

25 February 2021

Consumer Cyclical | Leisure & Entertainment

The Erawan Group (ERW TB)

Sell (Maintained)

Cash Call For Budget Hotel Expansions; SELL

Target Price (Return): THB3.20 (-18.4%)
 Price: THB3.92
 Market Cap: USD329m
 Avg Daily Turnover (THB/USD) 74.7m/2.48m

- **SELL with new DCF-based FY2F THB3.20 TP from THB3.30, 18% downside.** The recent cash call may support the long-term focus on budget hotels. Yet, we see challenges in this expansion, future competition in upscale hotels, and expected negative earnings this year and the next.
- **The Erawan Group announced a cash call** on Tuesday evening. It plans to up the authorised capital 94% to THB4.89bn by issuing 2.37bn new shares. Of this, 2.01bn new shares will be the rights offerings with a 1.25 existing shares to one newly issued share allocation ratio and THB1.00 selling price. The remaining 360m will be for the exercise of the 3-year warrants – ERW-W3 – at a 7:1 existing shares to one warrant unit allocation ratio at no cost. The THB3.00 exercise price at a ratio of 1:1. Ex-rights date for both: 11 May. The issuance will be proposed at the 27 Apr AGM.
- **5-year plan to focus on budget hotels.** At Wednesday analysts meeting, ERW said it will utilise the equity financing as a part of its aim to achieve 100 Hop Inn budget hotels locally and abroad in 2025 (51 now). A 5-year capex of THB8-10bn may be spent on new hotels' organic investments and potential acquisitions. ERW believes in this segment's resilient outlook, given the bulk of guests are locals, which diversifies the high-dependency risk on international travellers in case of future severe incidents to the tourism industry. It targets to enhance EBITDA contributions from Hop Inns to >40% by 2025 (2019: 16%) – making it its biggest segment.
- **A 48.5% dilution.** We think the cash call may lower ERW's interest-bearing D/E ratio to a more comfortable 2.1-2.3x over 2021-2023 (2020: 3.2x) and below its 2.5x debt covenant. The rights offering this year and one-time exercise of ERW-W3 in 2024 may result in total EPS and TP dilutions of 48.5%. We think ERW can attain up to THB3.09bn from this capital increase. It may get shareholders' nod based on the subscription price at par value, tourism recovery, and its sustainable long-term business plan.
- **Still challenging.** We are optimistic on ERW's strength in budget hotels, with the segment's resilient performance and quick post COVID-19 recovery. There are also few major players in this segment here due to cost efficiencies as entry barriers. Yet, based on its plan to open 12 new Hop Inns in 2021-2023 and the uncertain hotel M&A market, we think more effort is needed to ramp up Hop Inn contributions to achieve the 5-year goal. We see challenges in ramping up occupancy and room rates at its upscale hotels (its major earnings now) too, as the gradual 2021-2022 recovery in foreign visitors may yet meet the vast hotel room supply glut in the market.
- **We trim FY21F-22F earnings by 4%** to reflect FY20's results and the upcoming cash call. Our TP is slightly revised to THB3.20, or a fully diluted THB1.65 post ex-rights. The capital increase may be negative to share price despite market expectations over the improving tourism sentiment, border re-openings, and vaccination progress. We keep our SELL on the view that its recovery may be slower, as it is a pure hotel player with heavy assets.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	8.9	7.7	10.7	18.8	(1.5)
Relative	6.0	8.2	4.3	5.6	(5.4)
52-wk Price low/high (THB)	1.96 – 4.60				

The Erawan Group (ERW TB)



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (THBm)	6,379	2,306	3,682	5,484	6,757
Recurring net profit (THBm)	463	(1,585)	(1,097)	(309)	260
Recurring net profit growth (%)	(13.6)	(442.2)	(30.8)	(71.9)	-
Recurring EPS (THB)	0.18	(0.63)	(0.31)	(0.07)	0.06
DPS (THB)	0.07	-	-	-	0.02
Recurring P/E (x)	21.27	na	na	na	68.24
P/B (x)	1.67	2.50	3.44	3.66	3.47
Dividend Yield (%)	1.8	na	na	na	0.6
Return on average equity (%)	7.7	(34.7)	(24.1)	(6.2)	5.2
Net debt to equity (%)	154.8	377.8	250.8	269.9	260.1

Source: Company data, RHB

Note:

