

SECTOR UPDATE

Hotel – Thailand

2Q23 Results Wrap-Up; 3Q23 Earnings Outlook, ERW Likely To Be Top Performer

Hotel stocks reported a combined core profit of Bt3.3b for 2Q23 (+305% yoy, +414% qoq), led by: a) MINT due to the high travel season in Europe; and b) ERW due to the strong performance of its hotels in Bangkok and Pattaya, underpinned by Chinese guests. For 3Q23, earnings of domestic plays should continue to rise yoy and qoq and ERW will be the top performer. Maintain MARKET WEIGHT. Our top picks: ERW, MINT.

WHAT'S NEW

- **MINT's earnings outperformed in 2Q23**, while ERW's exceeded pre-COVID-19 level. For 2Q23, the combined earnings of hotels within our coverage amounted to Bt3.3b (+305% yoy, +414% qoq), with MINT and ERW leading the way. MINT's performance showed yoy and qoq growths, thanks to the high travel season in Europe. On the other hand, for domestic players (AWC, CENTEL, ERW), hotels in Bangkok and Pattaya outperformed those located near the beach (such as Phuket, Krabi, and Samui). As a result, ERW's earnings were the most impressive among domestic hotel stocks. Meanwhile, AWC and CENTEL reported lower-than-expected earnings due to higher expenses related to opening new hotels and other operating costs.
- **Earnings of domestic plays should continue to improve until 1Q24.** Earnings of hotels in Thailand are expected to increase yoy and qoq from 3Q23 to 1Q24, driven by the high travel season in Thailand during 4Q and 1Q. ERW's earnings are likely to outperform the most, and its performance is expected to continue to exceed that of a normalised year. Meanwhile, earnings of AWC and CENTEL should rise yoy and qoq but to a lesser extent than ERW due to higher expenses related to the opening of new hotels and other operating costs. For MINT, we expect its 3Q23 earnings to rise yoy but decline slightly qoq due to the seasonal impact of hotels in Europe.
- **International arrivals continued to rise in Jul 23.** Despite 2Q typically being Thailand's low travel season, the number of international arrivals remained flat qoq, still lagging 28% behind pre-COVID-19 levels. Chinese arrivals, on the other hand, saw a recovery to 37% of pre-COVID-19 levels in 2Q23. In Jul 23, international arrivals continued to surge, increasing 10% mom but remaining 26% below pre-COVID-19 levels. Meanwhile, Chinese arrivals continued to rebound, reaching 40% of pre-COVID-19 levels in Jul 23. Furthermore, there was a 6% mom increase in seat capacity for short-haul regional flights from China, marking a recovery rate of 63% compared with pre-COVID-19 levels. Additionally, load factor improved to 77% in Jul 23 (+4ppt mom).

ACTION

- **Maintain MARKET WEIGHT; our top picks are ERW and MINT.** Despite the slower recovery in the number of Chinese arrivals than market expectations, we re-iterate our optimistic view on the tourism industry. This optimism stems from factors such as a higher average room rate and an increase in arrivals from other nationalities, which are helping to offset the slower recovery of Chinese travellers. Notably, Russian arrivals have already exceeded pre-COVID-19 levels. We like ERW as: a) It is a pure-play hotel operator, b) ERW boasts a high concentration of domestic revenue, and c) we expect its 2023 earnings to reach a new high. Additionally, we like MINT because: a) It has an attractive valuation, trading at an EV/EBITDA ratio of 11.0x, which is lower than its peers in the range of 13-15x, and b) it has a well-diversified portfolio in terms of geographical presence and business segments.

