TRIS RATING
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DUSIT THANI PLC

No. 11/2018
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CORPORATES

Company Rating: BBB+

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
27/12/11	BBB+	Stable
15/10/10	A-	Negative

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RATIONALE

TRIS Rating affirms the company rating of Dusit Thani PLC (DTC) at "BBB+" with "stable" outlook. The rating reflects DTC's brand equity and conservative financial policies. These strengths are offset by DTC's concentrated portfolio, intense competition in the hotel industry, and weak profitability. The rating also takes into consideration DTC's effort to develop a mixed-use property project. The project will weaken its financial profile during the construction period.

KEY RATING CONSIDERATIONS

Brand equity supports business profile

DTC is one of the leading Thai hoteliers, with a well-established brand: Dusit Thani. The brand represents the character of Thai hospitality and aids the company's efforts to expand the hotel management services and education business. DTC currently has 102 management contracts, with over 10,000 keys, which will start operating throughout the next five years. DTC also has expertise in hospitality education which it intends to leverage this experience by expanding its hospitality school business in Thailand and abroad.

Concentrated portfolio

DTC's portfolio of hotel properties is concentrated. For example, over 80% of revenue is from hotel operations at its major hotels in Bangkok, Pattaya, Phuket, the Maldives, and Manila. As a result, the operating performance is vulnerable to external shocks and event risks. For the first nine months of 2017, revenue dropped by 7% year-on-year (y-o-y) to Bt3,521 million. The drop reflected a dip in the result of the hotel segment. Spending on events and functions was limited during the mourning period for the late King Rama IX. In addition, there was an impact from room renovation in Dusit Thani Manila and Dusit Thani Laguna Phuket.

To minimize the effects of event risks, DTC's strategy is to expand the hotel management service and education segments. A third area of emphasis is property development. DTC is developing a mixed-use project, bringing an entry into the residential property development and shopping mall segments. If the diversification efforts are successful, the sources of cash will be diversified and the dependency on the hotel segment will be reduced.

Intense competition in the hotel industry

An increased supply of hotel rooms, especially in Bangkok, Phuket, and the Maldives, has heightened competition in DTC's key markets. In addition, DTC's assets are timeworn due to a low reinvestment rate to maintain the quality of its assets and keep up with travellers' changing needs. Greater competition and timeworn properties hurt the company's competitive position and limit the ability to command higher room rates.

For the first nine months of 2017, the average hotel occupancy rate (OR) was 72%, compared with 73% in the same period of the prior year. The average room rate (ARR) was Bt3,465 per night, down by 2% y-o-y. As a result, revenue per available room (RevPAR) dropped by 3% to Bt2,493 per night.

However, the company's renovation plan is in progress particularly in key strategic locations in Phuket and Manila for 2017 as well as Bangkok

(Srinakarin), Pattaya, and Chiang Mai for 2018. These renovations should help enhance the company's competitiveness in the market

Weak profitability

DTC's profitability is weaker than industry peers. The operating margin, measured by operating income before depreciation and amortization as a percentage of sales, was 16.2% in 2016 and 13.1% in the first nine months of 2017. For comparison, the operating margin of other SET-listed peers averaged more than 20%.

Apart from the high selling and administration expenses, the weak profitability is due to operating losses in the Dusit Thani Hotel School. DTC is transforming the Dusit Thani Hotel School into the Dusit Thani Excellence Center which is expected to better respond to market demand.

Conservative financial policies

DTC's financial profile is supported by conservative financial policies. In the past, expenditures on growth opportunities and maintenance were relatively low. The liquidity position and the capital structure of the company are sound. For the first nine months of 2017, the ratio of funds from operations (FFO) to total debt was 26% (annualized, from the trailing 12 months) while the earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio was 6.24 times. Leverage remains low. The total debt to capitalization ratio stood at 35.91% at the end of September 2017.