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

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Financial Exhibits

Asia	Financial summary (THB)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Thailand	Recurring EPS	0.18	(0.63)	(0.31)	(0.07)	0.06
Consumer Cyclical	EPS	0.18	(0.68)	(0.31)	(0.07)	0.06
Erawan	DPS	0.07	-	-	-	0.02
ERW TB	BVPS	2.35	1.57	1.14	1.07	1.13
Sell	Return on average equity (%)	7.7	(34.7)	(24.1)	(6.2)	5.2
	Return on average assets (%)	2.6	(8.8)	(5.1)	(1.5)	1.2
Valuation basis						
DCF.	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	21.27	na	na	na	68.24
	P/B (x)	1.7	2.5	3.4	3.7	3.5
	Dividend Yield (%)	1.8	-	-	-	0.6
	EV/EBITDA (x)	10.03	na	66.85	26.31	16.16
Key drivers	Income statement (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
i. A tourism industry recovery post COVID-19;	Total turnover	6,379	2,306	3,682	5,484	6,757
ii. Opening of new hotels;	Gross profit	2,650	(171)	472	1,432	2,453
iii. Economies of scale in operations that lead to a rise in profit margins.	EBITDA	1,906	(139)	360	1,191	1,949
	Depreciation and amortisation	(830)	(1,012)	(1,035)	(1,065)	(1,110)
	Operating profit	1,077	(1,151)	(675)	126	839
	Net interest	(402)	(536)	(491)	(477)	(473)
	Pre-tax profit	657	(1,818)	(1,166)	(351)	365
	Taxation	(155)	39	23	18	(84)
	Reported net profit	446	(1,715)	(1,097)	(309)	260
	Recurring net profit	463	(1,585)	(1,097)	(309)	260
Key risks	Cash flow (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
i. Weaker-than-expected tourism atmosphere and consumption;	Change in working capital	49	(595)	622	8	(11)
ii. Delays in opening of new hotel properties;	Cash flow from operations	1,808	(4,001)	(178)	648	1,251
iii. Rising competition and price pressure in particular hotel segments and locations;	Capex	(1,800)	(600)	(800)	(1,000)	(1,400)
iv. Unexpected incidents in Thailand and abroad, eg natural disasters, political unrest, etc.	Cash flow from investing activities	(1,841)	(597)	(800)	(1,000)	(1,400)
	Dividends paid	(226)	(176)	0	0	0
	Cash flow from financing activities	(50)	5,252	1,171	(90)	(95)
	Cash at beginning of period	1,051	969	1,623	1,816	1,374
	Net change in cash	(82)	654	193	(442)	(244)
	Ending balance cash	969	1,623	1,816	1,374	1,129
Company Profile	Balance sheet (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
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	969	1,623	1,816	1,374	1,129
	Tangible fixed assets	15,927	18,826	18,689	18,718	19,101
	Intangible assets	42	43	30	21	15
	Total investments	80	49	49	49	49
	Total other assets	328	335	335	335	335
	Total assets	17,834	21,215	21,403	21,072	21,257
	Short-term debt	2,038	2,209	1,426	1,605	2,223
	Total long-term debt	8,126	14,256	13,456	13,156	12,456
	Total liabilities	11,893	17,286	16,193	16,112	16,048
	Shareholders' equity	5,927	3,946	5,164	4,856	5,116
	Minority interests	179	116	179	238	226
	Total equity	5,941	3,929	5,210	4,960	5,209
	Total liabilities & equity	17,834	21,215	21,403	21,072	21,257
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	1.6	(63.9)	59.7	48.9	23.2
	Recurring net profit growth (%)	(13.6)	(442.2)	(30.8)	(71.9)	0.0
	Recurrent EPS growth (%)	(13.9)	(441.6)	(50.6)	(78.1)	0.0
	Gross margin (%)	41.5	(7.4)	12.8	26.1	36.3
	Recurring net profit margin (%)	7.3	(68.7)	(29.8)	(5.6)	3.9
	Dividend payout ratio (%)	39.6	0.0	0.0	0.0	0.0

Source: Company data, RHB

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Figure 1: ERW's 4Q20 and 2020 performance review

FYE Dec (THBm)	4Q19	3Q20	4Q20	YoY % chg	QoQ % chg	2019	2020	YoY % chg	Remarks
Revenue from hotel operations	1,663	398	564	-66.1	41.8	6,146	2,180	-64.5	Improving domestic travel sentiment and rising popularity of the Government's "We Travel Together" tourism stimulus campaign boosted room occupancy rates and RevPar.
Turnover	1,727	427	589	-65.9	37.8	6,379	2,306	-63.9	
Gross profit	790	(173)	(29)	n.m.	n.m.	2,650	(171)	n.m.	
EBIT	356	(426)	(233)	n.m.	n.m.	1,077	(1,151)	n.m.	Cost controls and an improving operating leverage lowered negative EBIT QoQ.
EBIT margin (%)	20.6	(99.7)	(39.6)			16.9	(49.9)		
EBITDA	567	(168)	(5)	n.m.	n.m.	1,906	(139)	n.m.	
EBITDA margin (%)	32.8	(39.3)	(0.9)			29.9	(6.0)		
Interest expense	(104)	(120)	(143)	37.0	19.4	(402)	(536)	33.5	
Pre-tax profit	252	(546)	(376)	n.m.	n.m.	675	(1,688)	n.m.	
Tax	(55)	11	20	n.m.	n.m.	(155)	39	n.m.	
Core profit	176	(514)	(344)	n.m.	n.m.	463	(1,585)	n.m.	4Q20: Stronger hotel operations reduced negative earnings QoQ.
Net profit	176	(514)	(474)	n.m.	n.m.	446	(1,715)	n.m.	2020: Adverse effects of the COVID-19 pandemic on the tourism industry. 4Q20: Includes loss on impairment of non-financial assets from a subsidiary company that is the lessee of hotels in Erawan Hotel Growth Property Fund (ERWPF, NR) at THB92m.
Gross margin (%)	45.8	(40.5)	(4.9)			41.5	(7.4)		
SG&A/sales (%)	25.4	62.4	35.0			25.6	43.6		
Net margin (%)	10.2	(120.3)	(80.5)			7.0	(74.4)		
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	
Occupancy rate (%)	78	14	25	-53.0	11.0	78	24	-54.0	Average occupancy rates enhanced QoQ at all hotel destinations, with minimal impacts of the pandemic's resurgence in Thailand during the final week of Dec 2020.
ARR (THB/day)	2,656	1,443	1,433	-46.0	-0.7	2,570	2,004	-22.0	
RevPar (THB/day)	2,064	202	359	-82.6	77.7	2,009	485	-75.9	
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	69	-5.0	2.0	73	57	-16.0	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	620	-1.0	1.8	609	607	-0.3	Still able to command higher room rates, eg Hop Inn Hua Hin.
RevPar (THB/day)	465	407	430	-7.5	5.7	444	344	-22.5	