PEER COMPARISON

Company	Ticker	Rec.	Last Price (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US\$m)	PE			CAGR 2022-24F (%)	PEG 2023F (x)	P/B 2023F (x)	Yield 2023F (%)	ROE 2023F (%)
							2022 (x)	2023F (x)	2024F (x)					
Asset World Corp	AWC TB	HOLD	4.06	5.30	30.5	3,681	33.7	111.0	73.7	(32.4)	(1.6)	1.5	0.4	1.4
Central Plaza Hotel	CEN TEL TB	HOLD	43.75	50.00	14.3	1,673	148.4	44.2	30.1	122.2	0.2	3.0	0.9	6.8
The Erawan Group	ERW TB	BUY	5.05	6.20	22.8	648	n.a.	35.0	28.3	na	(0.1)	3.5	1.3	10.9
Minor International	MINT TB	BUY	33.50	42.00	25.4	4,952	41.5	32.3	24.7	29.8	1.1	2.3	1.0	6.5
Sector						10,954	52.8	60.7	42.2			2.2	0.8	5.1

Source: Bloomberg, UOB KayHian

MARKET WEIGHT
(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (Bt)	Target Price (Bt)
The Erawan Group	ERW TB	BUY	5.05	6.20
Minor International	MINT TB	BUY	33.50	42.00

Source: UOB Kay Hian

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2023 RESULTS WRAP-UP

Core Profit	2Q22	1Q23	2Q23	yoy chg	qoq chg	UOBKH	Street	UOBKH	Street
AWC	-205	446	86	142%	-81%	129	325	Below	Below
CENTEL	-42	609	90	315%	-85%	164	333	Below	Below
ERW	-148	235	121	182%	-49%	88	92	Above	Above
MINT	1,211	-647	3,005	148%	564%	2,740	2,928	Above	In-line
Total	816	643	3,303	305%	414%	3,121	3,678	In-line	Below

Source: Respective companies, UOB Kay Hian

2Q23 RESULTS WRAP-UP

- AWC: 2Q23 Earnings missed expectations due to higher expenses.** AWC reported a net profit of Bt1.1b (+45% yoy, -21% qoq) and a core profit of Bt86m (+142% yoy, -81% qoq), which fell below both our and consensus forecasts by 33-73%. This shortfall was attributed to increased expenses related to the opening of a new hotel and a marketing campaign for the retail business. The hotel business remained robust, with RevPAR growing 82% yoy but dropping 19% qoq, normalising to pre-COVID-19 levels, supported by hotels in the MICE segment and the Bangkok segment. On the other hand, the retail business showed improved yoy and qoq performance, driven by increased traffic at Asiatique.
- CENTEL: 2Q23 earnings came in below forecasts, primarily due to lease contract expenses.** CENTEL reported a net profit of Bt121m (+447% yoy, -81% qoq) and core profit of Bt90m (+315% yoy, -85% qoq). This were lower than both our and street estimates by 45-73%, primarily due to incurred expenses related to the opening of a new hotel and the extension of a lease contract for an existing hotel. The hotel business in Thailand maintained its strength, which was partially offset by a lacklustre performance in the Maldives. This resulted in 2Q23 RevPAR growth of +44% yoy, -31% qoq, remaining 5% of pre-COVID-19 levels. On the other hand, the food business continued to thrive, achieving a same-store sales growth (SSSG) of 5% yoy, driven by the recovery in domestic consumption, particularly in the dine-in segment.
- ERW: Achieved the strongest RevPar, exceeding pre-COVID-19 levels.** The company reported a 2Q23 net profit of Bt142m (+202% yoy, -41% qoq) and a core profit of Bt121m (+182% yoy, -49% qoq), surpassing both our and market estimates by 32-37% and even outperforming 2Q19's earnings performance. The RevPar of non-budget hotels (contributing 79% of revenue) experienced a remarkable growth of 103% yoy (but decreased 9% qoq), still coming in 37% above pre-COVID-19 levels. The main drivers behind this outstanding performance were hotels in Bangkok and Pattaya, supported by a strong presence of Chinese guests.
- MINT: Achieved a record high RevPar for hotels in Europe.** MINT reported a 2Q23 net profit of Bt3.3b and a core profit of Bt3.0b (+148% yoy, +565% qoq), which exceeded our expectations but were in line with street forecasts, primarily due to robust average daily rates (ADR). The hotel business was notably driven by MINT's hotels in Europe, where ADR reached unprecedented levels. This led to its portfolio's RevPar increasing 28% yoy and 51% qoq, surpassing pre-COVID-19 levels by 35%. The food business also outperformed, with SSSG at 8% yoy, particularly in China and Thailand.

