

# ROYAL ORCHID HOTEL (THAILAND) PLC

No. 43/2023  
29 March 2023

## CORPORATES

**Company Rating:** BB-  
**Outlook:** Negative

**Last Review Date:** 08/04/22

| Company Rating History: |        |               |
|-------------------------|--------|---------------|
| Date                    | Rating | Outlook/Alert |
| 19/03/21                | BB-    | Negative      |

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## RATIONALE

TRIS Rating affirms the company rating on Royal Orchid Hotel (Thailand) PLC (ROH) at “BB-” with a “negative” outlook. The rating reflects the credit profile of Grande Asset Hotels and Property PLC (GRAND), as its controlling shareholder and as its main source of cash flow to fulfill the buy-back condition of its only operating asset, Royal Orchid Sheraton Hotel & Towers from Grande Royal Orchid Hospitality Real Estate Investment Trust with Buy-Back condition (GROREIT) in 2026. The rating also takes into consideration the good quality of its hotel property, which is professionally managed by a world-class hotel chain, and its recovering hotel performance.

The “negative” outlook reflects ROH’s exposure to counterparty risk from GRAND as ROH’s ability to service the lease payments and buy-back obligation rely mainly on the interest received and loan repayments from GRAND.

## KEY RATING CONSIDERATIONS

### Hotel operations to continue to recover

ROH’s operating performance recovered in 2022 thanks to an increase in tourist arrivals in 2022, following the gradual easing of COVID-19 entry requirements for international visitors. In 2022, ROH’s average occupancy rate (OR) improved to 35%, from 6% in 2021, and revenue per available room (RevPAR) was 58% below the 2019 level, an improvement from 94% below the pre-pandemic level in 2021. Compared with other hotels in Bangkok that are also under GRAND’s ownership, ROH has recovered at a slower pace as the hotel’s targeted customers, which are foreign travelers with a focus on meetings, incentive travel, conventions, and exhibitions (MICE) and corporate clients, were slower to return to the market compared to business travelers and free and independent travelers (FIT). Nonetheless, we expect ROH’s operating performance to continue to recover over the next few years, supported by China’s reopening in early 2023 and the ongoing recovery of international tourism and MICE activities.

Our base-case scenario projects ROH’s RevPar to reach around 85% of the 2019 level in 2023 before reaching the pre-pandemic level in 2024.

### Reliance on a single asset

ROH’s hotel property is situated in a good location and is well maintained. The company has hired Marriott International Inc. to manage its hotel under the “Sheraton” brand. International hotel chains provide strong brand names, good hotel management systems, and effective sales channels.

Nonetheless, ROH’s exposure to concentration risk remains as it has only one property in its portfolio. We consider a well-diversified portfolio of hotels in different locations catering to different market segments to be less susceptible to event risk in general.

### Financial leverage remains high from the REIT buy-back obligation

Following the sale of “Royal Orchid Sheraton Hotel & Towers” to GROREIT in 2021 with a buy-back obligation, ROH’s net debt jumped to a high level, staying at around THB4.5 billion in 2022. Under our base-case forecast, we expect ROH’s earnings before interest, taxes, depreciation, and amortization (EBITDA), which includes interest income from GRAND, to be around THB500-THB600 million per annum in 2023-2025, following an expected recovery in

hotel performance. Therefore, the company's financial leverage, as measured by the adjusted debt to EBITDA ratio, is expected to stay at around 6-8 times over the forecast period.

Under the REIT buy-back transaction, the company sold the asset to GROREIT for around THB4.5 billion and received proceeds, after related fees, of around THB4.3 billion in July 2021. The company has leased back the asset for an initial term of three years. The lease could be renewed for another year twice, so the maximum lease term would be five years. The lease payment is THB272 million per annum. The company has an obligation to buy the asset back from the REIT at the end of the fifth year at the initial price plus premium, totaling around THB4.9 billion. The company also has options to buy the asset back at the end of the third or fourth year at pre-determined prices. ROH lent most of the proceeds from the asset sales to GRAND with a term of five years starting from July 2021. As of December 2022, ROH's loan to GRAND stood at around THB4 billion with an 8.9% interest rate. The company relies on interest income and loan repayments from GRAND to service lease payments and fulfil its buy-back obligation.

### **Manageable liquidity**

We view ROH's liquidity remains manageable over the next 12 months. As of December 2022, ROH's sources of funds comprised cash and cash equivalents of THB127 million, expected interest received from GRAND of THB355 million in 2023, and net cash inflows from operations of around THB180 million. The uses of funds in the next 12 months include lease payments of THB272 million and budgeted investments of around THB25 million. The company has no debt obligations maturing over the next 12 months.

### **BASE-CASE ASSUMPTIONS**

- Revenues to be around THB0.8-THB1.0 billion per annum in 2023-2025.
- EBITDA margin (excluding interest income from GRAND) to be around 22%-27% in 2023-2025.
- Total capital spending to be around THB90 million over the three-year forecast period.

