.8	0.1	0.3
Resorttrust	4681 JP	Japan	na	84.4	68.9	37.3	1.7	1.9	11.2	14.6	1.6	1.5
Hotel Shilla	008770 KS	S. Korea	na	140.8	51.9	21.6	5.1	4.2	14.7	11.5	0.2	0.3
NH Hotel Group	NHH SM	Spain	na	na	na	na	2.1	2.1	20.1	11.6	0.0	0.0
Shanghai Jin Jiang Capital	2006 HK	Hong Kong	(27.2)	310.3	40.5	9.9	0.9	0.8	7.4	6.9	0.4	2.3
Hongkong & Shanghai	45 HK	Hong Kong	na	na	na	234.2	na	na	159.3	29.9	na	0.8
Shangri-La Asia	69 HK	Hong Kong	na	na	na	na	3.6	3.6	56.2	24.5	0.1	0.2
InterContinental Hotels	IHG US	US	na	112.5	52.5	24.7	na	na	24.6	16.3	0.5	1.6
Marriott International	MAR US	US	na	78.8	49.8	27.9	31.6	18.6	25.8	17.3	0.0	0.6
Hilton Worldwide Holdings	HLT US	US	na	88.1	57.0	30.3	na	na	28.3	18.8	0.0	0.2
Asset World Corp	AWC TB	Thailand	na	na	na	na	2.0	2.0	166.7	50.7	0.0	0.0
Central Plaza Hotel	CENTEL TB*	Thailand	na	na	na	na	2.7	2.7	41.6	18.5	0.0	0.0
Erawan Group	ERW TB*	Thailand	na	na	na	na	2.3	2.7	na	43.1	0.0	0.0
Minor International	MINT TB*	Thailand	na	na	na	750.1	2.8	2.8	48.5	14.0	0.0	0.0
Average			**(27.2)**	**135.8**	**53.4**	**134.3**	**5.2**	**4.2**	**50.4**	**24.3**	**0.2**	**0.6**

Sources: Company data, Thanachart estimates
Note: * Thanachart estimates, using normalized EPS
Based on 23-Sep-21 closing prices

STOCK PERFORMANCE

	Absolute (%)				Rel SET (%)			
	1M	3M	12M	YTD	1M	3M	12M	YTD
SET Index	**3.1**	**2.5**	**29.0**	**12.5**	**—**	**—**	**—**	**—**
HOTEL	**1.2**	**(0.1)**	**35.2**	**27.9**	**(1.9)**	**(2.6)**	**6.1**	**15.4**
CENTEL	2.2	0.7	52.8	47.7	(0.9)	(1.7)	23.8	35.1
ERW	(1.9)	4.1	49.3	32.5	(5.0)	1.6	20.2	19.9
MINT	0.0	6.5	54.5	27.2	(3.1)	4.1	25.4	14.6

Source: Bloomberg

SECTOR - SWOT ANALYSIS

S — Strength

- Thailand being value-for-money tourist destination
- Geographical center of Southeast Asia
- Good infrastructure and public transport
- High service quality and standard

W — Weakness

- Seasonal impacts
- Thailand's upscale hotel oversupply
- High investment requirements

O — Opportunity

- The growing ASEAN Economic Community market
- High travelling demand during normal situation
- Weakening baht
- Pick-up in global economic performance

T — Threat

- Natural disasters and disease outbreaks
- Political turmoil
- Rising cost of labor and skilled-labor shortages
- Baht appreciation

REGIONAL COMPARISON

	— EPS growth —		——— PE ———		——— P/BV ———		— EV/EBITDA —		— Div. Yield —	
Name	**21F**	**22F**	**21F**	**22F**	**21F**	**22F**	**21F**	**22F**	**21F**	**22F**
France	na	na	na	72.5	2.2	2.2	na	17.6	0.0	1.3
India	na	na	na	na	6.0	6.5	na	68.8	0.1	0.3
Japan	na	84.4	68.9	37.3	1.7	1.9	11.2	14.6	1.6	1.5
S. Korea	na	140.8	51.9	21.6	5.1	4.2	14.7	11.5	0.2	0.3
Spain	na	na	na	na	2.1	2.1	20.1	11.6	0.0	0.0
Hong Kong	(27.2)	310.3	40.5	122.0	2.2	2.2	74.3	20.4	0.3	1.1
US	na	93.1	53.1	27.6	31.6	18.6	26.3	17.5	0.2	0.8
Thailand	na	na	na	750.1	2.4	2.6	85.6	31.6	0.0	0.0
Average	**(27.2)**	**135.8**	**53.4**	**134.3**	**5.2**	**4.2**	**50.4**	**24.3**	**0.2**	**0.6**
CENTEL TB	na	na	na	na	2.7	2.7	41.6	18.5	0.0	0.0
ERW TB	na	na	na	na	2.3	2.7	na	43.1	0.0	0.0
MINT TB	na	na	na	750.1	2.8	2.8	48.5	14.0	0.0	0.0
Average *- Thailand	**na**	**na**	**na**	**750.1**	**2.4**	**2.6**	**85.6**	**31.6**	**0.0**	**0.0**

Sources: Bloomberg Consensus
Note: * Thanachart estimate – using normalized EPS

Small Cap Research

Thanachart Securities

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%.

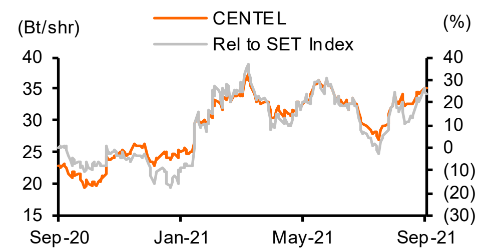
Strong balance sheet

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%

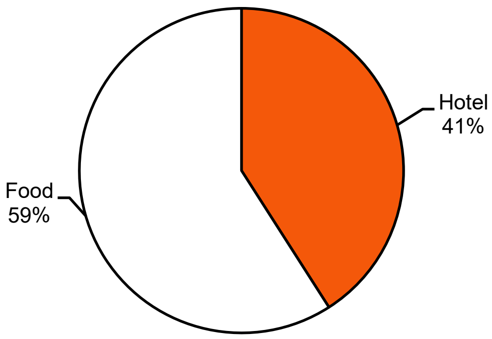
Sources: Bloomberg, Company data, Thanachart estimates

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)*

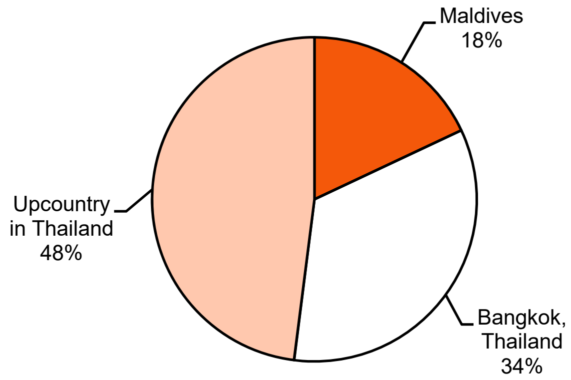
Sources: Company data; Thanachart estimates

