

# CENTRAL PLAZA HOTEL PLC

No. 112/2022  
14 July 2022

## CORPORATES

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
Senior unsecured	A-
<b>Outlook:</b>	Stable

Last Review Date: 27/07/21

### Company Rating History:

Date	Rating	Outlook/Alert
27/07/21	A-	Negative
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 affirms the company rating on Central Plaza Hotel PLC (CENTEL) and the ratings on its existing senior unsecured debentures at “A-”. At the same time, we revise the rating outlook to “stable”, from “negative”. The ratings continue to be underpinned by CENTEL’s strong market position in its hotel and quick service restaurant (QSR) businesses in Thailand. The outlook revision reflects our view of more promising business recovery, particularly in its hotel business after the lifting of most travel restrictions with tourism activities gaining traction. Meanwhile, its QSR business performance is expected to remain resilient despite some pressure on profit margin from rising costs. Improving operating conditions should enable CENTEL to steadily restore its financial strength and credit metrics.

## KEY RATING CONSIDERATIONS

### Improving tourism prospects in Thailand

After the 2-year slump in the tourism industry caused by the pandemic, Thailand lifted travel restrictions and fully reopened for tourism in July 2022. It is estimated that the number of tourist arrivals could reach 7-10 million in 2022, compared with 6.7 million in 2020 and 0.4 million in 2021. Although the number remains far lower than that of 40 million in 2019, the improvement should help support hotel business recovery in Thailand.

We expect leisure demand to lead the recovery at the early stage. Solid pent-up demand from international tourists and the relaunch of the “We Travel Together” campaign should bolster hotel revenue per available room (RevPAR) in coming quarters. Over the longer term, the return of Chinese tourists will play an important role in Thailand tourism revival. With the strict Zero-COVID policy in China, we expect Chinese tourist arrivals to gain momentum in 2023 at the earliest. The return of business travel, despite some permanent loss to virtual meetings, should support steady recovery in our view.

### Hotel business recovery gains traction

CENTEL’s strong market position and its portfolio covering all key segments from upper upscale to affordable hotels and leisure to convention hotels should enable the company to capture the industry pick up at different stages. Our baseline projection forecasts CENTEL’s owned hotel RevPAR in 2022 to recover to around 50% of pre-pandemic levels. This is supported by more favorable industry conditions with solid pent-up demand for Thai tourism in which CENTEL’s portfolio is concentrated. Additionally, we expect strong demand in the Maldives to continue, albeit at more normalized levels compared to the previous year. We forecast the RevPAR in 2023 to reach around 80% of pre-pandemic levels on the back of some returning demand from Chinese tourists and the MICE (Meetings, Incentive Travel, Conventions, and Exhibitions) segment. We forecast the RevPAR to return close to pre-pandemic levels in 2024 when we expect social and economic normalcy to fully resume. The assumption also takes into account the operation of a new hotel in Japan starting in the second half of 2023 and CENTEL’s hotel renovation plan during the period which should help CENTEL to command higher room rates.

### QSR business poised to grow

After the pandemic-led slowdown in CENTEL’s QSR business during the past 2 years, we view the company’s QSR business as poised to grow driven by both

same store sales growth and outlet expansion. Same store sales growth will be supported mainly by normal outlet operating hours with full dine-in capacity. Meanwhile, CENTEL intends to actively open new outlets for various brands to respond to dynamic customer behaviors which should boost its total sales.

CENTEL plans to continue opening new outlets for its key revenue generating brands including KFC, Mister Donut, and Auntie Anne's. The company also plans to open outlets of Katsuya, Yoshinoya, and Pepper Lunch in a hybrid cloud format where the three brands share their location with some facilities aiming to cater for food delivery demand. CENTEL's strategy for new outlet expansion is to open smaller outlets in new locations like gas stations which use less investment and better capture dynamic demand especially on delivery platforms. In addition, CENTEL plans to aggressively open Arigato, its own coffee shop brand, to capture opportunities in the fast-growing coffee market.

