

S HOTELS AND RESORTS PLC

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CORPORATES

Company Rating: BBB+
Outlook: Stable

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RATIONALE

TRIS Rating assigns a company rating of “BBB+” to S Hotels and Resorts PLC (SHR) with a “stable” rating outlook. The rating reflects our assessment of SHR’s status as a “core subsidiary” of Singha Estate PLC (S, rated “BBB+/stable”), according to our “Group Rating Methodology”. We assess SHR’s stand-alone credit profile (SACP) at a “bbb+” level, reflecting the good quality of its hotel portfolio with reasonable geographic diversity and our expectation that SHR’s financial leverage will decline as its hotel operations continue to recover in the coming years.

KEY RATING CONSIDERATIONS

A core subsidiary of S

We view SHR as a core subsidiary of S as we consider the company is the core integral part of S’s strategy. S has control over SHR’s business strategies and financial policy through the company’s board of directors and top management. We expect SHR to continue to play a critical role in the Singha Estate Group’s strategy to expand its hospitality business. In addition, SHR contributes around 70% of S’s earnings before interest, taxes, depreciation, and amortization (EBITDA).

Geographically diversified hotel portfolio

SHR’s hotel portfolio is geographically diversified, with hotels in Thailand, the Maldives, Fiji, Mauritius, and the United Kingdom (UK). Its hotel portfolio consists of 38 hotels with 4,552 keys. The company’s hotels in Thailand are located in key tourist destinations such as Phuket, Phi Phi Island, and Samui Island. In the Maldives, the company is developing the “CROSSROADS Project”, which consists of two operating hotels, one hotel under development, and a retail area. The CROSSROADS Project is well located and easily accessible from the Male International Airport. SHR’s hotels in the UK are upper-midscale city hotels located in tourist destinations and economically significant cities. The company also has two resorts in Fiji and one in Mauritius. In 2022, hotels in the UK accounted for around 40% of total revenue, those in the Maldives for around 30%, while hotels in Thailand, Fiji, and Mauritius made up the balance.

The company uses a variety of hotel management models to suit hotels in a specific geography. The company has both self-managed own-brand hotels, which have the advantage of higher margins and greater management flexibility, and self-managed hotels under franchise agreements, which benefit from the distribution channels of world-class brands that help newly opened hotels gain market exposure quickly. The company also has hotels managed by hotel chains or third-party operators that use fewer of the company’s resources and are suitable for properties located far from Thailand.

Plans to enhance and expand hotel portfolio

The company plans to enhance the quality of its hotel assets and increase the efficiency of its hotel portfolio. The “Outrigger Fiji Beach Hotel” is currently under renovation, with gradual closure of some service areas while operating largely as normal. The renovation is expected to be completed in 2023. In addition, the company has plans to enhance the efficiency and profitability of its UK hotel portfolio by selling underperforming hotels and using the proceeds to renovate more competitive hotels. The company is also considering

rebranding and repositioning hotels that have the potential to reach higher segments.

The company plans to expand its hotel portfolio mainly through the acquisition of operating hotels, focusing on upper midscale to luxury hotels in leisure travel destinations. The company's expansion strategy takes into consideration geographical diversity, market segments, and customer bases. TRIS Rating expects the company to spend approximately THB2.1 billion on hotel renovations in 2023-2025 and assumes a hotel acquisition budget of THB2 billion per annum in 2024-2025.

SHR currently operates its business as a hotel owner, which is capital intensive. Going forward, the company plans to gear its hotel business more towards an asset-light model, possibly by leveraging its own brand, "SAii", to provide hotel management services or by seeking joint-venture partners to invest in hotel assets and acting as the hotel operator for those assets. In our view, successfully solidifying and leveraging an asset-light model would be a positive factor for the company's business profile.

