TRIS RATING
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CreditNews ข่าวเครดิต

DUSIT THANI PLC

No. 203/2019
17 December 2019

CORPORATES

Company Rating:	BBB
Issue Rating:	
Senior unsecured	BBB
Outlook:	Stable

Last Review Date: 27/02/19

Company Rating History:

Date	Rating	Outlook/Alert
27/12/11	BBB+	Stable
15/10/10	A-	Negative

Contacts:

Chanaporn Pinphithak
chanaporn@trisrating.com

Tulyawat Chatkam
tulyawat@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Thiti Karoonyanont, Ph. D., CFA
thiti@trisrating.com

RATIONALE

TRIS Rating downgrades the company rating on Dusit Thani PLC (DTC) and the rating on DTC's senior unsecured debentures to "BBB" from "BBB+". The outlook remains "stable"'.

The downgrade reflects DTC's higher-than-expected leverage. DTC's debt level started to rise in 2017 following the renewal of the land lease agreement for the Dusit Central Park project on Rama 4 Road and a series of debt-funded investments thereafter. Adjusted debt jumped by almost 50% during the first nine months of 2019, while EBITDA (earnings before interest, taxes, depreciation, and amortization) during the same period declined significantly. TRIS Rating considers the weak operating results in 2019 to be temporary, partly affected by expenses associated with the closure of Dusit Thani Bangkok. We expect a significant EBITDA improvement in 2020 with the absence of such one-time expenses and a ramping up of revenues from recent investments. However, we do not expect the incremental EBITDA to be strong enough to keep DTC's leverage, as measured by the adjusted debt to EBITDA ratio, at a level consistent with a "BBB+" rating over the next three to five years.

KEY RATING CONSIDERATIONS

Higher-than-expected leverage from a series of debt-funded investments

DTC's adjusted debt jumped to Bt9.4 billion at the end of September 2019, up from Bt6.4 billion in December 2018. The rise was mainly due to a total investment of Bt1.8 billion investment in Dusit Suites Hotel Ratchadamri Bangkok, ASAI Hotel Chinatown, and Baan Dusit Thani during the first nine months of 2019. The sales and leaseback transaction of Dusit Thani Maldives in September 2019 also contributed significantly to the rise in DTC's adjusted debt, based on our calculations. DTC previously owned 65% of Dusit Thani Maldives. After the transaction, DTC reinvested in Dusit Thani Maldives through a capital injection in Dusit Thani Freehold and Leasehold Real Estate Investment Trust (DREIT), and also leased back the hotel for 21 years.

We expect DTC's debt level to continue to grow as it develops a large-scale mixed-use project, Dusit Central Park, consisting of hotel, residential, retail segments, and office building. The project, jointly invested by DTC and Central Pattana PLC (CPN), entails a total construction cost of Bt12-Bt13 billion during 2019-2024. A major part of the funding for the project is expected to come from residential sales installments and retail structure sub-leasing.

We expect DTC's leverage to stay elevated for a sustained period. Our base-case scenario projects that DTC's adjusted debt to EBITDA ratio will stay over 7 times and the adjusted ratio of funds from operations (FFO) to total debt in the 5%-7% range during the development period of the mixed-use project. The adjusted total debt to capitalization ratio is projected to stay between 65%-75% over the forecast period. Such prolonged high leverage is incompatible with a "BBB+" rating.

Diversifying and expanding revenue base

DTC has made a series of investments during the past two years, in line with its key strategy to diversify sources of income and compensate for the absence of Dusit Thani Bangkok hotel revenue while the Dusit Central Park project is under construction.

DTC diversified into the food business by acquiring 25.9% in NR Instant Produce Co., Ltd. (NRF), a producer and exporter of ready-to-eat meal, for a total of Bt663 million in March 2018. In January 2019, DTC acquired a 51% equity stake in Epicure Catering Co (ECC), a provider of catering services for international schools in Southeast Asia. It will acquire a further 19% stake in ECC in 2020, bringing the total investment to Bt613 million.

In its core hotel business, DTC acquired Elite Havens Group (EH) for US$15 million or approximately Bt495 million in September 2018. EH is a platform for integrated marketing, reservations, and concierge and management services for luxury villas across Indonesia, Thailand, Sri Lanka, Japan, and the Maldives. In the second quarter of 2019, DTC made investments in Dusit Suites Hotel Ratchadamri Bangkok, ASAI Hotel Chinatown, and Baan Dusit Thani. Dusit Suites Hotel Ratchadamri Bangkok was launched in the second quarter of 2019 and Baan Dusit Thani started operation in the third quarter of 2019, while ASAI Hotel Chinatown is expected to launch commercial operations in the first quarter of 2020.

