

CENTRAL PLAZA HOTEL PLC

No. 114/2018
8 August 2018

CORPORATES

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
09/08/13	A	Stable
28/07/11	A-	Stable
03/07/09	A-	Negative
21/10/04	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Central Plaza Hotel PLC (CENTEL) and the ratings on CENTEL's outstanding senior unsecured debentures at "A". The ratings reflect CENTEL's strength in its hotel and quick service restaurant (QSR) businesses, its low but rising level of financial leverage, and support from the Central Group. However, these strengths are partially offset by the cyclical nature susceptible to event risks in the hotel industry and by the intense competition in the QSR industry.

KEY RATING CONSIDERATIONS

Strong tourism growth in Thailand

TRIS Rating expects the tourism industry in Thailand to remain strong. Tourist arrivals to Thailand grew sharply during the past three years at an average rate of 13% per year, to 35.4 million inbound tourists in 2017. The number of tourists continued to grow 12.7% year-on-year to 19.5 million arrivals in the first half of 2018. Chinese tourists have played a large part in the flourishing of tourism in Thailand, growing at an average of 28% per year during 2014-2017. The Chinese contributed 28% of total arrivals in 2017.

We believe that CENTEL will benefit from strong growth in Thai tourism as most of CENTEL's properties are situated in key tourist destinations in Thailand. At the end of the first quarter of 2018, CENTEL owned and operated 15 hotels in Thailand and two hotels overseas, and managed 18 hotels in Thailand and three hotels abroad. It derived 80% of total hotel revenue from hotels in Thailand.

Despite the good prospects for the Thai tourism industry, we see that CENTEL is susceptible to event risk given that its hotel segment mainly relies on the Thai tourism industry. We also see the increasing reliance on Asian tourists (mainly Chinese) could potentially affect future performance if they shift their preferred destination to other countries or if there is economic stagnation in their countries.

More diversified sources of hotel revenue expected in five years

We forecast the overseas hotel income contribution will rise to one-third of CENTEL's total hotel revenue by 2022, against the current contribution of one-fifth of total hotel revenue. Overseas hotels in the pipeline include two owned hotels in the Maldives and a hotel under joint-venture partnership in Dubai.

Apart from overseas expansion, CENTEL's new affordable lifestyle hotel under the "COSI" brand adds a new segment to its portfolio. The company opened its first COSI hotel in late 2017 and plans to add more hotels under the COSI brand, both under its own investment and under hotel management contracts.

The company plans to enlarge its hotel portfolio and revenue from the hotel business over the next couple of years, after having remained stable for the past five years. We expect the number of owned hotel rooms will reach 5,000

rooms by 2022, from 4,179 rooms at the end of the first quarter of 2018.

Intense competition in the restaurant segment

In TRIS Rating's view, we see strong competition in the restaurant industry in Thailand will continue to put pressure on CENTEL's growth, as there are a growing number of choices available to consumers and a low barrier to entry into the restaurant industry. CENTEL's same store sales growth in the food segment was slightly negative over the past several years. However, overall food revenue grew 4% to Bt10,888 million in 2017 driven mainly by new store expansion.

We expect "KFC" to continue to dominate CENTEL's food portfolio. KFC operations as a franchise contributed more than half of CENTEL's food segment revenue and earnings before interest, tax, depreciation and amortization (EBITDA) during 2014-2017. Some other small brands in the portfolio showed good potential. For example, "Pepper Lunch" sales grew at an average of 38% and same store sales grew in the mid-single digits in 2016-2017. The tonkatsu and katsudon restaurant, named "Katsuya", also showed decent growth in recent years. Yet, each small brand contributed only a fraction of less than 4% of total sales. For this reason, it will take time to broaden CENTEL's food revenue base across more brands.

Rising leverage from looming investments

TRIS Rating forecasts the company's leverage indicated by adjusted total debt to capitalization ratio to rise to 58% in 2020 from 49% in 2017. This is due to sizable investments of around Bt18,000 million over 2018-2020, of which around 80% will be investment in new hotels and renovation of existing hotels. The rest will be used to add new food outlets and maintain existing food outlets. We expect CENTEL's average revenue growth of 5% per annum and EBITDA to range between Bt4,800-Bt5,400 million during 2018-2020, mainly driven by new food outlet expansion as some hotel properties will still be under major renovation and some hotels in the pipeline will not yet have started operations. Adjusted debt to EBITDA ratio will rise and hold below 3.2 times during those years, compared with 2.0 times in 2017.

