

CENTRAL PLAZA HOTEL PLC

No. 132/2023
26 July 2023

CORPORATES

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Stable

Last Review Date: 11/05/23

Company Rating History:

Date	Rating	Outlook/Alert
14/07/22	A-	Stable
27/07/21	A-	Negative
31/07/20	A	Negative
27/03/20	A	Alert Negative
09/08/13	A	Stable
28/07/11	A-	Stable
03/07/09	A-	Negative
21/10/04	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Central Plaza Hotel PLC (CENTEL) and the ratings on its existing senior unsecured debentures at “A-” with a “stable” rating outlook. The ratings continue to reflect CENTEL’s strong market position in its hotel and quick service restaurant (QSR) businesses in Thailand. These strengths are weighed down by the cyclical nature of the hotel industry and its susceptibility to event risk, as well as intense competition in the QSR industry. The ratings also consider CENTEL’s new investment cycle, which will likely push up its financial leverage over the next 12-24 months despite improving hotel operations post pandemic.

KEY RATING CONSIDERATIONS

Reviving hotel operation

Ongoing improvement in the operating conditions post pandemic, particularly the lifting of travel restrictions globally and increasing flight capacity, have helped hotel operations come closer to resuming normality. Our base-case assumption forecasts CENTEL’s revenue per available room (RevPAR) at around THB3,300 per room per night in 2023, around 4% below the 2019 pre-pandemic level, before improving to THB3,650-THB4,650 per room per night in 2024-2025.

On a like-for-like basis, the projected RevPAR in 2023 is around 10% below the 2019 level. The inclusion of the newly renovated “Centara Reserve Samui” and a newly opened “Centara Grand Hotel Osaka” have helped enhance our forecast RevPAR figure in 2023. In 2024-2025, our RevPAR forecast reflects both the company’s organic growth of demand for hotel rooms and expected average daily rate (ADR) uplift from the major renovations at various properties.

The return of Chinese tourists in 2023 will remain limited despite the lifting of travel restrictions. This is because of other travel obstacles, including limited flight capacity, heightened cost of travel from inflation, as well as stricter and lengthier visa approval from the Thai authorities. However, we expect CENTEL to be able to partly compensate for the absence of Chinese tourists with other source markets. We expect to see increased Chinese tourists outbound next year onward which should support our expected RevPAR increase for CENTEL’s hotels.

Growing reliance on the Maldives tourism

CENTEL plans to open three more hotels in the Maldives over the next three years, with significant investment totaling around THB10 billion. Together with its two existing hotels, the five Maldives properties could account for up to 40% of CENTEL’s hotel revenue in the next 3-5 years. While inclusion of the Maldives in the portfolio was helpful during the pandemic, we consider CENTEL’s heavy reliance on any particular market to be a risk, which could potentially lead to more volatile operating results compared with peers with more geographically diversified portfolios.

CENTEL’s hotel portfolio ranges from luxury to affordable hotels and leisure to convention hotels. Currently, Thailand accounts for around 80% of CENTEL’s total hotel revenue contribution. The company has been expanding its hotel operations outside Thailand to the Maldives, Dubai, and Osaka. CENTEL currently has two hotels in the Maldives, contributing around 20% of total

hotel revenue. The openings of “Centara Mirage Beach Resort Dubai” in October 2021 and Centara Grand Hotel Osaka in the beginning of July 2023 have helped diversify its portfolio further away from Thailand.

Established market position in QSR business

We view that CENTEL’s strong and established market position in the QSR business will help support its revenue growth in a currently dynamic operating condition. Our base-case projection forecasts the QSR business revenue to grow by mid- to high-single percentage per annum to around THB12-THB14.5 billion per year during 2023-2025.

CENTEL’s same-store sales growth was consistently positive during the past several quarters, reflecting ongoing recovery and an improved operating environment. In the first quarter of 2023, same-store sales grew by 8.4% year-on-year (y-o-y). We expect the growth to continue at a more moderate rate in coming quarters supported by increasing dine-in traffic which generally yields higher sales per ticket and rising number of tourists. While we see the popularity of delivery platforms result in a growing number of choices available to consumers, we expect CENTEL to be able to respond to changing demand and consumer behaviors, and to sustain revenue growth.

Over the forecast period, we estimate that net increase in CENTEL’s QSR outlet will be 80-110 outlets per year, mainly in key revenue generating brands including “KFC”, “Mister Donut”, “Auntie Anne’s”, “Ootoya”, “Katsuya”, “Yoshinoya”, and “Pepper Lunch”. The new outlet numbers also include “Arigato”, a small coffee kiosk which will be open mainly inside KFC and Mister Donut outlets, and a newly acquired “Somtam Nua”.

