TRIS RATING
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BOUND AND BEYOND PLC

No. 13/2023
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CORPORATES

Company Rating:	BB
Outlook:	Stable

Last Review Date: 04/02/22

Company Rating History:

Date	Rating	Outlook/Alert
08/02/21	BB	Negative
08/01/20	BBB-	Negative
08/02/19	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Bound and Beyond PLC (BEYOND) at “BB” and revises the rating outlook to “stable” from “negative”. The outlook revision follows the strong recovery in BEYOND’s hotel operating performance due to the improving Coronavirus Disease 2019 (COVID-19) situation and clearer visibility of recovery going forward. The rating continues to reflect the high asset quality of BEYOND’s hotel properties and its tight but manageable liquidity. The rating is weighed down by the company’s high financial leverage and its concentrated portfolio of only two hotels situated in a single location.

KEY RATING CONSIDERATIONS

Shift to hospitality business

BEYOND has shifted its focus entirely to the hotel business by divesting all its solar power plants and acquiring two operating hotels. BEYOND sold all its solar power plants in 2021. Later in the same year, BEYOND acquired 76% stakes in Urban Resort Hotel Co., Ltd. and Waterfront Hotel Co., Ltd., the companies that hold the rights to use the assets, land, and related rights of the “Four Seasons Hotel Bangkok at Chao Phraya River” (FSH) and the “Capella Bangkok” (CPH), respectively. BEYOND completed the acquisition of the remaining 24% stakes in both companies in July 2022. The total investment is equal to THB10.5 billion, comprising THB5.5 billion in equity and THB5.0 billion in debt.

Going forward, BEYOND’s strategy is to expand in the hotel and lifestyle businesses, exploring investments that have unique character and serve demographic trends such as the younger affluent and growing older populations with high spending power. The company plans to develop a new hotel in a tourist destination outside the Bangkok area, which is expected to open in 2024, to diversify its portfolio in terms of geographic area.

Recovery of hotel performance expected to continue in 2023

BEYOND's hotel performance improved significantly in the first nine months of 2022 as a result of the improving COVID-19 situation and the gradual easing of travel restrictions, resulting in an increase in tourist arrivals to around 11 million in 2022 compared with 0.4 million in 2021. BEYOND’s overall occupancy rate (OR) increased to 27% and its average room rate (ARR) rose to around THB15,000 in the first nine months of 2022, from 9% and THB11,000, respectively, in 2021. Food and beverage revenues were robust thanks to attractive dining venues and banquet facilities in both hotels and improving consumer confidence for out-of-home activities. In the first nine months of 2022, food and beverage revenues accounted for 60% of its total hotel revenue.

We expect the recovery of BEYOND’s hotel performance to continue in 2023 before stabilizing in 2024-2025, supported by China’s reopening in early 2023 and the resumption of meetings, incentives, conventions, and exhibitions (MICE) activities. In our base-case forecast, we expect the overall OR to range upward to 50% in 2023 and 65%-67% in 2024-2025 from 33% in 2022. The overall ARR is expected to range between THB16,000 and THB17,000 over the forecast period.

Hence, we project BEYOND’s revenue to increase to THB2.6 billion in 2023 and THB3.2-THB3.4 billion in 2024-2025 from THB2.1 billion in 2022. We expect

BEYOND's revenue from food and beverage (including banquets and meetings) to contribute around 56% of its total revenue in 2022 before gradually dropping to 44% in 2025 as room revenues improve. Because of the expected strong fourth-quarter performance, we anticipate BEYOND's earnings before interest, taxes, depreciation, and amortization (EBITDA) to turn slightly positive in 2022. EBITDA is forecast to improve to THB330 million in 2023 and THB600-THB700 million per annum in 2024-2025. However, funds from operations (FFO) are expected to remain negative in 2023 due to high financial costs from hotel acquisition debts before turning positive in 2024.

