

22 August 2012

# Central Plaza Hotel

Tourism  
& Leisure  
Neutral

## Picking a good entry price

**Investment thesis:** CENTEL's share price has rallied 19% since we went tactically bullish on the sector on July 9. As such we expect profit-taking in the short-term on expectations of QoQ bottom-line slippage in 3Q12 (pre-operating expenses for a new hotel in the Maldives and a Bt40-50m provision for CTARAF). CENTEL's multiples are no longer as cheap as when we went bullish six weeks ago—its FY12 PER jumped from 17.3x to 20.3x (above MINT's PER of 18.7x). However, we view that the stock will again perform strongly in late Nov-Dec on confidence in 4Q12 high season numbers. Our YE13 target price stands at Bt17.

**Hotel growth outlook:** 2H12 Hotel RevPar growth is expected at 12-13% YoY, up from 9% YoY in 1H12. Both volume and pricing will drive RevPar—an occupancy rate of 67% in 2H12 (64% in 2H12) and 5-6% YoY growth in the mean Hotel room rate. In Dec 2012, CENTEL will open a new hotel in the Maldives.

**Strong Food business:** The FY12 Food operation may beat management guidance—1H12 Food TSSG was 32.2% YoY and SSSG was 7.4% against stated FY12 company targets of 26-28% and 5-6%, respectively.

**Full acquisition of two hotels in Phuket:** CENTEL is in the process of increasing its stakes in two hotels on Karon and Kata beaches, Phuket (it already has 84% of the Karon Beach hotel and 50% of the Kata property). The deals are expected to be completed by YE12. Full ownership of the two properties would make for 3% upside to our FY13 model (and the consensus).

**New budget hotel brand:** The company plans to launch a new price segment (a mean room rate of Bt1,000/night versus a Bt3,921/night 1H12 average) in late Sept. CENTEL expects to sign two or three management contracts. The objective is revenue diversification.

**Eyes on property fund (instrument for long-term growth):** Management is considering expanding the Hotel operation through a property fund. Asset monetization (sales of proprietary hotels to a property fund) would free up cash to invest in new projects. There would also potentially be gains from asset sales and the balance sheet would be boosted.

## BUALUANG RESEARCH

Narumon Ekasamut  
narumon.e@bualuang.co.th  
+66 2 618 1345

**BUY** (maintained)

Target Price: Bt17.00  
Price (21/08/12): Bt16.40  
CENTEL TB / CENT.BK

### Key Ratios & Statistics

Market cap	Bt22.4bn		
12-mth price range	Bt7.25/Bt17.00		
12-mth avg daily volume	Bt35.56m		
# of shares (m)	1,350.0		
Est. free float (%)	45.5		
Foreign limit (%)	40.0		
<b>Share price perf. (%)</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
Relative to SET	8.3	28.1	36.5
Absolute	12.3	36.7	51.9

### Financial summary

FY Ended 31 Dec	2011	2012E	2013E	2014E
Revenues (Btm)	11,163	13,946	15,339	16,843
Net profit (Btm)	550	1,089	1,322	1,585
EPS (Bt)	0.41	0.81	0.98	1.17
BLS/Consensus (x)	n.m.	1.13	1.11	1.06
EPS growth (%)	n.m.	+97.8%	+21.5%	+19.8%
Core profit (Btm)	640	1,082	1,322	1,585
Core EPS (Bt)	0.47	0.80	0.98	1.17
Core EPS growth (%)	n.m.	+69.1%	+22.2%	+19.8%
PER (x)	40.2	20.3	16.7	14.0
Core PER (x)	34.6	20.5	16.7	14.0
EV/EBITDA (x)	13.4	10.5	8.7	7.8
PBV (x)	3.7	3.4	3.0	2.6
Dividend (Bt)	0.15	0.32	0.39	0.47
Dividend yield (%)	0.9	2.0	2.4	2.9
ROE (%)	9.7	18.0	19.8	21.0
Net gearing (x)	1.6	1.3	1.1	0.9

