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KEY HIGHLIGHTS

Update

The Erawan Group (ERW TB/BUY/Bt5.65/Target: Bt6.50)
RevPar remains robust despite low season of travel.

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KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,514.26	6.36	0.42
SET50	927.52	3.36	0.36
Value (Btm) - SET	39,844		
Top 5 Sector			
BANK	394.47	(0.57)	(0.14)
PETRO	712.09	8.63	1.23
PROP	238.59	1.27	0.54
ENERG	21,178.33	97.54	0.46
ICT	162.96	0.91	0.56

Source: Bloomberg

TOP VOLUME

Symbol	Price (Bt)	Chg (%)	Volume ('000)
BDMS	26.50	0.00	131,554.9
SCB	108.50	(1.36)	18,519.6
PTT	33.25	0.00	43,178.6
AOT	70.00	0.36	17,095.4
DELTA	104.50	(1.42)	10,811.6

TOP GAINERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
EFORL	0.31	29.17	91,988.3
JCKH	0.05	25.00	10,708.2
NEP	0.23	15.00	233.1
ROCK	9.50	13.10	44.3
K	1.33	10.83	6,216.5

TOP LOSERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
NEWS	0.01	(50.00)	16,482.2
ALL	0.05	(16.67)	1,238.2
TNPF	1.62	(10.00)	538.3
NEW	90.25	(9.75)	0.1
KCM	0.46	(8.00)	668.4

KEY STATISTICS

Commodity	Current Price	%Chg		
		1m	3M	YTD
Brent crude*	93.3	11.4	25.9	13.6
Dubai crude*	93.6	7.2	22.6	19.0
Baltic Dry Index	1,584.0	32.7	30.3	4.6
Gold Spot***	1,921.8	1.3	0.4	5.4

*(US\$/bbl), *** (US\$/toz)

FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY%
17.6	(495.4)	(4,406.5)	(8,829.2)

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 36.13

Interest Rate (%) - TH 1-day RP = 1.50

Thai Lending Rate (%) - MLR = 6.85

COMPANY UPDATE

The Erawan Group (ERW TB)

RevPar Remains Robust Despite Low Season Of Travel

ERW's earnings in 3Q23 are likely to improve yoy but remain flat qoq. Despite the expenses associated with hotel investments in Japan, these should be fully offset by the strong hotel performance in Jul and Aug 23, with the portfolio's RevPAR growing by 43% yoy and 10% qoq, surpassing pre-COVID-19 levels by 22%. We cut 2024 earnings slightly by 4% to account for the revenue recognition of four hotels in Japan. Maintain BUY. Target price: Bt6.50.

WHAT'S NEW

- **3Q23 earnings are likely to be flat qoq despite an incurred cost associated with investment in Japan.** We expect an expense of Bt60m in 3Q23 (and Bt30m in 4Q23) from the hotels investment in Japan. However, this expense should be offset by the strong performance of the existing hotel portfolio. All figures for both the non-budget and budget hotel segments remained robust during Jul and Aug 23. In the non-budget hotel segment (revenue contribution: about 80% in 2Q23), occupancy rate remained solid and exceeded pre-COVID-19 levels at 85% (vs 81% in 2Q23, 67% in 3Q22, and 74% in 3Q19).
- **Additionally, average room rate (ADR) continued to improve,** increasing 22% yoy and 6% qoq, surpassing pre-COVID-19 levels by 26%. Consequently, the RevPAR of the non-budget hotel segment is expected to soar 54% yoy and 12% qoq and surpass pre-COVID-19 levels by 45%. For the budget hotel segment in Thailand and the Philippines, RevPAR growth in Thailand remained strong, with a yoy growth of 16%, flat qoq, and 24% above pre-COVID-19 levels. Meanwhile, RevPAR growth in the Philippines showed a 42% yoy and 8% qoq increase, a 13% improvement from pre-COVID-19 levels.

