

DUSIT THANI PLC

No. 241/2023
12 December 2023

CORPORATES

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

Last Review Date: 20/10/23

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-”. We also affirm the rating on DUSIT’s subordinated capital debentures (hybrid debentures, DUSIT22PA) at “BB”. At the same time, we revise the rating outlook to “stable”, from “negative”.

The outlook revision reflects the recovery in operating performance across all DUSIT’s key businesses. We also view the risks associated with the development of the Dusit Central Park project as more manageable, given the progress of construction and residential sales.

The ratings continue to reflect DUSIT’s established position in hospitality and its ongoing efforts to expand its food business. The ratings are also based on our expectation that there will be no further significant construction delays or cost overruns in the Dusit Central Park project, and that residential sales will continue at a reasonable pace. We expect DUSIT’s leverage to trend down following recovery from the pandemic but remain high due to the large capital outlays required ahead of project completion.

KEY RATING CONSIDERATIONS

Improving hotel operations

DUSIT’s hotel operations have improved alongside favorable developments in travel conditions following the pandemic. We anticipate this positive trend to continue, albeit at a moderate pace, as the industry gradually returns to normal and pent-up travel demand diminishes. The slow return of Chinese tourists is another factor limiting the pace and prospects of overall recovery.

In 2023, our base-case assumption projects revenue per available room (RevPAR) of DUSIT’s owned hotel portfolio to be around THB2,600 per room per night, up by nearly 30% year-on-year (y-o-y). Looking into DUSIT’s key properties, we expect the RevPAR of Dusit Thani Laguna Phuket to exceed the pre-pandemic level by a low-teen percentage driven by both occupancy and room rates. We also expect the RevPAR of Dusit Thani Hua Hin to surpass pre-pandemic levels, primarily driven by elevated room rates post-renovation. Dusit Thani Pattaya has shown good recovery in RevPAR, returning to pre-pandemic levels due to both improved occupancy rates and room rates. Meanwhile, RevPAR for Dusit Thani Manila is forecast to reach pre-pandemic levels, due mainly to increased room rates as occupancy rates continue to lag. For Dusit Thani Maldives, despite strong performance in the past two years, we expect the RevPAR to be around 20% lower than pre-pandemic levels, attributed to heightened competition within the islands and other competing destinations, alongside softer demand from Europe due to cautious discretionary spending resulting from persistently high inflation and macroeconomic challenges.

During 2024-2025, we project DUSIT’s owned hotel RevPAR to grow by a mid-single digit percentage per annum. The forecast is based on our expectation of sustained improvement in operating conditions, solid demand for domestic travel in Thailand, and the gradual return of Chinese tourists.

Prospects in hotel management business

Our baseline projection forecasts DUSIT’s revenue from hotel operations to be THB4.1-THB4.8 billion per annum during 2023-2025. Around 15%-20% of

the forecast revenue will come from the hotel management business. Over the past several quarters, the company's hotel management business has consistently generated revenue as it rebounded from the challenges posed by the pandemic, coupled with the expansion of its portfolio. We consider the growth potential in an asset-light model to be positive to DUSIT's business profile as it requires less capital spending during a time of already high leverage. The asset-light model also gives the company's greater flexibility in managing costs amid challenging operating conditions. Persistent macroeconomic challenges, heightened inflation worldwide, and expanded geopolitical conflicts remain key concerns that pose risks to potential revenue downside.

Food business has become a key revenue source

With the objectives of diversifying its revenue sources and reducing reliance on the cyclical and volatile hotel business, DUSIT has been growing its food business over the past few years. DUSIT operates its food business through Dusit Foods Co., Ltd. (Dusit Foods). Dusit Foods' revenues primarily come from providing catering services for international schools in Southeast Asia, mainly in Thailand and Vietnam, and a bakery business and the franchise of "Bonjour" pastry shop.