The expansion in the food business should help DTC diversify its sources of income and reduce reliance on the cyclical and volatile hotel business while the opening of the two new hotels and Baan Dusit Thani should help leverage personnel costs carried over from the closure of the Dusit Thani Bangkok. At the same time, Dusit Suites Hotel Ratchadamri Bangkok and Baan Dusit Thani should help sustain Dusit Thani brand presence, while ASAI Hotel Chinatown will allow DTC to enter into a new hotel segment.

Earnings to improve sharply in 2020

TRIS Rating's base-case scenario expects DTC's top line to be Bt4.8 billion in 2019 and Bt5-Bt5.5 billion per annum during 2020-2022. EBITDA margin is projected to be in the mid-teens percentage in 2019 and in the 25%-27% range during 2020-2022, which translate into EBITDA of around Bt800 million in 2019 and Bt1.3-Bt1.5 billion per annum during 2020-2022.

The base-case assumption takes into account the maiden contributions of revenue and earnings from DTC's new investments, especially from ECC, the Dusit Suites Hotel Ratchadamri Bangkok, and ASAI Hotel Chinatown. In 2019, DTC's performance was pressured by several factors. The closure of Dusit Thani Bangkok not only led to a shortfall in revenue of about Bt0.9-Bt1 billion and EBITDA of around Bt150 million, but DTC has had to shoulder carried-over personnel costs. We expect the situation to improve in 2020 as the opening of the two new hotels and Baan Dusit Thani helps DTC fully utilize its workforce.

Another factor pressuring DTC's operating results in 2019 has been the soft performance of its existing hotel portfolio brought on by a decline in the number of Chinese tourists, the renovation of Dusit Thani Hua Hin, as well as the baht appreciation, which has made Thailand a less attractive destination in general. Revenue per available room (RevPar) of DTC's owned hotels declined 8% year-on-year in the first nine months of 2019. We expect DTC's hotel performance to gradually improve. Revenue and earnings growth from hotel operations are expected to hover in the low- to mid-single digit figure range during 2020-2022. The projection takes into account more competitive assets after the completion of renovations of properties in Phuket, Hua Hin, Manila, and Pattaya. However, key downside risks remain, including the intense competition in key markets which prevents DTC from improving room rates to desirable levels, and the prolonged baht appreciation.

Liquidity is tight but manageable

TRIS Rating expects DTC's liquidity to be manageable over the next 12 months. Primary uses of funds are debt repayments of Bt2.7 billion and capital spending and investment of approximately Bt2.2-Bt2.4billion. Sources of funds are EBITDA, estimated at around Bt1-Bt1.1 billion, and available cash and cash equivalents of Bt2.7 billion as of September 2019. DTC needs to refinance some of its maturing debts in order to meet its financial obligations.

BASE-CASE ASSUMPTIONS

- TRIS Rating's base-case scenario projects revenues of Bt4.8 billion in 2019 and Bt5-Bt5.5 billion per annum during 2020-2022.
- EBITDA margin is projected in the mid-teens percentage in 2019 and in the 25%-27% range during 2020-2022.
- EBITDA is forecast at around Bt800 million in 2019 and Bt1.3-Bt1.5 billion per annum during 2020-2022.
- Total capital spending will be Bt6-Bt7 billion in total during 2020-2022.

RATING OUTLOOK

The "stable" outlook reflects our expectation that DTC will be able to execute the Dusit Central Park project without any major difficulties. Any other potential investments will be made with discipline and caution in order to avoid further weakening the company's financial profile.

RATING SENSITIVITIES

DTC's credit upside is limited in the near term as the mixed-use project will require a sizable investment. A rating upgrade could occur if DTC's leverage ratio improves to the level that its adjusted debt to EBITDA ratio stays below 5 times on a sustained basis. A rating downside case could emerge if DTC's financial position is materially weaker than our expectation, either from further debt-funded investment or slower-than-expected residential sales of the Dusit Central Park project causing additional funding needs and adding a further burden to the balance sheet.