KEY PERFORMANCE IN 2023

	2Q19	2Q22	3Q22	4Q22	1Q23	2Q23	yoy chg	qoq chg	To Pre-COVID
Occupancy rate									
AWC	72%	43%	53%	64%	68%	63%	19.3 ppt	-5.6 ppt	87.3%
CENTEL	73%	46%	55%	66%	77%	65%	18.6 ppt	-12.6 ppt	88.6%
ERW	75%	63%	69%	79%	81%	80%	16.7 ppt	-1.4 ppt	105.6%
MINT	74%	66%	68%	63%	59%	70%	4.0 ppt	11.0 ppt	94.6%
Avg	74%	63%	66%	65%	64%	70%	7.7 ppt	6.7 ppt	95.2%
ADR (Bt/night)									
AWC	4,648	4,264	4,920	5,697	6,100	5,367	25.9%	-12.0%	115.5%
CENTEL	4,050	4,244	4,122	4,728	5,223	4,314	1.6%	-17.4%	106.5%
ERW	1,600	1,276	1,521	1,760	1,794	1,709	33.9%	-4.7%	106.8%
MINT	4,109	4,842	5,122	5,009	4,645	5,842	20.7%	25.8%	142.2%
Avg	3,818	4,317	4,566	4,505	4,305	5,089	17.9%	18.2%	133.3%
RevPar									
AWC	3,279	1,842	2,608	3,618	4,154	3,356	82.2%	-19.2%	102.4%
CENTEL	2,952	1,942	2,148	3,122	4,025	2,792	43.8%	-30.6%	94.6%
ERW	1,206	803	1,045	1,391	1,459	1,361	69.5%	-6.7%	112.8%
MINT	3,053	3,207	3,476	3,176	2,737	4,118	28.4%	50.5%	134.9%
Avg	2,972	2,891	3,150	3,022	2,805	3,584	24.0%	27.8%	120.6%
SSSG (%)									
CENTEL	-1.8%	19.0%	43.0%	12.0%	8.0%	5.0%	-14.0 ppt	-3.0 ppt	
MINT	-3.6%	7.8%	16.6%	4.4%	11.4%	8.1%	0.3 ppt	-3.3 ppt	
Avg	-2.7%	13.4%	29.8%	8.2%	9.7%	6.6%	-6.9 ppt	-3.2 ppt	

