

CENTRAL PLAZA HOTEL PLC

No. 124/2019
8 August 2019

CORPORATES

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

Last Review Date: 08/08/18

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

Contacts:

Tulyawat Chatkam

tulyawat@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 Central Plaza Hotel PLC (CENTEL) and the ratings on CENTEL's senior unsecured debentures at "A". The ratings reflect CENTEL's strong market position in its hotel and quick service restaurant (QSR) businesses, low but rising level of financial leverage, and support from the Central Group. However, these factors are partially offset by the cyclical nature and susceptibility to global and local events of the hotel industry and the intense competition in the QSR industry.

KEY RATING CONSIDERATIONS

Strong market position in hotel business

CENTEL operates hotels under its owned brands including the "Centara Grand", "Centara", "Centra", "COSI", "Centara Boutique Collection" and "Centara Residence & Suite" brands. These hotel brands, especially Centara Grand, have favorable brand recognition in the domestic market. The company currently owns and leases 17 properties in business areas and key tourist destinations in Thailand such as Bangkok, Pattaya, Huahin, Samui, Krabi, and Phuket, and also in the Maldives. The company also operates 22 hotels under management contracts. During the past few years, its managed hotel room base has been quite flat. However, the company has a sizable number of managed rooms in the pipeline expected to open in 2019-2022.

CENTEL's hotel portfolio is somewhat geographically concentrated in Thailand. CENTEL will add more hotels outside Thailand such as Dubai, United Arab Emirates (UAE) and the Maldives. We forecast the overseas hotel income contribution will rise to around 30% of CENTEL's total hotel revenue in 2023, against the current contribution of less than 20% of total hotel revenue.

In 2017, CENTEL introduced an affordable lifestyle hotel brand called "COSI" to target a lower price segment and younger customers. The company opened its first COSI hotel in Samui in late 2017. The company plans to open more COSIs, including Pattaya in 2019 and Chiangmai in 2021. We view that the COSI brand will add a more diverse segment to CENTEL's hotel portfolio. However, the success of the COSI brand still remains to be seen.

In the next five years, the company plans to expand its hotel portfolio, after remaining stable during the period of 2013-2017. TRIS Rating expects CENTEL's capital expenditures will total around Bt28 billion for new hotels and hotel renovations during 2019-2023. We also expect the number of owned hotel rooms to reach 6,000 rooms by 2023, from 4,192 rooms as of March 2019.

Slowdown in inbound tourists from China and Russia affects hotel performance

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 reliance on Asian tourists (mainly Chinese) could potentially affect the hotel performance if they shift their preferred destination to other countries or if there is economic stagnation in their countries.

Inbound tourists grew at an average of 8.5% per annum during 2016-2018, reaching 38.3 million tourist arrivals in 2018. However, tourist arrivals grew only 1.5% year-on-year (y-o-y) in the first quarter of 2019. The slower growth

was attributable to drops in Chinese tourists by 2% and Russian tourists by 1%.

CENTEL's organic revenue per available room grew at an average of 2.7% per annum during the past five years. Until the first quarter of 2019, CENTEL's revenue per available room was hit by the slowdown in the Chinese and Russian tourists, decreasing by 5.7% y-o-y. We see the effect from the slowdown in the Chinese and Russian tourists as temporary, and expect CENTEL will maintain acceptable hotel performance as the company previously operated at an occupancy rate (OR) higher than the industry average and achieved a premium in revenue per available room compared with peers.

Strong market position in QSR business

CENTEL operates 10 franchised brands and three owned brands. Brands in CENTEL's portfolio are well-known, for example "KFC", "Mister Donut", "Auntie Anne's", and "Ootoya". As of March 2019, CENTEL operated 1,003 outlets. The company's extensive network of QSR outlets nationwide allows the company to leverage marketing and operating costs. The company also has a track record of consistently expanding food outlets while maintaining average sales per outlet. During the past five years, the company has expanded by roughly 40 outlets per year.

The company has yet to prove success in the development of its own brands. The performance of own-branded "The Terrace" has softened and the outlet expansion was muted in the past several years. The company is working to improve the performance of The Terrace. Additionally, in 2019, CENTEL launched two new owned brands including a Thai fast food QSR brand called "Aroi Dee" and a suki hotpot restaurant brand called "Suki House". If its owned brands achieve favorable results, it will not only broaden its cash flow base but also lessen reliance on franchisors. The success in revamping The Terrace and launching new owned brands remains to be seen.

Despite operating multiple brands, the company's food segment is quite concentrated in the KFC brand. CENTEL derived over half of its total food earnings before interest, tax, depreciation, and amortization (EBITDA) from KFC while its four other major brands, including Mister Donut, Auntie Anne's, Pepper Lunch, and Ootoya, contributed approximately 30% of total food EBITDA. Apart from KFC, there are some other small brands with good prospects such as "Katsuya" and "Tenya". However, these brands contribute less than 10% of total food EBITDA. We expect KFC to continue to dominate CENTEL's food portfolio for the next several years, as it will take time to broaden CENTEL's food EBITDA base across more brands.

