

DUSIT THANI PLC

No. 21/2019
27 February 2019

CORPORATES

Company Rating:	BBB+
Issue Rating:	
Senior unsecured	BBB+
Outlook:	Stable

Last Review Date: 10/08/18

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 on Dusit Thani PLC (DTC) and the rating on DTC's senior unsecured debentures at "BBB+". The ratings reflect DTC's established brand equity in the Thai hospitality business and its effort to leverage the brand into hotel management services and hospitality education business. The ratings are weighed down by its concentrated portfolio, plus rising financial leverage as DTC is developing a large scale mixed-use property project.

KEY RATING CONSIDERATIONS

Established brand equity

DTC is one of the leading Thai hoteliers, with a well-established brand: Dusit Thani. The brand represents the character of Thai hospitality and supports the company's efforts to expand its hotel management services and hospitality education business. DTC currently has about 60 management contracts, with over 10,000 keys, which will start operating over the next five years. DTC also has expertise in hospitality education which it intends to leverage this experience by expanding its hospitality education business in Thailand and abroad.

DTC's competitive strength diminishes over time due to its less competitive asset quality amid an increasing supply of hotel rooms. Despite being located in prime locations, DTC's properties are timeworn, owing to a low reinvestment rate to maintain the quality of its assets and keep up with travellers' changing needs. In addition, an increased supply of hotel rooms, especially in DTC's key markets such as Bangkok, Phuket, and the Maldives, offers travellers a variety of choices at all price ranges. These hurt DTC's competitive position and limit its ability to command higher room rates.

Concentrated portfolio but expanding into new business

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. DTC's one key strategy is to diversify its sources of income, which will help reduce the effects of concentration risks and serve as a safeguard for earnings while the mixed-use project is under construction.

DTC expanded into food business by acquiring 25.9% in NR Instant Produce Co., Ltd. (NRIP) for a total of Bt663 million in March 2018. NRIP produces and exports ready-to-eat meal. In January 2019, DTC acquired 51% equity stake in the Epicure Catering Co (ECC), a provider of catering services to international schools in Southeast Asia, at Bt423 million. It aims to acquire a further 19% stake by next year, increasing the total investment amount to Bt613 million.

In addition, DTC acquired Elite Havens Group (EH) for US\$15 million or approximately Bt495 million in September 2018. EH performs integrated marketing, reservations, and concierge and management services for luxury villas and maintains a network of more than 200 fully staffed properties across Indonesia, Thailand, Sri Lanka, Japan, and the Maldives.

DTC is also exploring opportunities to invest in the hotel business abroad with an aim to diversify its hotel portfolio, expand its presence, and strengthen its brands in order to support its hotel management business expansion.

Leverage will rise and earnings will drop during development of the mixed-use project

DTC is developing a mixed-use project, a joint investment between DTC and Central Pattana PLC (CPN). The project consists of a hotel, residences, a shopping center, and an office building on the site of the Dusit Thani Bangkok hotel and the area nearby. Construction will start in early 2019; the project is scheduled to be completed in mid-2024.

We expect DTC's revenue to drop by 15% and about 10% of earnings before interest, tax, depreciation, and amortization (EBITDA) as a result of the closure of Dusit Thani Bangkok. In 2018, DTC reported Bt5,072 million in revenue and Bt1,224 million in EBITDA. Under TRIS Rating's base case assumption, DTC's revenue is projected to stay between Bt4,200-Bt4,400 million during 2019-2021. DTC's EBITDA is forecast at Bt1,100-Bt1,200 million in 2019-2021.

TRIS Rating expects DTC to be more cautious in any new investments during the development of the mixed-use project. DTC's leverage is rising, as it will take on more debt to fund the mixed-use project construction and other potential investments. Construction cost for the mixed-use project is estimated at around Bt11,000-Bt12,000 million in total during 2019-2024. Parts of the funding for the mixed-use project will come from residential sales installments and installments from counterparties for retail structures for sub-leasing.

During 2019-2021, TRIS Rating's base case scenario expects DTC's capital spending at around Bt5,000-Bt5,500 million in total for its planned capital expenditures, including the mixed-use project construction and other potential investments. TRIS Rating also expects DTC's adjusted ratio of debt to EBITDA to stay at 5-7 times during the period, compared with 5.1 times in 2018. The adjusted total debt to capitalization ratio is projected to stay between 51%-56%, compared with 50.9% at the end of 2018.

Adequate liquidity

TRIS Rating forecasts that DTC's liquidity will be adequate over the next 12 months. Uses of funds are debt repayments of Bt412 million, financial obligations of about Bt850 million, and capital spending of approximately Bt1,200-Bt1,500 million. Sources of funds are EBITDA, estimated at around Bt1,100-Bt1,200 million and cash and cash equivalents of Bt1,570 million as of December 2018. In addition, DTC is expected to receive net proceeds from divesting Dusit Thani Maldives to Dusit Thani Freehold and Leasehold Real Estate Investment Trust (DREIT), should the transaction is approved by DTC's shareholders, around Bt600-Bt700 million.

BASE-CASE ASSUMPTIONS

- Under TRIS Rating's base case scenario, we assume that DTC's revenues will drop around 15% in 2019 and will grow around 1%-3% during 2020-2021.
- We expect DTC's operating margins will stay around 25% during 2019-2021.
- Total capital spending will be Bt5,000-Bt5,500 million in total during 2019-2021.

