TRIS RATING

CreditNews ข่าวเครดิต

DUSIT THANI PLC

No. 1/2014 2 January 2014

Company Rating: BBB+

Outlook: Stable

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 contains properties in prime locations, as well as geographical diversification and DTC's potential to expand its hotel management business. These factors are partially offset by its weak operating performance and the intense competition in hotel industry. In addition, the volatile and cyclical nature of the hotel industry, plus Thailand's current political risk, add to the rating concerns.

DTC is a leading Thai hotelier, 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. Presently, DTC has 10 hotels in its portfolio, including three hotels owned by Dusit Thani Property Fund (DTCPF). Its long history has helped DTC build its brand equity and has supported its efforts to expand into hotel management. As of September 2013, DTC's hotel portfolio has a total of 4,848 rooms, of which 41% are managed properties located in both local and international markets, e.g., the Philippines, the Maldives, United Arab Emirates (UAE) and Egypt. Although DTC has diversified overseas, more than 70% of its revenue still came from the domestic market. Its new hotel, Dusit Thani Maldives (DTMD), officially opened in September 2012. DTMD will increase the proportion of revenue from overseas properties. Further geographical diversification will also help safeguard the company from event risks in the domestic market. Apart from the hotel segment, DTC also has an education and training business. However, the revenue contributions from other segments are minimal.

DTC's operations have gradually improved, after facing the unfavorable market conditions and intense competition over the past few years. In 2012, DTC recorded revenue of Bt4,318 million, up by 21% compared with 2011. For the first nine months of 2013, DTC reported a 14% year-on-year (y-o-y) increase in revenue to Bt3,417 million. The increase was mainly attributed to the contribution from DTMD after it opened in September 2012.

For the first nine months of 2013, the average hotel occupancy rate (OR) of DTC's hotels improved to 70%, compared with 65% for the same period of last year. The average room rate (ARR) also rose, climbing by 13% y-o-y, to Bt3,503 per night. The rise was driven mainly by the high room rates of DTMD, which boosted the overall ARR of DTC's portfolio. However, DTC's relatively outmoded assets and intense competition have limited its ability to command on prices. As a result, the ARR of DTC's hotels was slightly lower than its peers. In addition, the prolonged political instability in Thailand has affected tourism industry in the fourth quarter of 2013. The political unrest will further diminish prospects for next year.

DTC's balance sheet remains sound despite the sizable investment it made in DTMD during the past few years. The total debt to capitalization ratio stood at 29.12% at the end of September 2013. However, the company still faces a challenge to improve profitability. For the first nine months of 2013, DTC's operating margin, or operating income before depreciation and amortization as a percentage of sales, was 10.8%. This is low in comparison to the industry. DTC's operating margin is pressured by two factors: the guaranteed rental payments DTC made to DTCPF, and high operating expenses as DTC prepares to expand its hotel management business. DTC's ability to generate cash fell as profit declined. For the first nine months of 2013, funds from operations (FFO) were Bt539 million, while the ratio of FFO to total debt stood at 21.57%. Under TRIS Rating's base scenario, DTC is expected to generate approximately Bt730-Bt830 million of FFO per annum during the next three years in order to service its financial obligations and fund its capital expenditure plans.

Going forward, DTC's strategy is to focus on asset-light model by expanding the number of hotels it manages. DTC has negotiated and signed management contracts with several developers of new hotels in India, China, Saudi Arabia, the USA, and Kenya. If the company is able to execute its strategy plan successfully, the contribution from hotel management segment will help improve DTC's overall operating margin.

Rating Outlook

The "stable" outlook reflects DTC's conservative financial policy, gradually improving operating performance, plus the growth prospects of its asset-light strategy. However, the weak profitability poses rating concerns. DTC is expected to strengthen its competitive edge in order to protect itself against the sensitive and volatile nature of the hospitality industry, and to support the credit rating.

Dusit Thani PLC (DTC)

Company Rating:	BBB+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		----------------- Year Ended 31 December ------------------				
	Jan-Sep 2013	**2012**	**2011**	**2010**	**2009**	**2008**
Sales	3,417	4,318	3,555	2,879	2,865	3,313
Gross interest expense	52	79	20	46	52	72
Net income from operations	58	51	(7)	(310)	(47)	(28)
Funds from operations (FFO)	539	431	336	351	572	642
Capital expenditures	380	742	2,029	311	301	542
Total assets	8,398	8,541	8,341	6,095	5,607	5,940
Total debt	1,942	1,992	1,867	369	1,091	1,299
Total debt (adjusted annual lease capitalization)	2,501	2,554	2,420	737	1,453	1,653
Shareholders' equity	4,729	4,678	4,573	4,202	4,022	4,136
Operating income before depreciation and amortization as % of sales	10.82	8.48	5.44	8.55	14.82	18.55
Pretax return on permanent capital (%)	2.26**	1.41	0.97	(2.55)	0.62	2.97
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	7.14	5.40	10.22	5.99	7.67	7.82
FFO/total debt (%)	21.57**	16.86	13.87	47.63	39.34	38.86
Total debt/capitalization (%)	34.59	35.32	34.61	14.92	26.54	28.56
Total debt/capitalization (%) ***	29.12	29.86	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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