CG Rating - 2011



### Company profile

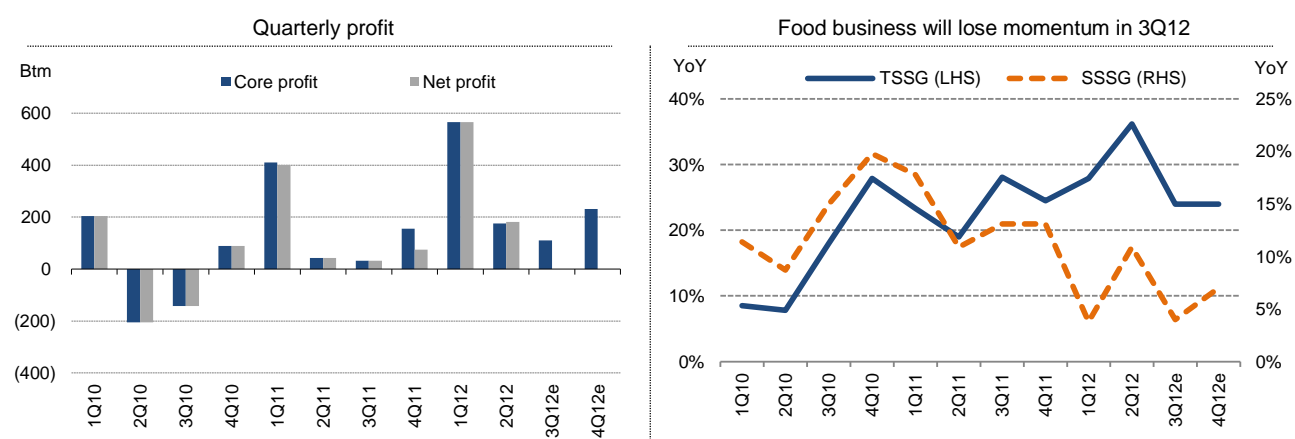
CENTEL is a part of the Central group of companies. The Chirathivat family holds 63% of the firm, which operates a range of hotels and Quick Service Restaurants (QSRs) in Thailand. CENTEL has two proprietary hotel brands—Centara Grand, Centara and Centra. The firm has 31 hotels in its portfolio (10 proprietary hotels, 3 JVs, 1 in a property fund and 17 management contracts). CENTEL's Food business operates 634 outlets in Thailand—KFC, Mister Donut and Auntie Anne's. In 3Q11, CENTEL bought the Thai operation of the Ootoya Japanese restaurant chain.

# Recommendation and valuation

**Long-term BUY with a YE13 target price of Bt17.00:** In the short-term, CENTEL may be subject to profit-taking, following its sharp price rally during the past couple of months. Its multiples are no longer as cheap as when we went bullish on July 9—its FY12 PER jumped from 17.3x to 20.3x (above MINT's PER of 18.7x).