RATING OUTLOOK

The "stable" outlook reflects our expectation that the company will maintain its market positions in the hotel and QSR businesses.

RATING SENSITIVITIES

CENTEL's ratings could be revised upward if the company further enlarges and diversifies each of its business portfolios while maintaining a satisfactory financial leverage. On the other hand, a rating downside could occur if CENTEL's operating performance deteriorates for a prolonged period or if the company makes a large, overly aggressive debt-funded investment.

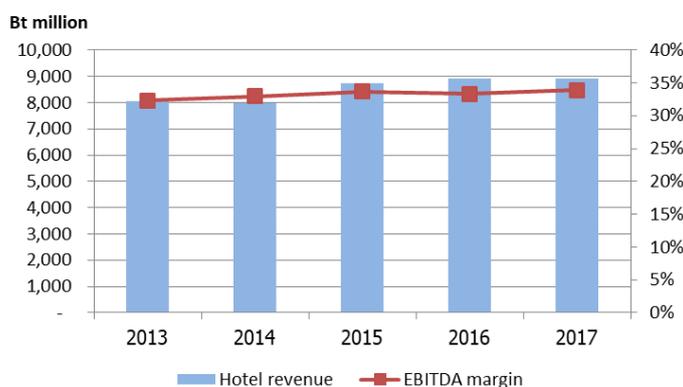
COMPANY OVERVIEW

CENTEL was founded by the Chirathivat family in 1980 to operate the hotel business in Thailand. The company was listed on the Stock Exchange of Thailand (SET) in 1990. The company expanded into the QSR business in 1994. CENTEL is a member of the Central Group, a leading retailer in Thailand. As of December 2017, the Chirathivat family held a majority stake of 63% in CENTEL's shares outstanding.

CENTEL is one of the major hoteliers and restaurant chain operators in Thailand. As of March 2018, the company operated 38 hotels with a total 7,293 rooms in key tourist destinations in Thailand and four other countries (the Maldives, Vietnam, Sri Lanka, and Oman). CENTEL's hotel portfolio consists of 17 hotels it owns directly, including a hotel leased back from a property fund and a hotel leased from a state enterprise and 21 hotel properties operated under management contracts. Owned hotels accounted for 57% of its total room supply and managed hotels made up the rest. CENTEL's food segment has multiple products under 11 brands sold through 899 outlets nationwide as of March 2018. In 2017, revenues from the hotel segment accounted for 45% of total revenue, while the food segment contributed 55%. The hotel business generated 68% of CENTEL's EBITDA and the rest came from the food business.

KEY OPERATING PERFORMANCE
Table 1: CENTEL's Sales and EBITDA Breakdown by Line of Business
Unit: %

Business	2014	2015	2016	2017	Jan-Mar 2018
Revenue contribution					
Hotel	45	46	46	45	51
QSR	55	54	54	55	49
Total revenue	100	100	100	100	100
EBITDA breakdown					
Hotel	74	70	68	68	79
QSR	26	30	32	32	21
Total EBITDA	100	100	100	100	100

Source: CENTEL
Chart 1: CENTEL's Hotel Revenue and EBITDA Margin

Source: CENTEL
Table 2: CENTEL's Hotel Performance

Hotel Performance	2013	2014	2015	2016	2017
Room capacity (room)	3,778	3,812	3,812	3,811	3,812
ARR (Bt/night)	4,370	4,855	4,809	4,851	4,897
OR (%)	79.8	74.8	80.2	81.9	82.7
RevPAR (Bt/night)	3,486	3,632	3,858	3,975	4,049

Note: Only the hotel properties owned by CENTEL are shown.
Sources: CENTEL
Table 3: Breakdown of Tourist Arrivals to Thailand by Region of Origin

