

# ASIA HOTEL PLC

No. 76/2024  
8 May 2024

## CORPORATES

**Company Rating:** BB  
**Outlook:** Stable

**Last Review Date:** 11/07/23

### Company Rating History:

Date	Rating	Outlook/Alert
11/07/23	BB	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Asia Hotel PLC (ASIA) at “BB” with a “stable” rating outlook. The rating reflects ASIA’s market position in the hotel business and the rental income stream from its commercial properties. The rating also takes into consideration the company’s hotel renovation plan to enhance revenue generation and the overall image of its hotels as well as an expected decline in its financial leverage. The rating is, however, constrained by ASIA’s modest scale of operations and earnings, its reliance on a limited number of properties, and underutilization of assets.

## KEY RATING CONSIDERATIONS

### Upcoming hotel renovations expected to drive revenue growth

We expect the company’s plan to renovate some of its older properties will enhance the performance of its hotel operations over the next few years. ASIA is in the process of renovating the lobby area of Asia Hotel Bangkok, while renovations of the hotel’s ballrooms were completed in February 2024. The company plans to renovate Asia Pattaya Hotel and Asia Airport Hotel in the fourth quarter of 2024. Capital expenditure for the renovation project is budgeted at around THB500 million in total over 2023-2026.

In our view, the current revenue per available room (RevPar) for most of ASIA’s hotels remains below its potential level. The hotels are mostly situated in excellent locations but the properties are aged. If the company can successfully improve revenue-generating ability after the renovations, it would be in a better position to compete for talent, to modernize its hotel management systems, to improve efficiency, and to reach a wider customer base.

### Tourism recovery provides tailwinds for hotel performance

The ongoing recovery of Thailand’s international tourism should also continue to support ASIA’s growth. We expect the company’s RevPar to increase by around 2% in 2024 and 8%-9% per annum in 2025-2026. We also expect enhancements in the company’s food and beverage revenue over the next few years, supported by the resumption of meeting, incentive, conference, and exhibition (MICE) activities and a stronger ability to command prices following the ballroom renovations at Asia Hotel Bangkok. We project hotel revenue growth of 6% in 2024 year-on-year (y-o-y) and 9%-13% per year in 2025-2026, with revenues ranging from THB0.8-THB1.0 billion per annum over the forecast period.

### Operating performance of commercial properties to remain subdued

In our base-case forecast, we expect occupancy rates (OR) and rental rates of Zeer Rangsit and The Hub to gradually recover over the forecast period from a rebound in leasing demand following the pandemic downturn and the company’s ongoing efforts to acquire new tenants. We expect the average OR of the company’s commercial properties to revert to the 2019-level of around 64% by 2026 with the rental rate of each property growing by 1%-3% per annum in 2024-2026.

The company operates four shopping malls and one apartment building. The two key properties in the portfolio are Zeer Rangsit (77% of total leasable area) and The Hub (20% of total leasable area). In 2023, the operating performances of both key properties remained weak despite some improvements. Zeer Rangsit’s OR was 56% in 2023, compared with 54% in 2022 and around 70%

pre-pandemic. Its average rental rate also decreased by 6% y-o-y in 2023 and remained 10% below the 2019 level as some promotional rates were still required to attract and retain tenants. The Hub's transition to a new customer group has also yet to gain momentum.

### **Underutilization and concentrated exposure of commercial properties**

We consider the inefficient use of the company's key commercial properties, as indicated by weak ORs and rental rates, as one of the factors constraining the rating. In addition, as 80% of commercial property earnings before interest, taxes, depreciation and amortization (EBITDA) is derived from Zeer Rangsit, the mall's heavy reliance on IT-related tenants makes the company vulnerable to demand shifts or a change in customer behavior in that particular segment relative to shopping malls with more diverse tenant types and customer segments.

The company's commercial property business has provided relatively predictable cash flow from contract-based rental and service income. In our view, more efficient management of its commercial properties could allow the company to fully capitalize on the steady cash flow the properties can potentially generate.

### **Financial leverage to decline**

We anticipate a gradual reduction in the company's financial leverage as operating performance improves over the next few years. The company's EBITDA is expected to range from THB400-THB500 million in 2024-2026 with an EBITDA margin of around 31%. In our base-case forecast, we expect capital expenditure for the property renovations and maintenance to be around THB600 million in total in 2024-2026. Therefore, the company's debt to EBITDA ratio is expected to stay at around 6 times in 2024 and decline to 4-5 times in 2025-2026. The ratio was 6.3 times at the end of December 2023.