Ex 2: Revenue Breakdown By Business In 2019



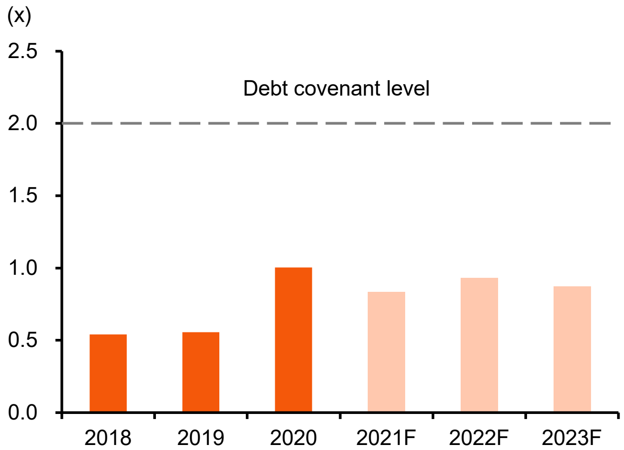
Source: Company data

Ex 3: Hotel Revenue Breakdown By Geography In 2019



Source: Company data

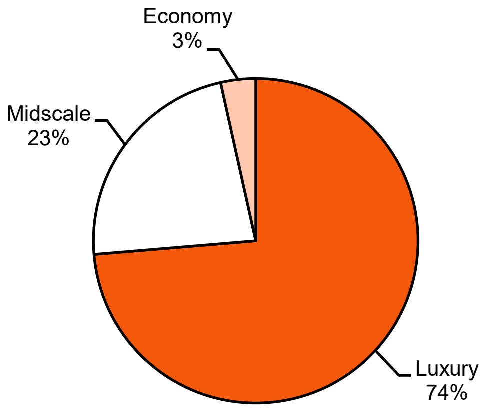
Ex 4: Gross Interest-Bearing Debt To Equity Ratio*



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**

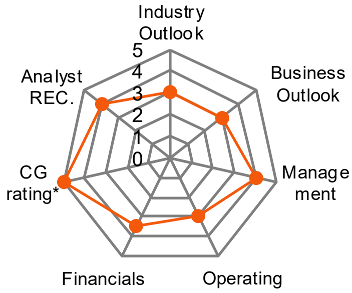
Sources: Company data, Thanachart estimates

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

Healthier balance sheet compared with peers'

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

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

Small Cap Research

Thanachart Securities

SELL (Unchanged) | **TP: Bt 2.70** (From: Bt 2.60)

Change in Numbers | **Downside : 11.8%** | **27 SEPTEMBER 2021**

The Erawan Group Pcl (ERW TB)

Balance sheet risk remains

With our expectation of a delay to the tourism recovery into 2H22F, ERW looks likely to make a loss for another year. Despite its recent capital increase, its net IBD/E ratio remains high and provides limited cushion to a further tourism recovery holdup. Maintain SELL.

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siriporn.aru@thanachartsec.co.th

Maintaining SELL

This report is a part of *Hotel Sector – Delayed recovery,* dated 27 September 2021. We reaffirm SELL on ERW. *First*, we expect the tourism recovery to be delayed to 2H22F and we lower our earnings estimates for ERW to a higher loss of Bt2.1bn (from Bt1.6bn) in 2021F and Bt949m (from Bt439m) in 2022F. We also revise down its profit in 2023F by 48% to Bt203m. *Second*, despite a capital increase in 2Q21 by 60% of its equity base in 1Q21, we expect ERW to still be at risk of having to undertake another capital increase next year. *Third*, trading at a similar PE to MINT and CENTEL in 2024F at 21.4x, we consider this as relatively expensive, given ERW's higher cash flow and capital call risk. Our DCF-based 12-month TP (rolled over to a 2022F base year) stands at Bt2.7/share (from Bt2.6).

Slow tourism recovery

Thailand's tourism schemes, including the Phuket Sandbox and Samui Plus, that kicked off in July have seen lukewarm demand. Of ERW's 69 hotels in Thailand (95% of hotel revenue), seven (two luxury, three economy and two budget hotels) are in Phuket and Samui. ERW's occupancy rate stood at 25% in 1H21 and 15% in July-August. Although we foresee improving domestic travel from early next year, we expect the occupancy rate be below the break-even rate at 47% in 2022F. We estimate a profit of Bt203m in 2023F at 68% occupancy vs. 76% in 2019.

Risk of market share loss next year

ERW's hotel portfolio by room capacity comprises 10% five-star, 17% four-star, 27% three-star, and 46% below that. While most of its five-star rooms are in Bangkok which isn't likely to be a major destination among Thai travelers, its low-star hotels look to be at risk of losing market share among Thai travelers next year. That is, we expect four- to five-star hotels to give big discounts next year to try to entice Thai travelers and that should reduce traffic to lower-star hotels.

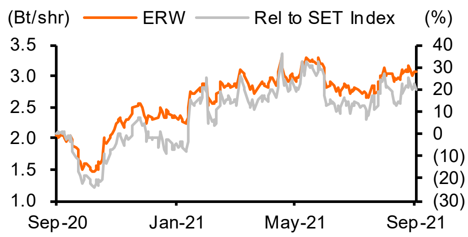
Debt ratio on the edge

ERW undertook a rights offering, raising Bt2.0bn this year and carried out a non-cash land revaluation of Bt2.7bn to revitalize its equity base. Its net interest-bearing debt-to-equity (IBD/E) ratio fell from 2.8x in 2020 to 1.7x in 2021F. However, after making another loss in 2022F, we estimate its IBD/E to rise to 2.3x in 2022F vs. its 2.5x covenant ratio. We see this providing too little of a cushion for a further delay or a weaker recovery timescale for the tourism industry.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	2,306	1,312	2,906	5,350
Net profit	(1,715)	(2,204)	(949)	203
Consensus NP	—	(2,102)	(503)	229
Diff frm cons (%)	—	*na*	*na*	*(11.4)*
Norm profit	(1,585)	(2,074)	(949)	203
Prev. Norm profit	—	(1,580)	(439)	386
Chg frm prev (%)	—	*na*	*na*	*(47.5)*
Norm EPS (Bt)	(0.41)	(0.49)	(0.21)	0.04
Norm EPS grw (%)	na	na	na	na
Norm PE (x)	na	na	na	68.4
EV/EBITDA (x)	na	na	43.1	13.3
P/BV (x)	3.1	2.3	2.7	2.6
Div yield (%)	0.0	0.0	0.0	0.3
ROE (%)	na	na	na	3.9
Net D/E (%)	281.6	177.4	234.2	222.4

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 23-Sep-21 (Bt)	3.06
Market Cap (US$ m)	416.8
Listed Shares (m shares)	4,531.6
Free Float (%)	61.3
Avg Daily Turnover (US$ m)	1.9
12M Price H/L (Bt)	3.31/1.45
Sector	Tourism
Major Shareholder	Vongkusolkit & Wattanavekin Group 55%

