DUSIT THANI PLC

No. 138/2015 30 December 2015

Company Rating: BBB+
Outlook: Stable

Company Rating History:

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

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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 conservative financial policy. The rating also takes into consideration the company's hotel portfolio, which contains properties in prime locations, and a potential to expand its hotel management and education businesses. These factors are partially offset by the volatile and cyclical nature of the hotel industry, plus DTC's weak profitability amidst the intense competition in hotel industry.

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 was listed on the SET in 1975. Ever since the listing, Thanpuying Chanut and group have maintained their positions as the major shareholders, currently holding 49.9% of DTC.

DTC opened its flagship and first five-star hotel, Dusit Thani Bangkok, in 1970. Presently, DTC operates 10 hotels, with a total of 2,846 rooms, including three hotels owned by Dusit Thani Property Fund (DTCPF). DTC also manages a total of 3,543 rooms under management and franchise contracts in both local and international markets. Apart from the hotel segment, DTC also has an education and training business. The education segment includes Dusit Thani College, Le Cordon Bleu Dusit (LCBD), and training. In September 2015, DTC opened Dusit Thani Hotel School, offering certificates and diplomas in all areas of hotel operation. For the first nine months of 2015, the education segment comprised 9% of total revenue.

In 2015, the ease of political tension in Thailand and rising number of Chinese tourists supports Thai hospitality industry. DTC's average hotel occupancy rate (OR) rose to 74% in the first nine months of 2015, compared with 66% for the same period last year. However, the average room rate (ARR) dropped by 2.7% year-on-year (y-o-y), to Bt3,611 per night. The drop was due to drops in ARR of DTC's Phuket, Pattaya, and the Maldives hotels. A slowdown in a number of Russian tourists and intensified competition in those three markets kept a lid on prices.

DTC reported a 6.5% year-on-year (y-o-y) increase in revenue to Bt3,620 million in the first nine months of 2015. 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 improving. Despite an improvement, the rate is lower than the industry average. DTC's operating margin was 10.6% in 2014 and 15.8% for the first nine months of 2015, compared with an average of 23% for DTC's peers listed on the SET. The operating margin was pressured by high operating expenses partly due to DTC's efforts to expand its hotel management business. Despite the weaker operating performance, DTC's liquidity and balance sheet were strong due to its conservative financial policy. For the first nine months of 2015, the ratio of funds from operations (FFO) to total debt ratio was 40.2% (annualized, from the trailing 12 months) while the earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio was 9.8 times. Leverage remains low. The total debt to capitalization ratio stood at 33.9% at the end of September 2015.

Going forward, DTC will continue to face intense competition in the hotel industry. DTC's strategy is to focus on an 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 United States (US), Vietnam, and more nations. In addition, the company aims to expand its education business domestically and abroad. If the company executes its plan successfully, the contributions from the hotel management and the education segments will improve and diversify DTC's sources of cash flow.

Under TRIS Rating's base case scenario, DTC's operating performance is expected to gradually pick up, as market conditions improve. The operating margin is expected to stay over 14%. DTC is expected to generate FFO of Bt800-Bt1,000 million per annum during 2015-2018. This amount is sufficient to service its financial obligations and fund its capital expenditure plans. DTC plans to spend approximately Bt1,900 million in total during 2015-2018, 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 additional investments will support DTC's growth prospects in the long term. DTC has some headroom for gearing, and is expected to maintain healthy balance sheet.

Rating Outlook

The "stable" outlook reflects DTC's conservative financial policy, plus the growth prospects of its asset-light strategy and education business. DTC is expected to strengthen its competitive edge in order to withstand the volatile nature of the hospitality industry, and to bolster its credit rating. A rating upgrade may occur if DTC is able to continuously improve its profitability and cash flow. The rating downside could emerge if DTC's operating margin stays below 10% for a sustained period.

Dusit Thani PLC (DTC)

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Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Sep 2015	------------------ Year Ended 31 December ------------------ 2014	2013	2012	2011	2010
Sales	3,620	4,907	5,078	4,318	3,555	2,879
Gross interest expense	42	64	71	80	20	46
Net income from operations	83	(52)	162	124	(7)	(310)
Funds from operations (FFO)	780	848	933	639	336	351
Capital expenditures	543	512	546	777	2,029	311
Total assets	9,253	9,012	9,271	9,080	8,341	6,095
Total debt	2,153	1,790	1,954	2,007	1,867	369
Total debt (adjusted annual lease capitalization)	2,414	2,537	2,537	2,568	2,420	737
Shareholders' equity	5,308	5,212	5,268	5,045	4,573	4,202
Operating income before depreciation and amortization as % of sales	15.77	10.65	13.72	9.83	5.44	8.55
Pretax return on permanent capital (%)	3.53**	1.59	4.42	2.38	0.97	(2.55)
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	9.81	7.58	8.72	6.21	10.22	5.99
FFO/total debt (%)	40.21**	35.68	36.77	24.74	13.79	47.62
Total debt/capitalization (%)	33.94	31.33	32.51	33.86	34.75	14.92

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

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