BOUND AND BEYOND PLC

No. 10/2022
4 February 2022

CORPORATES

Company Rating:	BB
Outlook:	Negative

Last Review Date: 08/02/21

Company Rating History:

Date	Rating	Outlook/Alert
08/02/21	BB	Negative
08/01/20	BBB-	Negative
08/02/19	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Bound and Beyond PLC (BEYOND), formerly known as Padaeng Industry PLC (PDI), at "BB" with a "negative" outlook. The rating takes into consideration the high asset quality of the brand-new luxury hotel properties the company recently acquired, and its tight but manageable liquidity. The rating is constrained by an expected rise in debt level from its capital spending plan, uncertainty surrounding the recovery prospects of the hospitality industry in Thailand which could continue to pressure operating performance, and the company's concentrated portfolio of only two hotels situated in a single location.

KEY RATING CONSIDERATIONS

Shifting entirely to hospitality business

BEYOND has shifted its focus entirely to the hotel business by divesting all its solar power plants and acquiring two operating hotels. BEYOND sold all its solar power plants in Thailand in March 2021 and those in Japan in September 2021. The proceeds from the sales amounted to THB1.7 billion and THB700 million, respectively. In late 2021, BEYOND acquired 76% stakes in Urban Resort Hotel Co., Ltd. and Waterfront Hotel Co., Ltd., the companies that hold the rights to use assets, land, and related rights of the "Four Seasons Hotel Bangkok at Chao Phraya River" (FSH) and the "Capella Bangkok" (CPH), respectively. The investment value for 76% of the ordinary shares in both companies amounted to THB4.2 billion. BEYOND plans to acquire the remaining 24% stakes in both companies by the third quarter of 2022. The total investment will be equal to THB10.5 billion, including THB5.5 billion in equity and THB5.0 billion in debt (made up of a THB2-billion long-term loan from the seller of the two hotels, Landmark Holdings Co., Ltd., and a THB3-billion loan from a financial institution). BEYOND also plans the disposal of other non-core assets, including an office building unit and industrial lands in Tak and Rayong provinces, to support its growth in the new business.

Going forward, BEYOND's strategy is to expand in the hotel and lifestyle businesses, exploring investments that have unique character and serve demographic trends such as the younger affluent and growing aged populations with high spending power. BEYOND currently has one publicly announced future hotel project on Sathorn road. The project is under development and slated to open in 2024.

Good asset quality

TRIS Rating views the two newly acquired hotels to be of good quality considering their newness, prime location, and outstanding architecture. Commercially opened in late 2020, the 299-key FSH and 101-key CPH are situated on the Chao Phraya riverfront on Charoenkrung road, a competitive location for leisure travelers and social events in Bangkok. Both hotels are positioned to tap the ultra-luxury segment. The room sizes start from 50 square meter (sq. m.) for FSH and 61 sq. m. for CPH, which are relatively larger than the closest competitors. In addition, the hotels are run by world-class operators, namely "Four Seasons Hotels and Resorts" and "Capella Hotel Group", which provide good brand recognition and ensure smooth operations and consistently high levels of service.

FSH and CPH offer six and five dining venues (including restaurants, bars, and other food & beverage outlets), respectively. Each hotel features a

"1 Michelin star" restaurant, "Yu Ting Yuan" for FSH, and "Cote by Mauro Colagreco" for CPH. Apart from restaurants, FSH and CPH have sizable meeting and social event spaces of 3,300 sq. m. and 1,600 sq. m., respectively, which can accommodate events of more than 1,000 guests. We believe that the quality of these assets will support BEYOND's long-term business strength and revenue generation.

Recovery of hotel business anticipated with potential hiccups

The performance of both hotels in BEYOND's portfolio has been hindered by successive waves of the Coronavirus Disease 2019 (COVID-19) since their opening in late 2020. Both hotels operated at an occupancy rate (OR) below 10% and an abnormally low average room rate (ARR) for most of 2021. However, BEYOND has not been impacted much as the company acquired the hotels in late 2021 when many COVID-19 restrictions had been relaxed, and hotel performance had already started to pick up. The recovery was slowed down once again by tightened travel restrictions in late December 2021 due to the emergence of the Omicron variant. Nonetheless, despite the threat of potential hiccups along the way, we expect the recovery trend to continue in 2022.

