CENTRAL PLAZA HOTEL PLC

No. XX/2017 **12 September 2017**

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 debentures ratings of Central Plaza Hotel PLC (CENTEL) at “A”. 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 is a leading hotelier and food operator in Thailand. The company was founded in 1980 by the Chirathivat family, which currently holds 64% of the outstanding shares. In 2016, the hotel segment generated 46% of CENTEL’s revenue, and 68% of EBITDA (earnings before interest, tax, depreciation, and amortization). As of June 2017, CENTEL’s hotel portfolio consisted of 7,080 rooms, at 37 hotel properties located in key tourist destinations in Thailand and four other countries (the Maldives, Vietnam, Sri Lanka, and Oman). CENTEL manages the hotel properties under its own “Centara Grand”, “Centara”, and “Centra” brand names. The 15 properties owned by CENTEL directly comprise 54% of the total amount of rooms, including one property leased back from a property fund.

All activities in the food segment are conducted through a subsidiary, Central Restaurants Group Co., Ltd. (CRG). CRG operates 11 food brands, consisting of 10 international franchised QSR and restaurant chains plus one of its own brands, “The Terrace”. As of June 2017, the company operated a total of 824 outlets countrywide.

Due to the high quality of destinations in Thailand, the Thai tourism industry posted rapid rebounds from several unfavorable events. In the fourth quarter of 2016, the number of foreign tourist arrivals declined slightly, falling by 0.9% year-on-year (y-o-y) due to the suppression of Chinese zero-dollar tours and the nationwide mourning period for the late king. However, in the first half of 2017, the number of foreign tourist arrivals rebounded by 4.4% y-o-y to 17.32 million persons. TRIS Rating expects that the prospects for the Thai tourism industry remain good, and foreign tourist arrivals are expected to grow at a rate in the mid- to high single digits.

Due to the robust tourism industry, CENTEL's overall occupancy rate (OR) remained high at 81.9% in 2016, compared with 80.2% in 2015. As a result, CENTEL's revenue per available room (RevPar) grew by 3.0% to Bt3,975 in 2016. In the first half of 2017, even though the occupancy rates at the hotel properties in Maldives and Bangkok dropped, CENTEL’s RevPar increased slightly by 0.5% to Bt4,233 per night. The rise reflected strong operating performance at hotel properties upcountry.

In 2016, revenue rose to Bt19,563 million, a 3% y-o-y rise, supported by a 4% increase in revenue in the food segment and a 2% increase in revenue in the hotel segment. In the first half of 2017, revenue slightly declined, slipping by 1% y-o-y to Bt9,926 million. The decline was due to the fall in revenue from MICE (meetings, incentive travel, conventions, and exhibitions) activities and decreases in revenue hotels in Maldives and Bangkok. CENTEL's operating profit margin was around 25% during 2015 through the first half of 2017. TRIS Rating forecasts CENTEL's revenue will be flat in 2017, but grow by approximately 5% per annum in 2018 and 2019. The operating profit margin is forecasted to stay range from 23%-25% during 2017-2019.

CENTEL's total debt dropped from Bt8,699 million at the end of December 2015 to Bt7,135 million at the end of June 2017. As a result, the debt to capitalization ratio improved, declining from 54.6% at the end of December 2015 to 47.6% at the end of June 2017. During the next three years, CENTEL plans to spend around Bt12,500 million to build new hotels and add more food outlets. The debt to capitalization ratio is expected to rise but stay below 55%.

The company's liquidity profile is strong. Funds from operations (FFO) was around Bt4,000 million in 2015 and 2016, and stood at Bt2,091 million in the first half of 2017. The FFO to total debt ratio improved from 34.1% in 2015 to 36.9% in 2016 and 39.1% (annualized, from the trailing 12 months) in the first half of 2017. The EBITDA interest coverage ratio increased from 7.4 times in 2015 to 10.3 times in the first half of 2017. During the next 12 months, the company has long-term debt repayment obligations of around Bt214 million and outstanding short-term debt obligations of Bt209 million. CENTEL's liquidity is sufficient to cover the near-term obligations, supported by Bt1,277 million in cash and marketable securities on hand, and available commercial bank credit lines of approximately Bt2,200 million.

Rating Outlook

The "stable" outlook reflects the expectation that the company will maintain its strong market positions in its core lines of business. CENTEL's ratings could be upgraded should the company further enlarge and diversify in each of its business portfolios while maintaining a 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:	
CENTEL18NA: Bt700 million senior unsecured debentures due 2018	A
CENTEL218A: Bt980 million senior unsecured debentures due 2021	A
CENTEL229A: Bt1,000 million senior unsecured debentures due 2022	A
CENTEL239A: Bt1,000 million senior unsecured debentures due 2023	A
CENTEL269A: Bt500 million senior unsecured debentures due 2026	A
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Jun 2017	---------------------- Year Ended 31 December -------------------- 2016	2015	2014	2013	2012
Sales	9,926	19,563	18,937	17,965	17,096	14,504
Gross interest expense	115	299	380	455	507	486
Net income from operations	1,181	1,850	1,664	1,188	1,322	1,021
Funds from operations (FFO)	2,091	4,042	4,064	3,443	2,938	2,390
Capital expenditures	520	1,455	1,553	1,371	2,003	1,359
Total assets	23,800	24,397	24,443	24,770	29,212	28,149
Total debt	7,135	7,768	8,699	10,256	11,482	12,078
Annual lease capitalization	3,124	3,188	3,235	3,300	3,345	1,631
Shareholders' equity	11,283	11,117	9,921	8,731	11,152	9,929
Operating income before depreciation and amortization as % of sales	23.65	23.81	24.62	22.32	21.47	19.59
Pretax return on permanent capital (%)	12.59 **	13.45	12.91	10.14	10.38	9.51
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	10.31	8.63	7.41	5.70	5.56	5.65
FFO/total debt (%)	39.06 **	36.89	34.05	25.40	19.82	17.43
Total debt/capitalization (%)	47.62	49.63	54.64	60.82	57.07	58.00

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

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