TRIS RATING

CreditNews ข่าวเครดิต

News for Investors

Announcement No. 734 | 15 October 2010

Contacts	E-mail Addresses
Rungtip Charoenvisuthiwong	rungtip@tris.co.th
Monthip Pringuthumporn	monthip@tris.co.th
Kanokporn Nitnitiphrut	kanokporn@tris.co.th
Nopalak Rakthum	nopalak@tris.co.th
WatanaTiranuchit, CFA	watana@tris.co.th

Dusit Thani Public Company Limited

Company Rating: A-
Rating Outlook: Negative

Rating Rationale

TRIS Rating assigns the company rating of Dusit Thani PLC (DTC) at "A-". The rating reflects DTC's brand equity as a major traditional Thai hotel and its healthy balance sheet derived from low leverage. The rating also takes into consideration the company's diverse hotel portfolio in prime locations, experienced management team, and the potential to expand its hotel management business. These factors are partially offset by the volatile nature of the hotel industry, which was negatively affected by the economic contraction and political unrest during the last two years. As a result, DTC's operating performance has been declining. In addition, DTC's assets are slightly old compared with its peer group partly due to conservative spending on renovation and maintenance. Moreover, profitability has been pressured as spending increased to develop system and infrastructure for the hotel management business. DTC is challenged to improve the profitability from its own hotel properties and the hotel management business.

DTC is one of the leading Thai hoteliers with five principal brands: Dusit Thani, Dusit Princess, dusitD2, Dusit Deverana, and Dusit Residence. The company was founded in September 1966 by Thanpuying Chanut Piyaoui and opened its flagship and first five-star hotel, Dusit Thani Bangkok, in 1970. Its long history has built an established brand equity which has aided the company in its expansion into hotel management in both local and international markets, including the Philippines, United Arab Emirates (Dubai), and Egypt. In September 2010, DTC's portfolio included 20 hotels and two residences, providing a total of 5,385 rooms. Half of the rooms are DTC's own properties while the remaining 50% were under management contracts and franchises. DTC's management has a proven track record with years of experience, and aims to leverage its expertise in the hotel management business. Beside its existing international presence, DTC will have new management projects which will open within the next couple of years in Middle East, India, and China. One of those projects is joint ventures between DTC and local partners.

DTC's hotel operations contributed over 80% of total revenue. Its properties are diverse and located in prime areas such as Silom road, which is the business center of Bangkok, as well as Pattaya and Hua Hin, which have long been popular among local and foreign tourists. As a result, DTC's occupancy rate is in line with peers. However, the average room rate was in the lower range compared with the peer group, partly due to the outmoded assets and increasing room supply in most of the popular destinations. A number of new hotels are decorated in boutique style and some offer pool villas, which attracts tourists. DTC's renovation and maintenance program was relatively time consuming with the conservative spending. As a result, its products are less attractive than the new and modernized properties. From late 2008, the hotel industry was hard hit by a series of events, especially the prolonged political chaos which intensified during the clash in May 2010. In 2009, DTC's average hotel occupancy rate dropped to 56% compared with 62% in the previous year while the overall industry reported occupancy below 50%. Despite the warning against traveling to Thailand issued by various nations during the second quarter of 2010, DTC's occupancy rate improved slightly to 58% in the first six months of 2010, thanks to a strong rebound in foreign tourist arrivals in the first quarter. The average room rate, however, dropped to Bt2,642 in 2009, a 6% decrease from 2008. The rate was slightly lowered at Bt2,617 for the first half of 2010. With the expectation of an economic recovery and more travelers from emerging markets, Thailand should be a high growth tourist destination. Foreign tourist arrivals are expected to grow by 5%-10% in 2010, after a 2.5% drop in 2009. However, the chronic and unpredictable political battleground could deteriorate the prosperous outlook for the Thai hospitality industry.

In 2009, DTC's operating performance weakened as revenue fell by 13.5% from the previous year and DTC reported a net loss of Bt108 million. In the first half of 2010, revenue grew by 1% year-on-year (y-o-y), though the company reported a Bt77 million loss compared with a loss of Bt67 million for the first half of 2009. Operating income before depreciation and amortization as a percentage of sales has continually declined, falling from over 20% in the past to 18.6% in 2008 and to around 13% during 2009 and the first six months of 2010, respectively. DTC's cost of service was fairly high as the company has a high number of staff in preparation for the hotel management business. Despite the declining profitability, DTC's liquidity remains sound, owing to the low level of leverage. Funds from operations (FFO) to total debt ratio was 35%-40% during the last three years and stood at 19.62% (non-annualized) for the first six months of 2010. The earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage ratio was around 7 times for the same period. Total debt continued to decrease since there was no major investment during 2009 and the first half of 2010, resulting in a fairly low debt to capitalization ratio.

DTC is currently in the process of setting up a property fund to support the acquisition of Dusit Thani Laguna Resort (DTLP) in Phuket. The investment cost is approximately Bt2,700 million. DTLP started 23 years ago and is among the first hotel group managed by DTC. The property fund will raise approximately Bt4,100 million, with the proceeds to be used to purchase two properties, DTLP and dusitD2 Chiangmai, and to lease Dusit Thani Hua Hin for 30 years. DTC plans to invest up to one third in the property fund and will lease back all three properties to manage with the rental guarantees for the first four years. The property fund is expected to yield approximately 7% per annum. Moreover, DTC will sell Royal Princess Larn Luang to a non-related party. Hence, from 2011 onward, DTC will report the performance of DTLP on a consolidated basis, and exclude the performance of Royal Princess Larn Luang. Although DTLP could command a high average room rate, DTC's operating margin remains under pressure due to the rental guarantee to the property fund. All transactions are expected to complete by the end of 2010 which DTC is not expected to incur any additional debt. However, DTC faces the risk of acquiring DTLP by itself if the property fund could not be set up. In this event, DTC may need to incur a large amount of debt which would negatively affect the rating.

The hotel management business offers a growth potential due to its brand reputation as a hotelier with traditional Thai hospitality. However, the fees from the hotel management business, which would improve profitability, remain minimal. The key concern is the deteriorating profitability from hotel operations and time consumed to execute new management contracts. Further declines in operating margin could limit liquidity and flexibility for future capital spending which is required to enhance its competitive edge and brand equity.

Rating Outlook

The "negative" outlook reflects the pressure on operating performance and DTC's ability to tackle the down cycle of the tourism industry. Improvement in profitability and operating cash flow are required to maintain its rating or revise the outlook to "stable". DTC is expected to maintain its conservative financial policy and reserve sufficient liquidity at all time.

For subscription information, contact
TRIS Rating Co., Ltd., Office of the President, Tel: 0-2231-3011 ext 500
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand, www.trisrating.com