We expect BEYOND's hotel performance to gradually improve in 2022 and reach normalized levels in 2024-2025. In our base-case forecast, we anticipate the OR of both hotels to range upward from 28% to 65% with ARR ranging from THB16,000-THB21,000 for CPH and THB8,000-THB11,000 for FSH during the 2022-2025 period. As a result, we project BEYOND's revenue to increase from THB1.1 billion in 2022 to THB2.0 billion in 2023, THB2.7 billion in 2024, and THB3.1 billion in 2025. We expect BEYOND's revenue from food & beverage (including banquet and meeting) to contribute around 58% of its total revenue in 2022, dropping to 51% in 2025. We expect BEYOND's earnings before interest, taxes, depreciation and amortization (EBITDA) to be negative in 2022 (excluding gain from divestments of non-core assets) and turn positive at around THB290 million in 2023, THB600 million in 2024, and THB770 million in 2025.

Reliance on limited number of hotel assets

BEYOND's reliance on the two hotels as its only source of future income is one of the factors constraining our business risk assessment of the company. FSH and CPH are located in the same compound, and both are targeting the high-end, luxury segment. We consider the hotel industry to be, in general, vulnerable to event-specific risks and uncontrollable factors, and one way to mitigate such risks is to have a geographically diversified portfolio of assets, targeting broad customer segments.

The company could also benefit from scale if it has a more sizable portfolio, as the same managerial capabilities could potentially oversee a larger number of properties. Even with the inclusion of a new hotel on Sathorn road scheduled to open in 2024, we would continue to consider the company's portfolio to be small and less diversified relative to peers.

Leverage to stay elevated over the next 2-3 years

TRIS Rating expects BEYOND's financial leverage to rise substantially and remain elevated in the next 2-3 years because of the sizable acquisition of the two hotels and the pressure on hotel performance from COVID-19. In our base-case scenario, we assume BEYOND will acquire additional 24% stakes in FSH and CPH in 2022. We also assume capital spending for the Sathorn hotel project of around THB900 million spanning 2022-2024. BEYOND's adjusted net debt is therefore expected to rise to around THB4.4 billion in 2021 and THB5.0-THB5.8 billion in 2022-2025. We expect the debt to EBITDA ratio to surge to very high levels in 2021-2022 and remain elevated at 20 times in 2023 before falling to 10 times and 7 times in 2024 and 2025, respectively. The debt to capitalization ratio is projected to rise to 48% in 2021 and 51%-53% in 2022-2025.

Tightened but manageable liquidity

TRIS Rating assesses BEYOND's liquidity as tight but manageable in the next 12 months. BEYOND had cash and cash equivalents of around THB4 billion as of September 2021. The uses of cash include the acquisition of 76% stakes of the two hotels for THB3.2 billion in November and December 2021 (BEYOND had paid THB1 billion in advance for the acquisition in August 2021) and bond repayments of THB500 million in December 2021. Additional uses of cash include the planned acquisition of the remaining 24% stakes in the two hotels of THB1.3 billion expected in the third quarter of 2022. These acquisitions rely mainly on cash from divestments of non-core assets including industrial lands in Tak and Rayong provinces, which are uncertain, especially in view of the economic fallout from COVID-19. However, BEYOND's liquidity should remain manageable as the company has the flexibility to determine the proportion and timing of additional investment in the remaining shares considering the suitability of the company's cash flow.

BASE-CASE ASSUMPTIONS

- Total revenue to reach around THB1.1 billion in 2022, before increasing to THB2.0 billion in 2023, THB2.7 billion in 2024, and THB3.1 billion in 2025.
- EBITDA to remain negative in 2022, increasing to THB290 million in 2023, THB600 million in 2024, and THB770 million in 2025.
- Remaining 24% shares in FSH and CPH to be acquired for THB1.3 billion in 2022.
- Capital expenditure for Sathorn hotel of around THB900 million spanning 2022-2024.
- Divestments of office building unit, industrial land plots in Tak and Rayong to be completed in 2022.

RATING OUTLOOK

The "negative" outlook reflects the high degree of uncertainty over the pace of recovery in the hotel business which could continue to pressure BEYOND's operating performance.

