TRIS RATING
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ASIA HOTEL PLC

No. 128/2023
11 July 2023

CORPORATES

Company Rating: BB
Outlook: Stable

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RATIONALE

TRIS Rating assigns a company rating of "BB" to Asia Hotel PLC (ASIA) with a "stable" outlook. The rating reflects ASIA's market position in the hotel business, and the rental income stream from its commercial properties. The rating also takes into consideration the expected recovery in its hotel operations, which should lead to declining financial leverage. The rating is, however, constrained by ASIA's modest scale of operation and earnings, its reliance on income from a few properties, and an inefficient use of assets.

KEY RATING CONSIDERATIONS

Recovery in hotel operations expected to continue

We expect ASIA's hotel operations to continue to recover over the next few years, with the ongoing recovery of international tourism and meetings, incentives, conferences, and exhibitions (MICE) activities. The upcoming renovation should also support the recovery. Our base-case scenario projects ASIA's overall revenue per available room (RevPar) in 2023 to revert to around 90% of the 2019 level before surpassing the pre-pandemic level in 2024-2025.

ASIA's hotel performance started to revive in 2022, following the rebound of international tourist arrivals during the year. ASIA's average occupancy rate (OR) improved to 40% in 2022 from 19% in 2021, while an overall RevPar in 2022 was 37% below the 2019 level, an improvement from 68% below the pre-pandemic level in 2021. For the first quarter of 2023, ASIA's hotel operation continued to improve, with an average OR at 64% and an overall RevPar slightly above the 2019 level.

Upcoming renovation may address concerns over ageing hotel properties

A number of key properties in ASIA's hotel portfolio are ageing, with the replacement of furniture, fixtures, and equipment seemingly taking longer than peers. Some of the hotel rooms have not been renovated for over 15 years. This is the main reason RevPar for most of the company's hotels remains below its potential level in our view. If this situation persists, it could affect the overall competitiveness of the brand.

The company plans to renovate some of its older properties during 2023-2026, including Asia Hotel Bangkok, Asia Pattaya Hotel, and Asia Airport Hotel. The capital expenditure for the renovations is expected to be around THB350 million in total. Whether the renovations can materially uplift the performances of hotels remains to be seen.

The company's current operation is small in terms of revenue and earnings, relative to rated peers in the hotel industry. If the company is able to successfully improve its revenue-generating ability after the renovations, it would be in a better position to compete for talent, to modernize its hotel management systems to improve efficiency, and to reach a wider customer base.

Underutilization and concentrated exposure of commercial properties

The overall occupancy rates of the company's commercial properties have been weak, even before the pandemic. The two key properties in ASIA's commercial property portfolio are Zeer Rangsit (77% of total leasable area) and The Hub (20% of total leasable area).

The occupancy rate at Zeer Rangsit remained weak at 52% for the first quarter of 2023. Even before the pandemic hit, the occupancy rate was not high, at less than 70%. Its rental rate during the pandemic also declined by around 20% from 2019 before starting to recover in 2022 but remain 5% below the pre-pandemic level.

The operating performance of the Hub, located within the same compound as Zeer Rangsit, has been weak since its opening in 2015. Prior to the pandemic, its occupancy rate was on a declining trend, falling to 42% in 2019 compared with 51% in 2017. During the pandemic, the company managed to maintain its occupancy, but at the expense of a much lower rental rate. Apart from discounts provided due to the pandemic, the company decreased its rental rate to attract new types of tenants as the mall was transitioning its focus to a new customer group. The property's OR stood at 45% for the first quarter of 2023, with rental rate around 40% below 2019 level. At this level, the property was barely able to generate positive earnings before interest, taxes, depreciation, and amortization (EBITDA).

The rental income from ASIA's commercial property business generates more predictable cash flow relative to its hotels, particularly in the adverse market conditions seen over the last few years. During the pandemic, the commercial properties continued to deliver a positive EBITDA contribution while hotel EBITDA suffered. However, we view the current level of occupancy represents a suboptimal use of the properties. ASIA's commercial properties could have delivered much stronger cash flow if the company had come up with strategies to fill remaining leasable space, achieving a more reasonable level of occupancy.

In our base-case forecast, we expect Zeer Rangsit's occupancy rate and rental rate to gradually recover over the forecast period due to expected recovery of leasing demand from the pandemic slump. The Hub's OR and rental rate is expected to remain stagnant as the company is still navigating the property's shift to a new target segment. Therefore, we expect an average occupancy rate of the company's commercial properties to remain subdue at around 50%-60% with an overall rental rate growth of around 1%-2% in 2023-2025.

As almost 90% of commercial property EBITDA is derived from Zeer Rangsit, its heavy reliance on IT-related tenants makes the company vulnerable to demand shifts or a change in customer behavior of one particular market.

