CENTRAL PLAZA HOTEL PLC

No. 132/2024
31 July 2024

CORPORATES

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

Last Review Date: 20/11/23

Company Rating History:

Date	Rating	Outlook/Alert
14/07/22	A-	Stable
27/07/21	A-	Negative
31/07/20	A	Negative
27/03/20	A	Alert Negative
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 its existing senior unsecured debentures at "A-" with a "stable" rating outlook. The ratings still reflect CENTEL's strong market position in the hotel and quick service restaurant (QSR) businesses in Thailand. The ratings incorporate CENTEL's substantial capital spending plan on new hotels and extensive property renovations. We expect that strong earnings growth should keep leverage ratio contained over the coming years. The ratings also factor in the cyclical nature of the hotel industry and its susceptibility to event risk, as well as intense competition in the QSR business.

KEY RATING CONSIDERATIONS

Hotel business continues to expand

We expect CENTEL's hotel operations to continue growing, driven by ongoing strong demand for leisure travel, increasing airline capacity, and a return of meetings, incentives, conferences, and exhibitions (MICE) activities.

Our outlook on the hotel industry in Thailand remains favorable. The hospitality sector is a crucial driver of Thailand's economic growth, and government policies will continue to support the industry. CENTEL's established market position, with offerings ranging from luxury to affordable hotels and from leisure to convention hotels, should benefit from such policies. In the Maldives, the gradual return of Chinese tourists should, in part, help offset the decline in Indian tourists. The expansion of the Maldives airport, expected to be in operation in 2025, will further support Maldivian tourism. Additionally, strong tourism demand in Japan and the upcoming Osaka Expo 2025 will benefit CENTEL's operations in Japan. Geopolitical tensions and economic headwinds, particularly in China, remain key downside risks to overall hotel performance.

Our baseline projection forecasts CENTEL's revenue per available room (RevPAR) to grow by 8% year-on-year (y-o-y) to THB3,690 per room per night in 2024, incorporating a full-year operation of "Centara Grand Hotel Osaka". We project the RevPAR to jump to THB4,600-THB5,200 per room per night in 2025-2026, reflecting organic growth in demand for hotel rooms, an uplift in the average daily rate (ADR) following major renovations at various properties, and the addition of two new hotels in the Maldives, which have a high ADR.

Growing reliance on the Maldives

CENTEL is opening two new hotels in the Maldives by the first quarter of 2025 and potentially another hotel there within the next four years, with a total investment of around THB 11 billion. Together with its two existing hotels, these five properties in the Maldives could account for up to 40% of CENTEL's hotel revenue in the next 3-5 years. While inclusion of the Maldives in the portfolio was helpful during the pandemic, we consider the company's growing dependence on this single market to be a risk factor, as it could potentially lead to more volatile operating results compared with more geographically diversified peers.

Moderate growth in QSR business

We anticipate that the QSR business will continue to face challenges due to subdued consumer sentiment in Thailand and intense industry competition. We expect the relatively stronger prospects of its key brands, including KFC, Auntie Anne's, and Ootoya, to drive overall QSR growth. We forecast QSR business revenue to grow on average by mid-single-percentage rates to around THB12.8-THB14.5 billion per year during 2024-2026.

We expect a small increase in the overall number of outlets in 2024, as the company is likely to continue closing underperforming formats such as cloud kitchens and outlets in gas stations. These formats saw rapid expansion during the pandemic, but changing consumer behavior post-pandemic has shifted preferences towards dine-in outlets. We forecast a net increase of 80-100 QSR outlets per year during 2025-2026. This includes "Arigato," a small coffee kiosk to be located primarily inside KFC and Mister Donut outlets.