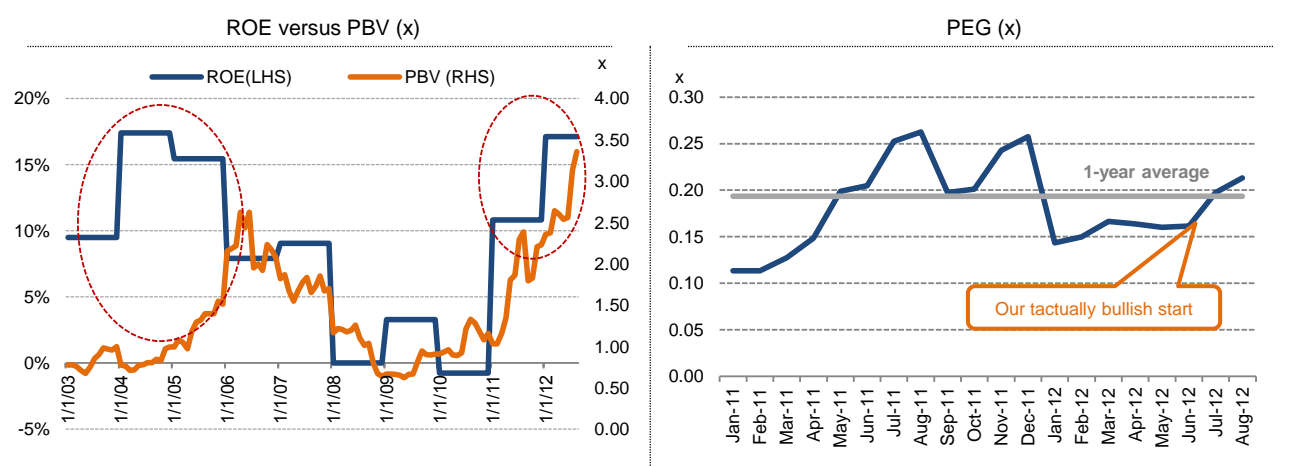
For the long-term, we reiterate our BUY rating. Our YE13 target price remains Bt17, pegged to a 20% discount to DCF value (12.5% WACC and 2% terminal growth rate). In our view, a good time for a tactical BUY would be two months ahead of the fourth-quarter high season, as the stock price would later be boosted by confidence in 4Q12 numbers. Furthermore, the firm is in the process of buying the stakes it doesn't already own of two hotels in Phuket, which should boost YoY profit growth next year. Over the long-run, further investments or acquisitions (among either the Hotel and Food operations) would mean scope for earnings upside.

**Figure 1: Quarterly performance outlook**



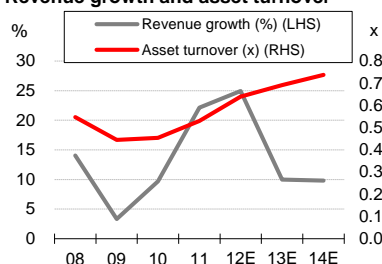
Sources: SETSMART, Company data and Bualuang Research

**Figure 2: Valuation multiples**

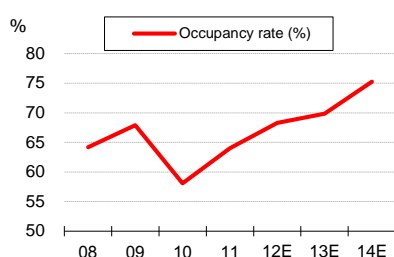


Sources: SETSMART, Company data and Bualuang Research

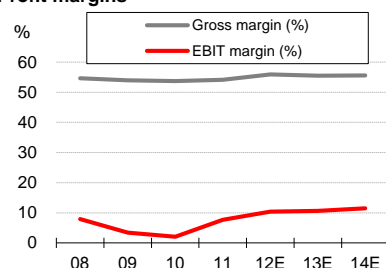
## Revenue growth and asset turnover



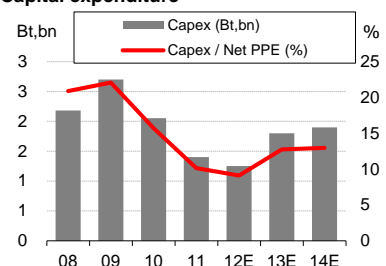
## Occupancy rate (%)