Stiff competition in the restaurant segment

TRIS Rating sees a weakening same-store sales growth trend for CENTEL mainly due to high competition in the restaurant industry. CENTEL's same-store sales have been slightly negative in the past few years. In the first quarter of 2019, CENTEL's same-store sales decreased by 3.8%, in line with the industry trend. The company also managed to grow revenue from its food business by expanding food outlets, to Bt11.90 billion in 2018, a 9.2% growth, and Bt2.87 billion in the first quarter of 2019, a 3.4% growth y-o-y.

TRIS Rating expects intense competition in the restaurant industry to continue to put pressure on CENTEL's same-store sales. However, given the favorable brands in its portfolio, the company will be able to increase food revenue by opening more outlets. We forecast revenue from the food segment to grow by 7% per annum on average during the next three years.

Rising financial leverage

Under our base case assumption, we expect CENTEL's revenue to grow around 3%-7% per annum during 2019-2021, mainly driven by expanding quick service restaurant outlets and the 2021 reopening of some hotels under renovation during 2019-2020. EBITDA is forecast to range between Bt5.90-Bt6.70 billion per annum during 2019-2021, compared with EBITDA of Bt5.60-Bt5.90 billion per annum during the past three years.

CENTEL had modest financial leverage during the last three years, resulting from relatively slow owned hotel expansion during the past several years. The debt to EBITDA ratio was around 2 times and the ratio of funds from operations (FFO) to debt hovered around 40% during 2016-2018.

TRIS Rating forecasts the company's leverage will increase, due to sizable investments, mainly in its hotel business, of around Bt23.00 billion in total during 2019-2021. We project the debt to EBITDA ratio to rise to 3.6 times and the FFO to debt ratio to decline to around 22% in 2021. We see that these ratios will improve later on as the company starts to realize returns from newly opened hotels in 2022-2023.

BASE-CASE ASSUMPTIONS

- CENTEL's revenues to grow around 3%-7% per annum over the next three years.
- CENTEL's operating income as a percentage of operating revenues to stay around 27%.
- Total capital spending to be Bt4.90 billion in 2019, Bt9.30 billion in 2020, and Bt8.40 billion in 2021.

RATING OUTLOOK

The “stable” outlook reflects our view that the company will maintain its market positions in the hotel and QSR businesses and maintain favorable profit margins over the next several years. The company should maintain the debt to EBITDA ratio well below 4 times and the FFO to debt over 20%.

RATING SENSITIVITIES

CENTEL’s ratings could be revised upward if the company meaningfully enlarges and diversifies each of its business portfolios while maintaining a satisfactory financial leverage. On the other hand, a rating downside could occur if we see a material weakening in its operating performance or overly aggressive debt funded investments, which result in the debt to EBITDA ratio increasing beyond 4 times or the FFO to debt ratio falling below 20% for a prolonged period of time.

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. It expanded into the QSR business in 1994. CENTEL is a member of the Central Group, a leading retailer in Thailand. As of December 2018, the Chirathivat family held a majority stake of 62% in CENTEL’s shares outstanding.

CENTEL operates 39 hotels and a portfolio of 7,563 rooms of which 17 hotels are CENTEL’s owned and leased properties and the rest are hotels under management contracts. These hotels are situated in key tourist destinations in Thailand and five other countries including the Maldives, Vietnam, Sri Lanka, Oman, and Qatar. For the food segment, CENTEL offers a variety of products such as donuts, fried chicken, pastry, and Japanese foods. The company operated 12 franchised brands and owned brands, with a total of 1,003 outlets nationwide as of March 2019. In 2018, the hotel business generated 68% of CENTEL’s EBITDA while the rest came from its food business.

KEY OPERATING PERFORMANCE

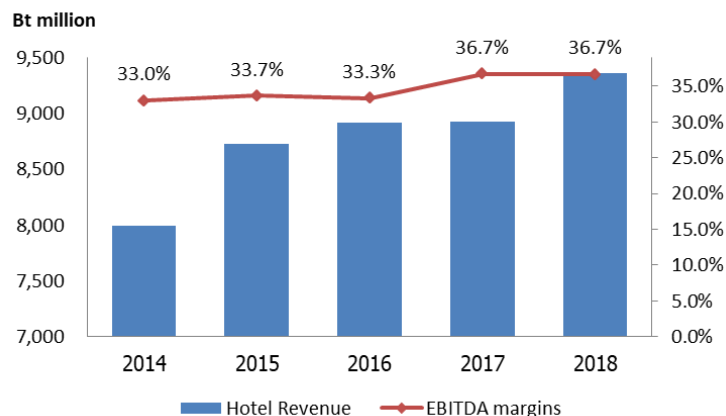
Table 1: CENTEL’s Sales and EBITDA Breakdown by Line of Business

Unit: %

Business	2014	2015	2016	2017	2018	Jan-Mar 2019
Revenue contribution						
Hotel	45	46	46	45	44	48
QSR	55	54	54	55	56	52
Total revenue	100	100	100	100	100	100
EBITDA breakdown						
Hotel	74	70	68	70	69	79
QSR	26	30	32	30	31	21
Total EBITDA	100	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	2014	2015	2016	2017	2018*
Room capacity (room)	3,812	3,812	3,811	3,812	4,139
ARR (Bt/night)	4,855	4,809	4,851	4,897	4,620
OR (%)	74.8	80.2	81.9	82.7	81.9
RevPAR (Bt/night)	3,632	3,858	3,975	4,049	3,786

Note: Only the hotel properties owned by CENTEL are shown.