KEY STATISTICS

Occupancy (%)	3Q19	3Q22	4Q22	1Q23	2Q23	Jul-Aug 23	yoy chg	qoq chg	To pre-COVID
Avg exc. budget	74%	67%	82%	84%	81%	85%	3.3 ppt	4.0 ppt	114.9%
Avg inc. budget	74%	69%	79%	81%	80%	83%	3.6 ppt	2.9 ppt	112.2%
ARR (Bt/night)									
Avg exc. budget	2,470	2,552	3,023	3,079	2,936	3,101	21.5%	5.6%	125.5%
Avg inc. budget	1,661	1,521	1,760	1,794	1,709	1,804	18.6%	5.5%	108.6%
RevPar (Bt/night)									
Avg exc. budget	1,824	1,710	2,470	2,591	2,361	2,636	54.1%	11.6%	144.5%
Avg inc. budget	1,223	1,045	1,391	1,459	1,361	1,490	42.5%	9.5%	121.8%

Source: ERW, UOB Kay Hian

KEY FINANCIALS

Year to 31 Dec (Btm)	2021	2022	2023F	2024F	2025F
Net turnover	1,562.6	4,714.6	7,334.3	8,124.3	8,623.2
EBITDA	(636.3)	1,055.0	2,181.7	2,498.3	2,744.3
Operating profit	(1,571.9)	183.1	1,210.3	1,454.9	1,601.0
Net profit (rep./act.)	(2,050.2)	(224.2)	705.0	841.5	923.5
Net profit (adj.)	(2,050.2)	(224.2)	705.0	841.5	923.5
EPS (Bt)	(0.8)	0.0	0.1	0.2	0.2
PE (x)	n.m.	n.m.	39.2	32.8	29.9
P/B (x)	2.4	4.5	3.9	3.6	3.4
EV/EBITDA (x)	n.m.	35.4	17.1	15.0	13.6
Dividend yield (%)	0.0	0.0	1.1	1.4	1.5
Net margin (%)	(131.2)	(4.8)	9.6	10.4	10.7
Net debt/(cash) to equity (%)	226.4	221.7	164.8	172.9	160.6
Interest cover (x)	(1.2)	2.3	4.3	4.4	4.9
ROE (%)	n.a.	n.a.	11.0	11.4	11.7
Consensus net profit	-	-	719	831	949
UOBKH/Consensus (x)	-	-	0.98	1.01	0.97

Source: The Erawan Group, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	Bt5.65
Target Price	Bt6.50
Upside	+15.0%
(Previous TP)	Bt6.20)

COMPANY DESCRIPTION

The Erawan Group is a leading hotel investment company in Thailand. Its hotel portfolio ranges from luxury to mid-scale and economy across Thailand's major tourist destinations.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	ERW TB
Shares issued (m):	4,531.6
Market cap (Btm):	25,603.3
Market cap (US\$m):	710.0
3-mth avg daily t'over (US\$m):	2.1
Price Performance (%)	

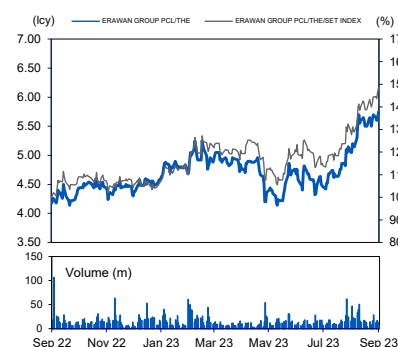
52-week high/low Bt5.70/Bt4.14

1mth	3mth	6mth	1yr	YTD
9.7	18.7	15.8	33.9	26.1

Major Shareholders

	%
Wattanavekin family	28.2
Vongkusolkit family	28.4
-	-
FY23 NAV/Share (Bt)	1.45
FY23 Net Debt/Share (Bt)	2.40

PRICE CHART



Source: Bloomberg

ANALYST(S)

