TRIS RATING
CreditNews ข่าวเครดิต

CENTRAL PLAZA HOTEL PLC

No. 71/2015 7 August 2015

Company Rating: A

Issue Ratings:
Senior unsecured A

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
09/08/13	A	Stable
28/07/11	A-	Stable
03/07/09	A-	Negative
21/10/04	A-	Stable

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Rating Rationale

TRIS Rating affirms the company and senior unsecured debenture ratings of Central Plaza Hotel PLC (CENTEL) at "A". The ratings reflect growing cash flows from CENTEL's hotel and food businesses, strong position in the quick service restaurant (QSR) industry, and diverse hotel portfolio. The ratings also take into account the support from the Central Group. However, these strengths are partially offset by the low margins in the QSR industry and the nature of the hotel industry which is seasonal and highly sensitive to uncontrollable external factors. Both industries are highly competitive, considering the huge supply of hotel rooms in key tourist destinations and the aggressive promotional efforts that are common in the QSR industry.

CENTEL was founded in 1980 by the Chirathivat family, which currently holds 63% of the company's outstanding shares. CENTEL is a leading Thai hotelier and food operator. As of March 2015, CENTEL's hotel portfolio consisted of 7,805 rooms, at 41 hotel properties located in key tourist destinations in Thailand and four other countries (the Maldives, Vietnam, Sri Lanka, and Indonesia). CENTEL manages the hotel properties under its own "Centara Grand", "Centara", and "Centra" brand names. Properties owned by CENTEL directly comprise 49% of the total rooms across 15 hotels, including one property leased back from a property fund.

All activities in the food segment are conducted through its subsidiary, Central Restaurants Group (CRG). CRG currently operates 12 food brands, consisting of 10 international franchised QSR and restaurant chains and two of its own brands, "RYU Shabu Shabu" and "The Terrace". As of March 2015, the company operated a total of 777 outlets countrywide.

Normally, CENTEL's food business contributes higher proportion in terms of revenue. However, hotel business generates a larger profit margin and cash flow. The performance of the hotel segment is more volatile when facing unfavorable external events. In 2014, the hotel segment generated 45% of CENTEL's total revenue, and 74% of its total EBITDA.

In 2014, the Thai tourism industry was hurt by chronic domestic political conflicts. Foreign tourist arrivals declined by 7% to 24.78 million persons. However, after the conflict ended, foreign tourist arrival reported a 7% and 25% year-on-year (y-o-y) growth in the fourth quarter of 2014 and in the first five months of 2015, respectively. This was due to the faster recovery and strong traveling demand within the Asian region. In the first five months of 2015, Chinese tourists accounted for 3.30 million persons, a 97% y-o-y growth. At the same time, the number of European tourists declined by 15% y-o-y to 2.55 million persons, which was mainly caused by a huge drop in the number of the Russian tourists. The future prospects of the Thai tourism industry remain good, given the country's attractive and high quality tourist destinations. However, many challenges exist to restrain the growth prospect, such as prolonged stagnation of the European Union's (EU) economy and the ability of the local authorities to maintain and cherish the natural resources to be sustainably attractive.

In 2014, even though overall occupancy rate (OR) of the CENTEL's hotel properties were affected by the political turmoil, CENTEL still posted a 4.2% growth of revenue per available room (RevPAR) because its new properties in the Maldives carry higher room rates. For the first three months of 2015, CENTEL's RevPar continued to increase by 6.9% to Bt4,932 per night in tandem with the 10% y-o-y revival of the overall OR. However, CENTEL's average room rate (ARR) declined by 5.3% to Bt5,782 per night in the first three months of 2015 as its guest profile shifted to more Asian customers.

