

CENTRAL PLAZA HOTEL PLC

No. 117/2021
27 July 2021

CORPORATES

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Negative

Last Review Date: 31/07/20

Company Rating History:

Date	Rating	Outlook/Alert
31/07/20	A	Negative
27/03/20	A	Alert Negative
09/08/13	A	Stable
28/07/11	A-	Stable
03/07/09	A-	Negative
21/10/04	A-	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Central Plaza Hotel PLC (CENTEL) and the ratings on its existing senior unsecured debentures to “A-” from “A”. The rating action follows our view that the escalating Coronavirus 2019 disease (COVID-19) situation in Thailand compounded by a weak economic outlook will likely result in slower-than-expected business recovery for CENTEL and a drawn-out timeline for the company to restore its financial strength. We expect CENTEL’s leverage ratio as measured by the ratio of adjusted debt to earnings before interest, tax, depreciation, and amortization (EBITDA) to continue its sharp rise in 2021 and stay elevated exceeding the threshold of 4 times until 2024 which is not commensurate with the “A” rating.

The rating outlook remains “negative” reflecting high uncertainty surrounding the COVID-19 development, vaccine rollout pace and efficacy which could protract the distressed operating conditions and further weaken financial metrics.

KEY RATING CONSIDERATIONS

A drawn-out timeline for business recovery

The ongoing surge in COVID-19 infection cases and slow pace of vaccine rollouts in Thailand will likely result in an extended period of travel restrictions and subdued demand for hotel rooms. We believe that it will take longer than previously expected for CENTEL’s hotel business to recover to pre-COVID-19 levels.

CENTEL’s hotel business will likely remain under stress in the coming quarters as its hotel assets are fairly concentrated in Thailand that is in the midst of the most severe COVID-19 outbreak. We project CENTEL’s owned hotel revenue per available room (RevPAR) in 2021 to be around 80% lower than the 2019 level. The drop in RevPAR is greater than 2020 at 71%. We forecast the RevPAR to improve in 2022 but still at around 40% lower than 2019. This is based on our view that travel restrictions will likely continue over the next several quarters until vaccination in Thailand has gathered pace and widespread immunization is achieved, potentially in the first half of 2022.

In our view, the initiatives like Phuket Sandbox and Samui Plus to support hospitality businesses, might not have a significant impact on CENTEL’s overall hotel performance, at least in the next few quarters. Travel complications such as multiple COVID-19 testing or quarantine requirements when tourists travel back to their countries remain significant hurdles that discourage leisure travel. We assess hotel demand in Thailand will likely start gaining recovery momentum in mid-2022 onward, based on our assessment on the timeline for a high level of vaccine dissemination to be achieved, and the outbreak to be largely under control in Thailand and many parts of the world, enabling the easing of international travel restrictions.

Our projection incorporates a more promising recovery of hotel operation in Maldives despite a short disruption during the second quarter caused by the escalating COVID-19 situation in South Asia.

We forecast the RevPAR in 2023 to be 15%-20% lower than the pre-COVID level as we view demand from the MICE (Meetings, Incentive Travel, Conventions, and Exhibitions) segment might not have yet fully recovered

and could, in part, be replaced by virtual meetings.

Persistent operational challenges

CENTEL's food business, although more resilient compared to the hotel business, will also take longer than previously expected to recover to pre-COVID 19 levels. This is due largely to the business disruption induced by the escalating COVID-19 situation in Thailand and prolonged weak economic environment.

Our base-case projection forecasts CENTEL's revenue from food business to decline at a high single-digit percentage year-on-year (y-o-y) to be THB9.1 billion in 2021, compared with THB10 billion in 2020. The assumption reflects our view on disruption in dine-in units in response to the government's outbreak containment measures. However, CENTEL's ability to cater for delivery platforms should help alleviate the impact of dine-in restrictions. We project the revenue of CENTEL's food business to be THB10.5-THB12.5 billion per annum in 2022-2023. The revenue will be driven mainly from outlet expansion as average sales per outlet will likely continue to be under pressure from both intense competition and persistently weak consumer spending. Additionally, fragile economic prospects could limit outlet expansion potential. In our view, "KFC", which accounts for over half of its total food revenue and EBITDA will remain the key brand driving CENTEL's food business recovery.