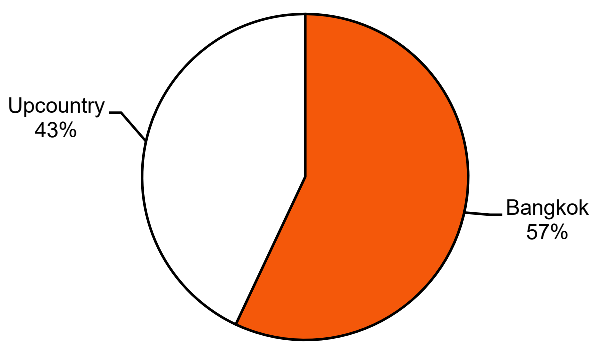
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Changes In Our Key Assumptions And Earnings Revisions

	2019	2021	2021F	2022F	2023F	2024F
# of rooms						
- New	9,569	9,802	9,863	10,574	11,448	11,448
- Old			9,863	10,574	11,448	11,448
- Change (%)			—	—	—	—
Occupancy rate (%)						
- New	76.4	36.6	29.4	47.1	68.2	76.7
- Old			28.1	58.3	73.0	78.3
- Change (pp)			*1.3*	*(11.2)*	*(4.8)*	*(1.6)*
ARR growth (%)						
- New	(6.1)	(35.6)	(24.1)	27.7	22.8	13.2
- Old			(18.2)	26.7	19.1	8.6
- Change (pp)			*(5.9)*	*1.0*	*3.8*	*4.6*
Gross margin (%)						
- New	54.5	36.5	9.8	47.7	53.9	54.4
- Old			35.8	48.4	54.1	54.6
- Change (pp)			*(26.0)*	*(0.7)*	*(0.2)*	*(0.2)*
SG&A to sales (%)						
- New	38.6	87.5	141.6	64.4	38.4	34.9
- Old			113.9	49.0	38.9	36.6
- Change (pp)			*27.7*	*15.5*	*(0.5)*	*(1.7)*
Normalized profit (Bt m)						
- New	464	(1,585)	(2,074)	(949)	203	649
- Old			(1,580)	(439)	386	705
- Change (%)			*n.a.*	*n.a.*	*(47.5)*	*(7.9)*

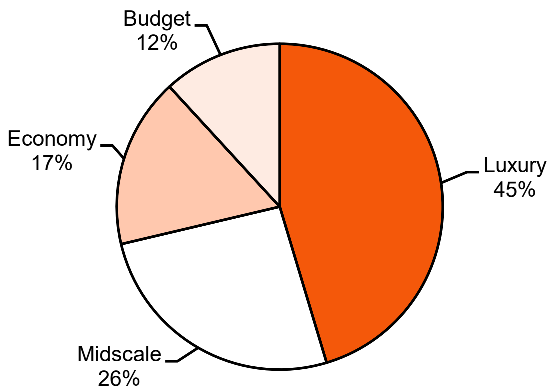
Sources: Company data, Thanachart estimates

Ex 2: Hotel Revenue Breakdown By Geography In 2019



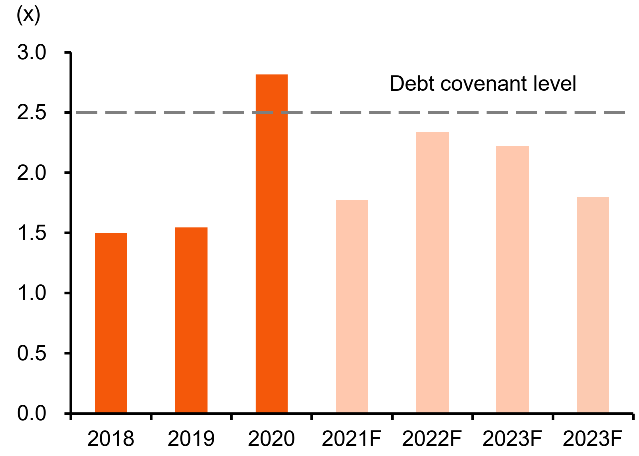
Source: Company data

Ex 3: Revenue Breakdown By Segment In 2019



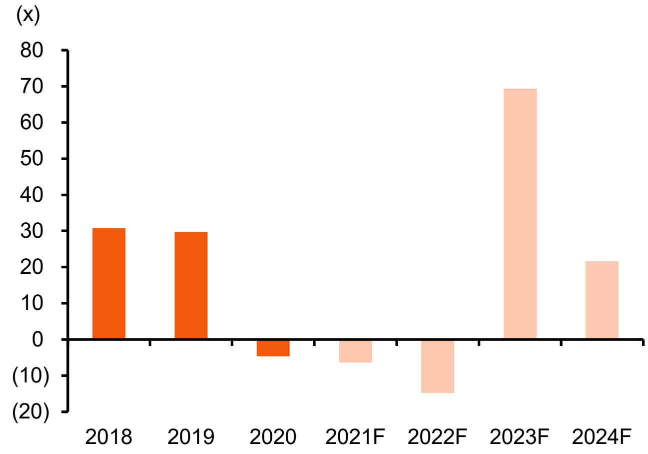
Source: Company data

Ex 4: Net Debt To Equity Ratio*



Sources: Company data, Thanachart estimates
Note: Excludes lease liabilities and COVID-19 impairment

Ex 5: Rolling PE



Sources: Company data, Bloomberg, Thanachart estimates

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	380	1,726	2,246	2,463	2,555	2,647	2,727	2,791	2,861	2,932	3,000	—
Free cash flow	(784)	530	1,533	1,721	1,794	1,866	1,702	1,756	1,815	1,875	1,933	32,419
PV of free cash flow	(782)	461	1,246	1,283	1,270	1,201	1,018	976	937	862	822	13,782
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.2											
WACC (%)	7.2											
Terminal growth (%)	2.0											
Enterprise value - add investments	23,076											
Net debt (2021F)	10,854											
Minority interest	16											
Equity value	12,206											
# of shares*	4,532											
Target price/share (Bt)	**2.70**											

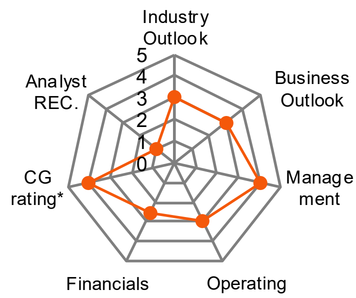
Sources: Company data, Thanachart estimates
Note: * Include new RO shares

COMPANY DESCRIPTION

The Erawan Group Public Co., Ltd. (ERW) was established on 29 December 1982. ERW's core businesses are investment, development and management of diversified hotel properties and segments (luxury, mid-scale, economy and budget) across Thailand's key destinations. Currently, ERW owns 74 hotels and operates other businesses including retail space rental and management of office buildings.