Our base-case projection forecasts CENTEL's revenue from the QSR business to grow by 20% year-on-year (y-o-y) reaching THB11 billion in 2022 and grow by a low-teen percentage to around THB12-THB14 billion per annum during 2023-2024. Despite operating multiple brands, we expect the KFC brand to continue being a dominant brand contributing over half of CENTEL's QSR revenue and earnings before interest, taxes, depreciation, and amortization (EBITDA). Three other major brands, including Mister Donut, Auntie Anne's, and Ootoya, are projected to contribute approximately 30% of total QSR revenue and EBITDA over the forecast period. We also view Katsuya and Yoshinoya brands as having good growth potential as they expand their outlets and the menus work well on the food delivery platform.

### **Economic headwinds to weigh on recovery**

Weakening macroeconomic conditions, heightened inflation, and risk of recession globally pose key downside risks to CENTEL's recovery prospects. In the hotel business, higher travel costs, resulting from elevated fuel prices, are likely to dampen the recovery pace of demand for hospitality services especially from long-haul travelers. Meanwhile, rising input costs as a result of global supply chain disruption and inflationary pressure will add challenges to operating results particularly in the food business. The gloomy economic environment will adversely affect consumer confidence and spending and eventually delay CENTEL's business recovery potential.

### **Downward pressure on profitability**

Our base-line projection forecasts CENTEL's revenue to be THB16.4 billion in 2022 before improving to around THB20-THB23.5 billion per annum during 2023-2024. Profitability is expected to be affected by inflationary pressure and elevated input costs particularly in the QSR business. Despite CENTEL's efforts -- including improving operating efficiency, menu rationalization, and price increases -- to alleviate the impacts on its profitability, we view CENTEL's ability to preserve its profit margin could be constrained considering the weakening macroeconomic environment. Weak consumer sentiment and the highly competitive QSR business could limit CENTEL's ability to fully pass on the rising costs to consumers, at least in the near term. We project CENTEL's EBITDA margin to be around 24% in 2022. We forecast the EBITDA margin to improve to the 27%-29% range in 2023-2024 as the hotel business, which yields higher EBITDA margin, continues to improve and contribute a higher portion of operating profit. We project CENTEL's EBITDA to be around THB3.9 billion in 2022 and THB5.4-THB6.7 billion per annum in 2023-2024.

### **Improving leverage**

We expect CENTEL's leverage to improve alongside its operation and earnings. Our base-case scenario forecasts CENTEL's adjusted debt to EBITDA ratio to continue declining to around 6 times in 2022 before improving to stay below 5 times in 2024. We project that CENTEL will be able to 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 on average during 2022-2024. Most of the capital spendings are for new hotel expansion in the Maldives and Thailand and hotel renovations in key locations including Krabi, Phuket, and the Maldives.

As of March 2022, CENTEL's priority debt ratio was 19%. 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. The ratio was 0.87 times as of March 2022. We believe that CENTEL should have no problems complying with the financial covenants over the forecast period.

### **Adequate liquidity**

We assess CENTEL's liquidity to be adequate over the next 12 months. Its primary liquidity sources are cash on hand of around THB3.5 billion at the end of March 2022, undrawn credit facilities of about THB5.1 billion, and expected funds from operations (FFO) of around THB4.3-THB4.5 billion. The primary uses of funds are debts maturing of THB4.9 billion, lease obligations of approximately THB1.5 billion, and capital spending of THB3-THB4 billion. We expect the company to continue maintaining sufficient liquidity to withstand any adverse operating conditions.

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**BASE-CASE ASSUMPTIONS**

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- Compared with the pre-pandemic levels, hotel RevPAR to recover to around 50% in 2022, 80% in 2023, and close to pre-pandemic levels in 2024.
- QSR revenue to be THB11 billion in 2022 and to be THB12-THB14 billion per annum in 2023-2024.
- Revenue to be THB16.4 billion in 2022 before improving to around THB20-THB23.5 billion per annum during 2023-2024.
- EBITDA to be THB3.9 billion in 2022 and THB5.4-THB6.7 billion per annum in 2023-2024.
- Total capital spending to be THB3-THB4 billion per annum in 2022-2024.

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**RATING OUTLOOK**

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The “stable” outlook reflects our expectation of more promising business recovery, particularly in its hotel business after the lifting of several travel restrictions with tourism activities gaining traction. Meanwhile, its QSR business performance is expected to remain resilient. Improving operating conditions should enable CENTEL to steadily restore its financial strength and credit metrics such that its adjusted debt to EBITDA ratio would fall below 5 times by 2024.