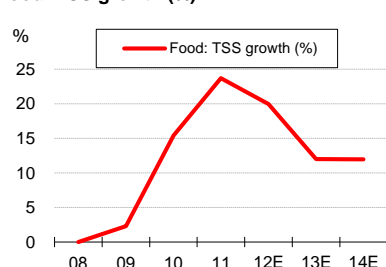
## Profit margins



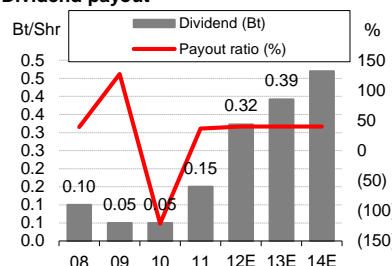
## Capital expenditure



## Food: TSS growth (%)



## Dividend payout



	2010	2011	2012E	2013E	2014E
<b>PROFIT &amp; LOSS (Btm)</b>					
Revenue	9,141	11,163	13,946	15,339	16,843
Cost of sales and services	(4,230)	(5,124)	(6,151)	(6,825)	(7,476)
<b>Gross profit</b>	<b>4,911</b>	<b>6,039</b>	<b>7,795</b>	<b>8,513</b>	<b>9,366</b>
SG&A	(4,726)	(5,179)	(6,352)	(6,879)	(7,433)
<b>EBIT</b>	<b>185</b>	<b>860</b>	<b>1,443</b>	<b>1,635</b>	<b>1,933</b>
Interest expense	(308)	(414)	(433)	(419)	(403)
Other income/exp.	359	411	421	432	443
<b>EBT</b>	<b>237</b>	<b>857</b>	<b>1,431</b>	<b>1,647</b>	<b>1,973</b>
Corporate tax	(220)	(255)	(338)	(343)	(409)
<b>After-tax profit (loss)</b>	<b>17</b>	<b>602</b>	<b>1,094</b>	<b>1,304</b>	<b>1,564</b>
Minority interest	(41)	(40)	(48)	(50)	(53)
Equity earnings from affiliates	(21)	78	37	69	74
Extra items	(10)	(90)	7	0	0
<b>Net profit (loss)</b>	<b>-56</b>	<b>550</b>	<b>1,089</b>	<b>1,322</b>	<b>1,585</b>
Reported EPS	-0.04	0.41	0.81	0.98	1.17
Fully diluted EPS	-0.03	0.47	0.80	0.98	1.17
<b>Core net profit</b>	<b>-46</b>	<b>640</b>	<b>1,082</b>	<b>1,322</b>	<b>1,585</b>
Core EPS	-0.03	0.47	0.80	0.98	1.17
<b>EBITDA</b>	<b>1,705</b>	<b>2,354</b>	<b>2,931</b>	<b>3,447</b>	<b>3,777</b>

	2010	2011	2012E	2013E	2014E
<b>KEY RATIOS</b>					
Revenue growth (%)	9.7	22.1	24.9	10.0	9.8
Gross margin (%)	53.7	54.1	55.9	55.5	55.6
EBITDA margin (%)	18.7	21.1	21.0	22.5	22.4
Operating margin (%)	2.0	7.7	10.3	10.7	11.5
Net margin (%)	(0.6)	4.9	7.8	8.6	9.4
Core profit margin (%)	(0.5)	5.7	7.8	8.6	9.4
ROA (%)	(0.3)	2.6	5.0	6.0	6.9
ROCE (%)	(0.4)	3.6	6.9	8.4	9.9
Asset turnover (x)	0.5	0.5	0.6	0.7	0.7
Current ratio (x)	0.3	0.3	0.4	0.5	0.5
Gearing ratio (x)	1.6	1.6	1.4	1.1	0.9
Interest coverage (x)	0.6	2.1	3.3	3.9	4.8

	2010	2011	2012E	2013E	2014E
<b>BALANCE SHEET (Btm)</b>					
<b>Cash &amp; Equivalent</b>	<b>299</b>	<b>316</b>	<b>480</b>	<b>526</b>	<b>596</b>
Accounts receivable	69	108	173	230	292
Inventory	304	400	494	542	594
PP&E-net	13,064	13,828	13,699	14,136	14,657
Other assets	6,702	7,032	7,032	7,032	7,032
<b>Total assets</b>	<b>20,438</b>	<b>21,684</b>	<b>21,877</b>	<b>22,467</b>	<b>23,172</b>
Accounts payable	1,194	1,541	1,850	2,053	2,248
ST debts & current portion	3,012	3,925	1,950	1,400	900
Long-term debt	6,224	5,917	7,018	7,018	6,918
Other liabilities	4,229	4,252	4,467	4,561	4,666
<b>Total liabilities</b>	<b>14,659</b>	<b>15,635</b>	<b>15,285</b>	<b>15,031</b>	<b>14,732</b>
Paid-up capital	1,350	1,350	1,350	1,350	1,350
Share premium	970	970	970	970	970
Retained earnings	1,583	1,927	2,423	3,216	4,167
<b>Shareholders equity</b>	<b>5,495</b>	<b>5,796</b>	<b>6,291</b>	<b>7,085</b>	<b>8,035</b>
Minority interests	284	253	301	351	404
<b>Total Liab.&amp;Shareholders' equity</b>	<b>20,438</b>	<b>21,684</b>	<b>21,877</b>	<b>22,467</b>	<b>23,172</b>

