CENTRAL PLAZA HOTEL PLC

No. 90/2016 2 September 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 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 Bt2,500 million in senior unsecured debentures. The proceeds from the new debentures will be used to refinance CENTEL's maturing debentures. The ratings reflect CENTEL's diversified sources of 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 Co., Ltd. (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 June 2016, the company operated a total of 801 outlets countrywide.

After the chronic domestic political conflicts abated, the Thai tourism industry recovered strongly in 2015 and continued to grow in the first six months of 2016. Foreign tourist arrivals rebounded and rose by 20.5% in 2015 and 12% year-on-year (y-o-y) in the first six months of 2016. However, the recent bombings in the southern provinces of Thailand will hamper the tourism industry in the short term. A fast recovery is expected as the Thai tourism industry posted rapid rebounds from several unfavorable events in the past. The rapid recoveries were due to the high quality of destinations in Thailand and strong demand for tourism within Asia. TRIS Rating expects the prospects for the Thai tourism industry to remain good, and foreign tourist arrivals will grow at a double digit rate in 2016.

Due to the strong recovery of the 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 half of 2016, CENTEL's RevPar continued to increase by 3.7% to Bt4,213 per night.

In 2015 the domestic economy was stagnant. However, CENTEL's food business grew by 2% y-o-y. Total revenue, including hotel business, rose to

Bt18,937 million, a 5% y-o-y rise, supported by a 9% increase in revenue in the hotel segment. In the first half of 2016, revenue increased by 5% y-o-y to Bt10,020 million as revenue rose in both the hotel and food segments. CENTEL's operating profit margin improved from 22.3% in 2014 to 24.7% in 2015 and to 25% in the first half of 2016, reflecting a performance rebound in the hotel segment and stringent cost control measures in the food segment. During 2016-2018, TRIS Rating forecasts CENTEL's revenue will grow by approximately 5% per annum, supported by a steady rise in the average room rate (ARR) and an OR of around 80%. The operating profit margin is forecasted to stay at around 23%-25% during 2016-2018.

CENTEL's debt dropped from Bt10,256 million at the end of December 2014 to Bt8,590 million at the end of June 2016. As a result, the debt to capitalization ratio improved, declining from 59.6% at the end of December 2014 to 51.7% at the end of June 2016. During the next three years, CENTEL plans to invest around Bt12,000 million to build new hotels and expand the number of food outlets. The number of food outlets is expected to rise to 1,000 outlets in 2019. The debt to capitalization ratio is expected to rise, but would 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 Bt2,126 million in the first half of 2016. The FFO to total debt ratio improved from 27.3% in 2014 to 36.5% in 2015 and 37.2% (annualized, from the trailing 12 months) in the first half of 2016. The EBITDA interest coverage ratio increased from 6.2 times in 2014 to 9.5 times in the first half of 2016. During the next 12 months, the company has long-term debt repayment obligations of around Bt4,251 million and outstanding short-term debt obligations of Bt798 million. CENTEL's liquidity is sufficient to cover the near-term obligations, supported by Bt1,135 million in cash on hand, and available commercial bank credit lines of approximately Bt2,000 million. In addition, the company plans to refinance some maturing debts.

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 satisfactory 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 a large 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
CENTEL218A: Bt980 million senior unsecured debentures due 2021	A
Up to Bt2,500 million senior unsecured debentures due within 2026	A
Rating Outlook:	Stable

KEY RATING CONSIDERATIONS

Strengths/Opportunities

- Strong market positions in key business segments
- Diversified hotel portfolio
- Resilient demand in the QSR industry
- Synergies within the Central Group

Weaknesses/Threats

- Excess supply of hotel rooms
- Seasonal and volatile nature of the hotel industry
- Competitive and low-margin nature of the QSR industry

CORPORATE OVERVIEW

CENTEL is a member of the Central Group, a leading retailer in Thailand. CENTEL was founded by the Chirathivat family in 1980 to operate the hotel business in Thailand. CENTEL was listed on the Stock Exchange of Thailand (SET) in 1990. The company expanded into the QSR business in 1994. As of June 2016, the Chirathivat family remained the major shareholder, holding 65% of CENTEL's shares outstanding.

