

9 February 2021

Consumer Cyclical | Leisure & Entertainment

Erawan Group (ERW TB)

Sell (Maintained)

The Slow Earnings Turnaround One; Still SELL

Target Price (Return): THB3.30 (-22.5%)
 Price: THB4.26
 Market Cap: USD357m
 Avg Daily Turnover (THB/USD) 73.5m/2.44m

- **Still SELL, new DCF-derived FY21F THB3.30 TP from THB2.50, 23% downside.** Despite sentimental share price rallies, we expect negative earnings. A tightened balance sheet may continue undermining 2021-2022's outlook. As a pure hotel play, Erawan's normalisation may be slower than its peers. We think: 4Q20 losses to improve, but still weak in 1Q21.
- **4Q20F preview.** We expect a net loss of THB389m (3Q20: -THB514m). Key possible support: Rising popularity of the Government's "We Travel Together" stimulus scheme, which has improved local tourism. ERW may achieve c.20% of room revenue from this campaign and average occupancy rates for non-Hop Inn hotels may rise QoQ at all destinations. Hop Inn itself may be resilient, with limited impact from late Dec 2020's COVID-19 resurgence. ERW may post a 2020 THB1.63bn core loss vs 2019's THB463m core profit, given the overall impact of the pandemic.
- **Weak arrival numbers undermine 2021's outlook.** ERW may still deliver a massive THB1.05bn loss in 2021 on COVID-19's second spread in 1Q21 and yet-to-return international guests. This follows our 3m foreign arrivals assumption this year (-55% YoY), as we see travel restriction remaining and confidence strengthening being needed. Its non-budget hotel portfolio (80% of revenue) may encounter intense competition, while local demand-oriented Hop Inn budget hotels may be the only solid segment, with limited 15% revenue mix. Non-Hop Inn occupancy rates and revenue/available room (RevPar) may still be at 50% and 42% of 2019's numbers.
- **Tightening balance sheet.** Our forecasts see net D/E ratio possibly increasing to a 3.9x peak in 2022 from 2020F's 2.3x on negative earnings. Despite covenant waivers, such high gearing may lead to equity financing or asset spin-offs to support operations. ERW may postpone investments in new projects to 2022 onwards, with only one local Hop Inn and two Philippines hotels (total: 638 rooms) being opened this year. 2021-2022 capex may be slashed to THB800m-1bn (THB1.4-1.8bn previously).
- **Earnings revision and roll-over TP.** We slash 2021F-2022F bottomline to losses if THB1.05bn and THB297m vs a THB230m loss and THB185m earnings previously. We cut revenue 10-17% on the expected delays in foreign and domestic travel recoveries, and lower GPMs by 9-15ppts on cost concerns. Our DCF-based TP is rolled over to FY21F's THB3.30, as the D/E ratio hike has reduced WACC by 0.3ppts.
- **Still SELL.** Expectations of quick rebounds in global traveling post vaccine roll-outs and "vaccine visa" adoption may spur tourism-related shares, but we think industry normalisation may take at least a couple of years from 2H21. Our estimate: ERW posts negative earnings during 2020-2022 before turning into profit by 2023 and reaching pre-pandemic levels in 2024. Its recovery may be slower than other Thai hoteliers we cover, as it is a pure hotel player with heavy assets. Quarterly operations may improve gradually, but losses remain, with possible weak near-term 1Q21 results.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	18.3	12.7	70.4	22.4	(9.4)
Relative	13.7	14.0	50.1	7.9	(8.2)
52-wk Price low/high (THB)				1.96	4.66

The Erawan Group (ERW TB)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	6,280	6,379	2,351	3,682	5,484
Recurring net profit (THBm)	536	463	(1,630)	(1,050)	(297)
Recurring net profit growth (%)	7.1	(13.6)	(452.0)	(35.6)	(71.7)
Recurring EPS (THB)	0.21	0.18	(0.65)	(0.42)	(0.12)
DPS (THB)	0.09	0.07	-	-	-
Recurring P/E (x)	19.89	23.11	na	na	na
P/B (x)	1.88	1.81	2.48	3.27	3.59
Dividend Yield (%)	2.1	1.6	na	na	na
Return on average equity (%)	9.8	7.7	(31.8)	(27.6)	(9.5)
Net debt to equity (%)	149.8	154.8	229.3	334.9	386.0

