TRIS RATING
CreditNews ข่าวเครดิต

DUSIT THANI PLC

No. 8/2013 31 January 2013

Company Rating: BBB+

Outlook: Stable

New Issue Rating: -

Rating History:

Date	Company	Issue (Secured/ Unsecured)
27/12/11	BBB+/Sta	-
15/10/10	A-/Neg	-

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Rating Rationale

TRIS Rating affirms the company rating of Dusit Thani PLC (DTC) at “BBB+”. The rating reflects DTC’s brand equity as a major Thai hotelier and its sound balance sheet. The rating also takes into consideration the company’s hotel portfolio which features hotels in prime locations, geographical diversification, the potential to expand its hotel contract management business, and an experienced management team. These factors are partially offset by the intense competition and volatile nature of the hotel industry. In addition, DTC faces a challenge to improve its operating performance, which remains a rating concern.

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 helped DTC build its brand equity. The strong brand name has aided the company’s efforts to expand 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 contributions from the other segment are relatively small.

In September 2012, the company officially launched its new five-star resort hotel, Dusit Thaini Maldives (DTMD). The resort comprises 100 villas with entertainment facilities and leisure areas. As of September 2012, there were 20 hotels in DTC’s portfolio -- comprising seven hotels it owns (2,186 keys), eight hotels under management (1,476 keys, including three hotels owned by a 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. DTC has signed and negotiated for management contracts with several developers of new hotels in India, China, Saudi Arabia, USA, and Kenya. However, the revenue contribution from the hotel management segment remains minimal. The company’s operating performance was driven mainly by three hotels: Dusit Thani Bangkok, Dusit Thani Pattaya, and Dusit Thani Manila. Although DTC has diversified overseas, more than 70% of revenue still came from the domestic market during the past few years. Its new hotel in the Maldives is expected to help push higher revenue contribution from overseas properties. Further geographic diversification will also help safeguard the company from event risks in the domestic market.

Apart from the fluctuating nature and intense competition of the Thai hospitality industry, DTC’s operations have been affected by the unfavorable market conditions over the past few years. Thanks to the fast recovery of the confidence of foreign tourists, plus growth in new emerging market, revenue has gradually risen. In 2011, DTC recorded revenue of Bt3,555 million, up by 23% compared with 2010. For the first nine months of 2012, DTC reported Bt2,999 million in revenue, a 12% increase year-on-year (y-o-y). For the first nine months of 2012, the average hotel occupancy rate (OR) of DTC’s self-owned hotels remained relatively stable at 65%. However, DTC’s average room rate (ARR) rose by 13% to Bt3,013 per night, compared with Bt2,662 per night in the same period last year. The rise was mainly due to an increase in the ARR of Dusit Thani Bangkok and Dusit Thani Manila. In addition, the relatively high room rates of the newly opened

DTMD also boosted the overall ARR of DTC's portfolio. Nonetheless, the ARR of DTC's hotels, in general, were slightly lower than its peer group. The low ARR is due in part to DTC's outmoded assets, which limit its ability to command on prices.

DTC faces a challenge to improve profitability. Operating income before depreciation and amortization as a percentage of sales has been at single digits for the past three year. This is relatively low in comparison to the industry. DTC's ability to generate cash fell as profit declined. For the first nine months of 2012, DTC recorded an operating loss of Bt10.6 million. The loss was largely attributable to the delayed opening of DTMD, which incurred high handling and pre-operating expenses during the initial phase. DTC made guaranteed rental payments to Dusit Thani Freehold & Leasehold Property Fund (DTCPF), which also pressured DTC's operating margin. Furthermore, the sizable investment in DTMD negatively affected DTC's balance sheet. Total debt rose substantially, climbing from Bt369 million in 2010 to Bt1,867 million in 2011, and Bt2,124 million at the end of September 2012. The total debt to capitalization ratio also increased, rising from 28.99% in 2011 to 32.33% at the end of September 2012. However, TRIS Rating expects that the performance of DTMD will gradually improve and the property will make a positive contribution to the company. Additionally, significant increases in the number of foreign tourist arrivals, plus a positive sentiment for local tourism are expected to benefit DTC's operation and help revive its operating performance.

Rating Outlook

The "stable" outlook reflects the growth prospects and diverse nature of DTC's hotel portfolio. DTC is expected to maintain its conservative financial policy in order to support the credit metrics and cushion its operations against the cyclical nature of the hospitality industry. However, unfavorable event risk and continued low profitability pose rating concerns. It remains to be seen if DTC can improve its profitability and competitive edge.

Dusit Thani PLC (DTC)

Company Rating:	BBB+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Sep 2012	----------------- Year Ended 31 December ----------------- 2011	2010	2009	2008
Sales	2,999	3,555	2,879	2,865	3,313
Gross interest expense	59	20	46	52	72
Net income from operations	(10)	(7)	(310)	(47)	(28)
Funds from operations (FFO)	297	336	351	572	642
Capital expenditures	557	2,029	311	301	542
Total assets	8,199	8,341	6,095	5,607	5,940
Total debt	2,124	1,867	369	1,091	1,299
Total debt (adjusted annual lease capitalization)	2,673	2,420	737	1,453	1,653
Shareholders' equity	4,446	4,573	4,202	4,022	4,136
Operating income before depreciation and amortization as % of sales	6.62	5.44	8.55	14.82	18.55
Pretax return on permanent capital (%)	0.12**	0.97	(2.55)	0.62	2.97
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.61	10.22	5.99	7.67	7.82
FFO/total debt (%)	11.12**	13.87	47.63	39.34	38.86
Total debt/capitalization (%)	37.55	34.61	14.92	26.54	28.56
Total debt/capitalization*** (%)	32.33	28.99	8.07	21.33	23.90

Note: All are operating-leased adjusted ratios
* *Consolidated financial statements*
** *Non-annualized*
*** *Excluding annual lease capitalization*

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