KFC, a dominant brand contributing over half of CENTEL's QSR revenue and EBITDA, is expected to continue growing through both same-store sales and outlet expansion, considering its status as one of the top-of-mind QSR brands. We also anticipate high single-digit-percentage sales growth for Ootoya, as its target customer group is less affected by weakened purchasing power compared to the low-income group. For Auntie Anne's, we see good prospects for expansion into untapped areas. We expect no growth in Mister Donut sales due to the closure of several small outlets and kiosks, particularly in gas stations. Collectively, Mister Donut, Auntie Anne's, and Ootoya, are projected to contribute about 30% of total QSR revenue and EBITDA over the forecast period.

Opportunity to grow QSR portfolio through joint-venture model

Looking forward, CENTEL aims to expand via a joint-venture (JV) model. The company believes that business initiatives and creativity from brand owners, combined with systematic operational guidelines and funding support from CENTEL, can drive growth more effectively and quickly compared to building its own brands. This JV model has been successful for Salad Factory and Shinkanzen Sushi, as evidenced by ongoing outlet expansion and sales growth. Besides existing JVs, CENTEL has been actively seeking for M&A opportunities to expand into new restaurant segments.

Expected strong earnings growth driven by hotel business

Our baseline projection forecasts CENTEL's revenue to reach around THB23 billion in 2024 and THB27-THB29 billion per year in 2025-2026. The projected revenue growth would mainly be driven by investments in the hotel business, including both renovations and new hotel openings in Osaka and the Maldives.

We project an EBITDA margin of around 25%-28% over the forecast period. The profit margin assumptions take into account the ramping-up phase for new hotels in the Maldives and related pre-opening expenses. Subsequently, ongoing strong demand for hotel rooms and room rate increases post-renovation at various hotels should support the hotel profit margin. In the QSR business, we expect the profit margin to remain under pressure due to weak consumer sentiment and the highly competitive nature of the industry, which limits CENTEL's ability to fully pass on rising costs to consumers. The growing contribution of the hotel business to overall sales will also enhance profitability, as it yields higher profit margins compared to the QSR business. We project EBITDA of around THB5.9 billion in 2024 and approximately THB7.5-THB8.0 billion per annum in 2025-2026.

Financial leverage expected to remain near current levels

We project the company's leverage, as measured by the adjusted debt to EBITDA ratio, to rise to 5 times in 2024, before declining to 4-4.5 times during 2025-2026.

CENTEL plans capital expenditures and investment totaling around THB17 billion during 2024-2026. Of the planned budget, around THB9.2 billion is a committed budget for two out of the three new hotels in the Maldives and the renovation of three hotels including "Centara Grand Mirage Beach Resort Pattaya", "Centara Karon Phuket", and "Centara Grand Hua Hin". Incorporating the total investment budget, we expect CENTEL's adjusted debt to peak at around THB34 billion in 2026, from THB25 billion in the first quarter of 2024.

The main financial covenants on CENTEL's bank loans and debentures require the company's interest-bearing debt to equity ratio to remain below 2 times. The ratio was 0.6 times as of March 2024. We believe CENTEL should have no problems complying with the financial covenants over the forecast period.

Adequate liquidity

We assess CENTEL's liquidity to be adequate over the next 12 months. Its primary liquidity sources are cash on hand of around THB2.2 billion at the end of March 2024, undrawn credit facilities of about THB8 billion, and expected funds from operations (FFO) of around THB5 billion. The primary uses of funds are debts maturing of THB4.6 billion, lease obligations of around THB1.3 billion, and capital spending of THB7-THB8 billion.

Debt structure

As of March 2024, CENTEL's total interest-bearing debt, including financial lease liabilities, was THB14.6 billion. The company's priority debt was THB3.2 billion, translating to a priority debt ratio of 22%.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for CENTEL's operations in 2024-2026 are as follows:

- Hotel RevPAR to be THB3,690 per room per night in 2024, jumping to THB4,600-THB5,200 per room per night in 2025-2026.
- QSR revenue to be THB12.8-THB14.5 billion per annum.
- Revenue to be THB23 billion in 2024 and THB27-THB29 billion per year in 2025-2026.
- EBITDA margin at 25%-28%
- Total capital spending to be THB17 billion.

