Small Cap Research

Thanachart Securities

BUY (Unchanged)

Change in Numbers

TP: Bt 11.00 (From: Bt 10.00)

Upside : 43.8%

27 APRIL 2022

Siam Wellness Group (SPA TB)

Late re-opening play

We reaffirm our BUY rating on SPA as a beneficiary of easing COVID curbs and tourism reopening. However, we see it as a late-cycle play since we don't expect its core Chinese customers to return substantially until 2023. Near term, recovering Thai visitors and no further lockdown impact should turn its earnings positive in 2H22F.

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Key turnaround factors

We reaffirm BUY on SPA based on three catalysts. *First,* we expect increasing visits from local customers to surpass its pre-COVID level and lift SPA's shop utilization to a profitable rate of 30% in 2H22F (22%/8% during the lockdowns in 2020-21). *Second,* as 75% of pre-COVID revenue was from foreign tourists, easing of travel curbs to Thailand are gradually improving SPA's profit, and we expect a resumption of its key Chinese customers in 2023F. *Third,* we expect COVID-19 antigen test kit (ATK) sales to be an earnings cushion, with its core revenue from massage and stretching services turning around in 2022-23F. We estimate SPA to turn to profits of Bt74/194m in 2023-24F, or to c.30%/80% of the pre-COVID level (2019). We use DCF methodology to value SPA on a more normalized year in 2023F at Bt11/share.

No more lockdown impact

We expect SPA's shops to open fully this year after they were closed for 2.5 and 6.5 months during COVID lockdowns in 2020-21. We have seen a recovery in local visitors to its shops, despite a small hiccup from the Omicron outbreak in January. Workspace issues during the work-from-home period and a lack of outdoor activities have boosted demand for SPA's massage and stretching services as locals start to resume their normal lifestyle. We expect SPA's cash flow to turn positive at a 20% utilization rate in 1H22F and turn to a profit at 30% rate in 2H22F.

Resumption of foreign tourists

We estimate 4.5/20/35m tourist arrivals to Thailand in 2022-24F. As the benefits from lifting of the RT-PCR test requirement look to be back-loaded this year, we expect service revenue from foreign tourists to resume significantly in 2023F. We see SPA's revenue reaching 35%/64%/82% of the pre-COVID level in 2022-24F, based on our assumption that Chinese tourists (55% of revenues pre-COVID) return to Thailand in 2023F. Before that, we believe its strong brand reputation, presence at major hotel chains, and premium hygiene quality are its strengths over other local brands to attract non-Chinese tourists in the recovery phase.

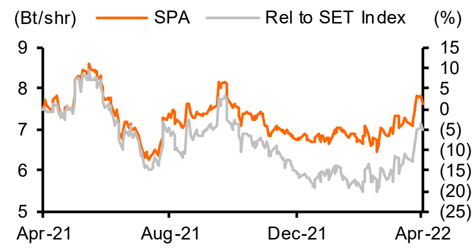
Ad-hoc COVID-ATK sales

We include Bt30/20m profits from COVID-ATK sales in our 2022-23F numbers. SPA started to import ATKs in 4Q21 to provide daily tests to staff and to offer testing to all clients before they used its services, in order to boost customer confidence in visiting its outlets. Given that ATK demand surged as other service businesses also had to test their staff, while local individuals became more active in self-testing before taking part in public activities, SPA imported a lot of ATKs for sales this year, and we assume its ATK sales at Bt80/50/10m in 2022-24F.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	168	577	939	1,167
Net profit	(287)	(61)	74	194
Consensus NP	—	(106)	165	189
Diff frm cons (%)	—	*na*	*(55.4)*	*2.8*
Norm profit	(274)	(61)	74	194
Prev. Norm profit	—	(119)	96	243
Chg frm prev (%)	—	*na*	*(23.6)*	*(20.0)*
Norm EPS (Bt)	(0.3)	(0.1)	0.1	0.2
Norm EPS grw (%)	na	na	na	163.4
Norm PE (x)	na	na	88.7	33.7
EV/EBITDA (x)	83.6	24.1	16.1	12.1
P/BV (x)	10.6	11.7	10.4	8.3
Div yield (%)	0.0	0.0	0.0	1.2
ROE (%)	na	na	12.4	27.4
Net D/E (%)	66.6	83.6	45.3	10.7

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 27-Apr-22 (Bt)	7.65
Market Cap (US$ m)	190.6
Listed Shares (m shares)	855.0
Free Float (%)	55.9
Avg Daily Turnover (US$ m)	0.3
12M Price H/L (Bt)	8.60/6.25
Sector	MAI
Major Shareholder	Jiravanstit family 16.39%

Sources: Bloomberg, Company data, Thanachart estimates

Late re-opening play

We reaffirm our BUY call based on three positives

We reaffirm our BUY rating on shares of Siam Wellness Group Pcl (SPA), supported by three positive factors.