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**RATING SENSITIVITIES**

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A rating upside could happen if CENTEL’s business and financial profile consistently improve so that the adjusted debt to EBITDA ratio stays well below 3.5 times on a sustained basis. A rating downgrade could occur if CENTEL’s financial metrics are materially weaker than our projection due to sluggish business recovery and/or a sizable debt-funded investment.

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**COMPANY OVERVIEW**

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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 2022, the Chirathivat family held a majority stake of 63% in CENTEL’s shares outstanding.

At the end of March 2022, CENTEL operated 47 hotels and a portfolio of 9,481 rooms. Of this total, 18 hotels were CENTEL’s owned and leased properties and one hotel under joint ventured while the rest of the hotels under management contracts. These hotels are situated in key tourist destinations in Thailand and other countries, namely, the Maldives, UAE, 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 1,398 outlets nationwide as of March 2022 under 10 franchised brands, 5 owned brands, and 4 joint-venture brands.

**KEY OPERATING PERFORMANCE**
**Table 1: CENTEL's Sales and EBITDA  
Breakdown by Line of Business**
*Unit: %*

Business	2017	2018	2019	2020*	2021*	Jan-Mar 2022*
<b>Revenue contribution</b>						
Hotel	45	44	41	22	18	29
QSR	55	56	59	78	82	71
<b>Total revenue</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>EBITDA breakdown</b>						
Hotel	70	69	68	-10	-25	34
QSR	30	31	32	110	125	66
<b>Total EBITDA</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

*Source: CENTEL*
*\* EBITDA after adopting TFRS16*
**Table 3: CENTEL's QSR Portfolio as of Mar 2022**

Brand	Product	Restaurant Type	Owned Outlet
KFC	Chicken	Quick service	304
Mister Donut	Donuts	Quick service	431
Auntie Anne's	Bakery	Quick service	196
Ootoya	Japanese food	Casual dining	46
Pepper Lunch	Japanese steak	Casual dining	48
Chabuton	Ramen	Casual dining	16
Yoshinoya	Beef bowl	Quick service	28
Tenya	Japanese food	Quick service	13
Katsuya	Japanese food	Quick service	50
Cold Stone Creamery	Ice cream	Casual dining	16
The Terrace	Thai cuisine	Casual dining	7
Aroi Dee	Thai food	Quick service	34
Kowlune	Chinese food	Casual dining	1
Arigato	Beverage	Quick service	133
GrabKitchen by Every Food	Thai food	Quick service	24
Salad Factory	Salad	Quick service	22
Brown Café	Beverage	Quick service	13
Café Amazon – Vietnam	Beverage	Quick service	10
Som Tam Nua	Thai food	Casual dining	6
<b>Total</b>			<b>1,398</b>

*Sources: CENTEL*

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Mar 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	3,852	11,463	13,154	21,108	21,735
Earnings before interest and taxes (EBIT)	184	(1,178)	(1,438)	2,765	3,200
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	962	2,096	2,045	6,099	5,944
Funds from operations (FFO)	755	1,347	1,369	5,030	4,929
Adjusted interest expense	172	722	677	776	602
Capital expenditures	307	1,714	1,984	2,229	1,638
Total assets	48,300	48,593	35,350	27,590	26,447
Adjusted debt	20,761	21,026	19,915	13,732	11,963
Adjusted equity	18,406	18,432	10,216	14,144	13,420
<b>Adjusted Ratios</b>					
EBITDA margin (%)	24.96	18.28	15.55	28.89	27.35
Pretax return on permanent capital (%)	(1.75)	(3.09)	(4.53)	9.56	12.45
EBITDA interest coverage (times)	5.58	2.90	3.02	7.86	9.88
Debt to EBITDA (times)	8.13	10.03	9.74	2.25	2.01
FFO to debt (%)	8.49	6.41	6.88	36.63	41.20
Debt to capitalization (%)	53.01	53.29	66.10	49.26	47.13

## RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

**Central Plaza Hotel PLC (CENTEL)**

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
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-
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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