In 2014, as CENTEL's hotels in Bangkok were affected by the political turmoil, the hotel segment posted no growth in revenue. However, CENTEL's total revenue grew by 5% to Bt17,992 million, supported by a 9% increase in the food revenue after CENTEL added more outlets. In the first three months of 2015, total revenue increased by 11% y-o-y to Bt5,047 million due mainly to the strong rebound of the hotel performance. CENTEL's operating profit margin declined from 21.5% in 2013 to 20.7% in 2014 as food business was negatively impacted from high raw material cost and loss on brand termination. In the first quarter of 2015, the operating profit margin recovered to 29.4%, compared with 25.9% in the first quarter of 2014. The rise came from the resume operation of the Bangkok hotels and the stringent cost control measures in food business.

CENTEL's capital structure improved as it made the scheduled debt repayments. The debt to capitalization ratio declined continuously from 55.8% at the end of December 2013 to 48.7% at the end of March 2015. During 2015-2017, CENTEL plans to invest around Bt12,000 million to build new hotel properties and expand food outlets. The investment will need to be partly funded by debt. Thus, the debt to capitalization ratio is expected to rise, but stay below 55%.

The company's liquidity profile is satisfactory. Funds from operations (FFO) increased from Bt2,938 million in 2013 to Bt3,163 million in 2014 and stood at Bt1,379 million in the first quarter of 2015. The FFO to total debt ratio improved from 21% in 2013 to 25.2% in 2014 and 29.2% (annualized, from the trailing 12 months) in the first quarter of 2015. The EBITDA interest coverage ratio increased from 5.9 times in 2013 to 9.6 times in the first quarter of 2015. During the next 12 months, the company has long-term debt repayment obligations of around Bt1,000 million and outstanding short-term obligation of Bt719 million. CENTEL's FFO would be sufficient to cover the near term liquidity, and would be further supported by a Bt508 million cash on hand and available commercial bank credit lines of approximately Bt2,000 million.

During the next three years, TRIS Rating expects that CENTEL's total revenue will grow by approximately 6% per annum supported by increasing hotel ARR and normalized OR level at 78%. In addition, the company plans to expand its food business to 1,200 outlets within 2020. The operating profit margin is forecasted to stabilize at around 21%-22%. FFO is expected to increase gradually to Bt3,500 million. TRIS Rating estimates that CENTEL's FFO to total debt ratio will be over 20% and the EBITDA interest coverage ratio will be around 6 times.

Rating Outlook

The "stable" outlook reflects the expectation that the company will maintain the strong market positions in its core businesses. CENTEL's ratings could be upgraded should the company further enlarge and diversify each of its business portfolio while maintaining its current financial profile. In contrast, the rating downside may occur if CENTEL's operating performance deteriorates for a prolonged period or if the company makes an aggressive debt-funded investment.

Central Plaza Hotel PLC (CENTEL)

Company Rating:	A
Issue Ratings:	
CENTEL163A: Bt500 million senior unsecured debentures due 2016	A
CENTEL163B: Bt300 million senior unsecured debentures due 2016	A
CENTEL169A: Bt1,000 million senior unsecured debentures due 2016	A
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Mar 2015	----- Year Ended 31 December ----- 2014	2013	2012	2011	2010
Sales	5,047	17,992	17,096	14,504	11,278	9,141
Gross interest expense	99	455	507	486	414	310
Net income from operations	834	1,188	1,322	1,021	550	(56)
Funds from operations (FFO)	1,379	3,163	2,938	2,390	1,625	1,158
Capital expenditures	235	1,371	2,003	1,359	1,525	2,294
Total assets	28,798	28,709	29,212	28,149	21,684	20,438
Total debt	9,334	10,223	11,482	12,078	10,003	9,453
Annual lease capitalization	2,596	2,602	2,619	1,296	1,274	1,248
Shareholders' equity	12,566	11,716	11,152	9,929	6,049	5,779
Operating income before depreciation and amortization as % of sales	29.43	20.74	21.47	19.59	18.77	16.17
Pretax return on permanent capital (%)	10.07**	9.56	10.43	9.67	8.03	3.54
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	9.56	5.74	5.85	5.65	4.87	4.90
FFO/total debt (%)	29.16**	25.18	21.15	17.87	14.41	10.82
Total debt/capitalization (%)	48.70	52.26	55.84	57.39	65.09	64.93

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

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