CENTRAL PLAZA HOTEL PLC

No. 64/2015 12 October 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". At the same time, TRIS Rating assigns the rating of "A" to CENTEL's proposed issue of up to Bt700 million in senior unsecured debentures. The proceeds from the new debentures will be used partly to refinance CENTEL's debts while the remainder will be reserved for its working capital needs. The ratings reflect the increases in the cash flows from CENTEL's core businesses, its strong position in the quick service restaurant (QSR) industry, and its 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. In 2014, the hotel segment generated 45% of CENTEL's total revenue, and 74% of its total EBITDA. As of June 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. The 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 June 2015, the company operated a total of 774 outlets countrywide.

In 2014, the Thai tourism industry was hurt by chronic domestic political conflicts. Foreign tourist arrivals declined by 7% to 24.78 million people. However, after the political tension was resolved by a coup d'état in mid-2014, foreign tourist arrivals have strongly rebounded. The number of foreign tourist grew by 7% and 29% year-on-year (y-o-y) in the fourth quarter of 2014 and in the first half of 2015, respectively. The faster recovery reflects the high quality of destinations in Thailand and strong demand for tourism within the Asian region. In the first half of 2015, Chinese tourists accounted for 3.97 million persons, a 108% y-o-y growth. At the same time, the number of European tourists declined by 14% y-o-y to 2.82 million persons, largely because of a huge drop in the number of the Russian tourists. The future prospects of the Thai tourism industry remain good, given the country's attractiveness and growing demand from emerging countries. However, the industry still faces many challenges, such as a slowdown in the global economy and the ability of the local authorities to maintain and cherish the natural resources to be sustainably attractive.

The political turmoil mainly affected hotels in the Bangkok area. CENTEL's overall occupancy rate (OR) fell to 74.8% in 2014 from 79.8% in 2013. CENTEL's revenue per available room (RevPar) still grew by 4.2% in 2014 because its new properties in the Maldives carry higher room rates. However, in 2014, revenue in the hotel segment remained flat due to the soft spending in hotel food outlets. For the first half of 2015, CENTEL's RevPar continued to increase by 8.6% to Bt4,079 per night largely contributed by improving OR to 80.9% for the first half of 2015, compared with 72.4% during the same period of the previous year.

In 2014, CENTEL reported total revenue of Bt17,992 million, a 5% y-o-y rise, supported by a 9% increase in sales from the food business. Revenue further increased by 8% y-o-y to Bt9,538 million in the first half of 2015 due mainly to a strong rebound in the hotel performance. CENTEL's operating profit margin declined from 21.5% in 2013 to 20.7% in 2014 as food business was affected by high raw material costs and the termination of one brand name restaurant. In the first half of 2015, the operating profit margin recovered to 25.3%. The rise came from the resume operation of the Bangkok hotels and the stringent cost control measures in food business.

CENTEL's debt to capitalization ratio improved continuously from 55.8% at the end of December 2013 to 49.1% at the end of June 2015.

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 Bt2,078 million in the first half of 2015. The FFO to total debt ratio improved from 21% in 2013 to 25.2% in 2014 and 32.7% (annualized, from the trailing 12 months) in the first half of 2015. The EBITDA interest coverage ratio increased from 5.9 times in 2013 to 8 times in the first half of 2015. During the next 12 months, the company has long-term debt repayment obligations of around Bt1,800 million and outstanding short-term obligations of Bt748 million. CENTEL's liquidity is sufficient to cover the near term obligations, and supported by Bt340 million in cash on hand and available commercial bank credit lines of approximately Bt2,000 million.

During 2015-2017, 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%. The operating profit margin is forecasted to stabilize at around 21%-22%. FFO is expected to increase gradually to Bt3,500 million. During the next three years, CENTEL plans to invest around Bt12,000 million to build new hotel properties and expand food outlets. The company plans to expand its food business to 1,200 outlets within 2020. The debt to capitalization ratio is expected to rise, but stay below 55%. CENTEL's FFO to total debt ratio is estimated to average 25%.

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 portfolios while maintaining its strong 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
Up to Bt700 million senior unsecured debentures due within 2018	A
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Jun 2015	----------------------- Year Ended 31 December ------------------- 2014	2013	2012	2011	2010
Sales	9,538	17,992	17,096	14,504	11,278	9,141
Gross interest expense	197	455	507	486	414	310
Net income from operations	1,080	1,188	1,322	1,021	550	(56)
Funds from operations (FFO)	2,078	3,163	2,938	2,390	1,625	1,158
Capital expenditures	493	1,371	2,003	1,359	1,525	2,294
Total assets	27,761	28,709	29,212	28,149	21,684	20,438
Total debt	9,206	10,223	11,482	12,078	10,003	9,453
Annual lease capitalization	2,588	2,602	2,619	1,296	1,274	1,248
Shareholders' equity	12,212	11,716	11,152	9,929	6,049	5,779
Operating income before depreciation and amortization as % of sales	25.31	20.74	21.47	19.59	18.77	16.17
Pretax return on permanent capital (%)	11.37**	9.56	10.43	9.67	8.03	3.54
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	8.01	5.74	5.85	5.65	4.87	4.90
FFO/total debt (%)	32.65**	25.18	21.15	17.87	14.41	10.82
Total debt/capitalization (%)	49.13	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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