Continued recovery in hotel performance expected

We expect the company's hotel business to continue to recover in 2023-2024, supported by the reopening of countries in Asia, especially China. We project the company's overall hotel occupancy rate (OR) to continue to improve to around 70% in 2023 and 72%-73% in 2024-2025, and average daily rate (ADR) to increase by 5% in 2023 and 2% per annum in 2024-2025. Overall revenue per available room (RevPAR) will likely recover to near or slightly better than the pre-Coronavirus Disease 2019 (COVID-19) level in 2023 before rising above that level in 2024. We assume the company will acquire hotels that generate immediate additional revenue in 2024-2025. Hence, SHR's revenue is projected to increase to THB10.4 billion in 2023 and THB11.4-THB12.5 billion per annum in 2024-2025.

The performance of SHR's hotels improved significantly in 2022 as the COVID-19 situation eased and the government gradually relaxed travel restrictions. Revenue increased to THB8.7 billion in 2022 from THB4.6 billion in 2021, while the company's overall hotel OR increased to about 60% from about 40% over the same period. RevPAR in Fiji recovered to better than pre-COVID-19 levels in 2022. RevPAR in the UK also exceeded pre-COVID-19 levels in 2022, mainly from higher average room rates resulting from asset enhancement and the pass-through of higher costs. Hotels in the Maldives saw an improvement in OR to 66% in 2022 from 58% in 2021 and in ADR to THB14,100 in 2022 from THB10,200 in 2021, while RevPAR of hotels in Thailand and Mauritius reached around 60%-80% of pre-COVID-19 levels.

High but declining financial leverage

SHR's financial leverage remained high in 2022 due to the continued investments it has made to expand its hotel portfolio over the past several years, while its cash generation has not fully recovered from the impacts of COVID-19. The company's adjusted debt to EBITDA ratio was 7.2 times in 2022, while the ratio of funds from operations (FFO) to adjusted debt was 7.9%.

TRIS Rating expects SHR's financial leverage to gradually decline as cash generation recovers despite its continued business expansion. The debt to EBITDA ratio is forecast to trend down to 4.8 times in 2025 from 5.6 times in 2023, and the FFO to adjusted debt ratio to improve to 13.9% in 2025 from 11% in 2023. We expect SHR's EBITDA to increase to a range of THB2.5-THB3.2 billion per annum during 2023-2025 from THB2.0 billion in 2022, and its capital expenditure to total THB1.2 billion in 2023, THB2.6 billion in 2024, and THB2.4 billion in 2025.

The key financial covenant on SHR's loan obligations requires the company to maintain its net interest-bearing debt to equity ratio below 1.5 times. As of December 2022, the ratio was 0.66 times.

As of December 2022, SHR had consolidated debt of THB13.1 billion, of which around THB12.4 billion was considered priority debt. SHR's priority debt consisted of secured and unsecured loans at subsidiaries. As its priority debt ratio was 95%, far exceeding the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", we view that SHR's senior unsecured creditors could be significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

Adequate liquidity

We assess the company has an adequate liquidity profile. The company's sources of funds as of December 2022 included cash and cash equivalents of THB2.5 billion and undrawn credit facilities of THB1 billion, with expected FFO of THB1.5 billion in 2023. Uses of funds include loans of THB1.7 billion coming due in the next 12 months and expected capital expenditures of THB1.2 billion.

BASE-CASE ASSUMPTIONS

For the three-year period from 2023-2025, TRIS Rating's assumptions for SHR's operations are as follows:

- Revenue to increase to THB10.4 billion in 2023, THB11.4 billion in 2024, and THB12.5 billion in 2025.
- EBITDA margin to gradually improve from 24%-25% over the forecast period.
- Capital expenditure of THB1.2 billion in 2023, THB2.6 billion in 2024, and THB2.4 billion in 2025.

RATING OUTLOOK

The "stable" outlook on SHR reflects the rating outlook on S and our expectation that SHR will maintain its "core" group status in the S Group despite S's expansion in areas unrelated to the hotel business.

RATING SENSITIVITIES

Any material change in S's credit profile or our assessment of SHR's group status in the S Group could affect the company rating on SHR.