Good asset quality

TRIS Rating views the two hotels are of good quality considering their newness, prime location, and outstanding architecture. Commercially opened in late 2020, the 299-key FSH and 101-key CPH are situated on the Chao Phraya Riverfront on Charoenkrung Road, a competitive location for leisure travelers and social events in Bangkok. Both hotels are positioned to tap the ultra-luxury segment. The room sizes start at 50 square meters (sq.m.) for FSH and 61 sq.m. for CPH, which are somewhat larger than the closest competitors. In addition, the hotels are run by world-class operators, namely "Four Seasons Hotels and Resorts" and "Capella Hotel Group", which provide good brand recognition and ensure smooth operations and consistently high levels of service.

FSH and CPH offer six and five dining venues (including restaurants, bars, and other food and beverage outlets), respectively. Each hotel features a "1 Michelin star" restaurant, "Yu Ting Yuan", for FSH and "Cote by Mauro Colagreco" for CPH. Apart from restaurants, FSH and CPH have sizable meeting and social event spaces of 3,401 sq.m. and 2,037 sq.m., respectively. We believe that the quality of these assets will support BEYOND's long-term revenue generation.

Reliance on a limited number of hotel assets

BEYOND's reliance on the two hotels as its only source of future income is one of the factors constraining our business risk assessment of the company. FSH and CPH are located in the same compound, and both are targeting the high-end, luxury segment. We consider the hotel industry to be, in general, vulnerable to event-specific risks and uncontrollable factors, and one way to mitigate such risks is to have a geographically diversified portfolio of assets, targeting broad customer segments.

The company could also benefit from scale if it has a larger portfolio, as the same managerial capabilities could potentially oversee a larger number of properties. Even with the inclusion of a new hotel in a tourist destination outside Bangkok, scheduled to open in 2024, we would continue to consider the company's portfolio to be small and less diversified relative to peers.

Financial leverage to improve but remain high

BEYOND's financial leverage rose significantly following the acquisition of sizeable hotel properties with weak operating performance due to COVID-19. BEYOND's adjusted debt rose to THB5.2 billion as of September 2022, from THB1.0 billion in 2020 and THB4.5 billion in 2021, following the acquisitions of FSH and CPH during late 2021 until mid-2022. TRIS Rating expects BEYOND's financial leverage as measured by its debt to EBITDA ratio to remain at a very high level in 2022, as we expect BEYOND's EBITDA to only turn slightly positive in 2022.

Going forward, we assume BEYOND's capital expenditure of THB800 million during 2022-2025, which will mainly be used to fund the development of the new hotel and for maintenance of existing assets. BEYOND also plans to dispose of non-core assets, including industrial land in Rayong Province and Tak Province, to support growth in the new business. We assume the company to divest these non-core assets during our forecast period of 2023-2025. BEYOND's adjusted net debt is projected to remain at THB5.4 billion in 2023 before improving to around THB4.1-THB4.3 billion following the divestment of non-core assets. Hence, we expect the debt to EBITDA ratio to remain elevated at around 17 times in 2023 before improving to 6-7 times in 2024-2025.

Key financial covenants on BEYOND's debentures require the company to maintain an interest-bearing debt to equity ratio below 3.5 times. As of September 2022, the ratio was 0.97 times, in compliance with the financial covenants.

As of September 2022, 100% of BEYOND's debt was priority debt, which included secured debt at the parent level and debt at the subsidiary level. Because its priority debt ratio exceeded the 50% threshold according to TRIS Rating's "Issue Rating Criteria," we view BEYOND's unsecured creditors are significantly disadvantaged in terms of claims against the company's assets.

Tight but manageable liquidity

TRIS Rating assesses BEYOND's liquidity as tight but manageable in the next 12 months. BEYOND had cash and cash equivalents of around THB760 million as of September 2022. The uses of cash include expected capital expenditures of around THB600 million and long-term loans coming due of around THB25 million while the FFO is expected to be negative of around THB90 million in 2023. Back-up sources of liquidity come from the divestments of non-core assets, including industrial land in Rayong Province and Tak Province. However, the timeframe and proceeds of these divestments remain uncertain.

