

CENTRAL PLAZA HOTEL PLC

No. 115/2020
31 July 2020

CORPORATES

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

Last Review Date: 27/03/20

Company Rating History:

Date	Rating	Outlook/Alert
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 removes the “CreditAlert” with “negative” implication on Central Plaza Hotel PLC (CENTEL) and affirms the company rating on CENTEL and the ratings on its existing senior unsecured debentures at “A”. At the same time, TRIS Rating assigns a “negative” outlook to the ratings.

The “negative” outlook reflects our view that CENTEL’s operating performance will continue to be under pressure through 2020-2021, as we expect the hospitality industry to continue to be affected by travel restrictions for an extended period of time, causing uncertainties on the prospects of industry revival. Meanwhile, the COVID-19 economic fallout will likely dampen the growth potential of its quick service restaurant (QSR) businesses in the near term.

The ratings continue to reflect the strong market position of CENTEL’s hotel and QSR businesses. We expect CENTEL’s earnings to drop significantly in 2020 but to rebound to pre-COVID-19 levels in the next 18-24 months, driven mainly by its resilient QSR business and its cost cutting efforts. Thanks to the company’s modest leverage before entering the COVID-19 induced turbulent period, and its decision to delay its investment plans, we expect CENTEL’s leverage to return to a level commensurate with the current rating in 2021. In addition, CENTEL has strengthened its liquidity position to cushion operational challenges and address liquidity risk in the next 12-24 months.

KEY RATING CONSIDERATIONS

Hotel operations to take at least 24 months to recover to pre-COVID-19 levels

Hospitality is one of the sectors severely affected by the COVID-19 fallout. Travel restrictions imposed across countries have resulted in a deep slump in the hospitality sector worldwide, particularly in the second quarter of 2020. Although many countries have begun easing lockdown measures and reopened their borders to some extent, travel restrictions will likely remain to a varying degree for an extended period of time. Concerns surrounding air-travel safety may also deter the resumption of long-haul international travel for the next several quarters. Aside from health concerns, the drop in air transport capacity could also be a deterring factor as the severely hit aviation industry could take some time to recover. Adding the impact of the global recession on travel demand, we assess it will take at least 24 months for the demand for hospitality services to recover to pre-COVID-19 levels.

Our base-case scenario assumes CENTEL’s owned hotel revenue per available room (RevPAR) to drop by around 60% in 2020. Despite the improving trend, we project RevPAR in 2021 to stay around 25% below the 2019 level and RevPAR in 2022 to be around 10% below the 2019 level. Our base-case forecast takes into consideration CENTEL’s hotel portfolio which is fairly geographically concentrated in Thailand and relies on regional travelers, especially Chinese tourists. The return of tourists will depend on the ease on cross-border travel restrictions, the timing of which remains highly uncertain given the fluidity of the pandemic situation globally. In addition, we expect CENTEL’s major conventional hotels, Centara Grand at Central World and Centara Grand at Central Plaza Ladprao Bangkok, will continue to be mired by the absence of large conferences at least for the next 12 months.

Resilient QSR business

CENTEL's QSR business has also been harshly hit by the COVID-19 fallout. However, we view its food segment to be more resilient and able to recover faster than the hotel business.

Our base-case forecast projects CENTEL's QSR business revenue to drop by 15% year-on-year (y-o-y) in 2020 but to bounce back to the pre-COVID-19 level in 2021. We project the revenue of CENTEL's QSR business to be THB12-THB13 billion per annum in 2021-2022. Our forecast takes into account the resilient performance of "KFC", CENTEL's main QSR franchise which accounts for over half of its total QSR's revenue and earnings before interest, tax, depreciation, and amortization (EBITDA). In addition, we expect CENTEL's QSR revenue will be driven mainly from outlet expansion as average sales per outlet will likely continue to be under pressure from both the stiff competition and weak macroeconomic conditions for at least the next 12-18 months.

Apart from its other four major brands – "Mister Donut", "Auntie Anne's", "Pepper Lunch", and "Ootoya" – which contribute approximately 30% of total food EBITDA, CENTEL is also focusing on developing its own brands, including "The Terrace", "Aroi Dee", and "Suki House". However, the company has yet to prove successful in the development of its own brands.

Cost cutting measures to support earnings

We expect CENTEL's revenue and earnings to drop significantly in 2020 but to gradually improve in 2021-2022. Earnings improvement will likely be driven mainly by the company's cost optimization efforts.

