TRIS RATING
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CreditNews ข่าวเครดิต

DUSIT THANI PLC

No. 129/2020
28 August 2020

CORPORATES

Company Rating:	BBB-
Issue Rating:	
Senior unsecured	BBB-
Outlook:	Negative

Last Review Date: 27/03/20

Company Rating History:

Date	Rating	Outlook/Alert
27/03/20	BBB	Alert Negative
17/12/19	BBB	Stable
27/12/11	BBB+	Stable
15/10/10	A-	Negative

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RATIONALE

TRIS Rating removes the "CreditAlert" with "negative" implication placed on the company rating and issue ratings on Dusit Thani PLC (DTC). At the same time, TRIS Rating downgrades the company rating and the issue rating on DTC's outstanding debentures to "BBB-" from "BBB", with a "negative" rating outlook.

The rating actions reflect our expectation that DTC's financial leverage, as measured by adjusted debt to earnings before interest, tax, depreciation, and amortization (EBITDA), could stay elevated over 10 times until 2023, as a result of the impacts of the Coronavirus Disease 2019 (COVID-19) pandemic on the hospitality industry and the company's large investment in the "Dusit Central Park" project. If the project proceeds as planned, the financial risk profile of the company should begin to improve significantly after 2024. The downgrade reflects the company's weakened credit metrics over the short to medium term.

The "negative" outlook reflects the high degree of uncertainty on the revival of the hospitality industry amid persistent fluidity of the pandemic situation. We expect the hospitality industry to continue under stress through 2020-2021 as travel restrictions are likely to remain broadly in place for an extended period. The new social distancing norms that have evolved from fears of contracting the virus could also be a deterring factor hindering the revival of hospitality businesses.

KEY RATING CONSIDERATIONS

Leverage to stay elevated in short to medium term

Our base-case forecast projects DTC's leverage to stay elevated, with an adjusted debt to EBITDA ratio of over 10 times at least until 2023. Our forecast takes into consideration the likelihood of weakened earnings at least for the next 24 months, caused by the impact of the COVID-19 on the hospitality industry, while EBITDA from the company's new investments will take time to ramp up. The pressure on the leverage metric is added by an expected rise in DTC's debt burden in connection with the development of the Dusit Central Park project, a large-scale mixed-use property entailing a total construction cost of THB15-THB16 billion during 2020-2024. A large portion of funding for the project is expected to come from residential sales installments and retail structure sub-leasing. We view that the impacts of the COVID-19 and the on-going recession will add uncertainty in residential sales and DTC may require additional debt financing to fill a potential funding gap.

Apart from the Dusit Central Park project, DTC also has capital spending on other projects which we estimate will reach around THB1.2 billion in 2020. This amount is mainly composed of investments in the "ASAI Bangkok Chinatown" and "ASAI Sathorn" projects. We project capital expenditures for these projects to be THB150-THB200 million per annum during 2021-2022.

Our base-case scenario projects DTC's adjusted debt to peak in 2023 at THB15-THB16 billion before major streams of cash from residential sales and transfers start flowing in during 2024-2025. Our forecast also takes into account DTC's plans to optimize its assets and balance sheet, which should help support its financial profile and relieve its debt burden.

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. Country imposed border restrictions have resulted in a deep slump in the hospitality sector worldwide, particularly during 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. Concerns surrounding air-travel safety may also hinder 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 forecast projects DTC's owned hotel revenue per available room (RevPAR) to drop by around 55% in 2020. The RevPAR is expected to improve in 2021 but will likely remain around 25% below the 2019 level. We also assume that DTC's RevPAR in 2022 will be around 10% below the 2019 level. Our assumption takes into account the lingering impacts of the COVID-19 on the hospitality industry and DTC's fairly concentrated hotel portfolio in Thailand. We expect DTC's hotels in Hua Hin, Pattaya, and Manila to recover faster than the rest supported by domestic demand. Our base case also takes into consideration two new hotels to be launched, the ASAI Bangkok Chinatown and ASAI Sathorn, in the third quarter of 2020 and the first quarter of 2021, respectively.

