

# ROYAL ORCHID HOTEL (THAILAND) PLC

No. 55/2022  
8 April 2022

## CORPORATES

**Company Rating:** BB-  
**Outlook:** Negative

**Last Review Date:** 19/03/21

### Company Rating History:

Date	Rating	Outlook/Alert
19/03/21	BB-	Negative

### Contacts:

Tulyawat Chatkam  
tulyawatc@trisrating.com

Chanaporn Pinphithak  
chanaporn@trisrating.com

Wajee Pitakpaibulkij  
wajee@trisrating.com

Thiti Karoonyanont, Ph.D., CFA  
thiti@trisrating.com



WWW.TRISRATING.COM

## RATIONALE

TRIS Rating affirms the company rating on Royal Orchid Hotel PLC (ROH) at “BB-” with a “negative” outlook. The rating takes into consideration the good location and asset quality of the company’s hotel property, which is professionally managed by a world-class hotel chain. The rating is constrained by the risk from its reliance on income from a single operating asset. The rating is also weighed down by the rise in financial leverage due to COVID-19-induced weak operating performance and the financial obligations incurred from the sale and leaseback transaction of the company’s only operating asset to a newly set-up real estate investment trust (REIT) with buy-back conditions.

The “negative” outlook reflects the uncertainty surrounding the COVID-19 situation and the ongoing Russia-Ukraine conflict which could dent the recovery of ROH’s operating performance and add pressure on the company’s credit metrics.

## KEY RATING CONSIDERATIONS

### Gradual recovery expected

ROH’s operating performance in 2021 was weaker than we previously expected due to the prolonged COVID-19 pandemic and the temporary hotel closure for pipe system renovation during June-October 2021. In 2021, ROH’s average occupancy rate was very low at 6% and revenue per available room (RevPAR) was 94% below the 2019 level. Prior to the pandemic, the hotel mainly served foreign travelers, with a focus on meetings, incentive travel, conventions, and exhibitions (MICE) and corporate clients. The emergence of new COVID-19 variants and several waves of infections prompted the government to impose entry restrictions such as quarantine and COVID-19 testing requirements, limiting the number of foreign tourist arrivals and MICE activities in 2021.

We expect ROH’s operating performance to start to recover meaningfully in the second half of 2022 until reaching near pre-COVID levels in 2024. We expect the government to gradually lift the entry requirements for international travelers. Foreign tourists are likely to be able to enter Thailand without any requirements in the latter half of 2022 which should help increase the number of foreign tourist arrivals. Our base-case scenario projects ROH’s hotel RevPAR to be around 32% of the 2019 level in 2022, before improving to around 77% in 2023, and around 95% of the 2019 level in 2024. However, there remain downside risks to our base-case forecast. We view that the COVID-19 situation remains highly uncertain, as the emergence of more severe variants or fresh outbreaks could hinder the recovery of the hotel business. Added to that risk, the ongoing Russia-Ukraine conflict, if protracted, could have significant impact on the recovery of international travel and the tourism industry.

### Reliance on a single asset

ROH’s hotel property is well maintained and situated in a good location. The company has hired Marriott International Inc. to manage its hotel under the “Sheraton” brand. International hotel chains provide strong brand names, good hotel management systems, and effective sales channels.

However, ROH faces concentration risk as it operates a single property. We consider a well-diversified portfolio of hotels in different locations catering to different market segments to be less susceptible to event risk in general.

#### **Elevated financial leverage from sale of asset with buy-back obligation**

ROH's net debt increased to THB4.3 billion in 2021, compared with its debt-free position in 2020, following the sale of "Royal Orchid Sheraton Hotel & Towers" to a newly established REIT with a buy-back obligation. Under our base-case forecast, we expect ROH's earnings before interest, taxes, depreciation, and amortization (EBITDA) to be around THB280 million in 2022 and to improve to around THB490-THB590 million per annum during 2023-2024. The company's financial leverage, as measured by the adjusted debt to EBITDA ratio, is expected to remain high at 16 times in 2022, before improving to 9 times in 2023 and 7 times in 2024.

The company sold the asset to REIT for around THB4.5 billion and received proceeds, after related fees, of around THB4.3 billion in July 2021. The company has leased back the asset for an initial term of three years. The lease could be renewed for another year twice, so the maximum lease term would be five years. The lease payment is THB272 million per annum. The company has an obligation to buy the asset back from the REIT at the end of the fifth year at the initial price plus premium, totaling around THB4.9 billion. The company also has options to buy the asset back at the end of the third and fourth years at pre-determined prices. ROH lent most of the proceeds from the asset sales of around THB3.9 billion to Grande Asset Hotels and Property PLC (GRAND) with a term of five years starting from July 2021. The company will receive interest income of THB347 million per year, equivalent to an interest rate of around 8.9%. The company will use the interest income and loan repayments from GRAND to service lease payments and fulfil the buy-back obligation.