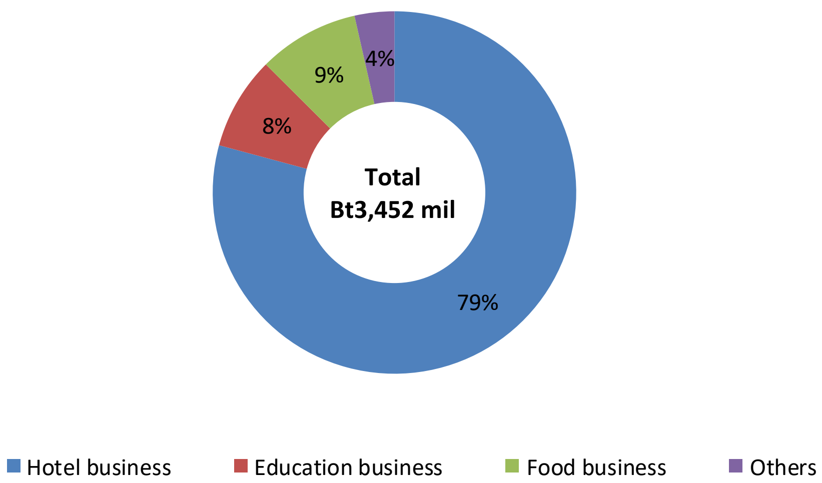
COMPANY OVERVIEW

DTC 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 ChanutPiyaoui and was listed on the Stock Exchange of Thailand (SET) in 1975. Ever since the listing, Thanpuying Chanut and affiliates have been the major shareholders, currently holding 49.9% of DTC.

DTC now operates nine owned hotels, with a total of 2,191 rooms, including four hotels owned by DREIT. DTC also manages 26 hotels with a total of 5,764 rooms under management contracts and franchise contracts in Thailand and abroad. Apart from the hotel segment, DTC operates in the food business through its investment in ECC and NRF, plus the education and training business. The education segment includes Dusit Thani College, Le Cordon Bleu Dusit (LCBD), and other training services. For the first nine months of 2019, hotel operations contributed 79% of total revenue, followed by the food business at 9% and the education business at 8%.

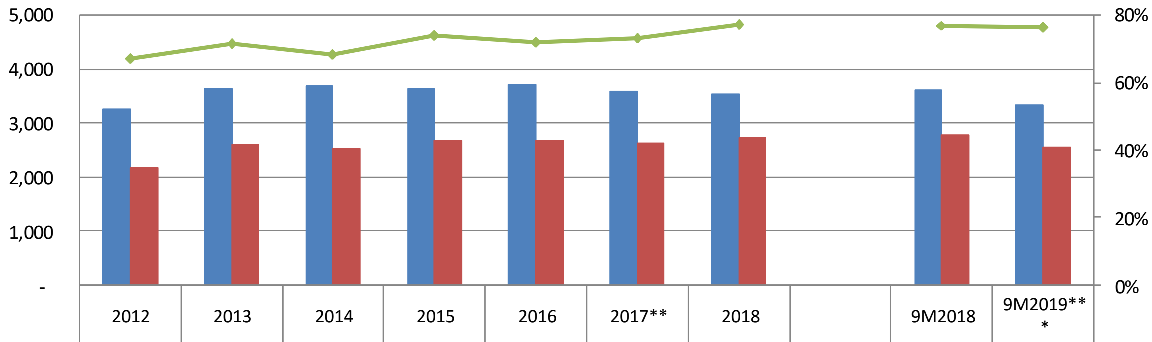
KEY OPERATING PERFORMANCE

Chart 1: DTC's Revenue Contribution Jan-Sep 2019



Source: DTC

Chart 2: DTC's Hotel Performance*



	2012	2013	2014	2015	2016	2017**	2018		9M2018	9M2019***
ARR (Bt)	3,259	3,639	3,695	3,629	3,727	3,597	3,548		3,619	3,340
RevPAR (Bt)	2,184	2,605	2,524	2,679	2,690	2,636	2,734		2,785	2,549
OR	67%	72%	68%	74%	72%	73%	77%		77%	76%

* *Including hotels leased from DREIT*
** *Excluding Dusit Princess Korat*
*** *Excluding Dusit Suites Hotel Ratchadamri Bangkok*

Source: DTC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

		--------------Year Ended 31 December		-----------
	Jan-Sep 2019	2018	2017	2016	2015
Total operating revenues	3,452	5,072	5,170	5,348	5,267
Earnings before interest and taxes (EBIT)	105	527	498	446	570
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	649	1,224	1,409	1,405	1,516
Funds from operations (FFO)	77	687	921	1,111	1,190
Adjusted interest expense	440	452	410	306	287
Capital expenditures	1,526	563	1,669	355	713
Total assets	13,786	11,573	9,980	9,033	9,388
Adjusted debt	9,097	6,433	5,928	3,935	4,511
Adjusted equity	6,208	6,078	5,881	5,354	5,404
Adjusted Ratios					
EBITDA margin (%)	18.81	24.14	27.26	26.27	28.79
Pretax return on permanent capital (%)	1.48	3.88	4.22	4.18	5.32
EBITDA interest coverage (times)	1.48	2.71	3.44	4.60	5.29
Debt to EBITDA (times)	9.71	5.25	4.21	2.80	2.98
FFO to debt (%)	2.35	10.67	15.53	28.22	26.38
Debt to capitalization (%)	59.44	51.42	50.20	42.36	45.49

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Dusit Thani PLC (DTC)

Company Rating:	BBB
Issue Rating:	
DTC219A: Bt1,000 million senior unsecured debentures due 2021	BBB
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000