Negative earnings in 2020 but to gradually improve

We expect DTC's total revenue to drop by 50% year-on-year (y-o-y) in 2020, before recovering in 2021 to around THB4 billion and in 2022 to around THB4.4 billion. The revenue projection is based on our assumptions on the pace of recovery of the hotel business. We expect revenue from the food and education business will only be moderately impacted by the COVID-19 and should recover to the pre-pandemic level in 2021. The company is also undertaking business transformation plan aiming to optimize and improve its hotel portfolio to be more competitive and increase earnings capability in the medium to long term.

The company has implemented several cost-cutting measures e.g. personnel expenses, advisory fees, administrative and marketing expenses in order to alleviate the impact of depressed revenue. Our base case assumes DTC's EBITDA to be negative in 2020 before improving to around THB0.8-THB1.1 billion per annum in 2021-2022.

Liquidity to be manageable

We expect DTC to prudently manage its liquidity and preserve sufficient cash to withstand any adverse operating conditions, particularly in 2020-2021.

DTC had cash and cash equivalents on hand of around THB1.2 billion at the end of June 2020. The company is in the process of securing project financing for "Dusit Suites Hotel Ratchadamri Bangkok", ASAI Bangkok Chinatown, and ASAI Sathorn, totaling THB1.4 billion. In addition, DTC received cash from arrangement fee of THB297 million at the end of July 2020. We project DTC's funds from operations (FFO) to be negative THB600 million in 2020 before improving to THB380 million in 2021.

The primary uses of funds through the remainder of 2020 comprise maturing debt repayments of THB54 million, lease obligations of approximately THB250 million, and capital spending of around THB600 million. In 2021, its primary uses of funds will include debt repayments totaling THB1.1 billion, lease obligations of around THB500 million, and capital expenditures of around THB150-THB200 million. We estimate that DTC will need around THB1-THB1.3 billion in funding to cover construction costs for the Dusit Central Park project in 2021.

BASE-CASE ASSUMPTIONS

- Hotel RevPAR to drop by around 55% in 2020 before improving in 2021 to around 25% below the 2019 level. RevPAR in 2022 to be around 10% below the 2019 level.
- Total revenues to drop by 50% y-o-y in 2020 before improving to around THB4 billion in 2021 and around THB4.3 billion in 2022.
- EBITDA to be negative in 2020 before improving to around THB0.8-THB1.1 billion per annum in 2021-2022.
- Capital spending, excluding the Dusit Central Park project, to be around THB1.2 billion in 2020 and THB150-THB200 million per annum during 2021-2022.

RATING OUTLOOK

The "negative" outlook reflects our view that DTC's operating performance and financial profile will remain under pressure in 2020-2021 with a high degree of uncertainty over the pace of business recovery, amid persistent fluidity of the pandemic situation and the global recession.

RATING SENSITIVITIES

The outlook could be revised to "stable" if DTC's operating performance steadily recovers and the company maintains sufficient liquidity to weather the adverse operating conditions. A rating downgrade could occur if the effects of the COVID-19 pandemic turn out to be more severe than expected and DTC's financial profile is significantly weaker than our expectation or its liquidity position deteriorates materially.

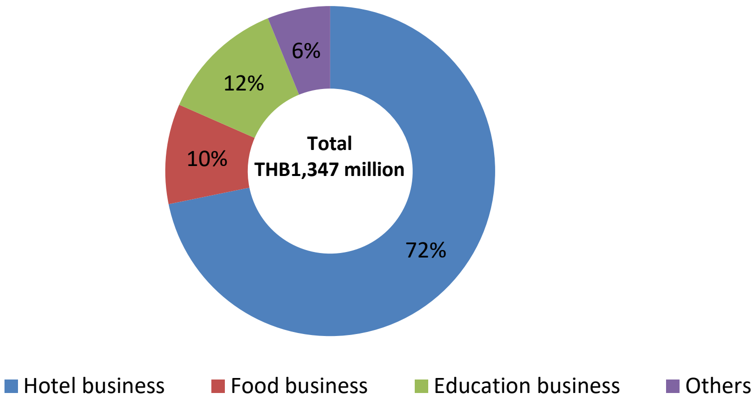
COMPANY OVERVIEW

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 Piyaoui and listed on the Stock Exchange of Thailand (SET) in 1975. Currently, Chanut and Children Co., Ltd. hold 49.7% of DTC.