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Thailand	Recurring EPS	0.21	0.18	(0.65)	(0.42)	(0.12)
Consumer Cyclical	EPS	0.21	0.18	(0.65)	(0.42)	(0.12)
Erawan	DPS	0.09	0.07	-	-	-
ERW TB	BVPS	2.26	2.35	1.72	1.30	1.19
Sell	Return on average equity (%)	9.8	7.7	(31.8)	(27.6)	(9.5)
	Return on average assets (%)	3.3	2.6	(9.1)	(5.9)	(1.7)
Valuation basis						
DCF.	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	19.89	23.11	na	na	na
	P/B (x)	1.9	1.8	2.5	3.3	3.6
	Dividend Yield (%)	2.1	1.6	-	-	-
	EV/EBITDA (x)	10.18	10.48	na	64.26	18.69
Key drivers	Income statement (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. A tourism industry recovery post COVID-19;	Total turnover	6,280	6,379	2,351	3,682	5,484
ii. Opening of new hotels;	Gross profit	2,669	2,650	(169)	553	1,509
iii. Economies of scale in operations that lead to a rise in profit margins.	EBITDA	1,893	1,906	(233)	342	1,191
	Depreciation and amortisation	(776)	(830)	(981)	(954)	(989)
	Operating profit	1,118	1,077	(1,214)	(612)	203
	Net interest	(360)	(402)	(514)	(504)	(541)
	Pre-tax profit	757	657	(1,728)	(1,116)	(338)
	Taxation	(164)	(155)	29	22	17
	Reported net profit	536	446	(1,630)	(1,050)	(297)
	Recurring net profit	536	463	(1,630)	(1,050)	(297)
Key risks	Cash flow (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Weaker-than-expected tourism atmosphere and consumption;	Change in working capital	(86)	49	133	(93)	(4)
ii. Delays in opening of new hotel properties;	Cash flow from operations	1,767	1,808	(574)	(113)	670
iii. Rising competition and price pressure in particular hotel segments and locations;	Capex	(1,700)	(1,800)	(600)	(800)	(1,000)
iv. Unexpected incidents in Thailand and abroad eg. natural disasters, political unrest, etc.	Cash flow from investing activities	(1,727)	(1,841)	(600)	(800)	(1,000)
	Dividends paid	(225)	(226)	(176)	0	0
	Cash flow from financing activities	(66)	(50)	1,771	935	(153)
	Cash at beginning of period	1,077	1,051	969	1,566	1,588
	Net change in cash	(26)	(82)	597	22	(482)
	Ending balance cash	1,051	969	1,566	1,588	1,106
Company Profile	Balance sheet (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
ERW invests and develops hotel properties that are strategically located to match travellers' varied demands. It owns 65 hotels with 7,883 keys nationwide and five hotels with 843 keys in the Philippines as of end 2019. Key properties include the Grand Hyatt Erawan Bangkok, JW Marriott Bangkok, and Holiday Inn Pattaya, as well as a chain of Ibis and own-developed Hop Inn budget hotels.	Total cash and equivalents	1,051	969	1,566	1,588	1,106
	Tangible fixed assets	14,975	15,927	15,559	15,414	15,432
	Intangible assets	39	42	29	21	14
	Total investments	93	80	80	80	80
	Total other assets	281	328	328	328	328
	Total assets	16,949	17,834	17,944	17,878	17,497
	Short-term debt	2,274	2,038	2,617	4,381	4,553
	Total long-term debt	7,331	8,126	9,126	8,326	8,026
	Total liabilities	11,240	11,893	13,505	14,558	14,525
	Shareholders' equity	5,667	5,927	4,332	3,282	2,985
	Minority interests	165	179	271	202	151
	Total equity	5,708	5,941	4,439	3,320	2,972
	Total liabilities & equity	16,949	17,834	17,944	17,878	17,497
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	4.7	1.6	(63.1)	56.6	48.9
	Recurring net profit growth (%)	7.1	(13.6)	(452.0)	(35.6)	(71.7)
	Recurrent EPS growth (%)	6.9	(13.9)	(451.3)	(35.6)	(71.7)
	Gross margin (%)	42.5	41.5	(7.2)	15.0	27.5
	Recurring net profit margin (%)	8.5	7.3	(69.3)	(28.5)	(5.4)
	Dividend payout ratio (%)	42.2	39.6	0.0	0.0	0.0

Source: Company data, RHB

Figure 1: ERW's DCF valuation

THBm	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
EBIT (1-t)	(524)	261	716	827	886	910	932	952	961	969
Depreciation & amortisation	954	989	1,039	1,062	1,087	1,096	1,105	1,119	1,137	1,162
Change in net working capital	(93)	(4)	(12)	23	5	2	3	(1)	2	(0)
Capex	(800)	(1,000)	(1,400)	(1,000)	(800)	(400)	(400)	(500)	(600)	(800)
Net free cash flow to firm	(463)	245	344	912	1,178	1,608	1,639	1,570	1,499	1,331
Terminal value										24,940
PV	(431)	213	278	686	824	1,048	995	887	789	12,872
Terminal growth	2.0%									
WACC	7.4%									
Total discounted firm value	18,161									
Less: Net debt	9,619									
Less: Minority interest	202									
Equity value	8,340									
Number of shares (m)	2,518									
Equity value per share (THB)	3.30									