Depressed earnings to continue in 2021

Our base-line projection forecasts the company's revenue to be THB11.5 billion in 2021 before improving to around THB17 billion in 2022 and THB21 billion in 2023. EBITDA margin is expected to remain in the mid-teens-percentage in 2021 before increasing to the 24%-28% range in 2022-2023 based on improving operating leverage. This is forecast to translate into EBITDA of around THB1.8 billion in 2021 and THB4 billion in 2022, and THB5.6 billion in 2023. The company's ongoing cost control efforts will remain a key factor supporting its earnings during the business recovery phase.

Elevated leverage

We expect CENTEL's leverage to continue its sharp rise in 2021 and stay elevated longer than previously anticipated from the prolonged period of depressed earnings and capital expenditure plans. At the end of March 2021, CENTEL's adjusted debt was THB20.7 billion. The ratio of adjusted debt to EBITDA was 13.5 times, annualized from the trailing 12 months, a leap from 2.3 times in 2019. Our base-case scenario forecasts the adjusted debt to EBITDA ratio to be around 13.5 times in 2021 before improving to 6-6.5 times during 2022-2023. We project that CENTEL will be able bring down the leverage ratio below 4 times on a sustained basis after 2024. Our baseline forecast incorporates the assumption that CENTEL's capital expenditures will be THB3-THB4 billion per annum during 2021-2023.

As of March 2021, CENTEL's debts consisted of THB3.6 billion of priority debt out of its total interest-bearing debt of THB14.2 billion. As its priority debt ratio is 25%, below the threshold of 50%, we view that CENTEL's unsecured creditors are broadly not significantly disadvantaged with respect to the priority of claim against the company's operating assets.

The main financial covenants on CENTEL's bank loans and debentures require the company's interest-bearing debt to equity ratio to remain below 2 times. As of March 2021, the ratio was 1.26 times. We believe that CENTEL should have no problems complying with the financial covenants over the forecast period.

Manageable liquidity

We assess CENTEL's liquidity to be manageable over the next 12 months. Its primary liquidity sources are cash on hand of around THB2.8 billion at the end of March 2021, undrawn credit facilities of about THB8 billion, and expected funds from operations (FFO) of around THB2 billion. The primary uses of funds are debts maturing of THB5.4 billion, lease obligations of approximately THB2 billion, and capital spending of THB3-THB4 billion. We expect the company to continue to preserve cash and maintain sufficient liquidity to withstand any unfavorable operating conditions during the business recovery period.

BASE-CASE ASSUMPTIONS

- Compared with the 2019 level, hotel RevPAR to drop by around 80% in 2021, 40% in 2022, and 15%-20% in 2023.
- Food revenue to be THB9.1 billion in 2021 and to be THB10.5-THB12.5 billion per annum in 2022-2023.
- Revenue to be THB11.5 billion in 2021 before improving to around THB17 billion in 2022 and THB21 billion in 2023.
- EBITDA to be THB1.8 billion in 2021 and THB4 billion in 2022, and THB5.6 billion in 2023.
- Total capital spending to be THB3-THB4 billion per annum in 2021-2023.

RATING OUTLOOK

The “negative” outlook reflects a high uncertainty surrounding the COVID-19 development, vaccine rollout pace and efficacy which could protract CENTEL’s distressed operating conditions and further weaken financial metrics.

RATING SENSITIVITIES

The outlook could be revised to “stable” if the COVID-19 outbreak is broadly brought under control, reducing risk of further deterioration of operating conditions, and CENTEL’s operating performance recovers steadily, resulting in a drop of its ratio of adjusted debt to EBITDA closer to 6 times or below. A rating downgrade could occur if the effect of the COVID-19 fallout turns out to be substantially more severe than currently expected and/or CENTEL’s liquidity position deteriorates materially.

COMPANY OVERVIEW

CENTEL was founded by the Chirathivat family in 1980 to operate its hotel business in Thailand. The company was listed on the Stock Exchange of Thailand (SET) in 1990. It expanded into the QSR business in 1994. CENTEL is a member of the Central Group, a leading retailer in Thailand. As of March 2021, the Chirathivat family held a majority stake of 63% in CENTEL’s shares outstanding.