CENTEL is one of the major hoteliers and restaurant chain operators in Thailand. As of June 2016, the company operated 37 hotels with a total 7,408 rooms in key tourist destinations in Thailand and four other countries (the Maldives, Vietnam, Sri Lanka, and Indonesia). CENTEL's hotel portfolio consists of 15 hotels it owns directly, including one hotel leased back from a property fund, and 22 hotel properties operated under management contracts. The proportion of room supply was 51% for

owned hotels and 49% for managed hotels. CENTEL's food segment has multiple products under 11 brands sold through 801 outlets nationwide. In the first half of 2016, revenues from the hotel segment accounted for 47% of total revenue, while the food segment contributed 53%. The hotel and food businesses generated 71% and 29% of CENTEL's EBITDA, respectively.

Table 1: CENTEL's Sales and EBITDA Breakdown by Line of Business

Unit: %

Business	2011	2012	2013	2014	2015	Jan-Jun 2016
Revenue Contribution						
Hotel	43	44	47	45	47	47
QSR	57	56	53	55	53	53
Total Revenue	**100**	**100**	**100**	**100**	**100**	**100**
EBITDA Breakdown						
Hotel	54	62	68	74	70	71
QSR	46	38	32	26	30	29
Total EBITDA	**100**	**100**	**100**	**100**	**100**	**100**

Source: CENTEL

BUSINESS ANALYSIS

Hotel Operations:

- ***Thailand's tourism fundamental remains strong***

Thailand is one of the world's top destinations for leisure and recreation, owing to good natural resources, a tropical environment, and the friendliness of its people. Despite several recent dramatic events, the number of foreign tourist arrivals rebounded quickly. After posting double-digit annual growth rates during 2010-2013, in 2014, foreign tourist arrivals declined by 7% to 24.78 million persons. The drop was due to chronic political protests which started in late 2013. The protests concluded with a coup d'état in May 2014.

However, in 2015, the 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% y-o-y in the first six months of 2016. The recent bombings in the southern provinces of Thailand will hamper the tourism industry in the short term. A fast recovery is expected due to the high quality of destinations in Thailand and strong demand for tourism within Asia.

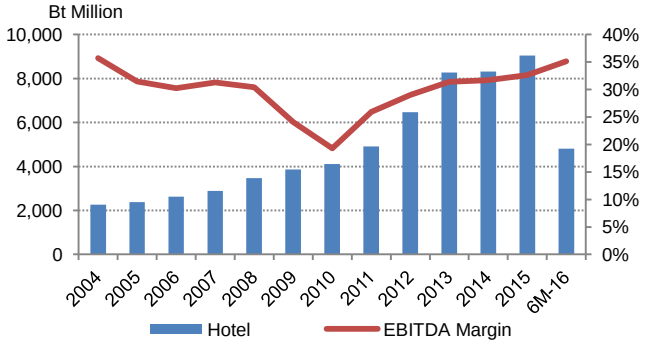
The future prospects of the Thai tourism industry remain good. TRIS Rating expects the prospects for the Thai tourism industry to remain good, and foreign tourist arrivals will grow at a double digit rate in 2016. However, the industry faces many challenges that may tarnish the growth prospects, such as prolonged stagnation of the European Union (EU) economy and the ability of the local authorities to maintain the attractiveness of Thailand's natural resources.

- ***Hotel segment recovers***

Reflecting the strong recovery of the hotels in Bangkok and a revival in the tourism industry, revenue in CENTEL's hotel segment rebounded impressively in 2015, rising by 9% to Bt9,046 million. Revenue continued to grow by 4% to Bt4,802 million in the first half of 2016, in tandem with the rise in foreign tourist arrivals. The EBITDA margin remained high at 33% in 2015 and improved to 35% in the first half of 2016.

As the tourism industry improved, the OR of CENTEL's hotel properties improved, climbing from 74.8% in 2014 to 80.2% in 2015. As a result, CENTEL's RevPar grew by 6.2% to Bt3,858 in 2015. For the first half of 2016, CENTEL's RevPar continued to increase, rising by 3.7% to Bt4,213 per night as the OR and ARR both increased. In the first half of 2016, CENTEL's OR reached 82.7%, compared with 80.6% during the same period of the previous year. CENTEL's ARR rose by 1.1% to Bt5,059 per night in the first half of 2016.