Despite operating multiple brands, KFC brand continues to be a dominant brand contributing over half of CENTEL’s QSR revenue and earnings before interest, taxes, depreciation, and amortization (EBITDA). Three other major brands, including Mister Donut, Auntie Anne’s, and Ootoya, are projected to contribute about 30% of total QSR revenue and EBITDA over the forecast period.

Growing earnings

Our base-line projection forecasts CENTEL’s revenue to be around THB21.5-THB23.5 billion per year in 2023-2024 before increasing to around THB27.5 billion in 2025. The revenue growth will be driven by the ongoing improving performance post pandemic in both the hotel and QSR businesses and a result of investments mainly in the hotel business, both in renovation and with new hotels opening in Osaka and the Maldives.

We project CENTEL’s EBITDA margin to come under pressure and tighten to 23% in 2023, before improving to around 25%-28% in 2024-2025. Recovering hotel operations and ability to raise ADR once major renovation at various hotels are complete should help support CENTEL’s profitability in its hotel business in coming years. In the QSR business, however, we anticipate the profit margin to remain pressured as weak consumer sentiment and the highly competitive QSR business continue to limit CENTEL’s ability to fully pass on rising costs to consumers. Expected improvement in overall profitability is also attributable to the growing contribution of the hotel business to overall sales, as the hotel business yields higher profit margin relative to QSR business. We project CENTEL’s EBITDA to be around THB5-THB6 billion per annum in 2023-2024 and around THB8 billion in 2025.

Leverage to stay elevated from investment

Our base case projection forecasts CENTEL’s leverage, as measured by adjusted debt to EBITDA ratio, to rise to 5.8 times during 2023-2024 reflecting the company’s scaled-up capital expenditures and investment plan. The leverage is forecast to start trending downwards in 2025, with adjusted debt to EBITDA ratio falling below 5 times.

CENTEL halted its expansion and some renovation plans during the distressed operating conditions. Now that business is recovering, the company plans capital expenditures and investment of around THB20 billion in total during 2023-2025. Of the total planned budget, around THB8.8 billion are committed budget for two out of the three new hotels in the Maldives and the renovation plans for three hotels including “Centara Grand Mirage Pattaya”, “Centara Karon”, and “Centara Grand Hua Hin”. Incorporating the total investment budget, we expect CENTEL’s adjusted debt to increase to peak at around THB38 billion in 2025 from THB24 billion in the first quarter of 2023.

As of March 2023, CENTEL’s priority debt ratio was 24%. The main financial covenants on CENTEL’s bank loans and debentures require the company’s interest-bearing debt to equity ratio to remain below 2 times. The ratio was 0.75 times as of March 2023. We believe that CENTEL should have no problems complying with the financial covenants over the forecast period.

Adequate liquidity

We assess CENTEL’s liquidity to be adequate over the next 12 months. Its primary liquidity sources are cash on hand of around THB3.5 billion at the end of March 2023, undrawn credit facilities of about THB4.7 billion, expected funds from

operations (FFO) of around THB3.8 billion, and newly issued debentures of THB1.5 billion. The primary uses of funds are debts maturing of THB5 billion, lease obligations of around THB1.2 billion, and capital spending of THB4-THB4.5 billion.

BASE-CASE ASSUMPTIONS

- Hotel RevPAR to be around THB3,300 per room per night in 2023 and THB3,650-THB4,650 per room per night in 2024-2025.
- QSR revenue to be THB12-THB14.5 billion per annum in 2023-2025.
- Revenue to be THB21.5-THB23.5 billion per annum during 2023-2024 and THB27.5 billion in 2025.
- EBITDA to be THB5-THB6 billion per annum in 2023-2024 and around THB8 billion in 2025.
- Total capital spending to be THB20 billion during 2023-2025.

RATING OUTLOOK

The “stable” outlook reflects our expectation that the company will maintain its market strength in both the hotel and QSR businesses with continued improvement in operating performance post pandemic.

RATING SENSITIVITIES

A rating upside could happen if CENTEL’s business and financial profile consistently improve so that the adjusted debt to EBITDA ratio stays well below 3.5 times on a sustained basis. A rating downgrade could occur if CENTEL’s financial metrics are materially weaker than our projection due to consistently weaker-than-expected operating results and/or a larger-than-projected debt-funded investment.

COMPANY OVERVIEW

CENTEL was founded by the Chirathivat Family in 1980 to operate its hotel business in Thailand. The company was listed on the Stock Exchange of Thailand (SET) in 1990. It expanded into the QSR business in 1994. CENTEL is a member of the Central Group, a leading retailer in Thailand. As of March 2023, the Chirathivat Family held a majority stake of 62% in CENTEL’s shares outstanding.