Adequate liquidity

TRIS Rating's forecast assumes that DTC's liquidity will be adequate over the next 12 months. TRIS Rating's base case scenario assumes FFO will amount to Bt675-Bt800 million in 2018. DTC had cash and cash equivalents of Bt961 million as of September 2017. Uses of funds are debt repayments of Bt300-Bt400 million in 2018 and capital expenditures of approximately Bt700-Bt1,000 million. The capital expenditures will be used mainly to fund expansion efforts. Expansion plans serve as a safeguard for earnings while the mixed-use project is under construction.

Financial profile will weaken

DTC, together with Central Pattana PLC (CPN), will develop a mixed-use property project. The project consists of a hotel, residences, a shopping center, and an office building on the site of the Dusit Bangkok hotel and the area nearby. Construction will start in January 2019; the project will be complete in mid-2024.

TRIS Rating is of the view that the project will enhance DTC's competitive position in the long term. The mixed-use development will enable the company to strengthen the core hotel business and diversify into residential property development and shopping mall segments. However, DTC's financial profile will weaken while the project is under development. DTC will lose the revenue from the Dusit Thani Bangkok hotel which accounted for 20% of DTC's revenues in 2016 and 15% of EBITDA. DTC's management team says the company will find other sources of revenue to offset in part the loss of revenue and bolster its financial profile while the mixed-use project is under the construction.

DTC's financial risk profile will weaken as it will take on more debt to fund the project. DTC's management team is committed to maintaining a conservative financial policy. TRIS Rating expects DTC to keep the total debt to capitalization ratio below 50%.

RATING OUTLOOK

The "stable" outlook reflects DTC's conservative financial policy, plus the growth prospects in the hotel management service and the education segments. DTC is expected to strengthen its competitive edge in order to withstand the volatile nature of the hospitality industry, and to bolster its credit rating.

RATING SENSITIVITIES

DTC's credit upside is limited in the near term as the mixed-use project will require a sizable investment. The rating downside case could emerge if the operating margin falls below 10% for a sustained period or if huge debt-funded investments significantly weaken the balance sheet.

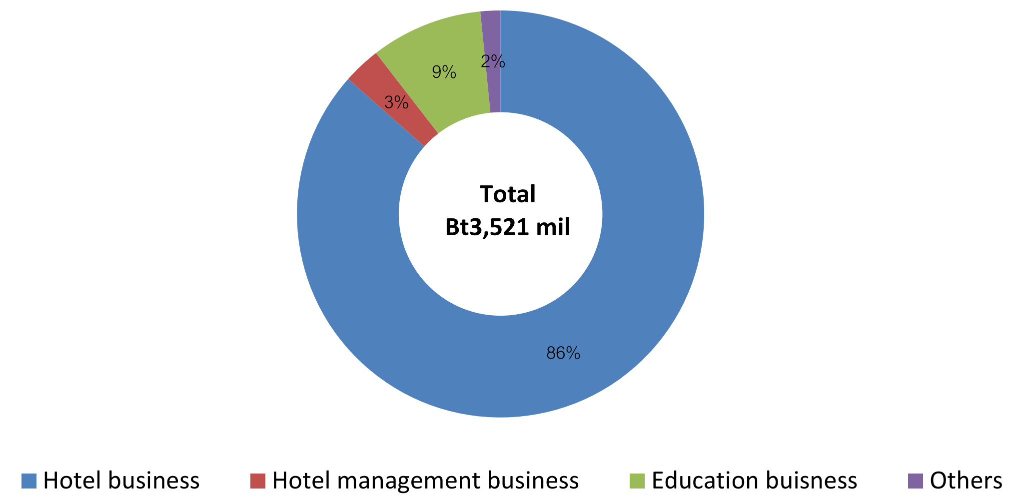
COMPANY OVERVIEW

DTC is a leading Thai hotelier, with five principal brands: Dusit Thani, Dusit Princess, dusitD2, Dusit Deverana, and Dusit Residence. The company was founded in 1966 by Thanpuying Chanut Piyaoui and was listed on the Stock Exchange of Thailand (SET) in 1975. Ever since the listing, Thanpuying Chanut and affiliates are major shareholders, currently holding 49.7% of DTC.