In our base-case forecast, we project CENTEL's revenue to drop by about 35% y-o-y in 2020 and rebound in 2021, but to remain at a level of about 10% lower than that of 2019. We expect CENTEL's revenue to be around THB21.5 billion in 2022 with the revenue growth driven mainly by its food business.

EBITDA is forecast to drop by a greater extent as compared to revenue in 2020. Our base-case scenario assumes CENTEL's EBITDA to fall by about 50% y-o-y to around THB3 billion. However, we expect CENTEL's earnings to improve considerably in 2021-2022 as several of CENTEL's cost cutting efforts take full effect. CENTEL has implemented several measures to optimize its cost structure both in its hotel and food businesses. For example, the company is optimizing the proportion of permanent and temporary staff to be more responsive to operational challenges in a highly uncertain environment. Also, CENTEL is negotiating with its landlords and suppliers for more favorable terms. Our base-case forecast expects CENTEL's EBITDA to be about THB5.4 billion in 2021 and THB6.3 billion in 2022.

Modest leverage supports financial profile

Thanks to its modest financial leverage before entering the COVID-19 induced turbulent period, coupled with the delay in investment plans, we expect CENTEL's financial profile to weaken only temporarily and to return to a level commensurate with the current rating in 2021.

Our base-case scenario forecasts CENTEL's adjusted debt to EBITDA ratio to rise to about 5.8 times in 2020, compared to 2.3 times in 2019. However, as CENTEL has delayed some of its investment plans along with expectations of an earnings recovery, we expect the leverage ratio to decline to 3.3-3.6 times during 2021-2022. CENTEL has revised down its capital spending to around THB4-THB5 billion per annum in 2020-2021, compared to its previous plan of THB8.5-THB9.5 billion per annum during 2020-2021. Capital spending is expected to be around THB5-THB6 billion in 2022. CENTEL also has room to further adjust its capital spending if needed.

Sound liquidity

CENTEL has taken several steps to strengthen its liquidity position. We view that if its operating performance recovers as forecast, we expect the company to be able to weather this industry downturn, particularly in 2020-2021.

CENTEL's primary liquidity sources are cash on hand of around THB2.3 billion at the end of March 2020, undrawn credit facilities of about THB5 billion, and expected funds from operations (FFO) of about THB2.5 billion in 2020 and about THB4.7 billion in 2021.

The primary uses of funds through the remainder of 2020 are debts maturing of around THB1.1 billion, lease obligations of approximately THB2 billion, and capital spending of THB3-THB4 billion. In 2021, its primary uses of funds will include debt repayments totaling THB2.4 billion, lease obligations of around THB2-THB2.5 billion, and capital expenditures of THB4-THB5 billion.

We expect the company to continue to preserve cash and maintain sufficient liquidity during this period of high operating risk with sufficient headroom for its financial flexibility.

BASE-CASE ASSUMPTIONS

- Hotel RevPAR to drop by around 60% in 2020. Despite the improving trend, we project RevPAR in 2021 to stay around 25% below the 2019 level, and RevPAR in 2022 to be around 10% below the 2019 level.
- QSR business revenue to drop by 15% y-o-y in 2020 and to be THB12-THB13 billion per annum in 2021-2022.
- Revenue to drop by about 35% y-o-y in 2020 and to rebound in 2021, but still at a level of 10% lower than 2019, reaching around THB21.5 billion in 2022
- EBITDA to drop by about 50% y-o-y to THB3 billion in 2020 and to be about THB5.4 billion in 2021 and THB6.3 billion in 2022.
- Total capital spending to be THB4-THB5 billion per annum in 2020-2021 and THB5-THB6 billion in 2022.

RATING OUTLOOK

The “negative” outlook reflects our view that CENTEL’s operating performance and financial profile will continue to be under pressure during 2020-2021, as there remains a high degree of uncertainty with respect to the pace of business recovery from the COVID-19 fallout.

RATING SENSITIVITIES

The outlook could be revised to “stable” if the company’s operating performance steadily recovers and the company maintains sufficient liquidity to weather adverse operating conditions. A rating downgrade could occur if the effect of the COVID-19 fallout turns out to be more severe than currently expected or that CENTEL’s credit metrics deteriorate such that its adjusted debt to EBITDA ratio remains over 4 times on a sustained basis or CENTEL’s liquidity position deteriorates materially.

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 March, the Chirathivat family held a majority stake of 62% in CENTEL’s shares outstanding.

