

14 January 2020

Consumer Cyclical | Leisure & Entertainment

## The Erawan Group (ERW TB)

**Buy** (Maintained)

### 2020F Earnings To Turn To Growth; Keep BUY

Target Price (Return)	THB7.30 (+42%)
Price:	THB5.15
Market Cap:	USD429m
Avg Daily Turnover (THB/USD)	55m/1.8m

- **BUY, new DCF-based TP of THB7.30 from THB8.00, 42% upside with c.2% FY20F yield.** 4Q19F will not be a strong high season for Erawan, but we expect full-year core profit to turn to a growth of 15% in 2020. This is from a low base (2019: -18%) and the continued opening of new hotels aggressively focusing on the successful Hop Inn budget segment. Its current valuation is undemanding, and the company should record a stronger earnings growth momentum in 1Q20F.

- **Unexciting final quarter.** We expect Erawan to post 4Q19F core profit of THB155m (-14% YoY, +262% QoQ), based on -6% YoY RevPar and EBITDA margin shrinking 3ppt YoY. Softer-than-expected foreign guest numbers in Nov-Dec 2019 was on the high base on a YoY basis. Also, lower tourism demand was the result of a strong THB. Excluding the Hop Inn budget hotel segment, Erawan's room rates dropped in both Bangkok and the upcountry, while occupancy rates improved only for hotels in the capital. Its economy segment was affected the most. Lower operating leverage and pre-opening expenses for five new hotels in 4Q19 also dragged profit margins.

- **Hop Inn: many a little makes a mickle.** We are still optimistic on Erawan's outlook, based on its plan to continue investing in 5-7 new owned-hotels a year (mainly Hop Inn). Hop Inn is now Thailand's largest budget hotel network, and its expansion in the Philippines has proved successful. Its focus on a customer segment – local business travellers visiting first- and second-tier cities all around the year – sets it apart from other hoteliers that have focused on tourist destinations. This focus has led to Hop Inn hotels being able to successfully increase room rates, by and large. The FX impact from its operation in the Philippines was also limited – as the THB appreciated less against the PHP, compared to major currencies. We believe Erawan may be able to ramp up the network of Hop Inn properties to 54, and boost its combined revenue mix to 15% by 2020F.

- **2020F to see net profit growth.** To reflect the expected weak 4Q19F earnings, we pare down Erawan's core profit by 6% for 2019F, and 8-10% for 2020F-2021F, as we cut total revenue by 2-3% and GPM by 0.2-0.8 ppt, based on a conservative view towards the difficulty in enhancing room rates in mainly the mid-scale and economy segments. This comes amidst the slowdown in tourism and competition among hotel operators which may continue this year and consequently affect its profit margins. Nonetheless, we expect core profit – after undergoing a correction in 2019F (-18% YoY) – to turn to a growth of 15% YoY in 2020F. This comes from a low earnings base, and will be supported by revenue from the aggressive opening of new hotels.

- **BUY, look forward to upcoming catalysts.** We expect Erawan to chart a stronger 1Q20F (vs 4Q19F), in which earnings may turn to a moderate growth YoY from a low base and seasonally increase QoQ to a peak of the year. We also like Erawan for being able to expand businesses to meet its 5-year investment scheme (2016-2020) and expect to see another 5-year plan soon. Its undemanding valuation (25x FY20F P/E, c.-1.5SD) may reflect the weak performance in 2019, and supports our stock rating. Risks to our call include the prolonged weak industry outlook and rising competition from non-registered accommodations in foreign tourist spots.