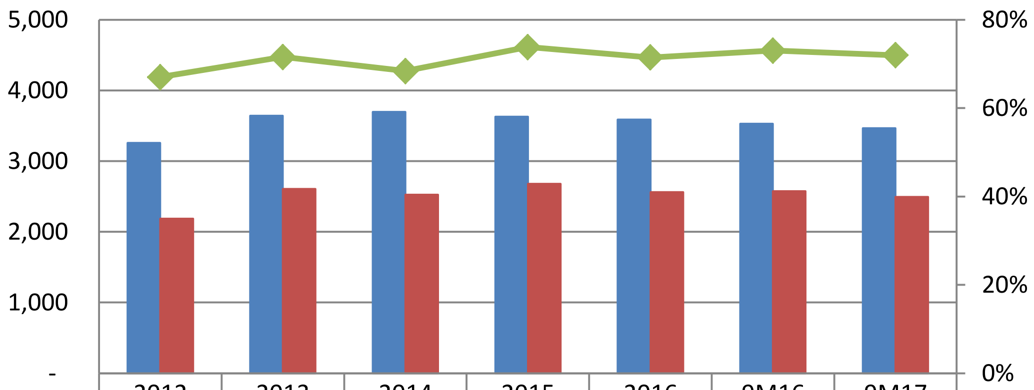
DTC opened its first and flagship five-star hotel, Dusit Thani Bangkok, in 1970. DTC now operates nine hotels, with a total of 2,660 rooms, including three hotels owned by Dusit Thani Freehold and Leasehold Real Estate Investment Trust (DREIT). DTC also manages a total of 3,521 rooms under management contracts and franchise contracts in Thailand and abroad. Apart from the hotel segment, DTC has an education and training business. The education segment includes Dusit Thani College, Le Cordon Bleu Dusit (LCBD), and other training services. For the first nine months of 2017, hotel operations contributed 86% of total revenue, followed by the education segment at 9% and hotel management services at 3%.

KEY OPERTING PERFORMANCE

DTC's Revenue Contribution Jan-Sep 2017



DTC's Hotel Performance*



	2012	2013	2014	2015	2016	9M16	9M17
ARR (Bt)	3,259	3,639	3,695	3,629	3,588	3,529	3,465
RevPAR (Bt)	2,184	2,605	2,524	2,679	2,563	2,576	2,493
OR	67%	72%	68%	74%	71%	73%	72%

** Including hotels leased from DREIT*

Source: DTC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Sep 2017	------------ Year Ended 31 December ------- 2016	2015	2014	2013
Revenue	3,521	5,122	5,019	4,792	5,078
Gross interest expense	44	73	49	64	71
Net income from operations	(24)	113	190	(52)	162
Funds from operations (FFO)	574	1,029	1,155	826	933
Capital expenditures	345	346	675	512	546
Total assets	9,632	9,033	9,396	9,012	9,271
Total debts	1,771	1,680	2,049	1,790	1,954
Shareholders' equity	5,552	5,354	5,404	5,212	5,268
Operating income before depreciation and amortization as % of sales	13.10	16.16	17.78	11.89	14.33
Pretax return on permanent capital (%)	2.42 **	3.57	4.97	1.81	4.46
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	6.24	6.85	8.70	6.31	7.49
FFO/total debt (%)	26.00 **	34.93	34.68	27.77	31.28
Total debt/capitalization (%)	35.91	35.87	38.39	36.33	36.33

Note: All ratios have been adjusted by operating leases.
* *Consolidated financial statements*
** *Annualized, from the trailing 12 months*

Company Rating:	BBB+
Rating Outlook:	Stable

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