*Including two new hotels (Centra Government Complex & COSI Samui). If excluding two new hotels, ARR = Bt4,899, OR = 82.6%, RevPar = Bt4,047.

Sources: CENTEL

Table 3: Breakdown of Tourist Arrivals to Thailand by Region of Origin

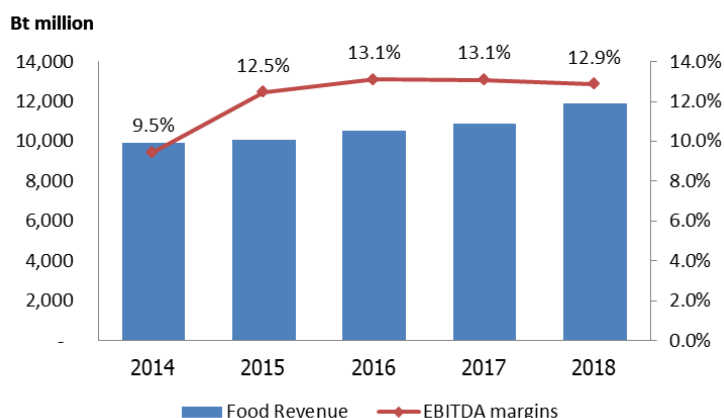
Region of Origin	2014	2015	2016	2017	2018	Jan-Jun 2018	Jan-Jun 2019
East Asia (excl. ASEAN)	32%	40%	40%	41%	41%	43%	42%
ASEAN	27%	26%	26%	26%	27%	25%	26%
Europe	25%	19%	19%	18%	18%	19%	18%
The Americas	4%	4%	4%	4%	4%	4%	4%
South Asia	5%	5%	5%	5%	5%	5%	6%
Oceania	4%	3%	3%	3%	2%	2%	2%
Middle East	2%	2%	2%	2%	2%	2%	2%
Africa	1%	1%	1%	1%	1%	0%	0%
Total (million arrivals)	24.8	29.9	32.5	35.6	38.3	19.5	19.8

Source: Ministry of Tourism & Sports

Table 4: CENTEL's QSR Portfolio as of Mar 2019

Brand	Product	Restaurant Type	Owned Outlet
KFC	Chicken	Quick service	269
Mister Donut	Donuts	Quick service	365
Ootoya	Japanese food	Casual dining	46
Auntie Anne's	Bakery	Quick service	172
Pepper Lunch	Japanese steak	Casual dining	42
Chabuton	Ramen	Casual dining	19
Yoshinoya	Beef bowl	Quick service	22
Cold Stone Creamery	Ice cream	Casual dining	18
The Terrace	Thai Cuisine	Casual dining	9
Tenya	Japanese food	Quick service	10
Katsuya	Japanese food	Quick service	28
Aroi Dee	Thai food	Quick service	3
Total			1,003

Sources: CENTEL

Chart 2: CENTEL's QSR Revenue and EBITDA Margin


Source: CENTEL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Jan-Mar 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	5,643	21,735	20,260	19,882	19,286
Operating income	1,839	5,997	5,659	5,694	5,717
Earnings before interest and taxes (EBIT)	1,079	3,200	2,892	2,869	2,764
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,820	5,944	5,618	5,664	5,632
Funds from operations (FFO)	1,486	4,904	4,658	4,631	4,505
Adjusted interest expense	174	602	553	619	696
Capital expenditures	501	1,638	3,184	1,678	1,746
Total assets	27,069	26,447	25,037	24,397	24,444
Adjusted debt	12,159	11,963	11,250	11,507	13,010
Adjusted equity	14,262	13,420	12,058	11,117	9,921
Adjusted Ratios					
Operating income as % of total operating revenues (%)	32.58	27.59	27.93	28.64	29.64
Pretax return on permanent capital (%)	10.86	12.45	12.10	12.18	11.75
EBITDA interest coverage (times)	10.45	9.88	10.16	9.16	8.09
Debt to EBITDA (times)	2.08	2.01	2.00	2.03	2.31
FFO to debt (%)	39.53	40.99	41.40	40.25	34.63
Debt to capitalization (%)	46.02	47.13	48.27	50.86	56.74

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Central Plaza Hotel PLC (CENTEL)

Company Rating:	A
Issue Ratings:	
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

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

© Copyright 2019, 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 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