#### **Manageable liquidity**

We assess ROH's liquidity as manageable over the next 12 months. As of December 2021, ROH's sources of funds comprised cash and cash equivalents of around THB140 million and expected interest received from GRAND of THB347 million in 2022. The uses of funds in the next 12 months include lease payments of THB272 million, net cash outflow from operations of around THB70 million, and budgeted investments of around THB20 million. The company has no debt obligations maturing over the next 12 months.

#### **BASE-CASE ASSUMPTIONS**

- Revenues to be THB320 million in 2022, before increasing to around THB760 million in 2023 and THB940 million in 2024.
- EBITDA margin (excluding interest income from GRAND) to be -21% in 2022, 18% in 2023, and 26% in 2024.
- Total capital spending to be around THB70 million over the three-year forecast period.

#### **RATING OUTLOOK**

The "negative" outlook reflects the uncertainty surrounding the COVID-19 situation and the ongoing Russia-Ukraine conflict which could dent the recovery of ROH's operating performance and add pressure on the company's credit metrics.

#### **RATING SENSITIVITIES**

As ROH is a subsidiary of GRAND and ROH's abilities to service its lease payments and buy-back obligation rely mainly on the interest received and repayment of loans from GRAND, the credit rating on ROH is constrained by the credit profile of GRAND. As a result, the "negative" outlook could be revised to "stable" if the recovery of the company's operating results outperforms or tracks our base-case forecast and if GRAND's credit profile improves at the same time. In contrast, the downside risk scenario would materialize if ROH's operating performance and financial leverage fall short of our expectations, or if GRAND's credit profile deteriorates.

#### **COMPANY OVERVIEW**

ROH was incorporated in 1978 to develop and operate the luxury hotel, "Royal Orchid Sheraton Hotel & Towers". The hotel is located on the Chao Phraya River with 726 rooms. The company has appointed Marriott International Inc. to operate the hotel under the Sheraton brand. As of March 2022, ROH's largest shareholder was GRAND, holding 97% of the total outstanding shares.

**KEY OPERATING PERFORMANCE**

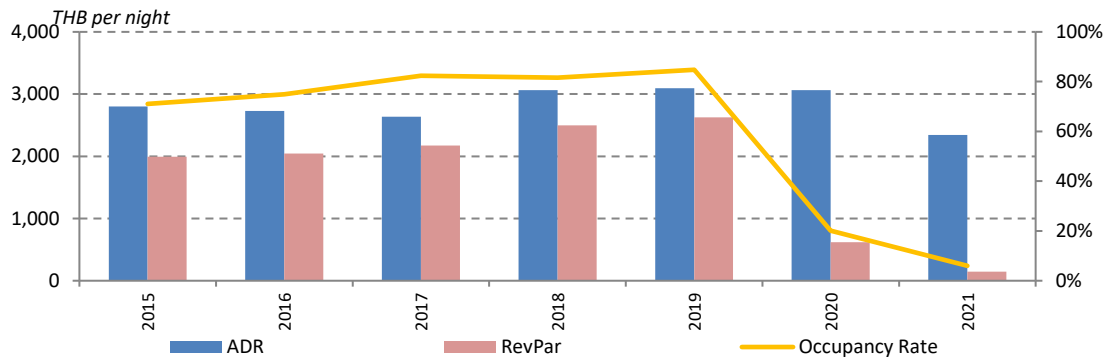
**Table 1: Revenue Breakdown**

*Unit: %*

Revenue Breakdown	2015	2016	2017	2018	2019	2020	2021
Room	62	63	64	64	65	62	56
Food and beverage	34	33	32	33	32	35	41
Others	4	4	4	3	3	3	3
<b>Total revenue</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: ROH

**Chart 1: ROH's OR, ADR, and RevPar**



Source: ROH

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	65	241	979	937	894
Earnings before interest and taxes (EBIT)	(88)	(187)	184	175	158
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	(10)	(103)	262	263	249
Funds from operations (FFO)	(191)	(115)	222	247	245
Adjusted interest expense	181	9	2	1	2
Capital expenditures	99	38	23	35	32
Total assets	8,004	916	1,223	1,166	1,143
Adjusted debt	4,348	0	0	0	0
Adjusted equity	2,788	663	955	940	908
<b>Adjusted Ratios</b>					
EBITDA margin (%)	(14.70)	(42.78)	26.78	28.03	27.84
Pretax return on permanent capital (%)	(2.16)	(19.97)	18.08	17.87	16.76
EBITDA interest coverage (times)	(0.05)	(11.21)	158.64	200.40	157.32
Debt to EBITDA (times)	(453.67)	0.00	0.00	0.00	0.00
FFO to debt (%)	(4.39)	n.m.	n.m.	n.m.	n.m.
Debt to capitalization (%)	60.93	0.00	0.00	0.00	0.00

## RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019

---

**Royal Orchid Hotel (Thailand) PLC (ROH)**

---

**Company Rating:**

**BB-**

**Rating Outlook:**

**Negative**

---

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2022, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at [www.trisrating.com/rating-information/rating-criteria](http://www.trisrating.com/rating-information/rating-criteria)