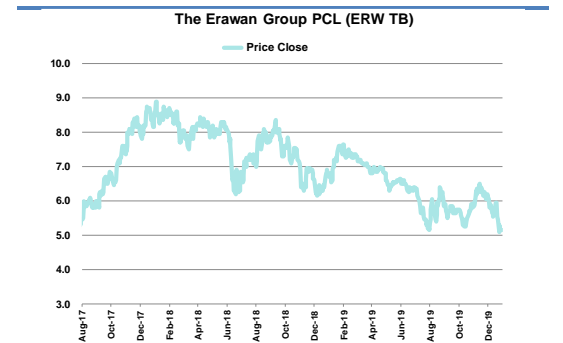
#### Analyst

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(13.4)	(16.3)	(10.4)	(19.5)	(23.7)
Relative	(13.8)	(17.0)	(8.0)	(11.1)	(23.0)
52-wk Price low/high (THB)	5.00 - 7.80				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (THBm)	5,996	6,260	6,496	7,131	7,684
Reported net profit (THBm)	506	536	424	509	601
Recurring net profit (THBm)	501	536	442	509	601
Recurring net profit growth (%)	37.9	7.1	(17.6)	15.1	18.1
Recurring EPS (THB)	0.20	0.21	0.18	0.20	0.24
Recurring P/E (x)	25.71	24.08	29.21	25.38	21.50
P/B (x)	2.38	2.26	2.09	1.97	1.86
P/CF (x)	7.2	7.4	10.0	9.4	8.6
Dividend yield (%)	1.7	1.7	1.4	1.7	2.0
EV/EBITDA (x)	12.1	11.9	12.8	12.2	10.8
ROE (%)	9.7	9.7	7.1	8.0	8.9
Net debt to equity (%)	147.9	149.8	169.1	178.9	154.9

Source: Company data, RHB

See important disclosures at the end of this report

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## Financial Exhibits

Asia	Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Thailand	Recurring EPS (THB)	0.20	0.21	0.18	0.20	0.24
Consumer Cyclical	DPS (THB)	0.09	0.09	0.07	0.09	0.10
<b>The Erawan Group</b>	BVPS (THB)	2.16	2.28	2.47	2.61	2.77
Bloomberg ERW TB	ROE (%)	9.65	9.65	7.14	8.00	8.91
<b>Buy</b>						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19F</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
DCF	Recurring P/E (x)	25.7	24.1	29.2	25.4	21.5
<b>Key drivers</b>	P/B (x)	2.38	2.26	2.09	1.97	1.86
i. Strong outlook for tourism arrivals and spending;	FCF yield (%)	1.27	0.31	(15.57)	(8.69)	8.56
ii. Opening of new hotels;	Dividend yield (%)	1.7	1.7	1.4	1.7	2.0
iii. Economies of scale in operations that lead to a rise in profit margins.	EV/EBITDA (x)	12.1	11.9	12.8	12.2	10.8
	EV/EBIT (x)	20.4	20.2	23.0	21.1	18.3
<b>Key risks</b>	<b>Income statement (THBm)</b>	<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19F</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
i. Weaker-than-expected tourism environment and consumption;	Total turnover	5,996	6,260	6,496	7,131	7,684
ii. Delays in the opening of new hotel properties;	Gross profit	2,622	2,669	2,630	2,926	3,195
iii. Rising competition and price pressure in particular hotel segments and locations;	EBITDA (adj.)	1,815	1,893	1,886	2,085	2,252
iv. Unexpected incidents in Thailand and abroad eg natural disasters, political unrest, etc.	Depreciation & amortisation	738	776	837	884	918
	Operating profit	1,076	1,118	1,050	1,200	1,334
	Net interest	(344)	(360)	(417)	(474)	(479)
	Pre-tax profit	733	757	633	726	855
	Taxation	(172)	(164)	(155)	(176)	(205)
	Net profit	506	536	424	509	601
	Recurring net profit	501	536	442	509	601
<b>Company Profile</b>	<b>Cash flow (THBm)</b>	<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19F</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
Erawan invests and develops hotel properties that are strategically located to match travellers' varied demands. It owns 56 hotels with 7,642 keys nationwide and five hotels in the Philippines as of end-2018. 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.	Change in working capital	107	(86)	136	(44)	3
	Cash flow from operations	1,786	1,743	1,290	1,378	1,506
	Capex	(1,600)	(1,700)	(3,300)	(2,500)	(400)
	Cash flow from investing activities	(1,622)	(1,703)	(3,300)	(2,500)	(400)
	Dividends paid	(150)	(225)	(226)	(179)	(214)
	Cash flow from financing activities	117	(66)	1,732	1,116	(1,125)
	Cash at beginning of period	795	1,077	1,051	773	767
	Net change in cash	282	(26)	(279)	(6)	(19)
	Ending balance cash	1,077	1,051	773	767	748
	<b>Balance sheet (THBm)</b>	<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19F</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
	Total cash and equivalents	1,077	1,051	773	767	748
	Tangible fixed assets	14,078	14,975	17,450	19,074	18,562
	Total investments	111	93	93	93	93
	Total assets	16,048	16,949	19,192	20,844	20,343
	Short-term debt	2,011	2,274	3,704	5,633	5,174
	Total long-term debt	7,058	7,331	7,531	6,831	6,331
	Total liabilities	10,645	11,240	13,004	14,304	13,400
	Total equity	5,403	5,708	6,188	6,540	6,943
	Total liabilities & equity	16,048	16,949	19,192	20,844	20,343
	<b>Key metrics</b>	<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19F</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
	Revenue growth (%)	6.6	4.4	3.8	9.8	7.8
	Recurrent EPS growth (%)	37.8	6.8	(17.6)	15.1	18.1
	Gross margin (%)	43.7	42.6	40.5	41.0	41.6
	Operating EBITDA margin (%)	30.3	30.2	29.0	29.2	29.3
	Net profit margin (%)	8.4	8.6	6.5	7.1	7.8
	Capex/sales (%)	26.7	27.2	50.8	35.1	5.2
	Interest cover (x)	3.1	3.1	2.5	2.5	2.8

