

DUSIT THANI PLC

No. 175/2022
11 October 2022

CORPORATES

Company Rating:	BBB-
Issue Ratings:	
Senior unsecured	BBB-
Hybrid	BB
Outlook:	Negative

Last Review Date: 20/06/22

Company Rating History:

Date	Rating	Outlook/Alert
28/08/20	BBB-	Negative
27/03/20	BBB	Alert Negative
17/12/19	BBB	Stable
27/12/11	BBB+	Stable
15/10/10	A-	Negative

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RATIONALE

TRIS Rating affirms the company rating on Dusit Thani PLC (DUSIT) and the ratings on DUSIT’s senior unsecured debentures at “BBB-”. At the same time, TRIS Rating affirms the rating on DUSIT’s subordinated capital debentures (hybrid debentures, DUSIT22PA) at “BB”. The rating outlook remains “negative”.

The ratings reflect our view that DUSIT’s credit profile will remain under pressure from the development of the “Dusit Central Park” project, which requires large sums for investment. We expect DUSIT’s leverage will remain elevated over the next few years. Additionally, there are associated risks during the project development, including the risks of construction delays, cost overruns, and slower-than-expected residential sales. While we expect DUSIT’s hotel operation to gradually improve, the economic headwinds and inflationary pressure add uncertainty to the recovery prospects.

KEY RATING CONSIDERATIONS

Hotel business to gradually recover

We expect DUSIT’s hotel operation to gradually recover following a general improvement of the Coronavirus Disease 2019 (COVID-19) situations. However, economic headwinds and heightened inflation worldwide, as well as prolonged geopolitical tensions pose a threat to the recovery pace.

Our base-case assumption forecasts DUSIT’s owned hotel revenue per available room (RevPAR) to recover to around 80% of the pre-pandemic level in 2022 and around 90% in 2023 before fully recover in 2024. The projection is based on our view that DUSIT’s hotels in the Maldives and the Philippines will continue to deliver strong operating performance. Meanwhile, we expect uneven recoveries for hotels in Thailand. Hotels in key tourist destinations that attract a high proportion of domestic guests such as Dusit Thani Hua Hin and Dusit Thani Pattaya are expected to continue recovering. However, recoveries of Dusit Thani Phuket and Dusit Suites Hotel Ratchadamri, and Asai Bangkok Chinatown are more dependent on foreign tourists which are in turn susceptible to global recession and heightened inflation. Hotels that rely on Chinese tourists, such as Dusit D2 Chiang Mai, could take longer to recover depending on Chinese travel restriction policy.

Growth in food business

DUSIT aims to grow its food business in an attempt to diversify its revenue sources and reduce reliance on the cyclical and volatile hotel business. DUSIT operates its food business through Dusit Foods Co., Ltd. (Dusit Foods). Currently, Dusit Foods is 75% held by DUSIT and 25% by Modulus Venture Co., Ltd. (Modulus), a wholly-owned subsidiary of PTT Oil and Retail Business PLC (OR).

Dusit Foods’ main revenue contributors are currently Epicure Catering Co., Ltd. (Epicure), a provider of catering services for international schools in Southeast Asia, and The Caterers, a Vietnam-based catering company for international schools in Vietnam acquired through Epicure. Epicure is also looking for opportunities to expand further, including the provision of catering services for corporate and hospital clients.

Recently, Dusit Foods invested in a 55% stake in Bonjour Bakery Asia Co., Ltd. (Bonjour) and Baujour International Co Limited, which operates a bakery

business and a franchise of "Bonjour" pastry shop in Thailand and China. Total investment was THB517 million. The acquisition complements DUSIT's objective to facilitate product standardization and cost optimization within DUSIT Group. Moreover, DUSIT plans to expand its business into providing OEM bakery products.

We forecast DUSIT's revenue from food business to leap to THB750 million in 2022 from THB282 million in 2021. The jump in revenue factors in a normal operation of Epicure and The Caterers after school reopen and the contribution from Bonjour. We project the revenue to be around THB0.9-THB1 billion per annum during 2023-2024. Potential upsides could occur if the company successfully executes its business plan and the synergy with business partners yields fruitful results.

Earnings to improve but leverage remains high from investment

Our baseline projection forecasts DUSIT's total revenue to reach around THB4.4 billion in 2022 and around THB5.2 billion in 2023. We project the revenue to jump to around THB6.5 billion in 2024, as we incorporate the planned opening of Dusit Thani Bangkok hotel in early 2024. DUSIT's profitability should gradually improve following the business recovery which would allow it to better utilize its resources. DUSIT's earnings before interest, taxes, depreciation, and amortization (EBITDA) margin is projected to be in the low-teens in 2022 before improving to 15%-20% during 2023-2024. EBITDA is estimated to reach THB460 million in 2022, THB760 million in 2023, and around THB1.2 billion in 2024.

We anticipate DUSIT's leverage will increase in connection with the development of the Dusit Central Park project. DUSIT's adjusted debt is expected to peak in 2023-2024 at THB20-THB21 billion before major streams of cash from residential sales and transfers begin flowing in during 2025. Leverage is likely to stay elevated at least until 2024. DUSIT's financial profile could deteriorate further if the development of the Dusit Central Park project does not go as planned, due to construction delays and cost overruns. However, DUSIT has mitigated the risk of cost overruns by fixing over 75% of the development cost with contractors. Another key risk is the progress of residential sales. If sales are slower than expected, DUSIT may need additional debt financing to fund the project.