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 connected with strong hotel chains, i.e. Hyatt, Marriott, Novotel, Holiday Inn, and Mercure as ERW's business allies in Thailand.
- Assets are strategically located in popular Thai tourist destinations.

W — Weakness

- Hotel footprint remains concentrated in Bangkok, Thailand.
- Luxury hotel oversupply in Thailand.

O — Opportunity

- Focuses on high-growth segments: mid-scale and economy and budget hotels (owned brand: HOP INN).
- Potential expansions in ASEAN.

T — Threat

- Fierce competition among hotel operators.
- ERW requires significant capital expenditure and financing to support its hotel investments and developments.
- Natural disaster and pandemic outbreak

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	3.00	2.70	-10%
Net profit 21F (Bt m)	(2,102)	(2,204)	na
Net profit 22F (Bt m)	(503)	(949)	na
Consensus REC	**BUY: 5**	**HOLD: 9**	**SELL: 7**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings and TP are below the Bloomberg consensus numbers, which we attribute to us having a more conservative view on the recovery in ERW's operation.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Thailand's political situation and natural disasters are the key upside risks to our call.
- A faster-than-expected Thai and international tourist demand recovery is also an upside risks.
- Lower competition in Thai and global tourism would provide upside potential to our numbers.

Source: Thanachart

We expect a slower recovery of Thai tourism in 2021-22F

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	6,379	2,306	1,312	2,906	5,350
Cost of sales	2,900	1,465	1,184	1,519	2,466
Gross profit	**3,479**	**841**	**128**	**1,387**	**2,884**
% gross margin	54.5%	36.5%	9.8%	47.7%	53.9%
Selling & administration expenses	2,463	2,017	1,857	1,873	2,056
Operating profit	**1,017**	**(1,176)**	**(1,729)**	**(486)**	**827**
% operating margin	15.9%	-51.0%	-131.8%	-16.7%	15.5%
Depreciation & amortization	830	1,012	1,016	1,086	1,114
EBITDA	**1,846**	**(164)**	**(713)**	**600**	**1,941**
% EBITDA margin	28.9%	-7.1%	-54.3%	20.7%	36.3%
Non-operating income	60	42	34	47	50
Non-operating expenses	0	0	0	0	0
Interest expense	(402)	(536)	(545)	(585)	(627)
Pre-tax profit	**675**	**(1,669)**	**(2,240)**	**(1,024)**	**250**
Income tax	155	(39)	(67)	(31)	8
After-tax profit	**520**	**(1,630)**	**(2,173)**	**(993)**	**243**
% net margin	8.2%	-70.7%	-165.6%	-34.2%	4.5%
Shares in affiliates' Earnings	0	(18)	0	0	0
Minority interests	(57)	63	99	44	(40)
Extraordinary items	(18)	(130)	(130)	0	0
NET PROFIT	**446**	**(1,715)**	**(2,204)**	**(949)**	**203**
Normalized profit	**464**	**(1,585)**	**(2,074)**	**(949)**	**203**
EPS (Bt)	0.1	(0.4)	(0.5)	(0.2)	0.0
Normalized EPS (Bt)	0.1	(0.4)	(0.5)	(0.2)	0.0

Unhealthy balance sheet, based on our forecasts

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	1,456	1,962	1,800	1,356	1,458
Cash & cash equivalent	969	1,623	1,500	1,000	1,000
Account receivables	185	77	40	80	147
Inventories	52	46	32	37	61
Others	250	217	228	239	251
Investments & loans	79	48	48	48	48
Net fixed assets	14,442	14,281	16,938	17,072	17,173
Other assets	1,856	4,923	4,924	4,929	4,941
Total assets	**17,834**	**21,215**	**23,709**	**23,405**	**23,620**
LIABILITIES:					
Current liabilities:	3,360	2,812	3,071	3,534	3,908
Account payables	234	145	110	133	216
Bank overdraft & ST loans	860	1,410	1,235	1,300	1,289
Current LT debt	1,177	726	1,112	1,463	1,740
Others current liabilities	1,089	532	614	637	662
Total LT debt	**8,126**	**10,551**	**10,006**	**10,241**	**9,862**
Others LT liabilities	407	3,923	4,513	4,505	4,502
Total liabilities	**11,893**	**17,286**	**17,590**	**18,280**	**18,272**
Minority interest	179	116	16	(28)	12
Preferreds shares	0	0	0	0	0
Paid-up capital	2,518	2,518	4,532	4,532	4,532
Share premium	910	910	910	910	910
Warrants	0	0	0	0	0
Surplus	(164)	(133)	(133)	(133)	(133)
Retained earnings	**2,499**	**519**	**794**	**(155)**	**27**
Shareholders' equity	5,762	3,813	6,102	5,153	5,335
Liabilities & equity	**17,834**	**21,215**	**23,709**	**23,405**	**23,620**

Sources: Company data, Thanachart estimates

Cash inflow stream remains weak in 2021F

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	675	(1,669)	(2,240)	(1,024)	250
Tax paid	(155)	39	67	31	(8)
Depreciation & amortization	830	1,012	1,016	1,086	1,114
Chg In w orking capital	33	25	16	(22)	(7)
Chg In other CA & CL / minorities	(5)	(562)	51	(9)	(10)
Cash flow from operations	**1,378**	**(1,155)**	**(1,089)**	**61**	**1,340**
Capex	(1,766)	(637)	(3,449)	(1,000)	(1,000)
Right of use	0	(4,654)	(200)	(200)	(200)
ST loans & investments	0	0	0	0	0
LT loans & investments	14	31	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(38)	4,779	456	(12)	(6)
Cash flow from investments	**(1,791)**	**(481)**	**(3,193)**	**(1,212)**	**(1,206)**
Debt financing	558	2,524	(333)	651	(113)
Capital increase	48	0	2,014	0	0
Dividends paid	(226)	(176)	0	0	(20)
Warrants & other surplus	(48)	(58)	2,479	0	0
Cash flow from financing	**331**	**2,290**	**4,160**	**651**	**(133)**
Free cash flow	**(389)**	**(1,793)**	**(4,538)**	**(939)**	**340**

Fully valued, in our view

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	25.4	na	na	na	68.4
Normalized PE - at target price (x)	22.4	na	na	na	60.3
PE (x)	26.4	na	na	na	68.4
PE - at target price (x)	23.3	na	na	na	60.3
EV/EBITDA (x)	11.4	na	na	43.1	13.3
EV/EBITDA - at target price (x)	10.6	na	na	40.4	12.4
P/BV (x)	2.0	3.1	2.3	2.7	2.6
P/BV - at target price (x)	1.8	2.7	2.0	2.4	2.3
P/CFO (x)	8.5	(10.2)	(11.8)	226.9	10.4
Price/sales (x)	2.2	6.0	10.6	4.8	2.6
Dividend yield (%)	1.5	0.0	0.0	0.0	0.3
FCF Yield (%)	(3.3)	(15.2)	(35.3)	(6.8)	2.4
(Bt)					
Normalized EPS	0.1	(0.4)	(0.5)	(0.2)	0.0
EPS	0.1	(0.4)	(0.5)	(0.2)	0.0
DPS	0.0	0.0	0.0	0.0	0.0
BV/share	1.5	1.0	1.3	1.1	1.2
CFO/share	0.4	(0.3)	(0.3)	0.0	0.3
FCF/share	(0.1)	(0.5)	(1.1)	(0.2)	0.1