BASE-CASE ASSUMPTIONS

- Total revenue to reach around THB2.1 billion in 2022, before increasing to THB2.6 billion in 2023, THB3.2 billion in 2024, and THB3.4 billion in 2025.
- EBITDA to start to turn slightly positive in 2022, increasing to THB330 million in 2023, THB600 million in 2024, and THB680 million in 2025.
- Total capital expenditure of around THB800 million in 2022-2025.
- Divestments of industrial land plots in Rayong and Tak in 2023-2025.

RATING OUTLOOK

The "stable" outlook reflects our expectation that BEYOND's operating performance will continue to improve in line with the recovery of the tourism industry in Thailand. We also expect the company to be prudent in its liquidity management and investments in new projects.

RATING SENSITIVITIES

A rating upside could materialize if BEYOND's operating performance turns out to be significantly better than our expectations and its debt to EBITDA ratio stays below 6 times on a sustained basis. On the other hand, a rating downgrade could occur if BEYOND's performance falls significantly below our forecast. Negative pressure on the rating could also emerge upon higher-than-expected debt-funded investments or signs of inadequate liquidity to meet debt obligations.

COMPANY OVERVIEW

BEYOND (previously known as Padaeng Industry PLC -- PDI) was founded in 1981 to engage in zinc mining and the production of high-grade zinc metal and value-added zinc alloys. The company's zinc business ceased operations completely in the first quarter of 2019.

The company entered the renewable energy business by acquiring 13-megawatt (MW) Japanese solar farms and the 6.3-MW Mae Ramat Solar Farm in 2016. In 2017, the company acquired six operating solar projects with a total installed capacity of 30 MW from Symbior Element Pte. Ltd.

In 2021, BEYOND pivoted to the hotel business. The company sold all its solar power plants in Thailand and in Japan and used the proceeds from the divestments to acquire stakes in FSH and CPH. The company completed its investment with 100% stakes in both hotels in July 2022.

BEYOND is currently an investment holding company, focusing on the hotel and lifestyle businesses. Country Group Holdings PLC (CGH) is the major shareholder of BEYOND controlling a 39% stake. CGH has played a number of key roles in BEYOND's business transformation from zinc mining and trading to the renewable energy and hotel businesses. CGH has participated and recruited a new management team with extensive hospitality industry experience to support strategic planning and future investment.

KEY OPERATING PERFORMANCE

Chart 1: BEYOND's Hotel Portfolio

Hotel	Location	No. of Room	No. of Restaurant	Meeting Space	Type of Ownership	Year Open
In Operation						
Four Seasons Hotel Bangkok at Chao Phraya River	Charoenkrung rd., Bangkok	299	6	3,401 sq.m.	Leasehold	2020
Capella Bangkok	Charoenkrung rd., Bangkok	101	5	2,037 sq.m.	Leasehold	2020

Source: BEYOND

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

		--------------Year Ended 31 December ------------			
	Jan-Sep 2022	2021	2020	2019	2018
Total operating revenues	1,342	238	526	540	545
Earnings before interest and taxes (EBIT)	(232)	(192)	125	130	146
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	(5)	(133)	314	312	330
Funds from operations (FFO)	(291)	(211)	157	184	220
Adjusted interest expense	304	79	145	127	103
Capital expenditures	31	37	508	90	8
Total assets	13,052	14,106	8,381	8,911	8,550
Adjusted debt	5,208	4,538	1,046	392	710
Adjusted equity	6,005	6,412	4,782	4,705	4,703
Adjusted Ratios					
EBITDA margin (%)	(0.39)	(55.73)	59.70	57.76	60.49
Pretax return on permanent capital (%)	(3.42)	(1.91)	1.55	1.67	2.06
EBITDA interest coverage (times)	(0.02)	(1.69)	2.16	2.45	3.21
Debt to EBITDA (times)	(113.40)	(34.18)	3.33	1.26	2.15
FFO to debt (%)	(7.08)	(4.66)	15.05	46.95	30.94
Debt to capitalization (%)	46.45	41.44	17.95	7.70	13.12

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Bound and Beyond PLC (BEYOND)

Company Rating:	BB
Rating Outlook:	Stable

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