COMPANY OVERVIEW

SHR was established in 2015 as the flagship hospitality business of S. The company was listed on the Stock Exchange of Thailand (SET) in 2019 with the ticker symbol "SHR". SHR engages in hotel development and management. As of December 2022, Singha Property Management Co., Ltd., a wholly-owned subsidiary of Boon Rawd Brewery Group, was the major shareholder of the company holding 66% of the total shares. SHR has 38 hotels with a total of 4,552 keys in five countries, namely Thailand, Republic of Maldives, Republic of the Fiji Islands, Republic of Mauritius, and the UK.

KEY OPERATING PERFORMANCE

Table 1: SHR's Revenue Breakdown

Unit: %

Revenue Breakdown	Unit	2019	2020	2021	2022
Total revenue	Bt million	3,818	1,563	4,513	8,693
Self-managed hotels	%	26	21	5	13
Outrigger hotels	%	64	39	5	17
CROSSROADS Project phase 1 hotels*	%	10	40	36	28
UK portfolio hotels**	%	0	0	54	42
Total revenue	%	100	100	100	100

Source: SHR

* Hotels in the CROSSROADS Project opened in September 2019.

** The method of revenue recognition has been changed to consolidation from share of profit or loss from joint ventures since March 2021.

Table 2: SHR's Hotel Portfolio

	Hotel	Country	Segment	Number of Keys
Self-managed hotels under owned brands				
1	SAii Phi Phi Island Village	Thailand	Upscale	96
2	SAii Laguna Phuket	Thailand	Upper Upscale	201
3	SAii Koh Samui Choengmon	Thailand	Upper Upscale	255
4	Santiburi Koh Samui	Thailand	Luxury	52
5	Konotta Maldives	Republic of Maldives	Luxury	53
Hotels under hotel management agreement with Outrigger Group				
6	Outrigger Fiji Beach Resort	Republic of the Fiji Islands	Upper Upscale	253
7	Castaway Island, Fiji	Republic of the Fiji Islands	Upper Upscale	65
8	Outrigger Mauritius Beach Resort	Republic of Mauritius	Upper Upscale	181
Hotels under CROSSROADS Project, Phase 1				
9	SAii Lagoon Maldives, Curio Collection by Hilton	Republic of Maldives	Upper Upscale	178
10	Hard Rock Hotel Maldives	Republic of Maldives	Upper Upscale	198
SHR's hotels in the United Kingdom portfolio				
11-34	24 hotels under Mercure brand	United Kingdom	Upper Mid-Scale	2,711
Hotels operating under joint venture				
35-37	2 hotels under Holiday Inn brand and 1 hotel under Mercure brand	United Kingdom	Upper Mid-Scale	229
38	SO/ Maldives (expected to open for business in 2023)	Republic of Maldives	Luxury	80
Total				4,552

Source: SHR

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	8,747	4,575	1,642	3,896	2,677
Earnings before interest and taxes (EBIT)	832	(751)	(2,427)	163	812
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,981	451	(1,269)	870	1,111
Funds from operations (FFO)	1,128	(251)	(1,695)	285	755
Adjusted interest expense	842	694	377	492	328
Capital expenditures	537	382	572	3,849	5,318
Total assets	36,450	37,214	27,117	29,162	24,390
Adjusted debt	14,239	16,144	7,075	5,087	9,079
Adjusted equity	16,019	15,882	15,676	17,923	11,984
Adjusted Ratios					
EBITDA margin (%)	22.64	9.87	(77.27)	22.34	41.50
Pretax return on permanent capital (%)	2.49	(2.53)	(9.32)	0.66	4.71
EBITDA interest coverage (times)	2.35	0.65	(3.36)	1.77	3.38
Debt to EBITDA (times)	7.19	35.76	(5.58)	5.84	8.17
FFO to debt (%)	7.92	(1.55)	(23.96)	5.60	8.32
Debt to capitalization (%)	47.06	50.41	31.10	22.11	43.11

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
- Issue Rating Criteria, 15 June 2021

S Hotels and Resorts PLC (SHR)

Company Rating:	BBB+
Rating Outlook:	Stable

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