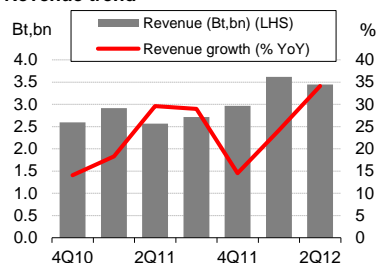
	2010	2011	2012E	2013E	2014E
<b>CASH FLOW (Btm)</b>					
Net income	-56	550	1,089	1,322	1,585
Depreciation and amortization	1,233	1,135	1,071	1,362	1,380
Change in working capital	(76)	(409)	(468)	(309)	(310)
FX, non-cash adjustment & others	499	877	666	456	444
<b>Cash flows from operating activities</b>	<b>1,600</b>	<b>2,154</b>	<b>2,358</b>	<b>2,832</b>	<b>3,099</b>
Capex (Invest)/Divest	2,052	1,401	1,250	1,800	1,900
Others	(4,267)	(3,544)	(2,351)	(3,600)	(3,800)
<b>Cash flows from investing activities</b>	<b>(2,215)</b>	<b>(2,144)</b>	<b>(1,101)</b>	<b>(1,800)</b>	<b>(1,900)</b>
Debt financing (repayment)	1,262	605	(874)	(550)	(600)
Equity financing	0	0	0	0	0
Dividend payment	(134)	(68)	(220)	(435)	(529)
<b>Cash flows from financing activities</b>	<b>799</b>	<b>7</b>	<b>(1,094)</b>	<b>(985)</b>	<b>(1,129)</b>
Net change in cash	184	17	163	47	70
<b>Free cash flow (Btm)</b>	<b>3,652</b>	<b>3,554</b>	<b>3,608</b>	<b>4,632</b>	<b>4,999</b>
<b>FCF per share (Bt)</b>	<b>2.71</b>	<b>2.63</b>	<b>2.67</b>	<b>3.43</b>	<b>3.70</b>

## Key assumptions

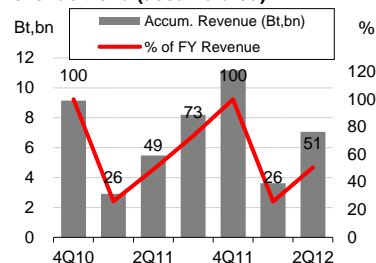
	2010	2011	2012E	2013E	2014E
Hotel occupancy rate	58%	64%	68%	70%	75%
Room rate growth	5%	13%	3%	5%	3%
RevPar growth	0%	25%	10%	7%	9%
TSS growth	15%	24%	20%	12%	12%
Revenue breakdown					
Hotel revenue	45%	41%	42%	42%	41%
Food revenue	55%	59%	58%	58%	59%

Sources: Company data, Bualuang Research estimates

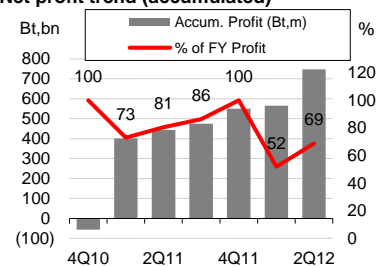
## Revenue trend



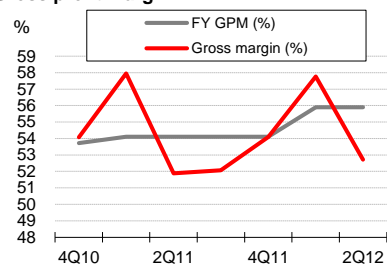
## Revenue trend (accumulated)