RATING SENSITIVITIES

A rating downgrade could occur if BEYOND's performance falls below our forecast, which could be the result of a slower-than-expected recovery in the Thai tourism. Negative pressure on the rating could also emerge upon additional debt-financed investments or signs of inadequate liquidity to meet debt obligations. We could revise the rating outlook back to "stable" if there are clear signs of a stronger-than-expected recovery in the company's hotel performance.

COMPANY OVERVIEW

BEYOND (previously known as PDI) was founded in 1981 to engage in zinc mining and the production of high-grade zinc metal and value-added zinc alloys. BEYOND's zinc mine was located in Mae Sod district, Tak province. BEYOND also owned a smelter located in Muang district of Tak province, and a roaster plant in Rayong province.

In 2014, BEYOND announced plans to shut down its zinc business after 33 years of operations. This crucial decision took into account a number of issues, including the exhaustion of zinc resources at the Mae Sod mine, the remote likelihood of the government granting new concessions, and strong opposition by environmentalists. BEYOND also wanted to move away from the volatility inherent in global zinc prices and shrinking domestic demand. The company's zinc business ceased operations completely in the first quarter of 2019.

The company entered the renewable energy business by acquiring two Japanese solar farms and the 6.3-megawatt (MW) Mae Ramat Solar Farm in 2016. In 2017, the company acquired six operating solar projects with total installed capacity of 30 MW from Symbior Element Pte. Ltd.

In 2021, BEYOND pivoted again to the hotel business. The company sold all its solar power plants in Thailand and Japan and used the proceeds from the divestments to acquire 76% stakes in FSH and CPH. BEYOND plans to acquire an additional stake in both hotels to warrant complete control in 2022. The company changed its name to Bound and Beyond PLC to align with the new business's direction.

BEYOND is currently an investment holding company, focusing on the hotel and lifestyle businesses. Country Group Holdings PLC (CGH) is the major shareholder of BEYOND controlling a 39% stake. CGH has played a number of key roles in BEYOND's business transformation from zinc mining and trading to renewable energy and to the hotel business recently. CGH has participated in recruiting a new management team, carrying out cost-cutting measures, and also revisiting potential projects in which BEYOND planned to invest.

KEY OPERATING PERFORMANCE

Chart 1: BEYOND's Hotel Portfolio

Hotel	Location	No. of Room	No. of Restaurant	Meeting Space	Type of Ownership	Year Open
In Operation						
Four Seasons Hotel Bangkok at Chao Phraya River	Charoenkrung rd., Bangkok	299	6	3,401 sq. m.	Leasehold	2020
Capella Bangkok	Charoenkrung rd., Bangkok	101	5	2,037 sq. m.	Leasehold	2020
Under Development						
Sathorn Hotel project	Sathorn rd., Bangkok	Approx. 200	n.a.	n.a.	Freehold	Expected 2024

Source: BEYOND

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

		------------Year Ended 31 December ---------			
	Jan-Sep 2021	2020	2019	2018	2017
Total operating revenues	24	526	540	545	6,315
Earnings before interest and taxes (EBIT)	(104)	125	130	146	985
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	(92)	314	312	330	1,151
Funds from operations (FFO)	(133)	157	184	220	1,046
Adjusted interest expense	41	145	127	103	35
Capital expenditures	21	508	90	8	30
Total assets	6,569	8,381	8,911	8,550	7,596
Adjusted debt	0	1,046	392	710	276
Adjusted equity	5,741	4,782	4,705	4,703	5,084
Adjusted Ratios					
EBITDA margin (%)	(386.41)	59.70	57.76	60.49	18.23
Pretax return on permanent capital (%)	(0.98)	1.55	1.67	2.06	16.84
EBITDA interest coverage (times)	(2.24)	2.16	2.45	3.21	33.01
Debt to EBITDA (times)	0.00	3.33	1.26	2.15	0.24
FFO to debt (%)	n.a.	15.05	46.95	30.94	379.25
Debt to capitalization (%)	0.00	17.95	7.70	13.12	5.15

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology – Corporate, 26 July 2019

Bound and Beyond PLC (BEYOND)

Company Rating:	BB
Rating Outlook:	Negative

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