Chart 1: CENTEL's Hotel Revenue and EBITDA Margin



Source: CENTEL

Table 2: CENTEL's Hotel Performance

Hotel	2012	2013	2014	2015	Jan-Jun 2016
Room capacity (room)	3,403	3,620	3,812	3,812	3,812
ARR (Bt/night)	3,777	4,462	4,855	4,809	5,095
OR (%)	69.4	79.6	74.8	80.2	82.7
RevPAR (Bt/night)	2,620	3,551	3,632	3,858	4,213

Note: Only the hotel properties owned by CENTEL are shown.
Sources: CENTEL

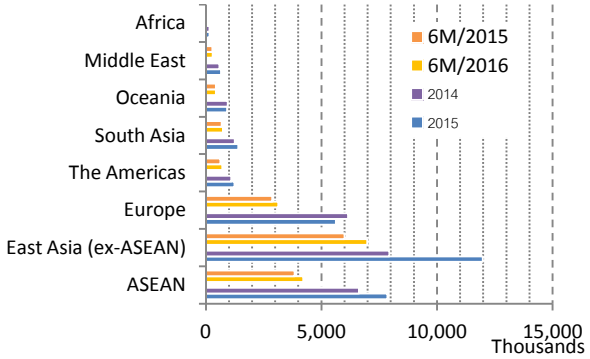
- ***Asian tourists become more important***

During the last five years, the tourist arrivals from East Asia grew faster than arrivals from any other regions. The rise was due to sharp increases in the number of Chinese tourists which, grew by 48% per annum during 2011-2015. As a result, the proportion of East Asian tourists to total foreign tourist arrivals to Thailand increased from 54% in 2011 to 66% in 2015 and 67% in the first half of 2016. During the same period, European tourist arrivals grew in a slower pace. The proportion slipped from 26% to 19%. The drop was mainly caused by a significant decline in the number of Russian tourists due to a sluggish economy in

their home country. TRIS Rating remains positive on the prospects for Thailand's tourism industry over the medium term, based on the assumption that other Asian economies will continue to grow.

Several of CENTEL's properties are in the upscale and luxury segment, which is fairly sensitive to economic conditions. Tourists from EU nations comprised 37% of CENTEL's customer base during 2013 and 2014. The portion dropped to 32% during 2015 through the first half of 2016 due to the substantial depreciation of the Russian currency and a prolonged public debt crisis in the EU, which affected the travel and holiday plans of European travelers. To mitigate the dependency on tourists from western nations, CENTEL has actively approached tourists from Asian countries, especially China and India. However, Asian tourists usually have shorter lengths of stay and lower spending on average compared with Western tourists. Thus, CENTEL has to initiate more attractive packages to urge their spending. The proportion of Asian tourists increased to 36% of CENTEL's guests during 2015 through the first half of 2016, compared with 27% in 2014.

Chart 2: Number of Tourist Arrivals to Thailand, by Region of Origin



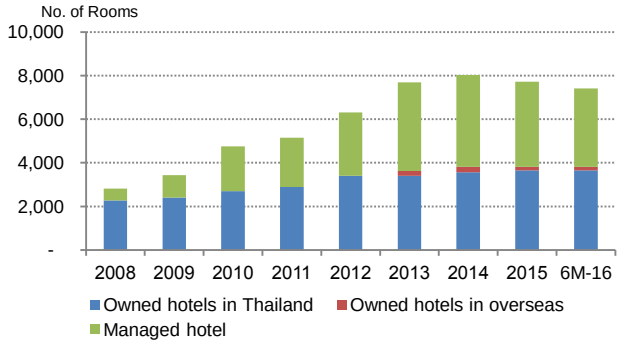
Source: Tourism Authority of Thailand (TAT)

- ***Diversified hotel portfolio***

From its inception until 2007, CENTEL used the Central brand for its hotels. In mid-2007, CENTEL rebranded its hotels to the Centara brand and added more brands to cover various hotel categories. High-end properties are branded as "Centara Grand" hotels while the "Centara Boutiques Collection" name is used for boutique hotels. The "Centara" and "Centra" brands are applied to four-star and three-star hotels, respectively. In late 2012, the company launched the COSI brand for its budget hotel properties. As of June 2016, CENTEL's hotel portfolio increased to 7,408 rooms, compared with 3,318 rooms in 2008. The expansion of its hotels benefits the company to alleviate the concentration risk. In the first half of 2016, the top five properties contributed approximately 61% of the revenue in the hotel segment, compared with 81% in 2008.

