

ROYAL ORCHID HOTEL (THAILAND) PLC

No. 41/2024
26 March 2024

CORPORATES

Company Rating: B+
Outlook: Negative

Last Review Date: 29/03/23

Company Rating History:

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

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RATIONALE

TRIS Rating downgrades the company rating on Royal Orchid Hotel PLC (ROH) to “B+” from “BB-”. The rating outlook remains “negative”.

The rating downgrade reflects a change in the credit profile of Grande Asset Hotels and Property PLC (GRAND). GRAND is the controlling shareholder and the main source of cash flow to fulfill ROH’s obligation to buy-back its only operating asset, “Royal Orchid Sheraton Hotel & Towers” from Grande Royal Orchid Hospitality Real Estate Investment Trust with Buy-Back Condition (GROREIT) in 2026. ROH’s ability to service the lease payments and buy-back obligation relies mainly on the interest received and loan repayments from GRAND.

The “negative” outlook also reflects our rating outlook on GRAND.

KEY RATING CONSIDERATIONS

Company credit rating moving in tandem with the rating on GRAND

As the company lent most of the proceeds from asset sales to GRAND following the REIT buy-back transaction in July 2021, the company relies on interest income and loan repayments from GRAND to service its lease payments and fulfill its buy-back obligation. Therefore, we view that the company’s debt-servicing capability is largely tied to that of GRAND, which results in the company’s credit rating moving in tandem with the rating on GRAND.

Under the REIT buy-back transaction, the company sold the asset to GROREIT 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 or fourth year at pre-determined prices. ROH lent most of the proceeds from the asset sales to GRAND with a term of five years starting from July 2021. As of December 2023, ROH’s loan to GRAND stood at around THB4 billion with an 8.9% interest rate.

Hotel performance recovery to continue

We expect the company’s hotel performance to continue to recover over the next few years, underpinned by an expected recovery of Thailand’s inbound tourism market. In our base case, we expect the company’s hotel revenue per available room (RevPar) to increase by 8%-15% per annum in 2024-2026. We also expect the resumption of meetings, incentive travel, conventions, and exhibitions (MICE) activities to support the hotel’s performance recovery over the next few years. The company’s plans to carry out minor renovations on its ballrooms should also help it stay competitive in the international MICE business in our view. Therefore, we expect the company’s revenue to range from THB0.9-THB1.2 billion per annum in 2024-2026. The investment for the renovations is expected to be around THB50 million per annum in 2024-2025.

In 2023, the company’s total operating revenue increased to THB0.8 billion, from THB0.4 billion in 2022, thanks to an increase in the number of tourist arrivals in Thailand to around 28 million in 2023, from around 11 million in 2022. The company’s average occupancy rate (OR) improved to 59% in 2023,

from 35% in 2022, with a 23% growth in average daily rate (ADR). This resulted in a RevPar improvement to around THB2,300 per room per night, from around THB1,100 per room per night in 2022.

Reliance on a single asset

In our view, ROH's exposure to concentration risk remains as it has only one property in its portfolio. 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.

The company's hotel property is situated in a prime location. Nevertheless, the property shows signs of age and could benefit from renovations to stay competitive in the market, in our view. Over the past few years, the company has revamped some of the hotel's facilities to maintain competitiveness e.g. sanitary system maintenance and the renovations of Giorgio's restaurant in 2021 and the renovation of Siam Yacht Club restaurant in 2022. The company has hired Marriott International Inc. to manage its hotel under the "Sheraton" brand. We believe that international hotel chains provide strong brand names, good hotel management systems, and effective sales channels.

Financial leverage to remain high from the REIT buy-back obligation

Due to the debt obligation following the sale of "Royal Orchid Sheraton Hotel & Towers" to GROREIT in 2021 with a buy-back obligation in 2026, we expect the company's adjusted debt to stay elevated at around THB4.0-THB4.2 billion in 2024-2025. The company's financial leverage in 2026 depends on the sources of funds the group will use to fulfill the buy-back obligation. Under our base-case forecast, we expect the company's earnings before interest, taxes, depreciation, and amortization (EBITDA), which includes interest income from GRAND, to be around THB0.6 billion per annum in 2024-2025, supported by an expected recovery in hotel performance. Therefore, the company's financial leverage, as measured by the adjusted debt to EBITDA ratio, is expected to stay at around 6-7 times in 2024-2025.