DTC now operates nine owned hotels, with a total of 2,209 rooms, including four hotels owned by Dusit Thani Freehold and Leasehold Real Estate Investment Trust (DREIT). DTC also manages 30 hotels with a total of 7,061 rooms under management contracts and franchise contracts in Thailand and abroad. DTC also manages 297 villas, with a total of 1,201 rooms under Elite Havens. Apart from the hotel segment, DTC operates in the food business through its investment in Epicure Catering Co., Ltd., as well as in the education and training business. The education segment includes "Dusit Thani College", "Le Cordon Bleu Dusit" (LCBD), and other training services. For the first six months of 2020, hotel operations contributed 72% of DTC's total revenue, followed by the food business with 10% and the education business with 12%.

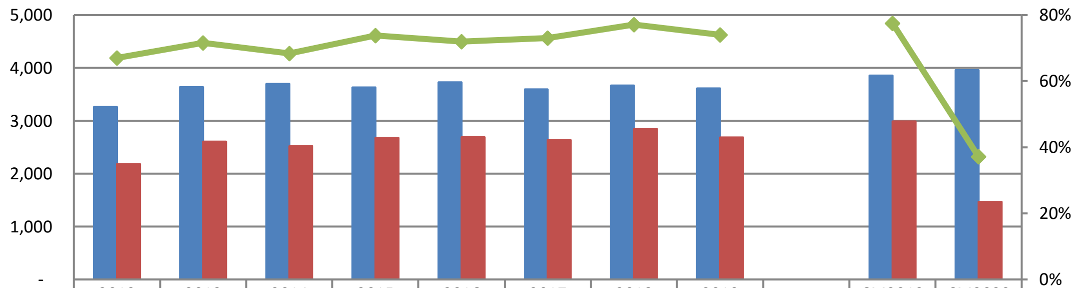
KEY OPERATING PERFORMANCE

Chart 1: DTC's Revenue Contribution for Jan-Jun 2020



Source: DTC

Chart 2: DTC's Hotel Performance*



	2012	2013	2014	2015	2016	2017	2018	2019		6M2019	6M2020
ARR (Bt)	3,259	3,639	3,695	3,629	3,727	3,597	3,670	3,610		3,854	3,957
RevPAR (Bt)	2,184	2,605	2,524	2,679	2,690	2,636	2,841	2,685		2,986	1,468
OR	67%	72%	68%	74%	72%	73%	77%	74%		78%	37%

* *Including hotels leased from DREIT*

Notes: *For comparison purpose, the figures in 2017 exclude Dusit Princess Korat, figures in 2018 to the first six months of 2020 exclude Dusit Thani Bangkok (closed in the first quarter of 2019) and Dusit Suites Hotel Ratchadamri Bangkok (new investment in the second quarter of 2019).*

Source: *DTC*

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2020	---------------Year Ended 31 December ----------- 2019	2018	2017	2016
Total operating revenues	1,347	4,763	5,072	5,170	5,348
Earnings before interest and taxes (EBIT)	(625)	(76)	355	369	446
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	(196)	653	1,053	1,281	1,405
Funds from operations (FFO)	(379)	76	687	921	1,111
Adjusted interest expense	214	388	281	281	306
Capital expenditures	1,212	2,012	563	1,669	355
Total assets	21,030	14,237	11,573	9,980	9,033
Adjusted debt	11,863	8,727	6,433	5,928	3,935
Adjusted equity	4,665	5,904	6,078	5,881	5,354
Adjusted Ratios					
EBITDA margin (%)	(14.56)	13.71	20.76	24.77	26.27
Pretax return on permanent capital (%)	(4.40)	(0.47)	2.62	3.13	4.18
EBITDA interest coverage (times)	(0.92)	1.68	3.75	4.56	4.60
Debt to EBITDA (times)	150.15	13.36	6.11	4.63	2.80
FFO to debt (%)	(4.05)	0.87	10.67	15.53	28.22
Debt to capitalization (%)	71.78	59.64	51.42	50.20	42.36

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Dusit Thani PLC (DTC)

Company Rating:	BBB-
Issue Rating:	
DTC219A: THB1,000 million senior unsecured debentures due 2021	BBB-
Rating Outlook:	Negative

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