### **RATING OUTLOOK**

The "negative" outlook reflects ROH's exposure to counterparty risk from GRAND. As ROH is a subsidiary of GRAND and its ability to service the lease payments and buy-back obligation rely mainly on interest received and loan repayments from GRAND, the credit rating on ROH is constrained by the credit profile of GRAND.

### **RATING SENSITIVITIES**

The "negative" outlook could be revised to "stable" if GRAND's operating performance and credit metrics improve. On the contrary, the downside risk scenario would materialize if ROH's operating performance and financial leverage fall short of our expectations, or if GRAND's credit profile deteriorates.

### **COMPANY OVERVIEW**

ROH was incorporated in 1978 to develop and operate the luxury hotel, "Royal Orchid Sheraton Hotel & Towers". The hotel is located on the Chao Phraya River with 726 rooms. The company has appointed Marriott International Inc. to operate the hotel under the Sheraton brand. As of March 2022, ROH's largest shareholder was GRAND, holding 97% of the total outstanding shares.

**KEY OPERATING PERFORMANCE**

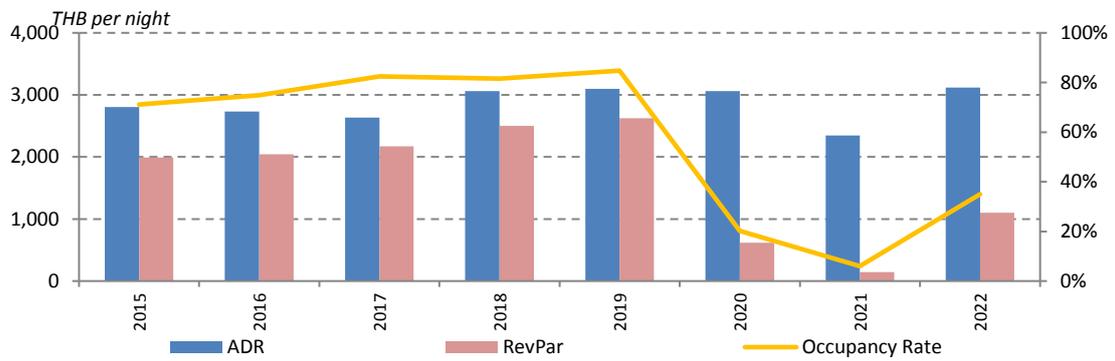
**Table 1: Revenue Breakdown**

Unit: %

| Revenue Breakdown    | 2016       | 2017       | 2018       | 2019       | 2020       | 2021       | 2022       |
|----------------------|------------|------------|------------|------------|------------|------------|------------|
| Room                 | 63         | 64         | 64         | 65         | 62         | 56         | 67         |
| Food and beverage    | 33         | 32         | 33         | 32         | 35         | 41         | 31         |
| Others               | 4          | 4          | 3          | 3          | 3          | 3          | 2          |
| <b>Total revenue</b> | <b>100</b> |

Source: ROH

**Chart 1: ROH's OR, ADR, and RevPar**



## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

|  | -----Year Ended 31 December ----- |          |         |        |        |
|--|-----------------------------------|----------|---------|--------|--------|
|  | 2022                              | 2021     | 2020    | 2019   | 2018   |
| Total operating revenues   | 420                               | 65       | 241     | 979    | 937    |
| Earnings before interest and taxes (EBIT)                                | 305                               | (88)     | (187)   | 184    | 175    |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 382                               | (10)     | (103)   | 262    | 263    |
| Funds from operations (FFO)  | (13)                              | (191)    | (115)   | 222    | 247    |
| Adjusted interest expense  | 383                               | 181      | 9       | 2      | 1      |
| Capital expenditures   | 48                                | 99       | 38      | 23     | 35     |
| Total assets   | 8,133                             | 8,046    | 916     | 1,223  | 1,166  |
| Adjusted debt  | 4,453                             | 4,348    | 0       | 0      | 0      |
| Adjusted equity  | 2,699                             | 2,831    | 663     | 955    | 940    |
| <b>Adjusted Ratios</b>   |                                   |          |         |        |        |
| EBITDA margin (%)  | 90.88                             | (14.70)  | (42.78) | 26.78  | 28.03  |
| Pretax return on permanent capital (%)                                   | 4.17                              | (2.15)   | (19.97) | 18.08  | 17.87  |
| EBITDA interest coverage (times)   | 1.00                              | (0.05)   | (11.21) | 158.64 | 200.40 |
| Debt to EBITDA (times)   | 11.66                             | (453.67) | 0.00    | 0.00   | 0.00   |
| FFO to debt (%)  | (0.28)                            | (4.39)   | n.m.    | n.m.   | n.m.   |
| Debt to capitalization (%)   | 62.26                             | 60.57    | 0.00    | 0.00   | 0.00   |

n.m. = Not meaningful

## RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

## Royal Orchid Hotel (Thailand) PLC (ROH)

Company Rating:

BB-

Rating Outlook:

Negative

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