1) No more impact from COVID lockdowns

- **First,** we expect revenue from local customers alone to turn SPA back to profits in 2H22F, since we foresee normalizing lifestyles as locals' COVID concerns ease and we assume no more lockdowns in Thailand. SPA's massage and stretching shops should therefore open fully this year after they were intermittently closed during multiple rounds of lockdown in 2020-21.

2) Resumption of foreign tourists due to easing of travel restrictions

- **Second,** given that 75% of its pre-COVID revenue came from foreign tourists, we see SPA as one among the major beneficiaries from easing of COVID restrictions for travelers coming to Thailand. We assume this to lift the number of tourist arrivals to 4.5/20/35m in 2022-24F (11%/50%/90% of the pre-COVID level in 2019).

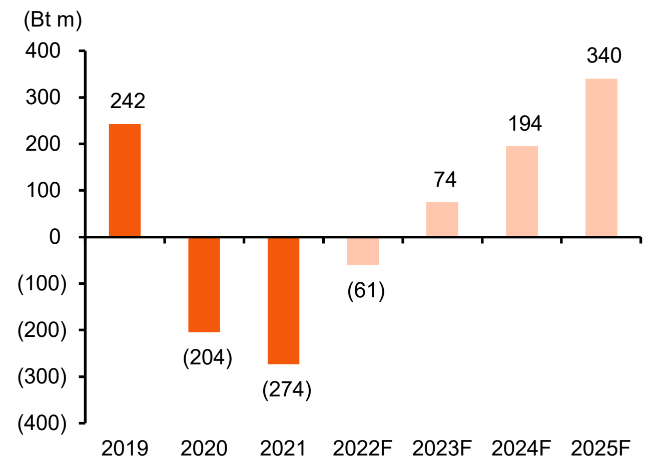
3) Ad-hoc profits from COVID ATK sales

- **Third,** SPA has been importing COVID-19 antigen test kits (COVID-ATKs) for sales since 4Q21, and we expect this to generate a decent earnings cushion for SPA while its core revenue from massage and stretching services will likely recover over 2022-23F.

Our TP is Bt11 using a DCF approach with a 2023F base year

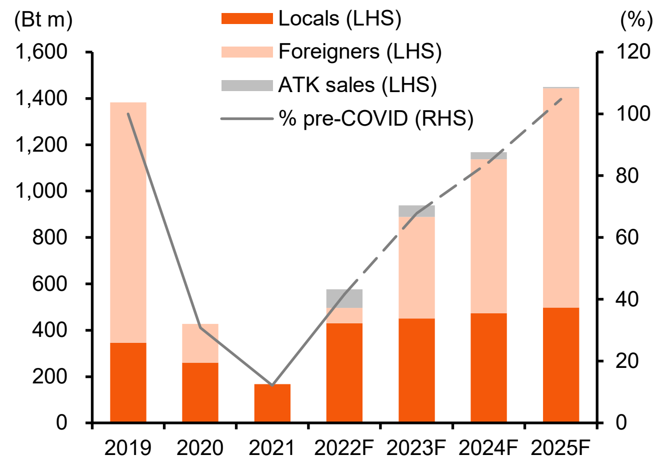
We lift our DCF-based 12-month TP to Bt11/share (from Bt10) as we shift our valuation base year to 2023F to better reflect SPA's value in a more normalized year post-COVID.

Ex 1: Earnings Turnaround Post-COVID



Sources: Company data; Thanachart estimates

Ex 2: Our Revenue Recovery Trend Forecasts



Sources: Company data; Thanachart estimates

No more lockdown impact

We project SPA to return to profits in 2H22F given no more lockdown impact

We don't expect there to be any more COVID lockdowns in Thailand. Therefore, we expect all spa shops to fully open this year after they were closed under the government's policy to prevent the spread of COVID for 65 days and 187 days in 2020-21, respectively (see Exhibit 3). Meanwhile, locals' concerns about the COVID situation appear to have eased and they have been resuming their normal activities which were prohibited during the lockdowns, including visiting massage and stretching outlets. We expect a recovery of visits by locals to turn SPA's operating cash flow positive in 1H22F at a 20% shop utilization rate, before reaching a profitable level of 30% in 2H22F. Note that we see foresee higher popularity for massage services among office workers, likely as they suffered from workplace issues at home during the work-from-home period and a lack of outdoor/exercise activities during the pandemic. SPA has also introduced new services to attract more local clients to its shops, i.e., stretching and facial treatments, over the past few years which should boost its revenue generated from local customers.

