

CENTRAL PLAZA HOTEL PLC

No. 36/2016

27 July 2016

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 current 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 Bt980 million in senior unsecured debentures. The proceeds from the new debentures will be used to refinance CENTEL’s debts. The ratings reflect CENTEL’s diversified cash flow from the hotel and quick service restaurant (QSR) businesses, its strong position in the QSR industry, and the good quality and diverse locations of the hotel properties in its 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 65% of the company’s outstanding shares. CENTEL is a leading Thai hotelier and food operator. In 2015, the hotel segment generated 47% of CENTEL’s total revenue, and 70% of total EBITDA (Earnings before interest, tax, depreciation, and amortization). As of July 2016, CENTEL’s hotel portfolio consisted of 7,408 rooms, at 37 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 15 properties owned by CENTEL directly comprise 51% of the total amount of rooms, 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 11 food brands, consisting of 10 international franchised QSR and restaurant chains and one of its own brands, “The Terrace”. As of March 2016, the company operated a total of 800 outlets countrywide.

After the chronic domestic political conflicts abated in 2015, Thai tourism industry recovered strongly and continued to grow in the first six months of 2016. Foreign tourist arrivals rebounded and rose by 20.5% in 2015 and 12.0% year-on-year (y-o-y) in the first six months of 2016. The fast recovery reflects the high quality of destinations in Thailand and strong demand for tourism within Asia. TRIS Rating expects that the prospects for the Thai tourism industry will remain good, and foreign tourist arrivals will grow by 10% to around 32.87 million persons in 2016.

Due to the strong recovery of tourism industry, CENTEL’s overall occupancy rate (OR) increased from 74.8% in 2014 to 80.2% in 2015. As a result, CENTEL’s revenue per available room (RevPar) grew by 6.2% to Bt3,858 in 2015. For the first quarter of 2016, CENTEL’s RevPar continued to increase by 3.5% to Bt5,104 per night.

In 2015 although the domestic economy is stagnant, CENTEL still posted growth of food business at 2% y-o-y and total revenue including hotel business rose to Bt18,937 million, a 5% y-o-y rise, supported by a 9% increase in revenue in

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the hotel segment. In the first quarter of 2016, revenue further increased by 3% y-o-y to Bt5,220 million due mainly to an ongoing rise in the hotel segment. CENTEL's operating profit margin improved from 22.3% in 2014 to 24.7% in 2015 and to 29.1% in the first quarter of 2016, reflecting a rebound in the hotel performance and stringent cost control measures in food business. During 2016-2018, TRIS Rating forecasts CENTEL's revenue will grow by approximately 6% per annum, supported by a steady rise in the ARR and an OR of around 80%. The operating profit margin is forecasted to stay around 23%-25% during 2016-2018.

CENTEL's debt dropped from Bt10,256 million at the end of December 2014 to Bt8,311 million at the end of March 2016. As a result, the debt to capitalization ratio improved, declining from 59.6% at the end of December 2014 to 50.3% at the end of March 2016. 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 the number of food outlets to 1,200 within 2020. 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 Bt3,443 million in 2014 to Bt4,083 million in 2015 and stood at Bt1,384 million in the first quarter of 2016. The FFO to total debt ratio improved from 27.3% in 2014 to 36.5% in 2015 and 37.6% (annualized, from the trailing 12 months) in the first quarter of 2016. The EBITDA interest coverage ratio increased from 6.2 times in 2014 to 10.7 times in the first quarter of 2016. During the next 12 months, the company has long-term debt repayment obligations of around Bt3,247 million and outstanding short-term debt obligations of Bt331 million. CENTEL's liquidity is sufficient to cover the near term obligations, supported by Bt856 million in cash on hand, and available commercial bank credit lines of approximately Bt2,000 million. In addition, the new debenture issue will be used to refinance the maturing debt.

Rating Outlook

The "stable" outlook reflects the expectation that the company will maintain the strong market positions in its core lines of business. 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 case 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:	
CENTEL169A: Bt1,000 million senior unsecured debentures due 2016	A
CENTEL18NA: Bt700 million senior unsecured debentures due 2018	A
Up to Bt980 million senior unsecured debentures due within 2021	A
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Mar 2016	Year Ended 31 December				
		2015	2014	2013	2012	2011
Sales	5,220	18,937	17,965	17,096	14,504	11,278
Gross interest expense	82	380	455	507	486	414
Net income from operations	758	1,676	1,188	1,322	1,021	550
Funds from operations (FFO)	1,384	4,083	3,443	2,938	2,390	1,625
Capital expenditures	365	1,553	1,371	2,003	1,359	1,525
Total assets	24,713	24,499	24,770	29,212	28,149	21,684
Total debt	8,311	8,699	10,256	11,482	12,078	10,003
Annual lease capitalization	2,564	2,566	2,602	2,619	1,296	1,274
Shareholders' equity	10,749	9,954	8,731	11,152	9,929	6,049
Operating income before depreciation and amortization as % of sales	29.13	24.68	22.32	21.47	19.59	18.77
Pretax return on permanent capital (%)	11.30 **	13.23	10.16	10.43	9.67	8.03
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	10.73	7.77	6.23	5.91	5.65	4.87
FFO/total debt (%)	37.59 **	36.51	27.29	21.15	17.87	14.41
Total debt/capitalization (%)	50.29	53.09	59.56	55.84	57.39	65.09

Note: All ratios are operating lease adjusted

* Consolidated financial statements

** Annualized from the trailing 12 months

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