Kochakorn Sutaruksanon
+662 090 8303
kochakorn@uobkayhian.co.th

STOCK IMPACT

- Investment in Japan.** The Erawan Group (ERW) diversified its portfolio by making 100% investment in four hotels located in Tokyo and Kyoto, Japan. This comprises a total of 373 rooms, which accounted for 4% of the hotel rooms in its portfolio. The capital expenditure for this investment amounted to Bt1.7b and the company expects to commence operations by 1Q24. The purpose of this investment is to increase the portion of the budget hotel segment, which aligns with its long-term strategy. The target occupancy rate for 2024 is at 70%, with plans to gradually increase it to a normalised level of 80-85%. Additionally, the target ADR ranges from ¥8,000-13,000/night or Bt2,000-3,000/night (vs Hop Inn Thailand: Bt600 - Bt700/night, Hop Inn Philippines: Bt1,000 - 1,100/night). Therefore, we anticipate achieving breakeven within three years and generating profits by 2026.

EARNINGS REVISION/RISK

- Maintain 2023 earnings but revise 2024 earnings down slightly by 4%.** We maintain our earnings for 2023 but revise our 2024 earnings down slightly by 4%. Although we anticipate incurring costs associated with the opening of new hotels in Japan of approximately Bt90m in 2023, we expect these expenses to be fully offset by the strong hotel performance of ERW. Therefore, we maintain our 2023 earnings at Bt705m. However, we cut our 2024 earnings slightly by 4% to Bt842m to account for the revenue recognition from the hotels in Japan.

KEY EARNINGS REVISION

(Btm)	2023F			2024F		
	New	Old	% chg	New	Old	% chg
Total revenue	7,282	7,282	0.0%	8,069	7,806	3.4%
Gross profit	2,978	2,978	0.0%	3,417	3,374	1.3%
SG&A	-1,820	-1,820	0.0%	-2,017	-1,936	4.2%
Operating EBITDA	2,182	2,182	0.0%	2,498	2,510	-0.5%
Net profit	705	705	0.0%	842	872	-3.5%
Margin	New	Old	ppt chg	New	Old	ppt chg
Gross margin	40.9%	40.9%	0.00	42.3%	43.2%	-0.88
SG&A to sales	25.0%	25.0%	0.00	25.0%	24.8%	0.20
Net profit margin	10.1%	10.1%	0.00	10.9%	11.6%	-0.78
Assumption	New	Old	chg	New	Old	chg
Occupancy rate	81%	81%	0.0 ppt	81%	82%	-0.3 ppt
Average room rate (ADR)	1,783	1,783	0.0%	1,810	1,795	0.8%
RevPar	1,442	1,442	0.0%	1,472	1,465	0.5%

Source: UOB Kay Hian

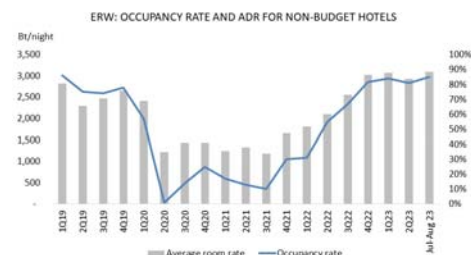
VALUATION/RECOMMENDATION

- Maintain BUY with a higher target price of Bt6.50.** Our target price is based on the EV/EBITDA valuation method. We roll over our target price to 2024 and de-rate the EV/EBITDA multiple to 18x, 1SD above its historical trading levels. ERW remains our top pick due to its anticipated earnings growth, which is expected to surpass the normalised period and reach new highs in 2023. ERW stands out as the biggest beneficiary among hotel stocks thanks to its status as a pure-play hotel operator and its high revenue contribution from Thailand. Furthermore, market shares of Chinese guests in 2Q23 accounted for 16% (vs peers at 8%). Therefore, we believe ERW is well-positioned to capitalise on the benefits stemming from the visa-free policy for Chinese visitors.