Source: RHB

Figure 2: Operating performance and assumptions

Total group	2018	2019	2020F	2021F	2022F
Number of rooms	8,485	9,569	9,802	10,440	10,903
Occupancy rate	78%	77%	39%	50%	65%
ARR (THB)	1,837	1,726	1,162	1,249	1,430
% growth	-2%	-6%	-33%	7%	14%
RevPar (THB)	1,440	1,325	456	625	927
% growth	-4%	-8%	-66%	37%	48%
Thailand hotels (excluding Hop Inn)	2018	2019	2020F	2021F	2022F
Number of rooms	4,832	5,343	5,343	5,343	5,343
Occupancy rate	81%	78%	28%	40%	61%
ARR (THB)	2,672	2,570	2,023	2,119	2,220
% growth	5%	-4%	-21%	5%	5%
RevPar (THB)	2,158	2,009	566	844	1,358
% growth	0%	-7%	-72%	49%	61%
Hop Inn budget hotels (Thailand)	2018	2019	2020F	2021F	2022F
Number of rooms	2,810	3,383	3,616	3,677	3,940
Occupancy rate	75%	73%	58%	69%	72%
ARR (THB)	580	609	579	579	607
% growth	7%	5%	-5%	0%	5%
RevPar (THB)	438	444	336	399	439
% growth	8%	1%	-24%	19%	10%

Source: Company data, RHB

Figure 3: ERW's 4Q20 and 2020 performance preview

FYE Dec (THBm)	4Q19	3Q20	4Q20F	YoY % chg	QoQ % chg	2019	2020F	YoY % chg	Remarks
Revenue from hotel operations	1,663	398	603	(63.7)	51.6	6,146	2,219	(63.9)	Improving domestic travel sentiment and rising popularity of the Government's "We Travel Together" tourism stimulus campaign may boost room occupancy rates and RevPar.
Turnover	1,727	427	634	(63.3)	48.5	6,379	2,351	(63.1)	
Gross profit	790	(173)	(27)	n.m.	n.m.	2,650	(169)	n.m.	Cost controls and an improving operating leverage may lower negative EBIT QoQ.
EBIT	356	(426)	(296)	n.m.	n.m.	1,077	(1,214)	n.m.	
EBIT margin (%)	20.6	(99.7)	(46.6)			16.9	(51.6)		
EBITDA	567	(168)	(99)	n.m.	n.m.	1,906	(233)	n.m.	
EBITDA margin (%)	32.8	(39.3)	(15.7)			29.9	(9.9)		4Q20F: Stronger hotel operations may reduce negative earnings QoQ. 2020F: Adverse effects of the COVID-19 pandemic on the tourism industry.
Interest expense	(104)	(120)	(120)	15.5	0.7	(402)	(514)	27.9	
Pre-tax profit	252	(546)	(416)	n.m.	n.m.	675	(1,728)	n.m.	
Tax	(55)	11	10	n.m.	n.m.	(155)	29	n.m.	
Core profit	176	(514)	(389)	n.m.	n.m.	463	(1,630)	n.m.	
Net profit	176	(514)	(389)	n.m.	n.m.	446	(1,630)	n.m.	
Gross margin (%)	45.8	(40.5)	(4.3)			41.5	(7.2)		
SG&A/sales (%)	25.4	62.4	44.6			25.6	46.0		
Net margin (%)	10.2	(120.3)	(61.3)			7.0	(69.3)		
Key indicators									
Total group excluding Hop Inn									
Total hotel rooms	5,343	5,343	5,343	0.0	0.0	5,343	5,343	0.0	Average occupancy rates may enhance QoQ at all hotel destinations, with minimal impacts of the pandemic's resurgence in Thailand during the final week of Dec 2020.
Occupancy rate (%)	78	14	25	(53.0)	11.0	78	28	(50.0)	
ARR (THB/day)	2,656	1,443	1,651	(37.8)	14.4	2,570	2,023	(21.3)	
RevPar (THB/day)	2,064	202	413	(80.0)	104.4	2,009	566	(71.8)	
Hop Inn (excluding Hop Inn Philippines)									
Total hotel rooms	3,383	3,462	3,616	6.9	4.4	3,383	3,616	6.9	Two new Hop Inn hotels in Chiang Mai and Phitsanulok in 4Q20.
Occupancy rate (%)	74	67	70	(4.0)	3.0	73	58	(15.0)	With guests mainly comprising domestic travellers, Hop Inn has proven to be the most resilient business during the crisis, with average occupancy rate resumptions almost back to normal.
ARR (THB/day)	626	609	611	(2.4)	0.4	609	579	(4.9)	Still able to command higher room rates, eg Hop Inn Hua Hin.
RevPar (THB/day)	465	407	428	(8.0)	5.1	444	336	(24.3)	

