DUSIT THANI PLC

No. 124/2014 23 December 2014

Company Rating:	BBB+
Outlook:	Stable

Company Rating History:

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

Contacts:
Chanaporn Pinphithak
chanaporn@trisrating.com

Pramuansap Phonprasert
pramuansap@trisrating.com

Parat Mahuttano
parat@trisrating.com

Rungtip Charoenvisuthiwong
rungtip@trisrating.com

WWW.TRISRATING.COM

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 conservative financial policy. The rating also takes into consideration the company's hotel portfolio, which contains properties in prime locations, and DTC's potential to expand its hotel management business. These factors are partially offset by its weak operating performance amid the intense competition in hotel industry. In addition, the volatile and cyclical nature of the hotel industry, plus external factor such as political risk, are 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 services. As of December 2014, DTC's hotel portfolio holds a total of 5,854 rooms, half of which are managed and franchised properties located in both local and international markets, e.g., the Philippines, the Maldives, United Arab Emirates (UAE), Egypt ,China, the United States (US), Kenya, and India. Apart from the hotel segment, DTC also has an education and training business. In earlier years, its education segment included Le Cordon Bleu Dusit (LCBD) and training business. In the third quarter of 2014, DTC started consolidating the revenue from Dusit Thani College. The consolidation increased the revenue contribution from its education segment to 11% of total revenue for the first nine months of 2014, compared with 4% contributed from LCBD and its training business.

Political instability has plagued Thailand since the last quarter of 2013. A military coup in May 2014, followed by the imposition of martial law, have hurt tourists' perception of Thailand as a holiday destination. For the first nine months of 2014, Dusit Thani Bangkok (DTBK), one of its main revenue contributors, was affected the most from the events. DTC's properties in Pattaya and Hua Hin were also affected but at lesser degree. The average hotel occupancy rate (OR) of DTC's other properties has continued to grow. As a result, the OR of DTC's hotels dropped to 66% for the first nine months of 2014, compared with 70% for the same period last year. However, the average room rate (ARR) rose by 6% year-on-year (y-o-y), to Bt3,712 per night, driven mainly by the high room rates at Dusit Thani Maldives (DTMD). Excluding DTMD, the ARR of DTC's hotels is relatively low, compared with peers. The intense competition in the hotel industry, an increasing supply of new hotel rooms, and its asset quality have limited DTC's ability to command premium prices.

After a revenue growth of 10% in 2013, DTC reported revenue of Bt3,485 million for the first nine months of 2014, a 3.9% drop from the same period a year earlier. A rise by 28% y-o-y in revenue of DTMD alleviated in part the weaker performance of DTC's hotels in Thailand. Profitability remains DTC's key challenge. DTC's operating margin as measured by operating income before depreciation and amortization as a percentage of sales, is lower than the industry average. DTC's operating margin was 12.5% in 2013 and 8.9% for the first nine months of 2014, compared with an average of 18.1% for DTC's peers listed on the Stock Exchange of

Thailand (SET). The operating margin remained under pressure from the poor market conditions, the guaranteed rental payments DTC made to DTCPF, and high operating expenses as DTC prepares to expand its hotel management business. Despite the weaker operating performance, liquidity remains sound due to its conservative financial policy. The ratio of funds from operations (FFO) to total debt ratio was 26.29% (annualized, from the trailing 12 months) while the earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio was 6.95 times for the first nine months of 2014. Leverage remains low. The total debt to capitalization ratio stood at 31.8% at the end of September 2014.

Going forward, DTC will continue to face intense competition in the hotel industry. DTC's strategy is to focus on asset-light business model by expanding the number of managed hotels. DTC has negotiated and signed management contracts with several developers of new hotels in China, India, Australia, Singapore, the US, and Vietnam. In addition, the company aims to expand its education business domestically and abroad. If the company executes its strategy plan successfully, the contributions from the hotel management and the education segments will improve DTC's operating margin.

Under TRIS Rating's base case scenario, DTC's operating performance is expected to gradually pick up, as market conditions improve. DTC is expected to generate FFO of Bt770-Bt900 million per annum during the next three years. This amount is sufficient to service its financial obligations and fund its capital expenditure plans. DTC plans to spend approximately Bt1,700 million in total over the next three years, mainly to renovate the Dusit Thani Manila and expand its education business. DTC is also exploring opportunities to expand its hotel and education businesses abroad. Any further investment is likely to be made with partners, as a result, its leverage is not expected to climb significantly.

Rating Outlook

The "stable" outlook reflects DTC's conservative financial policy, plus the growth prospects of its asset-light strategy and education business. However, the weak profitability poses a rating concern. 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 bolster its 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 2014	**2013**	**2012**	**2011**	**2010**	**2009**
Sales	3,485	4,766	4,318	3,555	2,879	2,865
Gross interest expense	49	71	79	20	46	52
Net income from operations	(88)	90	58	(7)	(310)	(47)
Funds from operations (FFO)	533	718	431	336	351	572
Capital expenditures	336	506	742	2,029	311	301
Total assets	8,807	8,629	8,539	8,341	6,095	5,607
Total debt	1,840	1,954	1,992	1,867	369	1,091
Total debt (adjusted annual lease capitalization)	2,414	2,537	2,568	2,420	737	1,453
Shareholders' equity	5,177	4,822	4,684	4,573	4,202	4,022
Operating income before depreciation and amortization as % of sales	8.86	12.47	8.44	5.44	8.55	14.82
Pretax return on permanent capital (%)	0.74**	3.53	1.38	0.97	(2.55)	0.62
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	6.95	7.71	5.39	10.22	5.99	7.67
FFO/total debt (%)	26.29**	28.31	16.77	13.79	47.63	39.34
Total debt/capitalization (%)	31.80	34.48	35.41	34.75	14.92	26.54
Total debt/capitalization (%) ***	26.22	28.84	29.84	28.99	8.07	21.33

Note: *All are operating-leased adjusted ratios*
* *Consolidated financial statements*
** *Annualized, from the trailing 12 months*
*** *Excluding annual lease capitalization*

TRIS Rating Co., Ltd.
Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com