Sources: Company data, Thanachart estimates

Debt ratio on the edge

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	1.6	(63.9)	(43.1)	121.5	84.1
Net profit (%)	(16.9)	na	na	na	na
EPS (%)	(17.1)	na	na	na	na
Normalized profit (%)	(13.6)	na	na	na	na
Normalized EPS (%)	(13.7)	na	na	na	na
Dividend payout ratio (%)	39.5	0.0	0.0	0.0	20.0
Operating performance					
Gross margin (%)	54.5	36.5	9.8	47.7	53.9
Operating margin (%)	15.9	(51.0)	(131.8)	(16.7)	15.5
EBITDA margin (%)	28.9	(7.1)	(54.3)	20.7	36.3
Net margin (%)	8.2	(70.7)	(165.6)	(34.2)	4.5
D/E (incl. minor) (x)	1.7	3.2	2.0	2.5	2.4
Net D/E (incl. minor) (x)	1.5	2.8	1.8	2.3	2.2
Interest coverage - EBIT (x)	2.5	na	na	na	1.3
Interest coverage - EBITDA (x)	4.6	na	na	1.0	3.1
ROA - using norm profit (%)	2.7	na	na	na	0.9
ROE - using norm profit (%)	8.2	na	na	na	3.9
DuPont					
ROE - using after tax profit (%)	9.2	na	na	na	4.6
- asset turnover (x)	0.4	0.1	0.1	0.1	0.2
- operating margin (%)	16.9	na	na	na	16.4
- leverage (x)	3.1	4.1	4.5	4.2	4.5
- interest burden (%)	62.7	147.3	132.2	233.4	28.5
- tax burden (%)	77.1	na	na	na	97.0
WACC (%)	7.2	7.2	7.2	7.2	7.2
ROIC (%)	5.6	(7.9)	(11.3)	(2.8)	4.7
NOPAT (Bt m)	784	(1,175.6)	(1,677.3)	(471.2)	803
invested capital (Bt m)	14,956	14,877.1	16,955.6	17,157.5	17,227

Sources: Company data, Thanachart estimates

BUY (From: HOLD)

Change in Recommendation

TP: Bt 39.00 (From: Bt 31.00)

Upside : 19.1%

27 SEPTEMBER 2021

Minor International Pcl (MINT TB)

Early turnaround play

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MINT becomes our top sector pick on its earlier earnings turnaround cycle than peers' from its overseas business which has already enjoyed country reopening benefits. MINT in a full-turnaround year in 2024F is trading at only 23.1x PE vs. 30.8x in 2019.

Thanachart Securities

MINT is our top sector pick

This report is part of *Hotel Sector – Delated recovery,* dated 27 September 2021. We raise MINT to BUY (from Hold) and assign it as out top sector pick, replacing CENTEL, which remains a BUY. *First*, MINT is turning around faster than peers via its overseas businesses that are already enjoying country re-openings. *Second*, as opposed to CENTEL and ERW which should still make losses next year, we expect MINT to turn a profit in 2022F. We fine-tune MINT's earnings in 2021-23F and raise them by 6% p.a. from 2024-32F to reflect a stronger-than-expected NH Hotel operation. Our DCF-based 12-month TP is rolled over to a 2022F base year and lifted to Bt39.0 (from Bt31.0). *Lastly*, MINT looks inexpensive to us at 23.1x PE in 2024F vs. 30.8x in 2019.

Faster recovery in overseas business

MINT's 2019 revenue was 73% contributed by overseas markets (49% Europe, 7% Oceania, 5% Americas, 3% China, and 2% the Maldives). The recovery has already started in its hotel business in Europe, the Maldives and Australia while its food business has also been improving in China and Australia. We expect the turnaround of its overseas businesses to more than offset the weak business momentum in Thailand. In 2019, Thai hotels accounted for 11% of revenue and food 13%.

To turn a profit next year

Against a delayed turnaround of the tourism recovery in Thailand, we expect MINT to turn from a Bt12.9bn loss in 2021F to a Bt1.6bn profit in 2022F. We also estimate earnings in its full turnaround year in 2024F to surpass 2019's by 31% due to cost cutting during 2020-21. Across all businesses and locations, MINT has negotiated for better terms for its commercial leases, cut staff costs, improved efficiency, reduced capex and seen corporate tax benefits from loss carry forward.

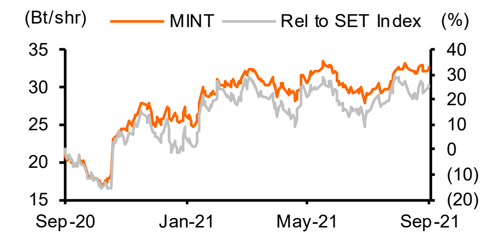
We see no further cash call risk

MINT raised capital in 2020 and its GIBD/E was 2.1x in 2Q21 vs. its covenant 1.75x, which is waived for 2021-22. Despite the expecting a profit in 2022F, MINT plans to sell and lease back or sell and manage back some of its assets. It did that with NH Collection Barcelona Gran Hotel Calderón in 2Q21 and Tivoli Marina Vilamoura and Tivoli Carvoeiro in July 2021 with a total transaction value of Bt10.5bn. We project another Bt4.5bn asset rotation late this year to reach its high target range of Bt10bn-15bn this year. Together with in-the-money warrants (MINT-W7, W8 and W9) that can be exercised, we estimate MINT's GIBD/E to fall to 1.7x and 1.6x in 2021-22F. Note that MINT is the only one of the three stocks we cover that has not yet done a land revaluation. ERW and CENTEL already did theirs in 2Q21.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	55,812	64,294	97,441	117,615
Net profit	(21,407)	(13,372)	1,637	6,936
Consensus NP	—	(13,639)	1,571	6,445
Diff frm cons (%)	—	*na*	*4.2*	*7.6*
Norm profit	(19,388)	(12,935)	1,637	6,936
Prev. Norm profit	—	(13,257)	1,638	6,873
Chg frm prev (%)	—	*na*	*(0.1)*	*0.9*
Norm EPS (Bt)	(4.3)	(2.6)	0.0	1.0
Norm EPS grw (%)	na	na	na	2,158.4
Norm PE (x)	na	na	750.1	33.2
EV/EBITDA (x)	723.7	48.5	14.0	11.2
P/BV (x)	2.6	2.8	2.8	3.0
Div yield (%)	0.0	0.0	0.0	1.1
ROE (%)	na	na	2.4	10.5
Net D/E (%)	144.8	138.8	143.3	156.8