The key financial covenants on ASIA's debt obligations require the company to keep its interest-bearing debt to equity (IBD/E) ratio below 2 times and debt service coverage ratio (DSCR) above 1.1 times. The company has complied with the covenant on the IBD/E ratio with a ratio of 0.4 times at the end of December 2023. However, the company's DSCR ratio fell short of the requirement with a ratio of 1.0 times at the end of December 2023. The company is in the process of seeking a covenant waiver from the lender.

### **Debt structure**

As of December 2023, ASIA had total consolidated debt of THB2.2 billion, all of which was priority debt, which includes secured debts at the parent company and total debts of its subsidiaries. As its priority debt ratio was higher than the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", we view that ASIA's senior unsecured creditors could be significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

### **Manageable liquidity**

We assess ASIA's liquidity as manageable over the next 12 months. At the end of December 2023, ASIA's sources of funds comprised cash and cash equivalents of around THB143 million and undrawn uncommitted credit facilities of around THB130 million. We forecast its funds from operations (FFO) of around THB255 million in 2024. The company had maturing debts over the next 12 months of around THB292 million. The company plans to issue debentures as an additional funding source.

### **BASE-CASE ASSUMPTIONS**

- Revenue from the hotel business to be around THB0.8-THB1.0 billion per annum in 2024-2026.
- Revenue from the commercial property business to be around THB400-THB500 million per annum in 2024-2026.
- EBITDA margin to stay around 31% in 2024-2026.
- Total capital expenditure to be around THB600 million over the three-year forecast period.

### **RATING OUTLOOK**

The "stable" outlook reflects our expectations that ASIA will maintain its market position in both hotel and commercial property businesses. We also expect the company's hotel operations to continue to recover and the leverage level to continue to decline.

### **RATING SENSITIVITIES**

A credit upside would materialize if the company improved its earnings base and profitability from the current levels and its debt to EBITDA ratio falls well below 5 times for a prolonged period. On the contrary, the rating could be revised downward if the company's operating performance falls short of our base-case forecast and/or its financial profile weakens significantly.

**COMPANY OVERVIEW**

ASIA was established in 1966 by Techaruvichit Group and listed on the Stock Exchange of Thailand (SET) in 1989. The company has two business lines, hotel and commercial property. The company currently has seven hotels, four shopping centers, and one apartment building in its portfolio. As of December 2023, the Techaruvichit Group remained the company’s major shareholder, holding 68% of the company’s outstanding shares.

ASIA’s hotel portfolio includes six hotels in Thailand, which are Asia Hotel Bangkok (established in 1972), Asia Pattaya Hotel (established in 1972), Asia Airport Hotel (established in 1992), Asia Cha-am Hotel (established in 2010), Darley Chiangmai Hotel (opened in 2018), and Ratchapruek Lanna Boutique (opened in 2018). The company owns one hotel in the United States (US) named “Quality Inn Long Beach – Signal Hill”, which it acquired in 2018 for USD14.4 million. Unlike the company’s local hotels, the Quality Inn Hotel operates under franchise from Choice International Hotels. As of December 2023, the company had a total of 1,733 hotel rooms in its portfolio.

ASIA’s commercial property portfolio includes three shopping centers in Thailand, Zeer Rangsit (69,790 square meters (sq.m.) leasable area), The Hub (17,860 sq.m. leasable area), and Laan Sook Plaza (1,849 sq.m. leasable area). The company owns one shopping center in the US called “Glendale Plaza” in Glendale Boulevard, Los Angeles, California, which it acquired in 2011 for USD6.3 million. As of December 2023, the company had a total leasable area of 90,859 sq.m. in its commercial property portfolio.