In order to reduce its reliance on the performance of its hotel properties in Thailand, the company acquired a five-star hotel in the Maldives in late 2012, Centara Grand Island Resort & Spa Maldives. In the following year, CENTEL opened a second Maldives hotel, Centara Ras Fusi Resort & Spa. Currently, the company operates 250 hotel rooms in the Maldives. In the first half of 2016, revenues from these hotels comprised 20% of the revenue in the hotel segment.

Chart 3: CENTEL's Hotel Rooms



Sources: CENTEL

In order to leverage its expertise in hotel operations and the strength of its hotel brands, the company has aggressively expanded the hotel management service business during the past several years. The total number of rooms in hotels managed by CENTEL jumped from 556 rooms in 2008 to 3,908 rooms in 2015. However, in the first half of 2016, the total number of rooms in managed hotels declined to 3,596 rooms as CENTEL terminated some contracts at hotels which did not comply with its standard. In addition, some hotel management contracts were not renewed.

The company has another 18 management contracts in the pipeline, covering over 4,465 rooms. These contracts are expected to operate from the second half of 2016 through 2018. In 2015, hotel management service fees amounted to Bt202 million, only 2% of revenue from hotel operations. CENTEL expects the revenue from hotel management services will gradually climb to around Bt450 million in the next three years. Despite the small size, hotel management service is a profitable line of business because the services CENTEL offers can share the existing hotel operational systems with only a few additional costs. However, the hotel management service segment is exposed to the risk of contract terminations. CENTEL is facing a challenge to control its service quality, deliver satisfactory performance, and create brand value.

CENTEL has a strategy to enlarge its hotel portfolio through management contracts and by building or acquiring new hotels. The funding for CENTEL's expansion efforts could come through a joint venture (JV), a property fund, or a self-financed development. By using a JV or a property fund, CENTEL can reduce the financial burden for large investment projects. For example, CENTEL's two hotels in the Maldives are 25% owned by local partners. CENTEL also operates one hotel owned by a property fund.

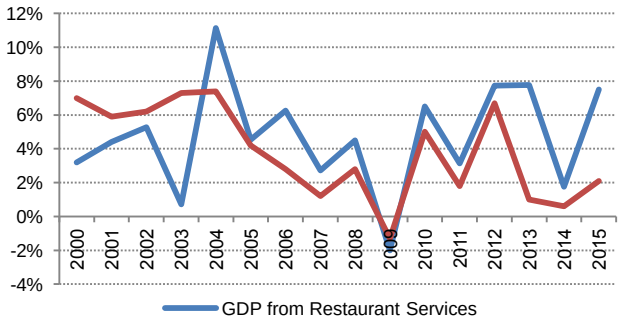
Quick Service Restaurant (QSR) Operations:

- ***Highly competitive***

QSRs and restaurant chains are familiar and popular among Thai consumers. The modern consumer lifestyle, rising demand, and low barriers to entry have brought on more competition from both local and international brands. Competition is intense not only among the food chain operators, but also from a large number of substitute products. Hence, a QSR operator has to continuously launch advertising and promotional campaigns to strengthen brand awareness and stimulate demand.

Generally, the growth of the QSR industry in Thailand tracks the growth in private consumption expenditures. According to the Office of the National Economic and Social Development Board (NESDB), private consumption grew by 2.1% y-o-y in 2015, and increased by 3.1% in the first half of 2016. However, the stagnant local economy, low prices of agricultural products, and high level of household debt may keep a lid on consumption expenditure. Hence, major QSR operators are expected to maintain aggressive marketing campaigns which will intensify competition over the next six to 12 months.

Chart 4: Growth Rates of GDP from Restaurant and Private Consumption



Source: National Economic and Social Development Board (NESDB)

- ***Strong brands with group-wide synergy***

CENTEL operates its restaurant business through a wholly-owned subsidiary, CRG, a leading food service company. CRG currently operates 11 QSR brands, consisting of 10 international franchised chains and one of its own brands, The Terrace. Except for KFC, CRG is the sole franchisee of those international brands. KFC is jointly operated by CRG and the franchisor, Yum! Brands, Inc. The number of KFC outlets operated by CRG accounts for one-third of the total number of KFC restaurants in Thailand.