We project revenue from the food business to be THB1.2-THB1.4 billion per annum during 2023-2025. The revenue forecast is based on our expectation that contracts for catering services with international schools will undergo regular renewals. Meanwhile, we expect the bakery business to grow around 10% per year mainly from the "Bonjour" pastry shop expansion. Dusit Foods could grow above our expectation if the company successfully executes its business growth plans. The company's strategic focus is geared towards expansion in the business-to-business (B2B) segment. In the catering services, the company aims to broaden its scope by offering catering services to corporate and hospital clients, while also extending service coverage to additional countries. In the bakery business, the company targets to expand its business into providing OEM bakery products mainly to strategic partners. Successful food business expansion would bolster the company's earnings stability given lower susceptibility to event risks compared to the hotel business.

Leverage to stay elevated for next two years

Our baseline projection incorporates assumptions that the Dusit Thani Bangkok, part of the Dusit Central Park project, will commence operations in the third quarter of 2024. Also, we anticipate the retail bare-shell construction will be completed in late 2024. We also project that the residential building will be completed in late 2025 and start transferring to unit buyers in the beginning of 2026.

We forecast DUSIT's total revenue to be around THB6-THB7 billion per annum during 2023-2024 before increasing to around THB12.4 billion in 2025 based on the assumed revenue from retail bare-shell sub-leasing to Suanlum Property Co., Ltd. Of around THB4.3 billion. Earnings before interest, taxes, depreciation, and amortization (EBITDA) is forecast at THB0.9-THB1.1 billion per year during 2023-2024, reflecting the improved operating performance of DUSIT's existing business and better operating leverage in the hotel business after the opening of Dusit Thani Bangkok. Incorporating the retail bare-shell sub-leasing, we forecast EBITDA to be around THB2.1 billion in 2025.

During 2023-2025, the project requires a total construction cost of around THB10.5 billion. Funding sources are primarily from residential sales downpayment installments, retail space sub-leasing, and a project loan. DUSIT's leverage as measured by the ratio of adjusted debt to EBITDA is expected to stay elevated over 10 times during 2023-2024 and come down below 10 times in 2025.

DUSIT's financial profile is closely linked to the advancement of the Dusit Central Park project. Construction of the entire project is anticipated to be complete by 2025. Addressing the risk of cost overruns, DUSIT has secured fixed agreements covering over 75% of the development costs with contractors. Another notable risk concerns the pace of residential sales, which currently stands at around 75%. The company's financial metrics could take longer to improve if there are disruptions in the project timeline or the remaining residential sales or transferring process of the residential units takes much longer than expected.

As of September 2023, DUSIT's priority debt ratio was 28%. The priority debt ratio could potentially exceed our 50% threshold in the next 1-2 years as the Dusit Central Park Project drawdowns a project loan, before falling below the threshold after repaying the project loan with proceeds from residential sales. According to our Issue Rating Criteria, we consider the company's unsecured creditors to be significantly disadvantaged with respect to the priority of claim against the company's operating assets when the priority debt ratio is higher than 50%.

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 September 2023, the ratio was 0.9 times. 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

DUSIT's liquidity is assessed as manageable over the next 12 months. Primary sources of funds comprised cash and cash equivalents of THB1.7 billion at the end of September 2023, proceeds from the new debentures of THB1 billion, and available credit lines of around THB2.3 billion. Funding sources related to the Dusit Central Park project include cash from the retail bare-shell installments as per the development contract of THB3.2 billion, project loans totaling THB5.5 billion of which the company plans to drawdown around THB3-THB4 billion over the next 12 months, and customer deposits for residential sales estimated at THB0.7-THB1 billion. The primary uses of funds comprise financial obligations of THB4.3 billion, and capital expenditures and investments totaling THB5.5-THB6.5 billion.

BASE-CASE ASSUMPTIONS

- Total revenues to be around THB6-THB7 billion per annum during 2023-2024 and THB12.4 billion in 2025.
- EBITDA to be around THB0.9-THB1.1 billion per year during 2023-2024 and THB2.1 billion in 2025.
- Capital expenditures, including spending for the Dusit Central Park project, to be around THB12-THB12.5 billion in total during 2023-2025.