Ex 3: SPA's Shop Closures During COVID-19 Lockdowns

	Q1	Q2	Q3	Q4	Total
2020	18 - 31 Mar (14 days)	1 Apr - 31 May (51 days)			65 days
2021	2 -22 Jan (21 days)	18 Apr - 30 Jun (74 days)	1 Jul - 30 Sep (92 days)		187 days

Sources: Company data

Resumption of foreign tourist arrivals

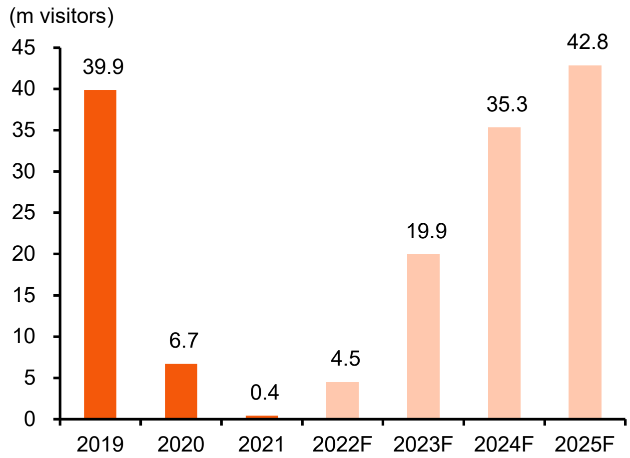
Return of foreign tourists to boost its revenue recovery pace in 2023-24F

We assume tourist arrivals to Thailand at 4.5/20/35m in 2022-24F, up from nearly zero in 2021. The beginning of the recovery this year was supported by the government's sandbox policy implemented in 1Q22, and more importantly the lifting of the requirement for pre-arrival RT-PCR tests for COVID-19 for foreign tourists from 1 May. As a result of the current "Zero-COVID" strategy adopted by the Chinese government, we expect Chinese tourists, who contributed 55% of SPA's pre-COVID revenue, to return later in 2023F. This leads us to regard SPA as a late-cycle play on the re-opening of Thai tourism since its key recovery driver will likely come next year.

Accumulate now as worst looks over while waiting for Chinese tourists to return

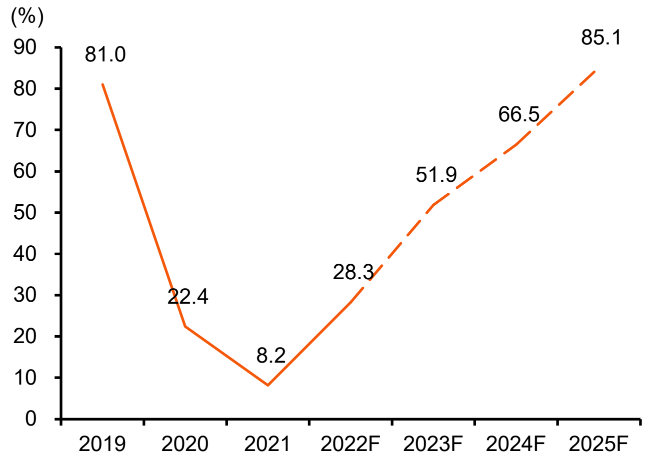
Having said that, we believe now is a good time to revisit SPA as 1) we believe the worst is over and we project its revenue to start to recover to 35% of its pre-COVID level in 2022F from local customers and to 64% and 82% in 2023-24F when the number of foreign tourists becomes significant, 2) SPA has a strong brand reputation, a presence in key tourist areas including at major hotel chains, and premium hygiene quality giving it an edge in attracting local and non-Chinese tourists over other local players, and 3) we expect SPA's share price to swiftly react to the eventual announcement by the Chinese government to allow its citizens to travel which would be the most important catalyst in our view.