At the end of March 2021, CENTEL operated 44 hotels and a portfolio of 7,819 rooms. Of this total, 18 hotels were CENTEL’s owned and leased properties with the rest of the hotels under management contracts. These hotels are situated in key tourist destinations in Thailand and five other countries, namely, the Maldives, Vietnam, Sri Lanka, Oman, and Qatar. CENTEL operates hotels under its own brands of “Centara Grand”, “Centara”, “Centra”, “COSI”, “Centara Boutique Collection”, and “CENTARA RESERVE”. These hotel brands, especially Centara Grand, have favorable brand recognition in the domestic market.

For its food businesses, CENTEL offers a variety of products such as donuts, fried chicken, pastry, and Japanese food. The company operated a total of 1,189 outlets nationwide as of March 2021 under 10 franchised brands, 6 owned brands, and 3 joint-ventured brands.

KEY OPERATING PERFORMANCE

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

Unit: %

Business	2016	2017	2018	2019	2020*	Jan-Mar 2021*
Revenue contribution						
Hotel	46	45	44	41	22	16
QSR	54	55	56	59	78	84
Total revenue	100	100	100	100	100	100
EBITDA breakdown						
Hotel	68	70	69	68	-10	-20
QSR	32	30	31	32	110	-120
Total EBITDA	100	100	100	100	100	100

Source: CENTEL

Note: *EBITDA after adopting TFRS16

Table 2: CENTEL's Hotel Performance

Hotel Performance	2017	2018	2019	2020	Jan-Mar 2021
Room capacity (room)	3,812	4,139	4,477	4,444	4,443
ARR (THB/night)	4,897	4,620	4,353	4,149	4,886
OR (%)	83	82	77	27	14
RevPAR (THB/night)	4,049	3,786	3,456	1,134	660

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

Sources: CENTEL

Table 3: CENTEL's QSR Portfolio as of Mar 2021

Brand	Product	Restaurant Type	Owned Outlet
KFC	Chicken	Quick service	289
Mister Donut	Donuts	Quick service	371
Auntie Anne's	Bakery	Quick service	193
Ootoya	Japanese food	Casual dining	47
Pepper Lunch	Japanese steak	Casual dining	46
Chabuton	Ramen	Casual dining	17
Yoshinoya	Beef bowl	Quick service	20
Tenya	Japanese food	Quick service	14
Katsuya	Japanese food	Quick service	40
Cold Stone Creamery	Ice cream	Casual dining	17
The Terrace	Thai cuisine	Casual dining	10
Aroi Dee	Thai food	Quick service	23
Kowlune	Chinese food	Casual dining	9
Arigato	Beverage	Quick service	54
GrabKitchen by Every Food	Thai food	Quick service	10
Salad Factory	Salad	Quick service	13
Brown Café	Beverage	Quick service	11
Café Amazon – Vietnam	Beverage	Quick service	5
Total			1,189

Sources: CENTEL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Mar 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	2,755	13,154	21,108	21,735	20,260
Earnings before interest and taxes (EBIT)	(325)	(1,438)	2,765	3,200	2,892
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	505	2,045	6,099	5,944	5,618
Funds from operations (FFO)	349	1,804	5,043	4,904	4,658
Adjusted interest expense	165	677	776	602	553
Capital expenditures	542	1,984	2,229	1,638	3,184
Total assets	35,606	35,350	27,590	26,447	25,037
Adjusted debt	20,740	19,915	13,732	11,963	11,250
Adjusted equity	9,870	10,216	14,144	13,420	12,058
Adjusted Ratios					
EBITDA margin (%)	18.33	15.55	28.89	27.35	27.73
Pretax return on permanent capital (%)	(5.63)	-4.53	9.56	12.45	12.10
EBITDA interest coverage (times)	3.05	3.02	7.86	9.88	10.16
Debt to EBITDA (times)	13.54	9.74	2.25	2.01	2.00
FFO to debt (%)	6.35	9.06	36.72	40.99	41.40
Debt to capitalization (%)	67.75	66.10	49.26	47.13	48.27

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Central Plaza Hotel PLC (CENTEL)

Company Rating:	A-
Issue Ratings:	
CENTEL218A: THB980 million senior unsecured debentures due 2021	A-
CENTEL229A: THB1,000 million senior unsecured debentures due 2022	A-
CENTEL239A: THB1,000 million senior unsecured debentures due 2023	A-
CENTEL240A: THB600 million senior unsecured debentures due 2024	A-
CENTEL269A: THB500 million senior unsecured debentures due 2026	A-
Rating Outlook:	Negative

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