**KEY OPERATING PERFORMANCE**

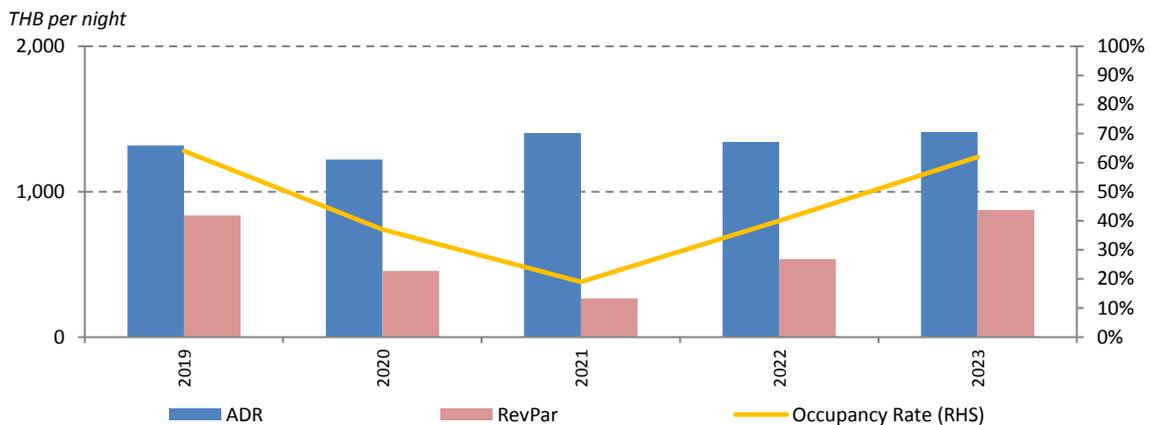
**Table 1: ASIA’s Revenue Breakdown by Business Line**

Unit: %

Revenue Breakdown	2019	2020	2021	2022	2023
Hotel	54	41	33	50	59
Commercial property	41	50	60	45	35
Others	6	9	7	5	6
<b>Total revenue</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Total revenue (mil. THB)</b>	<b>1,438</b>	<b>892</b>	<b>648</b>	<b>969</b>	<b>1,258</b>

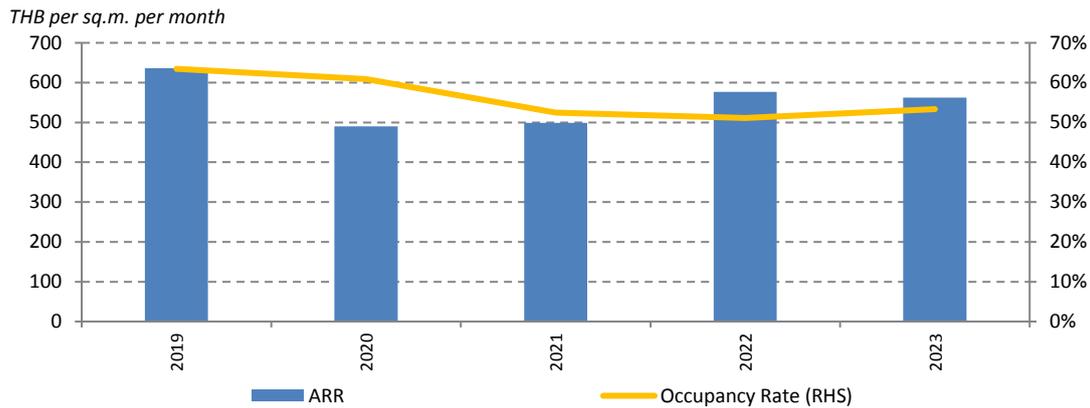
Source: ASIA

**Chart 1: ASIA’s Hotel Performance (ADR, RevPar, and OR)**



Source: ASIA

Chart 2: ASIA's Key Commercial Property Performance (OR and ARR)



Source: ASIA

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Total operating revenues	1,258	969	648	892	1,438
Earnings before interest and taxes (EBIT)	122	36	(81)	3	82
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	381	300	189	307	429
Funds from operations (FFO)	218	145	58	178	285
Adjusted interest expense	151	151	123	127	143
Capital expenditures	79	28	19	43	141
Total assets	10,212	10,457	10,501	9,569	9,472
Adjusted debt	2,390	2,511	2,687	2,679	2,672
Adjusted equity	6,050	6,092	6,071	5,340	5,471
<b>Adjusted Ratios</b>					
EBITDA margin (%)	30.3	30.9	29.2	34.4	29.9
Pretax return on permanent capital (%)	1.4	0.4	(1.0)	0.0	1.0
EBITDA interest coverage (times)	2.5	2.0	1.5	2.4	3.0
Debt to EBITDA (times)	6.3	8.4	14.2	8.7	6.2
FFO to debt (%)	9.1	5.8	2.2	6.6	10.7
Debt to capitalization (%)	28.3	29.2	30.7	33.4	32.8

\* Consolidated financial statements

## RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

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Asia Hotel PLC (ASIA)

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<b>Company Rating:</b>	BB
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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