RATING OUTLOOK

The "stable" outlook reflects our expectation that the operating performance of DUSIT's key businesses will continue improving after operating conditions return to normal, and that the Dusit Central Park project will finish on schedule without further significant delays or cost overruns.

RATING SENSITIVITIES

The rating upside is limited in the near term. Conversely, a rating downgrade could materialize if DUSIT's financial metrics materially fall short of our expectations, possibly stemming from disruptions in the Dusit Central Park Project. Also, downward pressure on the ratings could arise if there is substantial deterioration in DUSIT's liquidity position.

COMPANY OVERVIEW

DUSIT is a leading Thai hotelier, with seven principal brands: "Dusit Thani", "Dusit Princess", "dusitD2", "Dusit Suites", "Devarana Dusit Retreats", "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. Chanut and Children Co., Ltd. holds 49.7% of DUSIT. Currently, DUSIT's businesses include hotels & resorts, foods, hospitality education, property development, and hospitality-related services.

DUSIT currently operates 10 owned and leased hotels, with a total of 2,313 rooms, including three hotels owned by Dusit Thani Freehold and Leasehold Real Estate Investment Trust (DREIT). DUSIT also manages over 40 hotels under management contracts and franchise contracts, and 237 villas under Elite Havens, amounting to over 12,000 keys in Thailand and abroad.

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' portfolio includes the provision of catering services for international schools in Southeast Asia by Epicure Catering Co., Ltd. (Epicure), and a Vietnam-based catering company for international schools in Vietnam (The Caterers Co., Ltd., The Caterers), stand-alone restaurant concepts (Baan Dusit Thani and KAUI), food sourcing hub for DUSIT's ecosystem by Dusit Gastro Co., Ltd. (Dusit Gastro), Savor Eats Co., Ltd., the new JV comprising cloud kitchen, food delivery services and a central kitchen manufacturing hub and 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 nine months of 2023, hotel operations contributed 67% of DUSIT's total revenue, followed by the food business at 20%, the education business at 6%, and the property development and other businesses at 7%.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Sep 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	4,356	4,706	2,609	2,508	4,763
Earnings before interest and taxes (EBIT)	(83)	(394)	(1,203)	(1,333)	(76)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	642	598	(209)	(444)	653
Funds from operations (FFO)	198	(27)	(758)	(970)	3
Adjusted interest expense	443	520	474	427	388
Capital expenditures	1,771	1,680	1,512	2,813	2,012
Total assets	26,867	26,229	23,784	22,838	14,237
Adjusted debt	12,947	11,804	13,135	12,304	8,727
Adjusted equity	3,722	4,308	3,895	4,942	5,904
Adjusted Ratios					
EBITDA margin (%)	14.73	12.70	(7.99)	(17.72)	13.71
Pretax return on permanent capital (%)	(0.33) *	(2.14)	(6.48)	(7.26)	(0.47)
EBITDA interest coverage (times)	1.45	1.15	(0.44)	(1.04)	1.68
Debt to EBITDA (times)	14.74 *	19.75	(62.98)	(27.69)	13.36
FFO to debt (%)	1.16 *	(0.23)	(5.77)	(7.88)	0.04
Debt to capitalization (%)	77.67	73.26	77.13	71.35	59.64

* 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
- Hybrid Securities Rating Criteria, 28 June 2021
- Issue Rating Criteria, 15 June 2021

Dusit Thani PLC (DUSIT)

Company Rating:	BBB-
Issue Ratings:	
DUSIT267A: THB1,500 million senior unsecured debentures due 2026	BBB-
DUSIT26NA: THB1,000 million senior unsecured debentures due 2026	BBB-
DUSIT22PA: THB1,500 million subordinated capital debentures	BB
Rating Outlook:	Stable

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