RATING OUTLOOK

The "stable" outlook reflects our expectation that the company will maintain its market strength and deliver sound operating results in both the hotel and QSR businesses.

RATING SENSITIVITIES

A rating upside could happen if CENTEL's business and financial profile consistently improve such that the adjusted debt to EBITDA ratio stays well below 3.5 times on a sustained basis. A rating downgrade could occur if CENTEL's financial metrics are materially weaker than our projections due to weaker-than-expected operating results and/or larger-than-projected debt-funded investments.

COMPANY OVERVIEW

CENTEL was founded by the Chirathivat Family in 1980 to operate its 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 March 2024, the Chirathivat Family held a 62% majority stake of CENTEL's shares outstanding.

At the end of March 2024, CENTEL operated a portfolio of 52 hotels and 11,261 rooms. Of this total, 20 hotels with 5,566 rooms were CENTEL's owned and leased properties while one was under a joint venture and the rest were under management contracts. These hotels are situated in key tourist destinations in Thailand and other countries, namely, the Maldives, United Arab Emirates (UAE), Vietnam, Sri Lanka, Oman, and Qatar. CENTEL operates hotels under its own brands of "Centara Grand", "Centara", "Centra", "COSI", "Centara Boutique Collection", and "CENTARA RESERVE". These hotel brands, especially Centara Grand, have favorable brand recognition in the domestic market.

For its food businesses, CENTEL offers a variety of products such as donuts, fried chicken, pastry items, and Japanese food. The company operated a total of 1,618 outlets as of March 2024 under 11 franchised brands, five owned brands, and five joint-venture brands.

KEY OPERATING PERFORMANCE

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

Unit: %

Business	2019	2020*	2021*	2022*	2023*	Jan-Mar 2024*
Revenue contribution						
Hotel	41	22	18	34	42	49
QSR	59	78	82	66	58	51
Total revenue	**100**	**100**	**100**	**100**	**100**	**100**
EBITDA breakdown						
Hotel	68	(10)	(25)	41	59	71
QSR	32	110	125	59	41	29
Total EBITDA	**100**	**100**	**100**	**100**	**100**	**100**

Source: CENTEL

* *EBITDA after adopting TFRS16*

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

		-----------Year Ended 31 December -----------			
	Jan-Mar 2024	2023	2022	2021	2020
Total operating revenues	6,315	22,161	17,936	11,463	13,130
Earnings before interest and taxes (EBIT)	1,156	2,602	1,183	(1,091)	(1,462)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,920	5,859	4,402	2,183	2,022
Funds from operations (FFO)	1,543	4,699	3,552	1,434	1,346
Adjusted interest expense	259	1,012	731	722	677
Capital expenditures	1,306	2,114	1,168	1,714	1,984
Total assets	54,465	54,204	48,166	48,593	35,350
Adjusted debt	24,941	24,777	19,182	20,901	19,892
Adjusted equity	21,174	20,018	18,891	18,432	10,216
Adjusted Ratios					
EBITDA margin (%)	30.4	26.4	24.5	19.0	15.4
Pretax return on permanent capital (%)	5.9 *	5.8	2.8	(2.9)	(4.6)
EBITDA interest coverage (times)	7.4	5.8	6.0	3.0	3.0
Debt to EBITDA (times)	4.1 *	4.2	4.4	9.6	9.8
FFO to debt (%)	19.4 *	19.0	18.5	6.9	6.8
Debt to capitalization (%)	54.1	55.3	50.4	53.1	66.1

* *Annualized from the trailing 12 months*

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Central Plaza Hotel PLC (CENTEL)

Company Rating:	A-
Issue Ratings:	
CENTEL24OA: THB600 million senior unsecured debentures due 2024	A-
CENTEL25NA: THB1,500 million senior unsecured debentures due 2025	A-
CENTEL266A: THB1,500 million senior unsecured debentures due 2026	A-
CENTEL269A: THB500 million senior unsecured debentures due 2026	A-
Rating Outlook:	Stable

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