SHARE PRICE CATALYST

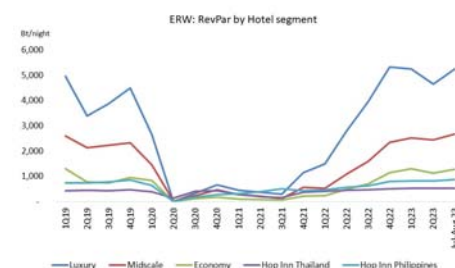
- Recession in China's economy, an increase of minimum wage and lower utility prices.**

KEY STATISTICS OF NON-BUDGET HOTEL



Source: ERW, UOB Kay Hian

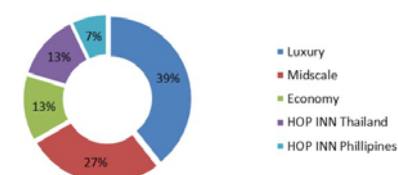
REVPAR BY HOTEL SEGMENT



Source: ERW, UOB Kay Hian

REVENUE CONTRIBUTION (2023)

Revenue Contribution by Hotel Segment as of 2Q23



Source: ERW, UOB Kay Hian

EARNINGS PERFORMANCE



Source: ERW, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Net turnover	4,715	7,334	8,124	8,623
EBITDA	1,055	2,182	2,498	2,744
Deprec. & amort.	872	971	1,043	1,143
EBIT	183	1,210	1,455	1,601
Total other non-operating income	5	0	0	0
Associate contributions	29	21	30	30
Net interest income/(expense)	(455)	(511)	(564)	(565)
Pre-tax profit	(239)	720	921	1,066
Tax	26	14	(45)	(104)
Minorities	(11)	(29)	(35)	(38)
Net profit	(224)	705	842	923
Net profit (adj.)	(224)	705	842	923

BALANCE SHEET

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Fixed assets	19,320	19,359	21,316	22,373
Other LT assets	366	471	486	582
Cash/ST investment	1,532	2,982	3,494	3,611
Other current assets	494	553	629	745
Total assets	21,712	23,366	25,925	27,310
ST debt	783	795	795	795
Other current liabilities	979	983	1,089	1,375
LT debt	13,382	13,910	15,910	15,965
Other LT liabilities	846	510	403	865
Shareholders' equity	5,698	7,116	7,640	8,185
Minority interest	23	51	86	125
Total liabilities & equity	21,712	23,366	25,925	27,310

CASH FLOW

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Operating	2,051	1,463	1,950	2,275
Pre-tax profit	(239)	720	921	1,066
Tax	26	14	(45)	(104)
Deprec. & amort.	872	971	1,043	1,143
Working capital changes	28	(39)	(17)	32
Non-cash items	1,177	(16)	47	138
Other operating cashflows	188	(188)	0	0
Investing	(796)	(1,453)	(3,121)	(1,834)
Capex (growth)	(745)	(1,011)	(3,000)	(2,200)
Investments	(15)	(8)	(12)	(12)
Others	(36)	(434)	(109)	378
Financing	(966)	1,440	1,683	(324)
Dividend payments	0	0	(317)	(379)
Issue of shares	0	899	0	0
Proceeds from borrowings	(690)	541	2,000	55
Others/interest paid	(276)	0	0	0
Net cash inflow (outflow)	290	1,450	512	117
Beginning cash & cash equivalent	1,242	1,532	2,982	3,494
Ending cash & cash equivalent	1,532	2,982	3,494	3,611

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	22.4	29.7	30.8	31.8
Pre-tax margin	(5.1)	9.8	11.3	12.4
Net margin	(4.8)	9.6	10.4	10.7
ROA	n.a.	3.1	3.4	3.5
ROE	n.a.	11.0	11.4	11.7
Growth				
Turnover	201.7	55.6	10.8	6.1
EBITDA	n.a.	106.8	14.5	9.8
Pre-tax profit	n.a.	n.a.	27.9	15.7
Net profit	n.a.	n.a.	19.4	9.7
Net profit (adj.)	n.a.	n.a.	19.4	9.7
EPS	n.a.	n.a.	19.4	9.7
Leverage				
Debt to total capital	71.2	67.2	68.4	66.9
Debt to equity	248.6	206.7	218.6	204.8
Net debt/(cash) to equity	221.7	164.8	172.9	160.6
Interest cover (x)	2.3	4.3	4.4	4.9

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