Ex 4: Our Tourist Arrival Assumptions



Sources: Thai Ministry of Tourism, Thanachart estimates

Ex 5: Normalized Shop Utilization In 2025F



Sources: Company data; Thanachart estimates

Ex 6: 12-month DCF-based TP Calculation, Using A Base Year Of 2023F

(Bt m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal value
EBITDA excl. depre from right of use	241	374	536	615	673	718	766	816	868	924	983	__
Free cash flow	133	259	401	466	497	536	580	647	691	738	788	14,220
PV of free cash flow	125	228	326	353	351	354	357	371	356	353	350	6,317

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	1.0
WACC (%)	6.7
Terminal growth (%)	2.0
Enterprise value - add investments	9,840
Net debt (2022F)	466
Minority interest	–
Equity value	9,373
# of shares (m)	855
Target price/share (Bt)	**11.00**

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 7: Valuation Comparison With Regional Peers

Name	BBG Code	Country	EPS growth 22F (%)	EPS growth 23F (%)	PE 22F (%)	PE 23F (%)	P/BV 22F (%)	P/BV 23F (%)	EV/EBITDA 22F (%)	EV/EBITDA 23F (%)	Div Yield 22F (%)	Div Yield 23F (%)
Emei Shan Tourism	000888 CH	China	na	33.9	17.8	13.3	1.3	1.2	7.9	6.5	0.5	0.0
Shanghai Jin Jiang Int'l	2006 HK	China	na	(20.0)	34.3	42.9	1.8	1.8	10.7	na	1.3	na
Hongkong & Shanghai	45 HK	Hong Kong	na	na	na	na	na	na	na	na	na	na
Shangri-La Asia	69 HK	Hong Kong	na	na	na	33.6	na	na	35.2	23.4	0.5	0.8
IGB Corp Bhd	IGB MK	Malaysia	(45.2)	28.6	na	na	na	na	na	na	na	na
Genting Malaysia Bhd	GENM MK	Malaysia	na	59.6	21.6	13.5	1.2	1.2	10.1	8.4	4.7	5.2
Mirvac Group	MGR AU	Australia	(33.6)	5.9	15.7	14.8	0.8	0.8	18.4	17.1	4.3	4.6
Indian Hotels	IH IN	India	na	na	na	59.0	5.7	5.3	73.7	28.9	0.2	0.3
Mandarin Oriental Int'l	MAND SP	Singapore	na	na	na	na	na	na	na	na	na	na
Hotel Shilla	008770 KS	South Korea	206.2	81.6	36.5	20.1	4.5	3.7	14.2	11.4	0.3	0.3
Resorttrust Inc	4681 JP	Japan	na	14.1	33.3	29.2	2.0	1.9	13.6	11.8	1.4	1.5
Central Plaza Hotel	CENTEL TB*	Thailand	na	433.0	185.2	34.7	3.2	2.9	18.0	13.3	0.0	0.0
Erawan Group	ERW TB*	Thailand	na	na	na	71.8	3.2	3.1	44.1	14.3	0.0	0.3
Minor International	MINT TB*	Thailand	na	na	na	36.7	2.5	2.6	15.0	11.3	0.0	0.5
Siam Wellness Group	SPA TB*	Thailand	na	na	na	88.7	11.7	10.4	24.1	16.1	0.0	0.0
Average			**221.6**	**82.7**	**49.0**	**37.0**	**3.4**	**3.1**	**23.6**	**14.7**	**1.0**	**1.2**

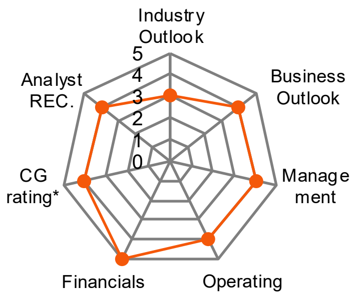
Sources: Company data, Thanachart estimates
Note: * Thanachart estimates, using normalized EPS
Based on 27 Apr 2022 closing prices

COMPANY DESCRIPTION

Siam Wellness Group Pcl operates wellness spas and other related businesses, with four main operations: 1) Spas under the brands "Let's Relax", "Rarin-Jinda Wellness Spa" & "Baan-Suan Massage". 2) Hotel & Restaurants: A boutique resort hotel in Chiang Mai under the name "Rarin-Jinda Wellness Spa Resort" and the "Deck 1" and "D Bistro" restaurants. 3) Spa products: Distributes and sells spa-related products under the "Blooming" brand. 4) Traditional Thai massage school "Blooming Thai Massage School" to train therapists in massage and spa services to support its business expansion.