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-08-20	Sell	2.5	3.2
2020-04-08	Sell	2.1	3.1
2020-01-14	Buy	7.3	5.4
2019-09-20	Buy	8.0	5.6
2019-03-06	Buy	9.2	7.3
2018-04-12	Buy	10.0	8.3

Source: RHB, Bloomberg

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Analyst	Company
-	-

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90 - 100		ดีเลิศ	Excellent
80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		ดีพอใช้	Satisfactory
50 - 59		ผ่าน	Pass
ต่ำกว่า 50	No logo give	N/A	N/A

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ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี (ประเทศไทย) จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความครบถ้วนและถูกต้องของผลสำรวจดังกล่าวแต่อย่างใด

ข้อมูล Anti-Corruption Progress Indicator 2560

ประกาศเจตนาธรรม CAC

A	ASK	CHG	FC	GREEN	JUTHA	MATCH	NINE	PIMO	RWI	SPPT	TFI	TU	VNT
AI	AU	CHOTI	FER	GSTEL	KASET	MATI	NMG	PK	SANKO	SPRC	THE	TVD	WAVE
AIE	BCH	CHOW	FPI	GUNKUL	KBS	MBAX	NNCL	PL	SAUCE	SR	TICON	TVO	WHA
AIRA	BJC	CIG	FSMART	HARN	KCAR	MC	NTV	PLANB	SC	SRICHA	TIP	TVT	WICE
AJ	BJCHI	COL	GEL	IFS	KTECH	MFEC	NUSA	POST	SCCC	SST	TKN	TWPC	WIJK
ALUCON	BLAND	COM7	GFPT	ILINK	KWC	MIDA	NWR	PRINC	SCN	STA	TLUXE	U	TRUE
AMATAV	BR	CPALL	GGC	INET	KYE	MILL	OGC	PRO	SEAOIL	SUPER	TMILL	UPA	
AOT	BROCK	CPF	GIFT	IRC	L&E	ML	PACE	PSTC	SE-ED	SUSCO	TMT	UREKA	
APCO	BRR	CPR	GJS	J	LEE	MTLS	PAF	PYLON	SENA	SWC	TNP	UWC	
AQUA	CEN	CSC	GLOBAL	JMART	LIT	NBC	PAP	QTC	SIRI	SYMC	TPA	VGI	
ARROW	CGH	EKH	GOLD	JMT	LVT	NCL	PATO	ROH	SMART	TAKUNI	TSE	VIBHA	
ASIA	CHEWA	EPCO	GPSC	JUBILE	MAKRO	NEP	PCSGH	ROJNA	SPACK	TBSP	TTI	VIH	

ได้รับการรับรอง CAC

ADVANC	BKI	CPN	FE	INTUCH	LANNA	MSC	PLAT	PTT	SAT	SNP	TCMC	TMD	UOBKH
AKP	BLA	CSL	FNS	IRPC	LHBANK	MTI	PM	PTTEP	SCB	SORKON	TFG	TNITY	WACOAL
AMANAH	BROOK	DCC	FSS	IVL	LHK	NKI	PPP	PTTGC	SCC	SPC	TGCI	TNL	
AP	BTS	DEMCO	GBX	K	LPN	NSI	PPS	Q-CON	SCG	SPI	THANI	TOG	
ASP	BWG	DIMET	GCAP	KBANK	MBK	OCC	PRANDA	QH	SGP	SSF	THCOM	TOP	
AYUD	CENTEL	DRT	GLOW	KCE	MBKET	OCEAN	PREB	QLT	SINGER	SSI	THRE	TPCORP	
BAFS	CFRESH	DTAC	HANA	KGI	MCOT	PB	PRG	RATCH	SIS	SSSC	THREL	TRU	
BANPU	CIMBT	DTC	HMPRO	KKP	MFC	PDI	PSH	RML	SITHAI	SVI	TIPCO	TSC	
BAY	CM	EASTW	HTC	KSL	MINT	PE	PSL	ROBINS	SMIT	SYNTEC	TISCO	TSSTH	
BBL	CNS	ECL	ICC	KTB	MONO	PG	PT	S & J	SMPC	TAE	TKT	TTCL	
BCP	CPI	EGCO	IFEC	KTC	MOONG	PHOL	PTG	SABINA	SNC	TCAP	TMB	TVI	