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 23-Sep-21 (Bt)	32.75
Market Cap (US$ m)	5,118.4
Listed Shares (m shares)	5,199.0
Free Float (%)	61.4
Avg Daily Turnover (US$ m)	13.4
12M Price H/L (Bt)	33.50/16.70
Sector	Food
Major Shareholder	Group of Mr. William Heinecke 33%

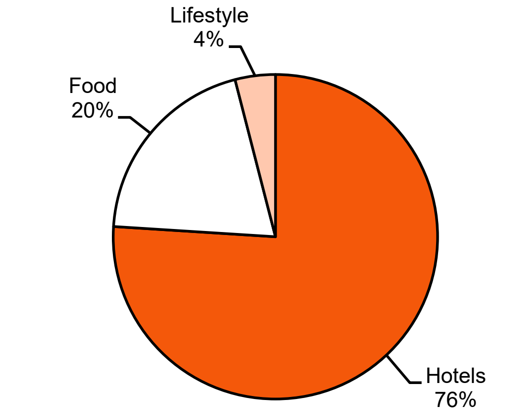
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Changes In Our Key Assumptions And Earnings Revisions

	2019	2021	2021F	2022F	2023F	2024F
MINT's occupancy rate (%)						
- New	70.9	44.5	46.1	52.0	62.2	66.7
- Old			46.7	58.4	70.3	73.7
- Change (pp)			*(0.6)*	*(6.4)*	*(8.1)*	*(7.0)*
MINT's ARR (Bt/night)						
- New	3,900	2,876	2,394	2,959	3,474	3,752
- Old			2,453	3,078	3,674	3,840
- Change (%)			*(2.4)*	*(3.9)*	*(5.5)*	*(2.3)*
NHH's occupancy rate (%)						
- New	71.6%	25.0%	39.5%	62.7%	69.9%	72.5%
- Old			34.6%	62.6%	66.5%	70.3%
- Change (pp)			*4.9*	*0.0*	*3.4*	*2.2*
NHH's ARR (Euro/night)						
- New	103	82	84	92	103	105
- Old			74	87	102	104
- Change (pp)			*13.9*	*6.5*	*1.5*	*0.8*
# food stores (owned + franchise)						
- New	2,377	2,370	2,370	2,441	2,514	2,565
- Old			2,370	2,441	2,514	2,565
- Change (%)			—	—	—	—
% SSSG						
- New	(4.4)	(14.2)	(0.6)	5.0	3.0	1.0
- Old			(0.6)	5.0	3.0	1.0
- Change (pp)			—	—	—	—
Gross margin (%)						
- New	44.4	15.3	23.3	36.5	40.9	43.2
- Old			22.4	39.8	44.5	45.0
- Change (pp)			*0.9*	*(3.3)*	*(3.5)*	*(1.8)*
SG&A to sales (%)						
- New	39.4	47.3	41.9	32.2	32.0	33.1
- Old			42.4	35.0	35.7	35.3
- Change (pp)			*(0.5)*	*(2.8)*	*(3.7)*	*(2.2)*
Normalized profit (Bt m)						
- New	7,060	(19,388)	(12,935)	1,637	6,936	9,280
- Old			(13,257)	1,638	6,873	9,066
- Change (%)			*n.a.*	*(0.1)*	*0.9*	*2.4*

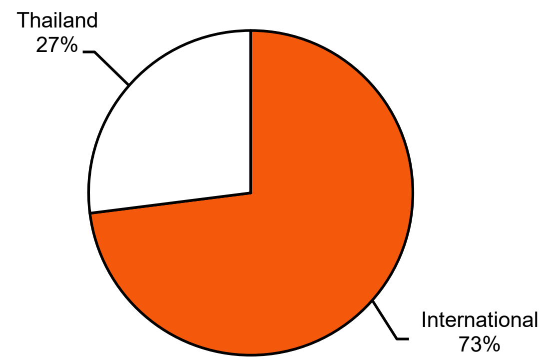
Sources: Company data; Thanachart estimates