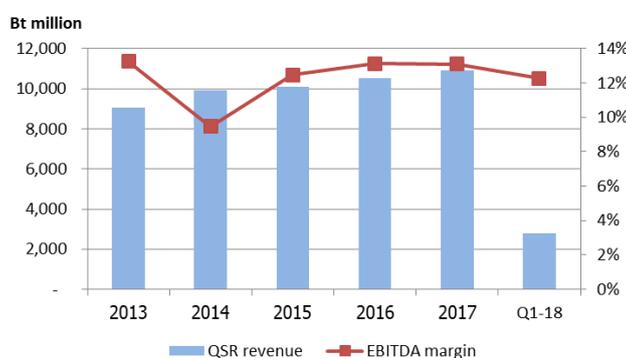
Region of Origin	2014	2015	2016	2017	Jan-Jun 2017	Jan-Jun 2018
East Asia (excl. ASEAN)	32%	40%	40%	41%	40%	43%
ASEAN	27%	26%	26%	26%	26%	25%
Europe	25%	19%	19%	18%	19%	19%
The Americas	4%	4%	4%	4%	5%	4%
South Asia	5%	5%	5%	5%	5%	5%
Oceania	4%	3%	3%	3%	3%	2%
Middle East	2%	2%	2%	2%	2%	2%
Africa	1%	1%	1%	1%	0%	0%
Total (million arrivals)	24.8	29.9	32.5	35.4	17.3	19.5

Source: Ministry of Tourism & Sports

Table 4: CENTEL's QSR Portfolio as of Mar 2018

Brand	Product	Restaurant Type	Owned Outlet	Food Revenue Contribution (%)
KFC	Chicken	Quick service	246	54
Mister Donut	Donuts	Quick service	337	17
Ootoya	Japanese food	Casual dining	44	8
Auntie Anne's	Bakery	Quick service	148	7
Pepper Lunch	Japanese steak	Casual dining	33	4
Chabuton	Ramen	Casual dining	18	2
Yoshinoya	Beef bowl	Quick service	16	2
Cold Stone Creamery	Ice cream	Casual dining	20	1
The Terrace	Thai Cuisine	Casual dining	9	1
Tenya	Japanese food	Quick service	7	1
Katsuya	Japanese food	Quick service	21	2
Others	n.a.	n.a.		1
Total			899	100

Sources: CENTEL

Chart 2: CENTEL's QSR Revenue and EBITDA Margin


Source: CENTEL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2018	Year Ended 31 December			
		2017	2016	2015	2014
Revenue	5,637	19,929	19,563	18,937	17,965
Gross interest expense	49	224	299	380	455
Net income from operations	883	1,991	1,850	1,664	1,188
Funds from operations (FFO)	1,389	4,077	4,042	4,064	3,443
Capital expenditures	122	1,371	1,455	1,553	1,371
Other investments	23	1,814	-	-	105
Total assets	25,510	25,037	24,397	24,443	24,770
Total debts	6,839	6,965	7,768	8,699	10,256
Annual lease capitalization	6,287	4,553	4,528	4,468	4,468
Shareholders' equity including minority interest	12,917	12,058	11,117	9,921	8,731
Operating income before depreciation and amortization as % of sales	30.32	26.71	27.45	28.32	24.68
Pretax return on permanent capital (%)	12.55 **	12.94	12.83	12.35	9.63
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	12.75	10.53	9.37	8.15	6.44
FFO/total debt (%)	37.13 **	41.91	38.42	36.00	26.42
Total debt/capitalization (%)	50.40	48.85	52.52	57.03	62.77

Note: All ratios have been adjusted by operating leases.

* Consolidated financial statements

** Annualized from the trailing 12 months

Central Plaza Hotel PLC (CENTEL)

Company Rating:	A
Issue Ratings:	
CENTEL18NA: Bt700 million senior unsecured debentures due 2018	A
CENTEL218A: Bt980 million senior unsecured debentures due 2021	A
CENTEL229A: Bt1,000 million senior unsecured debentures due 2022	A
CENTEL239A: Bt1,000 million senior unsecured debentures due 2023	A
CENTEL269A: Bt500 million senior unsecured debentures due 2026	A
Rating Outlook:	Stable

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