Source: Thanachart

COMPANY RATING



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

Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Strong brand recognition, especially among Chinese and other Asian tourists
- Its own upstream business helps provide sufficient therapists and products for rapid expansion
- Asset-light business model

W — Weakness

- Relies heavily on expansion to grow, due to limited capacity of service hours per branch
- Highly dependent on tourist traffic

O — Opportunity

- Gaining market share from smaller local players via both organic and inorganic expansion
- Expansion of its business overseas
- Adding more services as bundled packages to increase ticket size

T — Threat

- Extraordinary and uncontrollable events, i.e. geopolitical disturbances, natural disasters, etc. could disrupt its operations and decrease tourist traffic
- Large network but only a small management team

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	8.57	11.00	28%
Net profit 22F (Bt m)	(106)	(61)	na
Net profit 23F (Bt m)	165	74	-55%
Consensus REC	**BUY: 7**	**HOLD: 1**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022F earnings are more bullish than the Bloomberg consensus estimate, but we expect lower 2023F earnings likely as we assume a slower return of Chinese tourists.
- However, our TP is higher, likely as we roll over to a 2023F base year while we remain bullish on its long-term potential.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- A slower-than-expected resumption of tourism to Thailand or another COVID-19 outbreak in the country would be the key downside risks to our bullish view on SPA.
- A slower pace of branch expansion represents another downside risk to our earnings forecasts.
- Any events causing a downturn in Thailand's tourism industry, e.g., involving politics, the global economy or natural disasters, would be negative for our numbers.

Source: Thanachart

Revenue turning around post-COVID

Asset-light model has helped it weather the COVID crisis

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	427	168	577	939	1,167
Cost of sales	507	319	486	687	787
Gross profit	**(80)**	**(151)**	**91**	**251**	**380**
% gross margin	-18.7%	-90.0%	15.8%	26.8%	32.6%
Selling & administration expenses	113	93	110	134	133
Operating profit	**(192)**	**(244)**	**(19)**	**118**	**248**
% operating margin	-45.1%	-145.3%	-3.3%	12.5%	21.2%
Depreciation & amortization	309	327	310	307	302
EBITDA	**116**	**83**	**291**	**425**	**550**
% EBITDA margin	27.2%	49.6%	50.5%	45.2%	47.1%
Non-operating income	9	7	7	11	16
Non-operating expenses	0	0	0	0	0
Interest expense	(21)	(44)	(48)	(42)	(34)
Pre-tax profit	**(205)**	**(280)**	**(61)**	**87**	**230**
Income tax	(1)	(7)	0	14	36
After-tax profit	**(204)**	**(274)**	**(61)**	**74**	**194**
% net margin	-47.9%	-163.2%	-10.5%	7.9%	16.6%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	0	0	0	0	0
Extraordinary items	(5)	(13)	0	0	0
NET PROFIT	**(209)**	**(287)**	**(61)**	**74**	**194**
Normalized profit	**(204)**	**(274)**	**(61)**	**74**	**194**
EPS (Bt)	(0.2)	(0.3)	(0.1)	0.1	0.2
Normalized EPS (Bt)	(0.2)	(0.3)	(0.1)	0.1	0.2

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	231	203	277	539	740
Cash & cash equivalent	115	110	50	200	350
Account receivables	22	15	47	64	64
Inventories	40	28	40	47	43
Others	55	50	140	228	283
Investments & loans	0	0	0	0	0
Net fixed assets	1,075	947	891	852	816
Other assets	1,326	1,108	891	695	510
Total assets	**2,632**	**2,258**	**2,059**	**2,087**	**2,067**
LIABILITIES:					
Current liabilities:	361	374	370	464	463
Account payables	45	37	47	66	75
Bank overdraft & ST loans	0	0	0	0	0
Current LT debt	103	114	103	97	87
Others current liabilities	213	223	220	301	300
Total LT debt	**288**	**407**	**413**	**389**	**348**
Others LT liabilities	1,078	858	718	602	469
Total liabilities	**1,727**	**1,639**	**1,501**	**1,455**	**1,280**
Minority interest	0	0	0	0	(0)
Preferreds shares	0	0	0	0	0
Paid-up capital	214	214	214	214	214
Share premium	279	279	279	279	279
Warrants	0	0	0	0	0
Surplus	44	44	44	44	44
Retained earnings	**368**	**81**	**21**	**95**	**250**
Shareholders' equity	905	618	558	632	787
Liabilities & equity	**2,632**	**2,258**	**2,059**	**2,087**	**2,067**

