

# DUSIT THANI PLC

Announcement no. 839

27 December 2011

**Company Rating:** BBB+

**Outlook:** Stable

**New Issue Rating:** -

**Rating History:**

Date	Company	Issue (Secured/ Unsecured)
15/10/10	A-/Neg	-

**Rating Rationale**

TRIS Rating downgrades the company rating of Dusit Thani PLC (DTC) to “BBB+” from “A-” and, at the same time, revises the outlook to “stable” from “negative”. The rating action was mainly due to DTC’s weak operating performance and recovery prospects that are expected to be slow. The “BBB+” rating reflects DTC’s brand equity as a major Thai hotel and its healthy balance sheet. The rating also takes into consideration the company’s hotel portfolio which features hotels in prime locations, experienced management team, geographical diversification, and the potential to expand its hotel management business. These factors are partially offset by the volatile nature of the hotel industry and intense competition.

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 its 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. Apart from the hotel segment, DTC also has an education and training business. However, the revenue contribution from other segments is relatively small. As of September 2011, DTC’s hotel portfolio comprised six owned hotels (2,086 keys), eight hotels under management (1,505 keys) (including three hotels owned by property fund) and five hotels operated under franchises (1,080 keys). DTC’s business strategy is considered conservative. The company has focused on expanding the number of hotels it manages. However, the number of managed hotels has increased rather slowly, as its main market, the Middle East, was affected by the worldwide economic downturn. In addition to the Middle East market, DTC has negotiated for management contracts with several developers of new hotels in India and China. For the first nine months of 2011, hotel management fees totaled Bt60.64 million, or 24% year-on-year (y-o-y) growth, and accounted for 2.3% of revenue.

DTC’s business was heavily affected by the unfavorable market conditions over the past few years. Operating income and operating cash flow were volatile, affected by the fluctuating nature of the industry, the political demonstrations in Thailand, and intense competition. The company’s operating performance was driven by three hotels: Dusit Thani Bangkok, Dusit Thani Pattaya, and Dusit Thani Manila. The revenue contribution from the other owned hotels was fairly small. Although DTC has diversified its business overseas, more than 70% of revenue in 2010 still came from domestic market. DTC recently invested in a hotel in the Maldives through its subsidiary, DMS Property Investment Private Ltd. (DMS). This investment is expected to push the revenue contribution from overseas properties higher, starting in 2012. Further geographic diversification will help safeguard the company from event risks in the domestic market.

Since the political demonstrations in December 2008, DTC’s revenue has dropped continuously, falling from Bt3,313 million in 2008 to Bt2,879 million in 2010. However, in the first nine months of 2011, revenue increased to Bt2,667 million, up 31% from the same period of the prior year. The growth came as the performance of Dusit Thani, Bangkok, recovered. This property was adversely affected by the political unrest in the second quarter of 2010. In addition, the

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additional income from Dusit Laguna, Phuket, also boosted revenue in 2011. The strong recovery of Dusit Thani, Bangkok, led to an increase of the average hotel occupancy rate (OR) of DTC's self-owned hotels in the first nine months of 2011. The average OR rose to 66%, compared with 61% for the same hotels in the same period of the previous year. The average room rate (ARR) increased to Bt2,731 per night, compared with Bt2,502 per night in the previous year. Nonetheless, the ARR of DTC's hotels, especially Dusit Thani, Bangkok, were in the low range compared with its peer group, partly due to the outmoded assets. DTC's operating income before depreciation and amortization as a percentage of sales has continually declined, falling from over 20% in the past to 14.82% in 2009 and to single digits in 2010 and the first nine months of 2011, respectively. The ability to generate cash flow fell accordingly. Despite the declining profitability, DTC's liquidity remains sound, owing to the low level of leverage. For years, DTC has implemented conservative investment and leverage policies. DTC's growth strategy is focused on expanding hotel management services segment. There were no new greenfield development projects launched over the past few years. The low level of capital expenditure, together with disposal of underperforming assets, cut the amount of outstanding debts from Bt1,299 million in 2008 to Bt369 million in 2010. However, DTC is always seeking investment opportunities. In December 2010, the company invested Bt1,228 million in Dusit Thani Freehold & Leasehold Property Fund, using the proceeds from the sale and lease of its hotels to invest in the property fund. In August 2011, DTC, through a 55% owned subsidiary, acquired a hotel in the Maldives. As a consequence, outstanding debt as of September 2011 increased to Bt1,562 million. The total debt to capitalization ratio as of September 2011 was 25.22%, up from 8.07% as of December 2010.

Despite a significant improvement in the number of foreign tourist arrivals in the first nine months of 2011, the flooding in the Thailand's central provinces and several districts of greater Bangkok since September 2011 has slowed the pace of recovery of the hotel industry. The Tourism Authority of Thailand (TOT) estimated that the number of foreign tourist arrivals in the fourth quarter of 2011 would be approximately 4.06 million visitors, down by 11.5% y-o-y. In addition, political instability will continue to pressure earnings and limit ability of hoteliers to increase room rates, especially in Bangkok.

#### Rating Outlook

The "stable" outlook reflects the growth and diversification of DTC's hotel portfolio. TRIS Rating expects DTC to improve its competitive edge and revive the profitability. DTC's conservative financial policy also supports credit metrics during a down cycle of the industry.

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#### Dusit Thani PLC (DTC)

<b>Company Rating:</b>	BBB+
<b>Rating Outlook:</b>	Stable

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