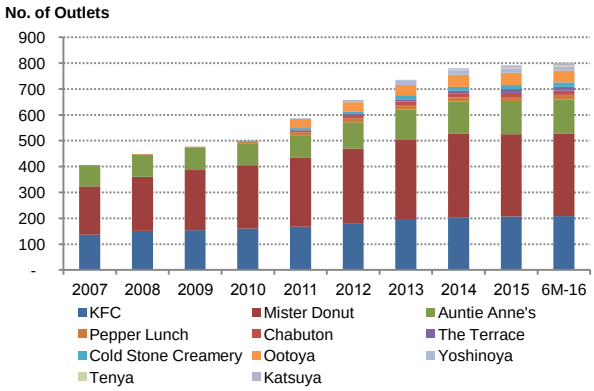
As of June 2016, CRG owned and operated 801 outlets nationwide. CRG's restaurant portfolio covers a wide variety of food, as shown in Table 3. CRG plans to have 1,000 outlets in 2019. At the same time, CRG is keen to get new brands through both franchising and acquisition. CENTEL focuses on Asian food, which is well-accepted by Thai consumers. New brands would help diversify the sources of revenue and boost revenue. However, several newly-launched QSR brands have not yet generated satisfactory returns.

Table 3: CENTEL's QSR Portfolio as of Jun 2016

Brand	Product	Restaurant Type	Owned Outlet	Food Revenue Contribution (%)
KFC	Chicken	Quick service	208	56
Mister Donut	Donuts	Quick service	319	17
Ootoya	Japanese food	Casual dinning	45	8
Auntie Anne's	Bakery	Quick service	132	7
Pepper Lunch	Japanese steak	Casual dinning	18	2
Chabuton	Ramen	Casual dinning	17	3
Yoshinoya	Beef bowl	Quick service	15	2
Cold Stone Creamery	Ice cream	Casual dinning	18	1
The Terrace	Thai Cuisine	Casual dinning	14	1
Tenya	Japanese food	Quick service	4	1
Katsuya	Japanese food	Quick service	11	1
Others	n.a.	n.a.		1
Total			**774**	**100**

Source: CENTEL

Chart 5: CENTEL's Food Outlets



Source: CENTEL

There is a significant amount of synergy between the food business and the Central Group. The Central Group is the largest developer of shopping malls and rentable retail space in Thailand. CRG's outlets are located in most of the Central Group's shopping complexes. CRG's restaurants

serve as magnets for the shopping center properties while CRG plans its outlet expansion along with the Group.

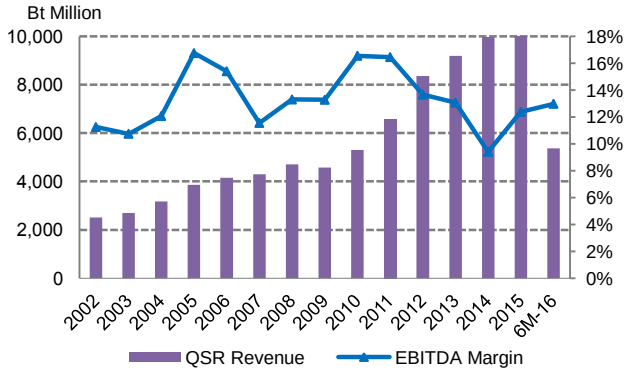
- ***Food business improves***

In 2015, CENTEL revenue in food segment grew by 2%, compared with a 9% growth in 2014. The slower growth reflected less domestic consumption expenditures. In the first half of 2016, revenue grew by 6% y-o-y to Bt5,361 million. The rise reflected 27 new outlets coupled with a rebound in domestic consumption expenditures and aggressive marketing promotions. Same store sales increased by 1.4% compared with the same period of the previous year. The largest contributor is KFC which contributed 56% of total QSR revenue. Four key brands in aggregate accounted for approximately 88% of revenue in food segment. In terms of cash flow, the four key brands made up nearly all of EBITDA in the food segment.