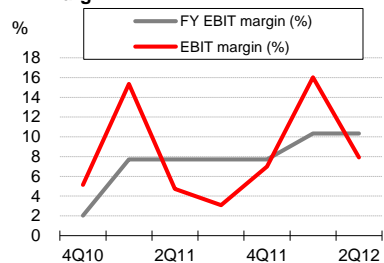
## Net profit trend (accumulated)



## Gross profit margin



## EBIT margin



## QUARTERLY PROFIT &amp; LOSS (Btm)

	2Q11	3Q11	4Q11	1Q12	2Q12
Revenue	2,568	2,713	2,968	3,618	3,444
Cost of sales and services	(1,236)	(1,300)	(1,363)	(1,528)	(1,628)
<b>Gross profit</b>	<b>1,332</b>	<b>1,413</b>	<b>1,605</b>	<b>2,090</b>	<b>1,815</b>
SG&A	(1,211)	(1,329)	(1,398)	(1,510)	(1,542)
<b>EBIT</b>	<b>122</b>	<b>83</b>	<b>208</b>	<b>580</b>	<b>273</b>
Interest expense	(96)	(113)	(116)	(120)	(123)
Other income/exp.	89	112	100	133	123
<b>EBT</b>	<b>114</b>	<b>83</b>	<b>191</b>	<b>593</b>	<b>273</b>
Corporate tax	(63)	(45)	(57)	(72)	(65)
<b>After-tax profit (loss)</b>	<b>51</b>	<b>38</b>	<b>134</b>	<b>521</b>	<b>208</b>
Minority interest	(5)	(2)	(13)	(12)	(22)
Equity earnings from affiliates	(4)	(3)	33	57	(11)
Extra items	(0)	0	(80)	0	7
<b>Net profit (loss)</b>	<b>43</b>	<b>32</b>	<b>75</b>	<b>566</b>	<b>182</b>
Reported EPS	0.03	0.02	0.11	0.42	0.13
Fully diluted EPS	0.03	0.02	0.06	0.42	0.13
<b>Core net profit</b>	<b>43</b>	<b>32</b>	<b>155</b>	<b>566</b>	<b>175</b>
Core EPS	0.11	0.11	0.11	0.11	0.11
<b>EBITDA</b>	<b>449</b>	<b>449</b>	<b>598</b>	<b>1,042</b>	<b>663</b>

## KEY RATIOS

	2Q11	3Q11	4Q11	1Q12	2Q12
Gross margin (%)	51.9	52.1	54.1	57.8	52.7
EBITDA margin (%)	17.5	16.5	20.2	28.8	19.3
Operating margin (%)	4.7	3.1	7.0	16.0	7.9
Net margin (%)	1.7	1.2	2.5	15.6	5.3
Core profit margin (%)	1.7	1.2	5.2	15.6	5.1
BV (Bt)	4.43	4.43	4.48	5.02	5.09
ROE (%)	3.0	2.2	5.2	35.6	11.5
ROA (%)	0.8	0.6	1.4	10.0	3.2
Current ratio (x)	0.4	0.2	0.3	0.3	0.3
Gearing ratio (x)	1.6	1.7	1.6	1.5	1.5
Interest coverage (x)	1.3	0.7	1.8	4.8	2.2