RATING OUTLOOK

The "stable" outlook reflects our expectation that DTC will maintain its financial discipline and not overly leverage during the development period of the mixed-use project, allowing a sufficient cushion in order to withstand the volatile nature of the hotel industry.

RATING SENSITIVITIES

DTC's credit upside is limited in the near term as the mixed-use project will require a sizable investment. A rating downside case could emerge if DTC's financial position is materially weaker than our expectation.

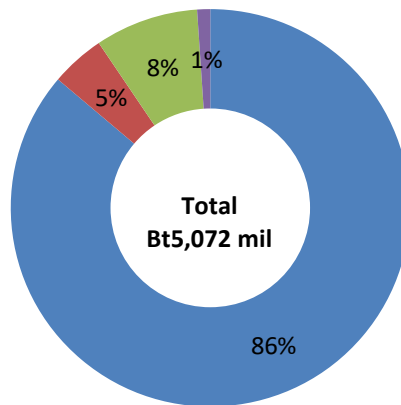
COMPANY OVERVIEW

DTC is a leading Thai hotelier, with six principal brands: Dusit Thani, Dusit Princess, DusitD2, Dusit Deverana, Asai, and Elite Havens. The company was founded in 1966 by Thanpuying Chanut Piyaoi 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 49.9% of DTC.

DTC opened its first and flagship five-star hotel, Dusit Thani Bangkok, in 1970. DTC now operates eight hotels, with a total of 2,074 rooms, including three hotels owned by DREIT. DTC also manages a total of 5,581 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. In 2018, hotel operations contributed 86% of total revenue, followed by the education segment at 8% and hotel management services at 5%.

KEY OPERATING PERFORMANCE

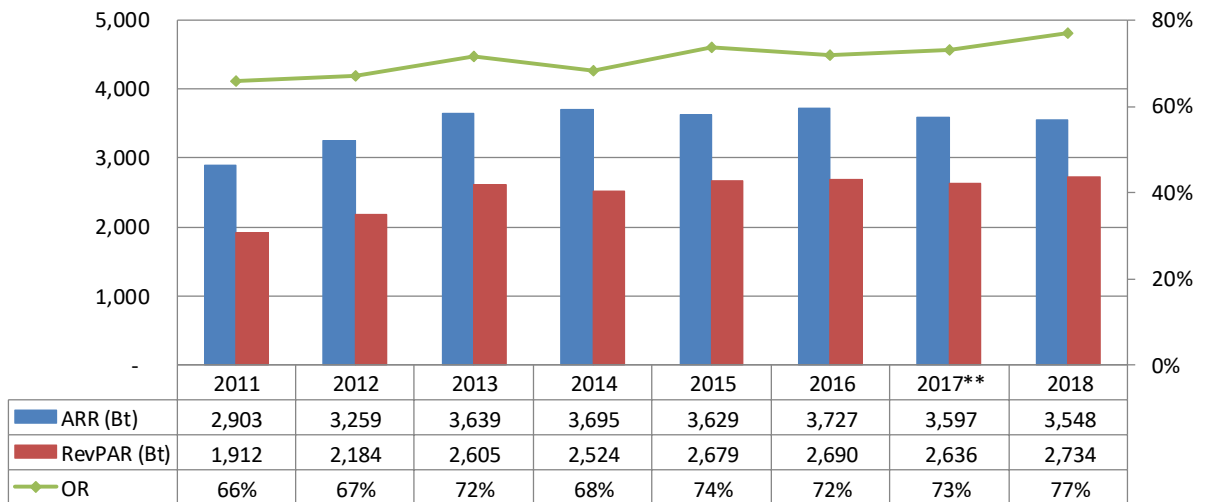
Chart 1: DTC's Revenue Contribution Jan-Dec 2018



■ Hotel business ■ Hotel management business ■ Education business ■ Others

Source: DTC

Chart 2: DTC's Hotel Performance*



* Including hotels leased from DREIT

** Excluding Dusit Thani Korat for comparison purpose

Source: DTC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	----- Year Ended 31 December -----				
	2018	2 017	2016	2015	2014
Total operating revenues	5,072	5,170	5,348	5,267	5,015
Operating income	1,126	1,289	1,266	1,352	1,007
Earnings before interest and taxes (EBIT)	527	498	446	570	299
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,224	1,409	1,405	1,516	1,171
Funds from operations (FFO)	687	921	1,111	1,190	855
Adjusted interest expense	452	410	306	287	294
Capital expenditures	563	1,669	355	713	543
Total assets	11,573	9,980	9,033	9,388	9,012
Adjusted debt	6,306	5,928	3,935	4,511	4,307
Adjusted equity	6,078	5,881	5,354	5,404	5,212
Adjusted Ratios					
Operating income as % of total operating revenues (%)	22.20	24.93	23.68	25.67	20.09
Pretax return on permanent capital (%)	3.90	4.22	4.18	5.32	3.15
EBITDA interest coverage (times)	2.71	3.44	4.60	5.29	3.98
Debt to EBITDA (times)	5.15	4.21	2.80	2.98	3.68
FFO to debt (%)	10.89	15.53	28.22	26.38	19.86
Debt to capitalization (%)	50.92	50.20	42.36	45.49	45.24

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Dusit Thani PLC (DTC)

Company Rating:	BBB+
Issue Rating:	
DTC219A: Bt1,000 million senior unsecured debentures due 2021	BBB+
Rating Outlook:	Stable

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