Financial leverage expected to decline

We expect ASIA's financial leverage to gradually decline as the operating performance continues to recover over the next few years. The company's EBITDA is expected to range from THB350-THB450 million in 2023-2025, underpinned by the recovery of hotel operations, while the EBITDA margin is expected to stay around 30%. In the medium term, the company plans to focus on enhancing the performance of its existing properties and has no plans to acquire new assets. The renovations, spanning 2023-2026, include renovations of Asia Hotel Bangkok's lobby, restaurants, and ballrooms; and renovations of the hotel rooms of Asia Pattaya Hotel and Asia Airport Hotel. We expect capital expenditure for the property renovations and maintenance to be around THB100-THB200 million per annum in 2023-2025. Therefore, assuming no new major asset acquisitions, the company's debt to EBITDA ratio is expected to range 5-7 times over the forecast period, down from 7.4 times at the end of March 2023.

The financial covenant on ASIA's bank loans requires the company to keep the interest-bearing debt to equity (IBD/E) ratio below 2 times. The ratio was 0.4 times at the end of March 2023. We expect the company to remain in compliance with the covenants over the forecast period.

As of March 2023, ASIA had total consolidated debt of THB2.3 billion, all of which was secured loans and considered priority debt. As its priority debt ratio was higher than the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", we view that ASIA's senior unsecured creditors could be significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

Manageable liquidity

We assess ASIA's liquidity as manageable over the next 12 months. At the end of March 2023, ASIA's sources of funds comprised cash and cash equivalents of around THB99.4 million and undrawn uncommitted credit facilities of around THB160 million. We forecast a net cash inflow from operations of around THB200 million in 2023. The company had maturing debts over the next 12 months of around THB240 million. The company plans to issue debentures as an additional funding source.

BASE-CASE ASSUMPTIONS

- Revenue from the hotel business to be around THB700-THB900 million per annum in 2023-2025.
- Revenue from the commercial property business to be around THB400-THB500 million per annum in 2023-2025.
- EBITDA margin to stay around 30%-31% in 2023-2025.
- Total capital expenditure to be around THB480 million over the three-year forecast period.

RATING OUTLOOK

The "stable" outlook reflects the expectations that ASIA will maintain its market position in both hotel and commercial property businesses. We also expect the company's hotel operations to continue to recover and the leverage level to continue to decline.

RATING SENSITIVITIES

A credit upside would materialize if the company improved its earnings base and profitability significantly from the current level, while maintaining its financial profile. On the contrary, the rating could be revised downward if the company's operating performance falls short of our base-case forecast and/or its financial profile weakens significantly.

COMPANY OVERVIEW

Asia Hotel Public Company Limited (ASIA) was established in 1966 by Techaruvichit Group and was listed on the Stock Exchange of Thailand (SET) in 1989. The company has two business lines, hotel business and commercial property business. The company currently has seven hotels, four shopping centers, and one apartment building in its portfolio. As of March 2023, Techaruvichit Group is the company's major shareholder, holding 68% of the company's outstanding shares.

ASIA's hotel portfolio includes six hotels in Thailand, which are Asia Hotel Bangkok (established in 1972), Asia Pattaya Hotel (established in 1972), Asia Airport Hotel (established in 1992), Asia Cha-am Hotel (established in 2010), Darley Chiangmai Hotel (opened in 2018), and Ratchapruek Lanna Boutique (opened in 2018). The company owns one hotel in the United States named "Quality Inn Long Beach – Signal Hill", which it acquired in 2018 for USD14.4 million. Unlike the company's local hotels, the Quality Inn Hotel operates under franchise from Choice International Hotels. As of December 2022, the company had a total of 1,733 hotel rooms in its portfolio.

ASIA's commercial property portfolio includes three shopping centers in Thailand, Zeer Rangsit (69,790 sq.m. leasable area), The Hub (17,871 sq.m. leasable area), and Laan Sook Plaza (1,849 sq.m. leasable area). The company owns one shopping center in the United States called "Glendale Plaza" in Glendale Boulevard, Los Angeles, California, which it acquired in 2011 for USD6.3 million. As of December 2022, the company had a total leasable area of 90,600 sq.m. in its commercial property portfolio.