## QUARTERLY BALANCE SHEET (Btm)

	2Q11	3Q11	4Q11	1Q12	2Q12
<b>Cash &amp; Equivalent</b>	<b>568</b>	<b>173</b>	<b>316</b>	<b>167</b>	<b>209</b>
Accounts receivable	191	208	108	767	680
Inventory	327	363	400	425	461
PP&E-net	10,457	10,816	11,294	11,681	12,242
Other assets	9,080	9,737	9,566	9,612	9,179
<b>Total assets</b>	<b>20,623</b>	<b>21,297</b>	<b>21,684</b>	<b>22,652</b>	<b>22,771</b>
Accounts payable	399	448	1,541	1,481	1,531
ST debts & current portion	3,356	4,361	3,925	4,119	4,519
Long-term debt	6,116	5,558	5,917	6,293	6,088
Other liabilities	4,770	4,955	4,252	3,988	3,768
<b>Total liabilities</b>	<b>14,641</b>	<b>15,322</b>	<b>15,635</b>	<b>15,880</b>	<b>15,906</b>
Paid-up capital	1,350	1,350	1,350	1,350	1,350
Share premium	970	970	970	970	970
Retained earnings	3,120	3,168	3,223	3,614	3,471
<b>Shareholders equity</b>	<b>5,711</b>	<b>5,732</b>	<b>5,796</b>	<b>6,353</b>	<b>6,328</b>
Minority interests	271	244	253	419	537
<b>Total Liab.&amp;Shareholders' equity</b>	<b>20,623</b>	<b>21,297</b>	<b>21,684</b>	<b>22,652</b>	<b>22,771</b>

Sources: Company data, Bualuang Research

## BUALUANG SECURITIES PUBLIC COMPANY LIMITED – DISCLAIMER

BUALUANG SECURITIES PUBLIC COMPANY LIMITED (BLS) is a subsidiary of BANGKOK BANK PUBLIC COMPANY LIMITED (BBL). This document is produced based upon sources believed to be reliable but their accuracy, completeness or correctness is not guaranteed. The statements or expressions of opinion herein were arrived at after due and careful consideration to use as information for investment. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. The use of any information shall be at the sole discretion and risk of the user.

BUALUANG SECURITIES PUBLIC COMPANY LIMITED MAY BE IN RELATIONSHIP WITH THE SECURITIES IN THIS REPORT. "Opinions, projections and other information contained in this report are based upon sources believed to be accurate including the draft prospectus, but no responsibility is accepted for any loss occasioned by reliance placed upon the contents hereof. Bualuang Securities Public Company Limited may from time to time perform investment, advisory or other services for companies mentioned in this report, as well as dealing (as principal or otherwise) in, or otherwise being interested in, any securities mentioned herein. This report does not constitute a solicitation to buy or sell any securities". Investors should carefully read details in the prospectus before making investment decision.






BUALUANG SECURITIES PUBLIC COMPANY LIMITED ACTS AS MARKET MAKER AND ISSUER OF DERIVATIVE WARRANTS on the securities ADVANC, AOT, BANPU, BAY, BCP, BEC, BGH, BH, BIGC, BJC, BLA, BTS, CPALL, CPF, DTAC, EGCO, ESSO, GLOW, HMPRO, HEMRAJ, INTUCH, IRPC, IVL, KBANK, KTB, LH, MAKRO, MINT, PS, PTT, PTTEP, PTTGC, SCB, SCC, SPALI, STA, TCAP, THAI, TISCO, TOP, TMB, TPIPL, TRUE, TUF. Before making an investment decision over a derivative warrant, a potential investor should carefully read the prospectus for the details of the said derivative warrant.

This research report was prepared by Bualuang Securities Public Company Limited and refers to research prepared by Morgan Stanley. Morgan Stanley does not warrant or guarantee the accuracy or completeness of its research reports. Morgan Stanley reserves copyright and other proprietary rights in the material reproduced in this report. Morgan Stanley is under no obligation to inform Bualuang Securities or you if the views or information referred to or reproduced in this research report change.

### Corporate Governance Report disclaimer

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. Bualuang Securities Public Company Limited does not conform nor certify the accuracy of such survey result.

Score Range	Number of Logo	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

## BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

### STOCK RECOMMENDATIONS

**BUY:** Expected positive total returns of 15% or more over the next 12 months.

**HOLD:** Expected total returns of between -15% and +15% over the next 12 months.

**SELL:** Expected negative total returns of 15% or more over the next 12 months.

**TRADING BUY:** Expected positive total returns of 15% or more over the next 3 months.

### SECTOR RECOMMENDATIONS

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.