Ex 2: Revenue Breakdown By Business In 2019



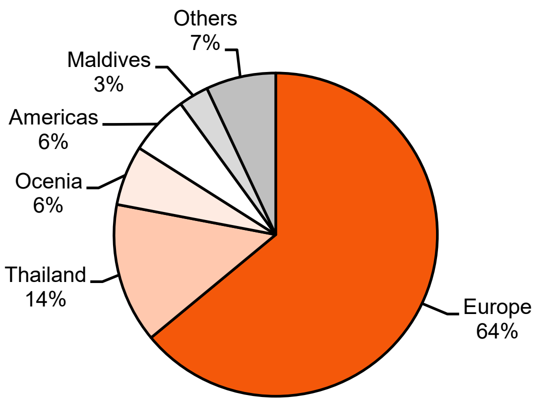
Source: Company data

Ex 3: Revenue Breakdown By Market Presence In 2019



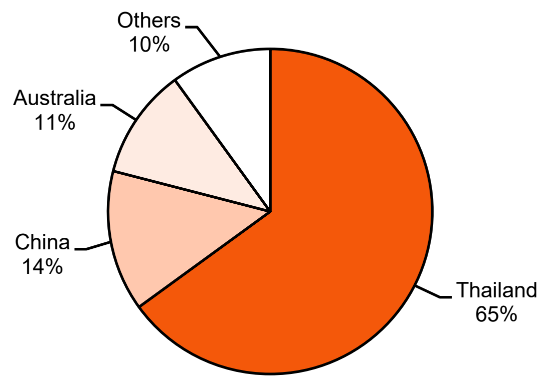
Source: Company data

Ex 4: Geographical Hotel Revenue Breakdown In 2019



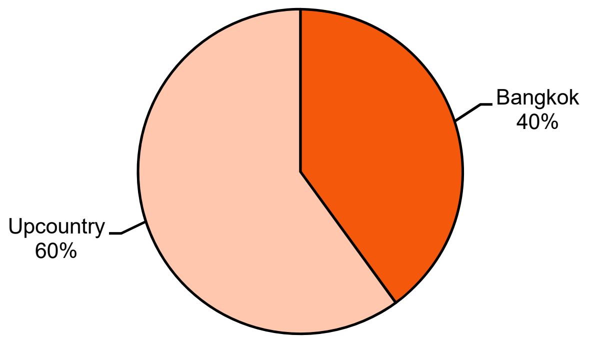
Source: Company data

Ex 5: Geographical Food Revenue Breakdown In 2019



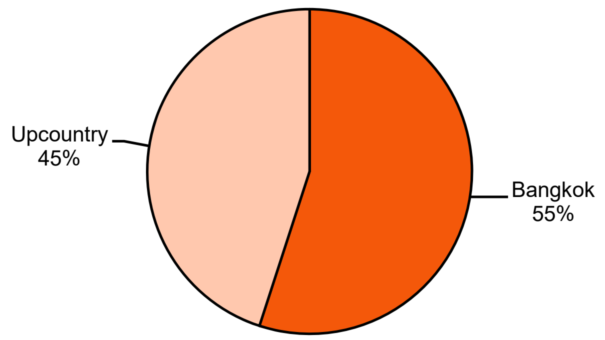
Source: Company data

Ex 6: Geographical Hotel Revenue In Thailand In 2019



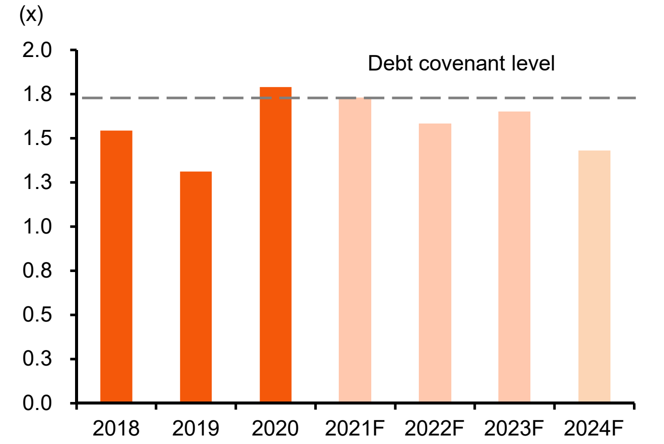
Source: Company data

Ex 7: Geographical Food Revenue In Thailand In 2019



Source: Company data

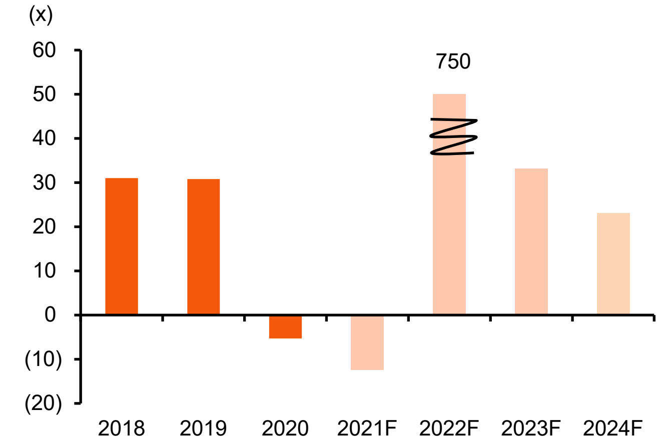
Ex 8: Gross Interest-Bearing Debt To Equity Ratio



Sources: Company data, Thanachart estimates

Note: Excludes lease liabilities and COVID-19 impairment

Ex 9: Rolling PE



Sources: Company data, Bloomberg, Thanachart estimates

Ex 10: 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	12,117	18,648	21,263	23,804	25,112	26,772	27,889	28,966	30,094	31,261	32,315	—
Free cash flow	4,756	9,867	11,794	13,949	15,990	18,100	20,220	22,128	23,079	24,050	24,961	483,399
PV of free cash flow	4,743	8,165	9,160	10,031	10,764	11,407	11,927	12,220	11,931	11,115	10,752	208,231
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.0											
WACC (%)	6.5											
Terminal growth (%)	2.0											
Enterprise value - add investments	335,915											
Net debt (2021F)	105,135											
Minority interest	7,984											
Equity value	222,797											
# of shares*	5,759											
Target price/share (Bt)	**39.00**											

Sources: Company data, Thanachart estimates

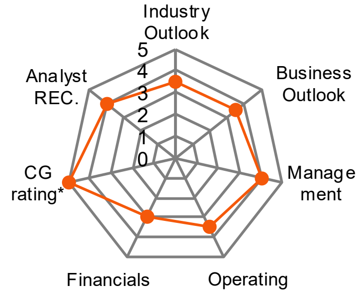
Note: * Include MINT-W7, MINT-W8 and MINT-W9 exercise

COMPANY DESCRIPTION

Minor International Pcl (MINT) owns and operates hotels and restaurants in Thailand and abroad. The company is engaged in the international hospitality business including hotels and resorts, spas, restaurant franchises, residence, mixed-use projects and lifestyle brand distributors and contract manufacturers.

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, i.e. Anantara, Oaks, Avani, Tivoli, NH Hotels, etc.
- MINT's restaurant brands are the leaders in each category.
- Geographical diversification of its hotel footprint.

W — Weakness

- Thailand's upscale hotel oversupply.
- High gearing after the major acquisition in 2018.

O — Opportunity

- Strategic investments and acquisitions around the world.
- Robust growth in global consumption.
- Development of residential projects to maximize profitability.

T — Threat

- Fierce competition among hotel operators leading to obstacles to unlocking its profitability.
- Competition among restaurant operators both at home and abroad.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	35.16	39.00	11%
Net profit 21F (Bt m)	(13,639)	(13,372)	na
Net profit 22F (Bt m)	1,571	1,637	4%
Consensus REC	**BUY: 21**	**HOLD: 3**	**SELL: 2**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our TP is above the Bloomberg consensus number, which we attribute to us having a more bullish view on MINT's business turnaround.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- The NH acquisition represents a significant part of MINT's performance. A decline of NH and MINT's operations would be the key downside risk to our call.
- Events that would impact Thailand's and the global political situation, along with natural disasters and pandemic, represent a secondary downside risk to our call.
- Slower domestic and global economic, tourism and consumption growth would also present downside risks.
- A slow recovery in MINT's food business represents a downside risk.

Source: Thanachart

Earnings turnaround in 2022F is mainly driven by overseas businesses

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	117,298	55,812	64,294	97,441	117,615
Cost of sales	65,194	47,254	49,339	61,883	69,453
Gross profit	**52,104**	**8,558**	**14,954**	**35,558**	**48,162**
% gross margin	44.4%	15.3%	23.3%	36.5%	40.9%
Selling & administration expenses	46,268	26,426	26,941	31,355	37,647
Operating profit	**5,836**	**(17,868)**	**(11,987)**	**4,203**	**10,514**
% operating margin	5.0%	-32.0%	-18.6%	4.3%	8.9%
Depreciation & amortization	8,914	18,241	17,846	16,972	16,376
EBITDA	**14,751**	**374**	**5,860**	**21,175**	**26,890**
% EBITDA margin	12.6%	0.7%	9.1%	21.7%	22.9%
Non-operating income	5,296	2,742	4,784	4,804	4,670
Non-operating expenses	0	(625)	(500)	0	0
Interest expense	(4,081)	(7,452)	(8,499)	(7,877)	(7,510)
Pre-tax profit	**7,051**	**(23,204)**	**(16,202)**	**1,129**	**7,674**
Income tax	522	(2,983)	(2,187)	113	767
After-tax profit	**6,529**	**(20,220)**	**(14,015)**	**1,016**	**6,907**
% net margin	5.6%	-36.2%	-21.8%	1.0%	5.9%
Shares in affiliates' Earnings	828	(464)	(280)	158	506
Minority interests	(296)	1,296	1,359	462	(477)
Extraordinary items	3,638	(2,019)	(437)	0	0
NET PROFIT	**10,698**	**(21,407)**	**(13,372)**	**1,637**	**6,936**
Normalized profit	**7,060**	**(19,388)**	**(12,935)**	**1,637**	**6,936**
EPS (Bt)	2.0	(4.7)	(2.7)	0.0	1.0
Normalized EPS (Bt)	1.2	(4.3)	(2.6)	0.0	1.0