Sources: Company data, Thanachart estimates

We expect no liquidity issue for SPA

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	(205)	(280)	(61)	87	230
Tax paid	(21)	4	2	(13)	(34)
Depreciation & amortization	309	327	310	307	302
Chg In working capital	(37)	11	(35)	(5)	14
Chg In other CA & CL / minorities	179	26	(104)	(7)	(58)
Cash flow from operations	**225**	**88**	**113**	**369**	**454**
Capex	(118)	(7)	(65)	(85)	(90)
Right of use	(1,352)	32	28	20	18
ST loans & investments	30	0	9	0	0
LT loans & investments	0	0	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	996	(248)	(140)	(124)	(141)
Cash flow from investments	**(444)**	**(223)**	**(168)**	**(189)**	**(213)**
Debt financing	226	130	(5)	(30)	(52)
Capital increase	71	0	0	0	0
Dividends paid	(17)	0	0	0	(39)
Warrants & other surplus	(72)	0	0	0	0
Cash flow from financing	**208**	**130**	**(5)**	**(30)**	**(90)**
Free cash flow	**107**	**81**	**48**	**284**	**364**

High multiples in the near term, but we expect them to normalize in 2025F

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	na	na	na	88.7	33.7
Normalized PE - at target price (x)	na	na	na	127.6	48.4
PE (x)	na	na	na	88.7	33.7
PE - at target price (x)	na	na	na	127.6	48.4
EV/EBITDA (x)	58.6	83.6	24.1	16.1	12.1
EV/EBITDA - at target price (x)	83.3	118.1	33.9	22.8	17.3
P/BV (x)	7.2	10.6	11.7	10.4	8.3
P/BV - at target price (x)	10.4	15.2	16.9	14.9	12.0
P/CFO (x)	29.1	74.4	57.7	17.7	14.4
Price/sales (x)	15.3	39.0	11.3	7.0	5.6
Dividend yield (%)	0.0	0.0	0.0	0.0	1.2
FCF Yield (%)	1.6	1.2	0.7	4.3	5.6
(Bt)					
Normalized EPS	(0.2)	(0.3)	(0.1)	0.1	0.2
EPS	(0.2)	(0.3)	(0.1)	0.1	0.2
DPS	0.0	0.0	0.0	0.0	0.1
BV/share	1.1	0.7	0.7	0.7	0.9
CFO/share	0.3	0.1	0.1	0.4	0.5
FCF/share	0.1	0.1	0.1	0.3	0.4

Sources: Company data, Thanachart estimates

We forecast SPA to return to profitability in 2023F

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(69.1)	(60.7)	244.1	62.7	24.3
Net profit (%)	na	na	na	na	163.4
EPS (%)	na	na	na	na	163.4
Normalized profit (%)	na	na	na	na	163.4
Normalized EPS (%)	na	na	na	na	163.4
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	40.0
Operating performance					
Gross margin (%)	(18.7)	(90.0)	15.8	26.8	32.6
Operating margin (%)	(45.1)	(145.3)	(3.3)	12.5	21.2
EBITDA margin (%)	27.2	49.6	50.5	45.2	47.1
Net margin (%)	(47.9)	(163.2)	(10.5)	7.9	16.6
D/E (incl. minor) (x)	0.4	0.8	0.9	0.8	0.6
Net D/E (incl. minor) (x)	0.3	0.7	0.8	0.5	0.1
Interest coverage - EBIT (x)	na	na	na	2.82	7.3
Interest coverage - EBITDA (x)	5.4	1.9	6.0	10.2	16.3
ROA - using norm profit (%)	na	na	na	3.6	9.4
ROE - using norm profit (%)	na	na	na	12.4	27.4
DuPont					
ROE - using after tax profit (%)	na	na	na	12.4	27.4
- asset turnover (x)	0.2	0.1	0.3	0.5	0.6
- operating margin (%)	na	na	na	13.7	22.6
- leverage (x)	2.0	3.2	3.7	3.5	2.9
- interest burden (%)	111.7	118.7	495.2	67.7	87.2
- tax burden (%)	na	na	na	84.5	84.5
WACC (%)	6.7	6.7	6.7	6.7	6.7
ROIC (%)	(16.4)	(20.6)	(1.6)	9.7	22.8
NOPAT (Bt m)	(192)	(244)	(16)	99	209
invested capital (Bt m)	1,182	1,030	1,024	918	872

Sources: Company data, Thanachart estimates

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