As of June 2022, DUSIT's priority debt ratio was 31%. The main financial covenant on DUSIT's debt obligations requires maintenance of a net interest-bearing debt to equity ratio not exceeding 3 times. At the end of June 2022, the ratio was 1.6 times. Recently, DUSIT issued THB1.5 billion subordinated capital debentures, which should help support its equity base. However, given the likelihood of its debt increasing significantly over the next few years, we expect DUSIT will need to actively manage its capital structure to remain in compliance with the financial covenant.

Manageable liquidity

We assess DUSIT's liquidity to be manageable over the next 12 months. Primary sources of funds comprise cash and cash equivalents of THB1.4 billion at the end of June 2022, available credit lines of THB1.8 billion, proceeds from subordinated capital debentures issued in August 2022 of THB1.5 billion, and cash received from OR for investing in Dusit Foods of THB300 million. Funding sources related to the Dusit Central Park project include cash from the retail bare-shell installment as per the development contract of THB571 million, project loans totaling THB5.5 billion of which the company plans to drawdown around THB2.8 billion over the next 12 months, and customer deposits for residential sales estimated to be THB0.5-THB1 billion. The primary uses of funds comprise financial obligations of THB3.2 billion, and capital expenditures and investments of around THB4-THB4.5 billion. We expect DUSIT will need to refinance some of its debt coming due.

BASE-CASE ASSUMPTIONS

- Total revenues to be around THB4.4 billion in 2022, THB5.2 billion in 2023, and THB6.5 billion in 2024.
- EBITDA to be around THB460 million in 2022, THB760 million in 2023, and around THB1.2 billion in 2024.
- Capital spending, including spending for the Dusit Central Park project, to be around THB2.5 billion in 2022 and around THB6 billion per annum during 2023-2024.

RATING OUTLOOK

The "negative" outlook reflects the risks associated with the development of the Dusit Central Park project, including possible delays in construction, cost overruns, and sluggish residential sales which could weaken DUSIT's financial profile. In addition, vulnerable macroeconomic conditions and inflationary pressure add uncertainty over DUSIT's business recovery.

RATING SENSITIVITIES

The outlook could be revised to "stable" if DUSIT's operating performance recovers steadily and the DUSIT Central Park project progresses as planned. A rating downgrade could occur if DUSIT's financial metrics are materially weaker than forecast, either from delays in business recovery and/or the progress of the DUSIT Central Park project, and residential sales

are significantly slower than expected. Also, the ratings will come under downward pressure if DUSIT's liquidity position deteriorates materially.

COMPANY OVERVIEW

DUSIT is a leading Thai hotelier, with six principal brands: "Dusit Thani", "Dusit Princess", "DusitD2", "Dusit Deverana", "ASAI", and "Elite Havens". The company was founded in 1966 by Thanpuying Chanut Piyaoui and listed on the Stock Exchange of Thailand (SET) in 1975. Currently, Chanut and Children Co., Ltd. holds 49.7% of DUSIT.

DUSIT currently operates nine owned hotels, with a total of 2,207 rooms, including four hotels owned by Dusit Thani Freehold and Leasehold Real Estate Investment Trust (DREIT). DUSIT also manages 38 hotels under management contracts and franchise contracts, and 276 villas under Elite Havens, altogether with over 10,000 rooms in Thailand and abroad.

Dusit Foods' portfolio includes catering services by Epicure and The Caterers, stand-alone restaurant concepts (Baan Dusit Thani and KAUI), and the newly acquired Bonjour Bakery Asia and Baujour International, which operate a bakery business and are a franchise of the "Bonjour" pastry shop. The education business includes "Dusit Thani College", "Le Cordon Bleu Dusit" (LCBD), "The Food School", and other training services. The property development business includes the Dusit Central Park project and The Hampton Sriracha by Origin and Dusit, joint-venture condominium projects with Origin Property PLC.

For the first six months of 2022, hotel operations contributed 60% of DUSIT's total revenue, followed by the food business with 14%, the education business with 10%, property development with 6%, and others 9%.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	1,923	2,609	2,508	4,763	5,072
Earnings before interest and taxes (EBIT)	(332)	(1,203)	(1,333)	(76)	355
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	144	(209)	(444)	653	1,053
Funds from operations (FFO)	(173)	(758)	(970)	3	735
Adjusted interest expense	342	474	427	388	281
Capital expenditures	694	1,512	2,813	2,012	563
Total assets	24,406	23,784	22,838	14,237	11,573
Adjusted debt	13,498	13,135	12,304	8,727	6,433
Adjusted equity	3,382	3,895	4,942	5,904	6,078
Adjusted Ratios					
EBITDA margin (%)	7.48	(7.99)	(17.72)	13.71	20.76
Pretax return on permanent capital (%)	(4.72)	(6.48)	(7.26)	(0.47)	2.62
EBITDA interest coverage (times)	0.42	(0.44)	(1.04)	1.68	3.75
Debt to EBITDA (times)	307.85	(62.98)	(27.69)	13.36	6.11
FFO to debt (%)	(4.03)	(5.77)	(7.88)	0.04	11.42
Debt to capitalization (%)	79.96	77.13	71.35	59.64	51.42

RELATED CRITERIA

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Hybrid Securities Rating Criteria, 28 June 2021
- Issue Rating Criteria, 15 June 2021

Dusit Thani PLC (DUSIT)

Company Rating:	BBB-
Issue Ratings:	
DUSIT237A: THB1,000 million senior unsecured debentures due 2023	BBB-
DUSIT23DA: THB1,000 million senior unsecured debentures due 2023	BBB-
DUSIT22PA: THB1,500 million subordinated capital debentures	BB
Rating Outlook:	Negative

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