At the end of March 2023, CENTEL operated 50 hotels and a portfolio of 10,512 rooms. Of this total, 19 hotels were CENTEL’s owned and leased properties and one hotel under joint venture with the rest under management contracts. These hotels are situated in key tourist destinations in Thailand and other countries, namely, the Maldives, United Arab Emirates (UAE), Vietnam, Sri Lanka, Oman, and Qatar. CENTEL operates hotels under its own brands of “Centara Grand”, “Centara”, “Centra”, “COSI”, “Centara Boutique Collection”, and “CENTARA RESERVE”. These hotel brands, especially Centara Grand, have favorable brand recognition in the domestic market.

For its food businesses, CENTEL offers a variety of products such as donuts, fried chicken, pastry, and Japanese food. The company operated a total of 1,599 outlets nationwide as of March 2023 under 10 franchised brands, five owned brands, and five joint-venture brands.

KEY OPERATING PERFORMANCE
**Table 1: CENTEL's Sales and EBITDA
Breakdown by Line of Business**
Unit: %

Business	2018	2019	2020*	2021*	2022*	Jan-Mar 2023*
Revenue contribution						
Hotel	44	41	22	18	34	46
QSR	56	59	78	82	66	54
Total revenue	100	100	100	100	100	100
EBITDA breakdown						
Hotel	69	68	(10)	(25)	41	67
QSR	31	32	110	125	59	33
Total EBITDA	100	100	100	100	100	100

Source: CENTEL
** EBITDA after adopting TFRS16*
Table 2: CENTEL's QSR Portfolio as of Mar 2023

Brand	Product	Restaurant Type	Number of Owned Outlet
KFC	Chicken	Quick service	322
Mister Donut	Donuts	Quick service	471
Auntie Anne's	Bakery	Quick service	213
Ootoya	Japanese food	Casual dining	47
Pepper Lunch	Japanese steak	Casual dining	51
Chabuton	Ramen	Casual dining	17
Yoshinoya	Beef bowl	Quick service	29
Tenya	Japanese food	Quick service	12
Katsuya	Japanese food	Quick service	61
Cold Stone Creamery	Ice cream	Casual dining	16
The Terrace	Thai cuisine	Casual dining	6
Aroi Dee	Thai food	Quick service	29
Kowlune	Chinese food	Casual dining	1
Arigato	Beverage	Quick service	195
GrabKitchen by Every Food	Thai food	Quick service	18
Salad Factory	Salad	Quick service	31
Brown Café	Beverage	Quick service	10
Café Amazon – Vietnam	Beverage	Quick service	20
Somtam Nua	Thai food	Casual dining	5
Shinkanzen Sushi/Nak-La Mookrata	Japanese food/ Grill concept	Quick service	45
Total			1,599

Source: CENTEL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Mar 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	5,777	17,936	11,463	13,130	21,108
Earnings before interest and taxes (EBIT)	923	1,183	(1,091)	(1,462)	2,765
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,681	4,402	2,183	2,022	6,099
Funds from operations (FFO)	1,411	3,552	1,434	1,346	5,030
Adjusted interest expense	186	731	722	677	776
Capital expenditures	381	1,168	1,714	1,984	2,229
Total assets	53,218	48,166	48,593	35,350	27,590
Adjusted debt	24,128	19,346	21,026	19,915	13,732
Adjusted equity	19,546	18,891	18,432	10,216	14,144
Adjusted Ratios					
EBITDA margin (%)	29.10	24.54	19.04	15.40	28.89
Pretax return on permanent capital (%)	4.07 *	2.78	(2.87)	(4.61)	9.56
EBITDA interest coverage (times)	9.06	6.02	3.02	2.99	7.86
Debt to EBITDA (times)	4.79 *	4.39	9.63	9.85	2.25
FFO to debt (%)	17.08 *	18.36	6.82	6.76	36.63
Debt to capitalization (%)	55.25	50.60	53.29	66.10	49.26

* Annualized from the trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Central Plaza Hotel PLC (CENTEL)

Company Rating:	A-
Issue Ratings:	
CENTEL239A: THB1,000 million senior unsecured debentures due 2023	A-
CENTEL240A: THB600 million senior unsecured debentures due 2024	A-
CENTEL266A: THB1,500 million senior unsecured debentures due 2026	A-
CENTEL269A: THB500 million senior unsecured debentures due 2026	A-
Rating Outlook:	Stable

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