At the end of March 2020, CENTEL operated 42 hotels and a portfolio of 7,808 rooms of which 18 hotels were CENTEL’s owned and leased properties with the rest of the hotels under management contracts. These hotels are situated in key tourist destinations in Thailand and five other countries, namely, the Maldives, Vietnam, Sri Lanka, Oman, and Qatar. CENTEL operates hotels under its own brands of “Centara Grand”, “Centara”, “Centra”, “COSI”, “Centara Boutique Collection”, and “Centara Residence & Suite”. These hotel brands, especially Centara Grand, have favorable brand recognition in the domestic market.

Through its QSR businesses, CENTEL offers a variety of products such as donuts, fried chicken, pastry, and Japanese food. The company operated 14 franchised brands and owned brands, with a total of 1,060 outlets nationwide as of March 2020. In 2019, the hotel business generated 68% of CENTEL’s EBITDA with the rest derived from its food business.

KEY OPERATING PERFORMANCE

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

Unit: %

Business	2015	2016	2017	2018	2019	Jan-Mar 2020
Revenue contribution						
Hotel	46	46	45	44	41	38
QSR	54	54	55	56	59	62
Total revenue	100	100	100	100	100	100
EBITDA breakdown						
Hotel	70	68	70	69	68	53
QSR	30	32	30	31	32	47
Total EBITDA	100	100	100	100	100	100

Source: CENTEL

Table 2: CENTEL's Hotel Performance

Hotel Performance	2015	2016	2017	2018*	2019**
Room capacity (room)	3,812	3,811	3,812	4,139	4,477
ARR (THB/night)	4,809	4,851	4,897	4,620	4,353
OR (%)	80.2	81.9	82.7	81.9	77.2
RevPAR (THB/night)	3,858	3,975	4,049	3,786	3,456

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 = THB4,899, OR = 82.6%, RevPar = THB4,047.

**Including Centra Grand Samui & COSI Pattaya Wong Amat Beach. If excluding two new hotels, ARR = THB4,472, OR = 77.1%, RevPar = THB3,450.

Sources: CENTEL

Table 3: CENTEL's QSR Portfolio as of Mar 2020

Brand	Product	Restaurant Type	Owned Outlet
KFC	Chicken	Quick service	281
Mister Donut	Donuts	Quick service	371
Ootoya	Japanese food	Casual dining	48
Auntie Anne's	Bakery	Quick service	181
Pepper Lunch	Japanese steak	Casual dining	46
Chabuton	Ramen	Casual dining	17
Yoshinoya	Beef bowl	Quick service	17
Cold Stone Creamery	Ice cream	Casual dining	17
The Terrace	Thai cuisine	Casual dining	9
Tenya	Japanese food	Quick service	14
Katsuya	Japanese food	Quick service	36
Aroi Dee	Thai food	Quick service	17
Suki House	Thai hot pot	Casual dining	3
Kowlune	Chinese food	Casual dining	3
Total			1,060

Sources: CENTEL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Mil. THB

	Jan-Mar 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	4,579	21,108	21,735	20,260	19,882
Earnings before interest and taxes (EBIT)	161	2,765	3,200	2,892	2,869
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,019	6,099	5,944	5,618	5,664
Funds from operations (FFO)	835	5,043	4,904	4,658	4,631
Adjusted interest expense	171	776	602	553	619
Capital expenditures	446	2,229	1,638	3,184	1,678
Total assets	37,501	27,590	26,447	25,037	24,397
Adjusted debt	18,676	13,732	11,963	11,250	11,507
Adjusted equity	13,313	14,144	13,420	12,058	11,117
Adjusted Ratios					
EBITDA margin (%)	22.25	28.89	27.35	27.73	28.49
Pretax return on permanent capital (%)	5.33	9.56	12.45	12.10	12.18
EBITDA interest coverage (time)	5.96	7.86	9.88	10.16	9.16
Debt to EBITDA (time)	3.54	2.25	2.01	2.00	2.03
FFO to debt (%)	23.67	36.72	40.99	41.40	40.25
Debt to capitalization (%)	58.38	49.26	47.13	48.27	50.86

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: THB980 million senior unsecured debentures due 2021	A
CENTEL229A: THB1,000 million senior unsecured debentures due 2022	A
CENTEL239A: THB1,000 million senior unsecured debentures due 2023	A
CENTEL240A: THB600 million senior unsecured debentures due 2024	A
CENTEL269A: THB500 million senior unsecured debentures due 2026	A
Rating Outlook:	Negative

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