During the past few years, CENTEL launched several new QSR brands. A new brand normally has a high start up cost. Some QSR brands which do not perform well will be terminated. In 2016, the company discontinued Ryu Shabu Shabu because the style of the outlet did not suit consumer preferences.

Normally, the profit margin of the food segment is fairly thin as QSR operators have to offer aggressive promotions throughout the year to attract consumers. In 2014, the EBITDA margin of the food business declined to 9% from 13% in 2013 as the prices of raw materials rose and CENTEL implemented aggressive promotion campaigns. However, the EBITDA margin recovered to 12% in 2015 and 13% in the first half of 2016 after the company implemented stringent cost controls.

Chart 6: CENTEL's QSR Revenue and EBITDA Margin



Source: CENTEL

FINANCIAL ANALYSIS

CENTEL's financial profile has strengthened. Diversification abroad has helped CENTEL insulate its overall operating performance from local event risks. The balance sheet is healthier. However, a debt-funded new investment program will raise leverage over the next three years.

- ***Profitability improves***

CENTEL's operating performance has continued to improve during the last few years. The operating profit margin improved from 22.3% in 2014 to 24.7% in 2015 and 25% in the first half of 2016. The rise came as CENTEL's Bangkok hotels resumed normal operations and because of stringent cost control measures in the food business.

During the next three years, TRIS Rating forecasts that CENTEL's total revenue will grow by approximately 5% per annum, supported by an increase in the ARR and an average OR of 80% in the hotel segment. The operating profit margin is forecasted to hold at around 23%-25%.

- ***Expansion will push leverage higher***

CENTEL's debt has gradually dropped from Bt10,256 million at the end of December 2014 to Bt8,590 million at the end of June 2016. As a result, the debt to capitalization ratio improved, declining from 59.6% at the end of December 2014 to 51.7% at the end of June 2016. CENTEL is entering a new investment cycle as it plans to expand its hotel portfolio. During the next three years, CENTEL plans to spend around Bt12,000 million to build new hotel properties and open more food outlets. The investments will be funded in part with new debt. Thus, the debt to capitalization ratio is expected to rise, but stay below 55%.

- ***Rising cash flow supports liquidity***

CENTEL's operating cash flow has improved as the hotel and QSR portfolios grew. FFO increased from Bt3,443 million in 2014 to Bt4,083 million in 2015 and stood at Bt2,126 million in the first half of 2016. The FFO to total debt ratio improved from 27.3% in 2014 to 36.5% in 2015 and 37.2% (annualized, from the trailing 12 months) in the first half of 2016. The EBITDA interest coverage ratio increased from 6.2 times in 2014 to 9.5 times in the first half of 2016. In the medium term, FFO is expected to grow to over Bt4,000 million. TRIS Rating estimates that CENTEL's FFO to total debt ratio will be over 25% and the EBITDA interest coverage ratio will be around 6 times.

During the next 12 months, the company has long-term debt repayment obligations of around Bt4,251 million and outstanding short-term obligations of Bt798 million. CENTEL's FFO will be sufficient to cover its near-term liquidity needs. CENTEL's flexibility is further supported by cash on hand of Bt1,135 million 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.

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		---------- Year Ended 31 December ----------				
	Jan-Jun 2016	2015	2014	2013	2012	2011
Sales	10,020	18,937	17,965	17,096	14,504	11,278
Gross interest expense	161	380	455	507	486	414
Net income from operations	1,112	1,676	1,188	1,322	1,021	550
Funds from operations (FFO)	2,126	4,083	3,443	2,938	2,390	1,625
Capital expenditures	659	1,553	1,371	2,003	1,359	1,525
Total assets	24,490	24,499	24,770	29,212	28,149	21,684
Total debt	8,590	8,699	10,256	11,482	12,078	10,003
Annual lease capitalization	2,561	2,566	2,602	2,619	1,296	1,274
Shareholders' equity	10,409	9,954	8,731	11,152	9,929	6,049
Operating income before depreciation and amortization as % of sales	25.00	24.68	22.32	21.47	19.59	18.77
Pretax return on permanent capital (%)	12.00 **	13.23	10.16	10.43	9.67	8.03
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	9.45	7.77	6.23	5.91	5.65	4.87
FFO/total debt (%)	37.17 **	36.51	27.29	21.15	17.87	14.41
Total debt/capitalization (%)	51.72	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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