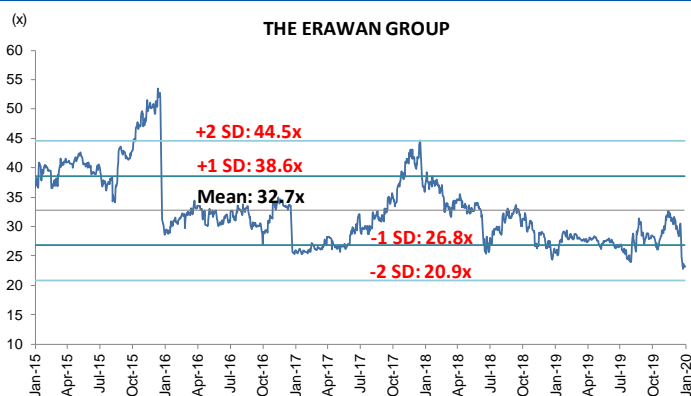
Source: Company data, RHB

Figure 1: Erawan's DCF valuation

THBm	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
<b>EBIT (1-t)</b>	<b>807</b>	<b>875</b>	<b>902</b>	<b>942</b>	<b>993</b>	<b>1,011</b>	<b>1,025</b>	<b>1,039</b>	<b>1,057</b>	<b>1,080</b>
Depreciation & amortisation	884	918	925	934	943	952	962	972	983	993
Change in net working capital	(44)	3	11	1	(1)	1	1	(0)	(0)	(1)
Capex	(2,500)	(400)	(400)	(400)	(400)	(400)	(400)	(400)	(400)	(400)
<b>Net free cash flow to firm</b>	<b>(853)</b>	<b>1,396</b>	<b>1,438</b>	<b>1,477</b>	<b>1,535</b>	<b>1,564</b>	<b>1,588</b>	<b>1,611</b>	<b>1,639</b>	<b>1,672</b>
Terminal value										41,204
PV	(796)	1,215	1,168	1,119	1,085	1,032	977	925	878	21,433
Terminal growth	3.0%									
WACC	7.2%									
Total discounted firm value	29,037									
Less: Net debt	10,497									
Less: Minority interest	282									
Equity value	18,257									
Number of shares (m)	2,508									
<b>Equity value per share (THB)</b>	<b>7.30</b>									