N/A

2S	ARIP	BSM	CSS	FMT	INOX	LTX	NPK	RCL	SFP	SUC	TITLE	TSR	VPO
AAV	AS	BTC	CTW	FN	INSURE	M	NPP	RICH	SGF	SUN	TIW	TSTE	VTE
ABICO	ASAP	BTNC	CWT	FOCUS	IRCP	MACO	NVD	RICHY	SHANG	SUTHA	TK	TTA	WG
ACAP	ASEFA	BTW	D	FORTH	IT	MAJOR	NYT	RJH	SIAM	SVH	TKS	TTL	WHAUP
ACC	ASIAN	BUI	DCON	FTE	ITD	MALEE	OHTL	ROCK	SIMAT	SVOA	TM	TTTM	WIN
ADAM	ASIMAR	CBG	DCORP	FVC	ITEL	MANRIN	OISHI	RP	SKE	SYNEX	TMC	TTW	WINNER
ADB	ASN	CCET	DDD	GC	JAS	MAX	ORI	RPC	SKN	T	TMI	TUCC	WORK
AEC	ATP30	CCP	DELTA	GENCO	JCT	M-CHAI	OTO	RPH	SKR	TACC	TMW	TWP	WORLD
AEONTS	AUCT	CGD	DIGI	GL	JKN	MCS	PAE	RS	SKY	TAPAC	TNDT	TWZ	WP
AF	BA	CHARAN	DNA	GLAND	JSP	MDX	PDG	RSP	SLP	TASCO	TNH	TYCN	WPH
AFC	BAT-3K	CHO	DTCI	GPI	JTS	MEGA	PERM	S	SMK	TC	TNPC	UAC	WR
AGE	BCPG	CHUO	EA	GRAMMY	JWD	METCO	PF	S11	SMM	TCB	TNR	UBIS	XO
AH	BDMS	CI	EARTH	GRAND	KAMART	MGT	PICO	SAFARI	SMT	TCC	TOA	UEC	YCI
AHC	BEAUTY	CITY	EASON	GTB	KC	MJD	PJW	SALEE	SOLAR	TCCC	TOPP	UKEM	YNP
AIT	BEC	CK	ECF	GULF	KCM	MK	PLANET	SAM	SPA	TCJ	TPAC	UMI	YUASA
AJA	BEM	CKP	EE	GYT	KDH	MM	PLE	SAMART	SPALI	TCOAT	TPBI	UMS	ZIGA
AKR	BFIT	CMO	EFORL	HFT	KIAT	MODERN	PMTA	SAMCO	SPCG	TEAM	TPCH	UNIQU	ZMICO
ALLA	BGRIM	CMR	EIC	HOTPOT	KKC	MPG	POLAR	SAMTEL	SPG	TFD	TIPL	UP	
ALT	BGT	CNT	EMC	HPT	KOOL	MPIC	POMPUI	SAPPE	SPORT	TFMAMA	TIPIP	UPF	
AMA	BH	COLOR	EPG	HTECH	KTIS	NC	PORT	SAWAD	SPVI	TGPRO	TPOLY	UPOIC	
AMARIN	BIG	COMAN	ERW	HUMAN	KWG	NCH	PPM	SAWANG	SQ	TH	TPP	UT	
AMATA	BIZ	CPH	ESSO	HYDRO	LALIN	NDR	PRAKIT	SCI	SSC	THAI	TR	UTP	
AMC	BKD	CPL	ESTAR	ICHI	LDC	NETBAY	PRECHA	SCP	SSP	THANA	TRC	UV	
ANAN	BLISS	CPT	ETE	ICN	LH	NEW	PRIN	SDC	STANLY	THG	TRITN	UVAN	
APCS	BM	CRANE	EVER	IEC	LOXLEY	NEWS	PRM	SE	STAR	THIP	TRT	VARO	
APEX	BOL	CRD	F&D	IHL	LPH	NFC	PTL	SEAFCO	STEC	THL	TRUBB	VCOM	
APURE	BPP	CSP	FANCY	III	LRH	NOBLE	RAM	SELIC	STHAI	THMUI	TSF	VI	
AQ	BSBM	CSR	FLOYD	INGRS	LST	NOK	RCI	SF	STPI	TIC	TSI	VNG	

Source: Thai Institute of Directors

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- ได้ประกาศเจตนาธรรมนี้เข้าร่วม CAC
- ได้รับการรับรอง CAC

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