Manageable liquidity over the next 12 months

As of December 2023, ROH's sources of funds comprised cash and cash equivalents of THB382 million, expected interest received from GRAND of THB354 million in 2024, and net cash inflows from operations of around THB230 million. The uses of funds in the next 12 months include lease payments of THB272 million and budgeted investments of around THB80 million. The company has no debt obligations maturing over the next 12 months.

BASE-CASE ASSUMPTIONS

- Revenues to be around THB0.9-THB1.2 billion per annum in 2024-2026.
- EBITDA margin (excluding interest income from GRAND) to be around 25%-28% in 2024-2026.
- Total capital spending to be around THB200 million over the three-year forecast period.

RATING OUTLOOK

The "negative" outlook reflects ROH's exposure to the counterparty risk of GRAND. As ROH is a subsidiary of GRAND and its ability to service the lease payments and buy-back obligation relies mainly on interest and loan repayments from GRAND, the credit rating on ROH is tied to the credit profile of GRAND.

RATING SENSITIVITIES

The "negative" outlook could be revised to "stable" if GRAND's operating performance and credit metrics improve. On the contrary, the downside scenario would materialize if ROH's operating performance and financial leverage significantly fall short of our expectations, or if GRAND's credit profile deteriorates further.

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 2023, ROH's largest shareholder was GRAND, holding 97% of the total outstanding shares.

KEY OPERATING PERFORMANCE

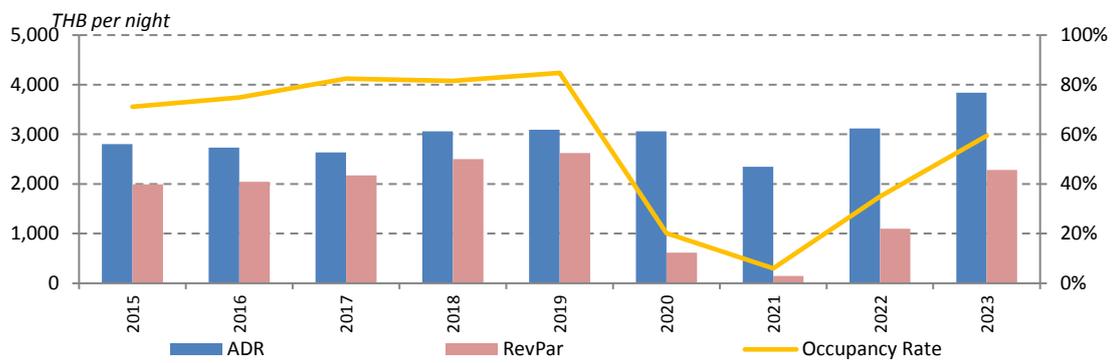
Table 1: Revenue Breakdown

Unit: %

Revenue Breakdown	2017	2018	2019	2020	2021	2022	2023
Room	64	64	65	62	56	67	68
Food and beverage	32	33	32	35	41	31	30
Others	4	3	3	3	3	2	2
Total revenue	100						

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 -----				
	2023	2022	2021	2020	2019
Total operating revenues	810	420	65	241	979
Earnings before interest and taxes (EBIT)	471	305	(88)	(187)	184
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	553	382	(10)	(103)	262
Funds from operations (FFO)	112	(13)	(191)	(115)	222
Adjusted interest expense	393	383	181	9	2
Capital expenditures	49	48	99	38	23
Total assets	8,355	8,133	8,046	916	1,223
Adjusted debt	4,262	4,453	4,348	0	0
Adjusted equity	2,667	2,699	2,831	663	955
Adjusted Ratios					
EBITDA margin (%)	68.3	90.9	(14.7)	(42.8)	26.8
Pretax return on permanent capital (%)	6.5	4.2	(2.1)	(20.0)	18.1
EBITDA interest coverage (times)	1.4	1.0	(0.1)	(11.2)	158.6
Debt to EBITDA (times)	7.7	11.7	(453.7)	0.0	0.0
FFO to debt (%)	2.6	(0.3)	(4.4)	n.m.	n.m.
Debt to capitalization (%)	61.5	62.3	60.6	0.0	0.0

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Royal Orchid Hotel (Thailand) PLC (ROH)

Company Rating:	B+
Rating Outlook:	Negative

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