Improving balance sheet quality

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	38,599	52,064	58,082	55,236	56,553
Cash & cash equivalent	13,331	26,188	30,000	15,000	10,000
Account receivables	15,554	12,286	14,092	20,022	22,556
Inventories	4,139	3,683	3,785	4,747	5,328
Others	5,575	9,908	10,205	15,466	18,668
Investments & loans	13,844	16,052	18,552	18,552	18,552
Net fixed assets	123,129	122,718	106,775	102,861	101,727
Other assets	78,612	171,492	165,606	157,977	151,178
Total assets	**254,184**	**362,327**	**349,014**	**334,626**	**328,009**
LIABILITIES:					
Current liabilities:	35,592	41,238	50,542	52,458	54,458
Account payables	20,036	15,310	15,545	19,497	21,883
Bank overdraft & ST loans	300	140	6,081	5,537	5,523
Current LT debt	9,912	6,656	9,679	8,814	8,790
Others current liabilities	5,344	19,131	19,237	18,609	18,263
Total LT debt	**102,386**	**129,897**	**119,375**	**108,700**	**108,413**
Others LT liabilities	30,338	114,868	103,337	98,082	93,255
Total liabilities	**168,316**	**286,003**	**273,254**	**259,240**	**256,126**
Minority interest	10,407	9,343	7,984	7,521	7,998
Preferreds shares	0	0	0	0	0
Paid-up capital	4,619	5,182	5,759	5,759	5,759
Share premium	15,018	24,196	38,747	38,747	38,747
Warrants	0	0	0	0	0
Surplus	14,422	21,927	22,439	22,439	14,158
Retained earnings	**41,401**	**15,676**	**832**	**919**	**5,221**
Shareholders' equity	75,461	66,981	67,777	67,864	63,885
Liabilities & equity	**254,184**	**362,327**	**349,014**	**334,626**	**328,009**

Sources: Company data, Thanachart estimates

Improving cash flow stream due to asset rotation

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	7,051	(23,204)	(16,202)	1,129	7,674
Tax paid	(1,361)	1,554	2,565	67	(420)
Depreciation & amortization	8,914	18,241	17,846	16,972	16,376
Chg In w orking capital	(793)	(1,001)	(1,673)	(2,940)	(730)
Chg In other CA & CL / minorities	980	10,654	(849)	(5,911)	(3,390)
Cash flow from operations	**14,791**	**6,244**	**1,687**	**9,317**	**19,510**
Capex	1,004	(7,173)	7,950	(4,000)	(7,000)
Right of use	0	(99,734)	(1,000)	(1,000)	(1,000)
ST loans & investments	0	0	0	0	0
LT loans & investments	2,435	(2,208)	(2,500)	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	3,280	78,706	(14,935)	(5,684)	(5,270)
Cash flow from investments	**6,718**	**(30,409)**	**(10,485)**	**(10,684)**	**(13,270)**
Debt financing	(14,486)	24,095	(1,558)	(12,084)	(325)
Capital increase	4	9,741	15,128	0	0
Dividends paid	(3,160)	(1,455)	(1,473)	(1,549)	(2,634)
Warrants & other surplus	(3,297)	4,641	512	0	(8,281)
Cash flow from financing	**(20,938)**	**37,022**	**12,610**	**(13,633)**	**(11,240)**
Free cash flow	**15,795**	**(929)**	**9,637**	**5,317**	**12,510**

Inexpensive valuation, in our view

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	27.1	na	na	750.1	33.2
Normalized PE - at target price (x)	32.2	na	na	893.2	39.5
PE (x)	16.6	na	na	750.1	33.2
PE - at target price (x)	19.7	na	na	893.2	39.5
EV/EBITDA (x)	17.3	723.7	48.5	14.0	11.2
EV/EBITDA - at target price (x)	19.3	805.3	54.4	15.7	12.5
P/BV (x)	2.1	2.6	2.8	2.8	3.0
P/BV - at target price (x)	2.5	3.1	3.3	3.3	3.5
P/CFO (x)	10.5	25.6	106.2	20.2	9.7
Price/sales (x)	1.5	3.1	2.6	1.7	1.4
Dividend yield (%)	1.5	0.0	0.0	0.0	1.1
FCF Yield (%)	10.1	(0.6)	5.4	2.8	6.6
(Bt)					
Normalized EPS	1.2	(4.3)	(2.6)	0.0	1.0
EPS	2.0	(4.7)	(2.7)	0.0	1.0
DPS	0.5	0.0	0.0	0.0	0.3
BV/share	15.9	12.7	11.8	11.8	11.1
CFO/share	3.1	1.3	0.3	1.6	3.4
FCF/share	3.3	(0.2)	1.8	0.9	2.2

Sources: Company data, Thanachart estimates

Cost reduction enhances margin

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	56.5	(52.4)	15.2	51.6	20.7
Net profit (%)	137.3	na	na	na	323.8
EPS (%)	108.2	na	na	na	2,158.4
Normalized profit (%)	23.3	na	na	na	323.8
Normalized EPS (%)	0.4	na	na	na	2,158.4
Dividend payout ratio (%)	24.6	0.0	0.0	20.0	35.0
Operating performance					
Gross margin (%)	44.4	15.3	23.3	36.5	40.9
Operating margin (%)	5.0	(32.0)	(18.6)	4.3	8.9
EBITDA margin (%)	12.6	0.7	9.1	21.7	22.9
Net margin (%)	5.6	(36.2)	(21.8)	1.0	5.9
D/E (incl. minor) (x)	1.3	1.8	1.8	1.6	1.7
Net D/E (incl. minor) (x)	1.2	1.4	1.4	1.4	1.6
Interest coverage - EBIT (x)	1.4	na	na	0.5	1.4
Interest coverage - EBITDA (x)	3.6	0.1	0.7	2.7	3.6
ROA - using norm profit (%)	2.7	na	na	0.5	2.1
ROE - using norm profit (%)	9.6	na	na	2.4	10.5
DuPont					
ROE - using after tax profit (%)	8.9	na	na	1.5	10.5
- asset turnover (x)	0.4	0.2	0.2	0.3	0.4
- operating margin (%)	9.5	na	na	9.2	12.9
- leverage (x)	3.6	4.3	5.3	5.0	5.0
- interest burden (%)	63.3	147.3	210.3	12.5	50.5
- tax burden (%)	92.6	na	na	90.0	90.0
WACC (%)	6.5	6.5	6.5	6.5	6.5
ROIC (%)	2.9	(10.2)	(5.8)	2.2	5.4
NOPAT (Bt m)	5,404	(17,868)	(10,368)	3,783	9,463
invested capital (Bt m)	174,728	177,485	172,912	175,916	176,611

Sources: Company data, Thanachart estimates

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