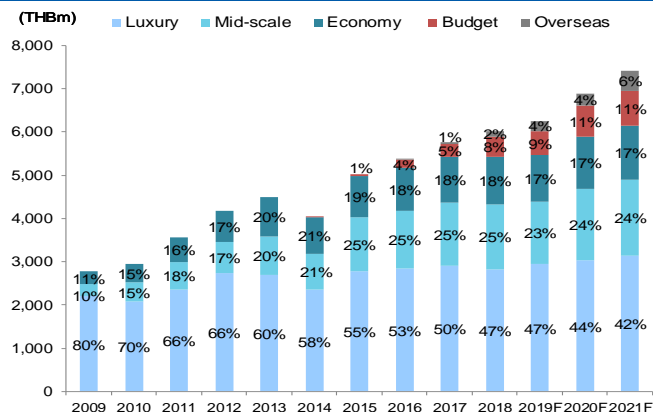
Source: RHB

Figure 2: Erawan's P/E and SD levels



Source: Bloomberg, RHB

Figure 3: Erawan's hotel revenue breakdown by segment



Source: Company data, RHB

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Figure 4: Operating performance and assumptions

Total Group	2017	2018	2019F	2020F	2021F
Number of rooms	7,328	8,485	9,210	10,184	10,581
Occupancy rate	80%	78%	76%	80%	83%
ARR (THB)	1,874	1,837	1,684	1,626	1,665
% growth	-6%	-2%	-8%	-3%	2%
RevPar (THB)	1,492	1,440	1,279	1,304	1,376
% growth	-3%	-4%	-11%	2%	6%
<b>Thailand hotels (exclude Hop Inn)</b>	<b>2017</b>	<b>2018</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>
Number of rooms	4,514	4,832	4,975	5,475	5,475
Occupancy rate	84%	81%	76%	77%	79%
ARR (THB)	2,554	2,672	2,536	2,504	2,555
% growth	3%	5%	-5%	-1%	2%
RevPar (THB)	2,150	2,158	1,932	1,930	2,028
% growth	5%	0%	-10%	0%	5%
<b>Hop Inn budget hotels (Thailand)</b>	<b>2017</b>	<b>2018</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>
Number of rooms	2,502	2,810	3,392	3,866	3,866
Occupancy rate	75%	75%	75%	83%	88%
ARR (THB)	543	580	597	615	634
% growth	5%	7%	3%	3%	3%
RevPar (THB)	407	438	448	514	559
% growth	13%	8%	2%	15%	9%

Source: Company data, RHB

Figure 5: Erawan's 4Q19F performance preview

FYE Dec (THBm)	4Q18	3Q19	4Q19F	YoY % chg	QoQ % chg	2018	2019F	YoY % chg	Remarks
Revenue from hotel operations	1,637	1,441	1,774	8.4	23.2	6,022	6,257	3.9	Expect -6% YoY RevPar for 4Q19F due to Slowdown in international guests in Nov-Dec, which lowered hotel room rates in Bangkok and major resort destinations. The opening of nine hotels with 1,074 rooms this year also supported total revenue growth YoY.
Turnover	1,704	1,498	1,844	8.2	23.1	6,260	6,496	3.8	
Gross profit	747	567	771	3.2	35.8	2,669	2,630	-1.5	Softening hotel performance lowered GPM, with pre-operating expenses incurred for five new properties that were opened in 4Q19F.
EBIT	351	186	329	-6.2	77.0	1,118	1,050	-6.1	
EBIT margin (%)	20.6	12.4	17.8	-2.7		17.9	16.2		
EBITDA	562	391	547	-2.7	39.8	1,893	1,886	-0.4	
EBITDA margin (%)	33.0	26.1	29.7	-3.3		30.2	29.0		
Interest expense	(99)	(102)	(119)	21.1	17.3	(360)	(417)	15.6	
Pretax profit	252	84	210	-16.9	149.1	757	633	-16.4	
Tax	(54)	(28)	(55)	3.5	99.1	(164)	(155)	-5.4	
Core profit	179	43	155	-13.5	262.4	536	442	-17.6	Lower operating leverage, high opex and an interest expense hike undermined earnings.
Net profit	179	43	155	-13.5	262.4	536	424	-20.8	
Gross margin (%)	43.8	37.9	41.8			42.6	40.5		
SG&A/sales (%)	24.1	26.5	25.1			25.5	25.5		
Net margin (%)	10.5	2.8	8.4			8.6	6.5		

Source: Company data, RHB

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
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80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		พอใช้	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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