Source: Company data, RHB

Figure 2: ERW's DCF valuation

THBm	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
EBIT (1-t)	(583)	186	650	756	805	827	849	869	884	900
Depreciation & amortisation	1,035	1,065	1,110	1,129	1,151	1,158	1,165	1,177	1,193	1,215
Change in net working capital	622	8	(11)	23	4	5	1	(0)	0	(1)
Capex	(800)	(1,000)	(1,400)	(1,000)	(800)	(400)	(400)	(500)	(600)	(800)
Net free cash flow to firm	275	260	349	908	1,159	1,591	1,615	1,547	1,477	1,314
Terminal value										25,151
PV	256	225	282	683	813	1,039	982	876	779	13,007
Terminal growth	2.0%									
WACC	7.4%									
Total discounted firm value	18,943									
Less: Net debt	10,698									
Less: Minority interest	179									
Equity value	8,065									
Number of shares (m)	2,518									
Equity value per share (THB)	3.20									

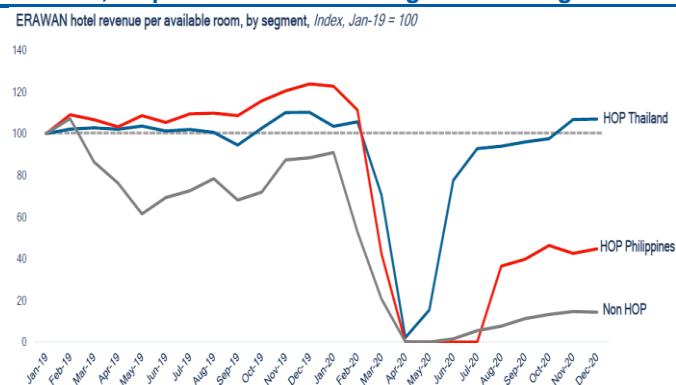
Source: RHB

Figure 3: ERW's capital increase summary

	Total Proceed (MB)	1Q21	2Q21	3Q21	4Q21	2022	2023	2024
Capital Increase								
1. Right Offering	2,014							
• Exercise Ratio :1.25 existing shares to 1 new shares								
• Subscription price : at par THB 1 per share								
• Subscription period 7-11 Jun 21								
2. Warrants	1,079							
• Exercise ratio :7 existing shares to 1 new warrant								
• Subscription price : THB 3.0 per share								
• Warrant term : 3 years								Jun-24
Total	3,093							

Source: Company data

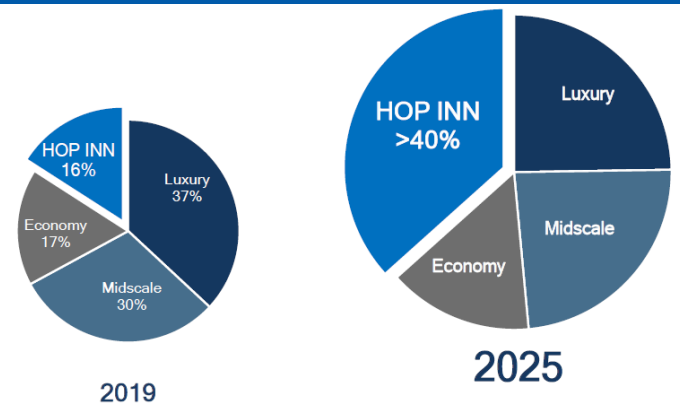
Figure 4: ERW's Hop Inn budget hotels, driven by local demand, outperformed its other segments during a crisis



Source: Company data

Figure 5: 12 new Hop Inn hotels are committed in the pipeline

Figure 6: ERW's target to enhance Hop Inn's EBITDA contribution to >40%, as the biggest segment, by 2025



Source: Company data

Source: Company data

Recommendation Chart



Source: RHB, Bloomberg

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		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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- ได้รับการรับรอง CAC

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