

DUSIT THANI PLC

No. 5/2017

19 January 2017

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 sound balance sheet. The rating also takes into consideration the company’s hotel portfolio, which contains properties in prime locations, and the potential to expand its hotel management and education businesses. These factors are partially offset by the intense competition and cyclical nature of the hotel industry, plus the fact that the performance of the hotel industry is quite sensitive to external shocks and event risks.

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 1966 by Thanpuying Chanut Piyaoui and was listed on the Stock Exchange of Thailand (SET) in 1975. Ever since the listing, Thanpuying Chanut and group have maintained their position as the major shareholders, currently holding 49.7% of DTC.

DTC opened its first and flagship 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 3,840 rooms under management contracts and franchise contracts in both local and international markets. Apart from the hotel segment, DTC also operates education and training businesses. The education segment includes Dusit Thani College, Dusit Thani Hotel School, Le Cordon Bleu Dusit (LCBD), and other training businesses. For the first nine months of 2016, the hotel segment remained the main revenue contributor, constituting 90% of total revenue, followed by the education segment at 8%.

DTC’s performance for the first nine months of 2016 was slightly weaker than the same period a year earlier. The average hotel occupancy rate (OR) was 73%, compared with 74% in the same period last year. The average room rate was Bt3,635 per night, almost unchanged from the same period last year. As a result, revenue per available room (RevPAR) dropped by 1% year-on-year (y-o-y) to Bt2,651 per night for the first nine months of 2016. In general, most of DTC’s hotels in Thailand performed at least as good as or better than last year. DTC’s hotels in the Maldives, Phuket, and Hua Hin showed y-o-y drops in RevPAR of 8%, 4%, and 6%, respectively. Apart from intense competition, drops in the numbers of Russian and Middle East tourists were the main negative factors weighing on the performances of the properties in the Maldives and Phuket.

DTC reported Bt3,799 million in revenue for the first nine months of 2016, up by 5% y-o-y. Operating margin, measured by operating income before depreciation and amortization as a percentage of sales, improved slightly to 17.14%, from 16.92% in the same period last year. However, there were several drags on profits: intense competition in the industry, a lessened ability to raise room rates, and the operating losses of the hotel management business in China and the Dusit Thani Hotel School. The company is working on solutions to improve operations in the hotel management and education segments. TRIS Rating expects DTC’s performance in 2016 to be the same as or slightly weaker than in 2015. The mourning period of the late King Bhumibhol has limited spending on events and functions. Revenue is expected to grow by 2%-3% per year during 2017-2019, and

the operating margin is expected to stay above 15%.

DTC's financial profile is underpinned by a conservative financial policy. Liquidity and leverage remain sound. For the first nine months of 2016, the ratio of funds from operations (FFO) to total debt was 42.83% (annualized, from the trailing 12 months) while the earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio was 6.17 times. Leverage remained low. The total debt to capitalization ratio stood at 33.36% at the end of September 2016.

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, South East Asia, the Middle East, Australia, and more nations. In addition, the company aims to expand the 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.

TRIS Rating expects DTC's liquidity to remain sound over the next 12 months. Under TRIS Rating's base case scenario, DTC's is expected to generate FFO of Bt900-Bt1,000 million in 2017. It also has available bank credit facilities of approximately Bt280 million, plus cash and cash equivalents as of September 2016 of Bt1,093 million. The planned uses of funds are debt repayments of Bt400 million in 2017 and capital expenditures of approximately Bt820 million, mainly for a hotel and education joint venture in the Philippines and the renovation of Dusit Thani Manila.

Despite DTC's brand equity, TRIS Rating is concerned about its long-term competitiveness, given its aging hotel properties and low reinvestment rate. With the current level of leverage, DTC has headroom for gearing and can reinvest more to maintain its properties and adapt the properties to meet the changing needs of its customers.

Rating Outlook

The "stable" outlook reflects DTC's conservative financial policy, plus the growth prospects resulting from its asset-light strategy and the education segment. 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 improve profitability and cash flow steadily. The rating downside case could emerge if DTC's operating margin stays below 10% for a sustained period.

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 2016	2015	2014	2013	2012	2011
Sales	3,799	5,019	4,792	5,078	4,590	3,555
Gross interest expense	57	49	64	71	80	20
Net income from operations	39	190	(52)	162	124	(7)
Funds from operations (FFO)	804	1,155	826	933	639	336
Capital expenditures	208	675	512	546	777	2,029
Total assets	8,778	9,396	9,012	9,271	9,080	8,341
Total debt	1,696	2,049	1,790	1,954	2,007	1,867
Total debt (adjusted annual lease capitalization)	2,753	2,998	2,753	2,923	2,988	2,848
Shareholders' equity	5,238	5,404	5,212	5,268	5,045	4,573
Operating income before depreciation and amortization as % of sales	17.14	17.87	12.37	14.89	10.90	6.77
Pretax return on permanent capital (%)	4.56**	5.23	2.05	4.80	2.89	1.65
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	6.17	8.53	5.84	6.60	4.77	5.79
FFO/total debt (%)	42.83 **	38.98	30.26	32.32	21.38	11.79
Total debt/capitalization (%)	33.36	35.68	34.56	35.69	37.19	38.38

Note: All are operating-leased adjusted ratios

** Consolidated financial statements*

*** Annualized, from the trailing 12 months*

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