KEY OPERATING PERFORMANCE

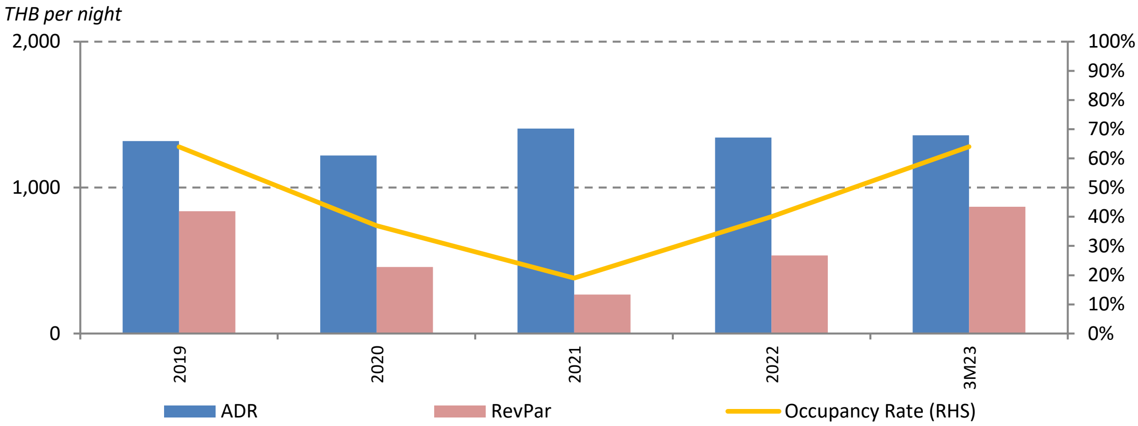
Table 1: ASIA's Revenue Breakdown by Business Line

Unit: %

Revenue Breakdown	2019	2020	2021	2022	3M23
Hotel	54	41	33	50	60
Commercial property	41	50	60	45	35
Others	6	9	7	5	5
Total revenue	**100**	**100**	**100**	**100**	**100**
Total revenue (mil. THB)	**1,438**	**892**	**648**	**969**	**316**

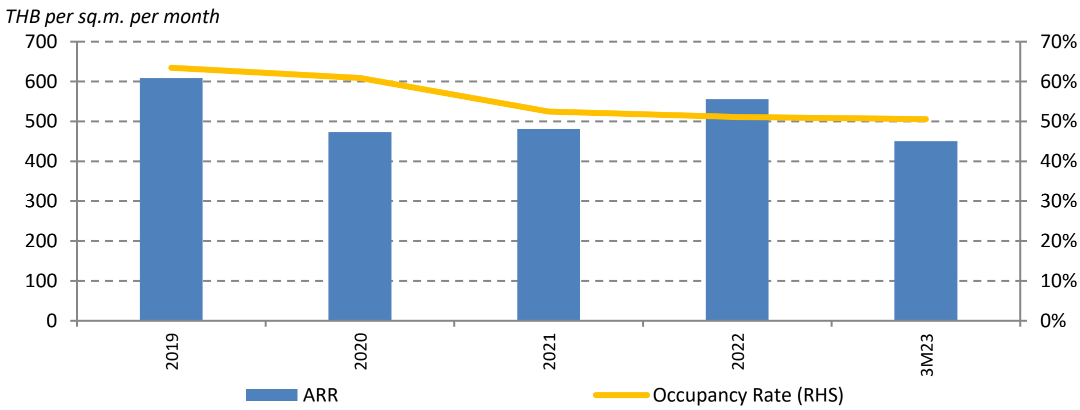
Source: ASIA

Chart 1: ASIA's Hotel Performance (ADR, RevPar, and OR)



Source: ASIA

Chart 2: ASIA's Key Commercial Properties Performance (OR and ARR)



FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

		------------Year Ended 31 December -----------			
	Jan-Mar 2023	2022	2021	2020	2019
Total operating revenues	316	969	648	892	1,438
Earnings before interest and taxes (EBIT)	22	36	(81)	3	82
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	87	300	189	307	429
Funds from operations (FFO)	51	145	58	178	285
Adjusted interest expense	36	151	123	127	143
Capital expenditures	5	28	19	43	141
Total assets	10,325	10,457	10,501	9,569	9,472
Adjusted debt	2,475	2,511	2,687	2,679	2,672
Adjusted equity	6,073	6,092	6,071	5,340	5,471
Adjusted Ratios					
EBITDA margin (%)	27.58	30.91	29.22	34.44	29.87
Pretax return on permanent capital (%)	0.84 **	0.41	(0.95)	0.04	0.98
EBITDA interest coverage (times)	2.40	1.98	1.54	2.42	3.00
Debt to EBITDA (times)	7.36 **	8.38	14.20	8.72	6.22
FFO to debt (%)	7.27 **	5.79	2.15	6.63	10.65
Debt to capitalization (%)	28.96	29.19	30.68	33.40	32.82

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

RELATED CRITERIA

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

Asia Hotel PLC (ASIA)

Company Rating:	BB
Rating Outlook:	Stable

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