Source: Respective companies, UOB Kay Hian

AWC QUARTERLY EARNINGS PERFORMANCE



Source: AWC, UOB Kay Hian

CENTEL QUARTERLY EARNINGS PERFORMANCE



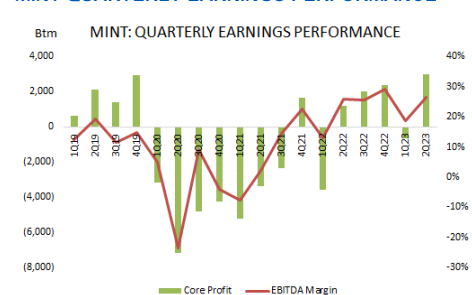
Source: CENTEL, UOB Kay Hian

ERW QUARTERLY EARNINGS PERFORMANCE



Source: ERW, UOB Kay Hian

MINT QUARTERLY EARNINGS PERFORMANCE



Source: MINT, UOB Kay Hian

REVPAR COMPARISON BY QUARTER



Source: Respective companies, UOB Kay Hian

SECTOR CATALYSTS

- International arrivals in Thailand showed improvement in Jul 23.** Despite 2Q typically being Thailand's low travel season, international arrivals remained flat qoq, reaching 6.4m in 2Q23, which is still 28% below pre-COVID-19 levels. Russian visitor numbers have not only recovered but have also exceeded pre-COVID-19 levels, whereas Chinese visitor numbers have only reached 37% of pre-COVID-19 levels. Despite the number of Chinese tourists recovering at a slower rate than market expectations, Thailand remains a popular destination, ranking among the top three, trailing only behind Hong Kong and Macau. In Jul 23, the total number of international arrivals continued to rise, increasing by 10% mom but remaining 26% below pre-COVID-19 levels.
- Types of Chinese outbound to Thailand.** In 1Q23, the number of Chinese tourists travelling to Thailand exhibited significant yoy and qoq growths, recovering to 17% of pre-COVID-19 levels. This led by Visiting Friends and Relatives (VFS) trips, which rebounded at the fastest rate to reach 20% of pre-COVID-19 levels in 1Q23. On the other hand, corporate and leisure trips only recovered to 17% of pre-COVID-19 levels in 1Q23. Furthermore, when looking at the group types of Chinese outbound travel, Non-Package Groups (65% Contribution in 2019) recovered to 18% of pre-COVID-19 levels. Meanwhile, the package groups (35% contribution in 2019) had a slower recovery pace, reaching only 14% of pre-COVID-19 levels due to the visa group tour requirements.
- Load factor of China international flights improved in Jul 23.** In 2Q23, seat capacity for short-haul regional flights increased by 90% qoq, reaching 62% of pre-COVID-19 levels. Concurrently, the average load factor for international flights stood at 68%. In Jul 23, the number of available seats continued to rise, increasing by 6% mom (the recovery rate remained steady at 63%). However, the load factor for international flights improved from 73% in Jun 23 to 77% in July 23, (maximum load factor of international flights: 84%). Additionally, the recovery rate of Chinese arrivals to Thailand continued to improve, reaching 40% in Jul 23.

2Q23 ANALYST MEETING KEY TAKEAWAYS

- CENTEL: Slightly negative takeaways from post-2Q23 results meeting.** We expect 3Q23 earnings to show yoy and qoq improvement, primarily driven by the hotel business. In Jul 23, RevPar growth surged by 47% yoy and 13% qoq, remaining 10% above pre-COVID-19 levels. However, these positive trends are expected to be partially offset by: a) the lower SSSG in Jul 23, which decreased 1.2% yoy due to a high-base effect and reduced consumption related to delivery sales, and b) incurred expenses associated with the opening of a new hotel and the renewal of a lease contract for an existing hotel. Furthermore, management has revised down the 2023 SSSG outlook for the food business, lowering it from 7-9% yoy to 5-7% yoy.
- ERW: Positive takeaways from post-2Q23 results meeting.** We expect ERW's 3Q23 earnings to show yoy and qoq improvement, driven by the portfolio's impressive RevPar growth of 45% yoy and 11% qoq, which remains 24% above pre-COVID-19 levels. Despite Chinese arrivals only recovering to 37% of pre-COVID-19 levels, the number of Chinese guests staying at ERW's hotels has exceeded the normal range, positioning them as the top market feeder. Furthermore, management has revised 2023 RevPar growth forecast upward from 45% yoy to 50% yoy, primarily driven by higher occupancy rates.
- MINT: Neutral takeaways from post-2Q23 results meeting.** We expect 3Q23 earnings to rise yoy but decline slightly qoq, largely due to the seasonal impact of hotels in Europe. The hotel business's RevPar increased 6% yoy but decreased 10% qoq, remaining strongly at 30% above pre-COVID-19 levels. Additionally, management has maintained its 2023-25 target of achieving 12-15% growth in core revenue.

KEY PERFORMANCE IN JUL 23

RevPar	3Q19	3Q22	4Q22	1Q23	2Q23	Jun-23	yoy chg	qoq chg	To Pre-COVID
AWC	3,487	2,608	3,618	4,152	3,356				
CENTEL	2,858	2,148	3,122	4,025	2,792	3,150	46.6%	12.8%	110.2%
ERW	1,223	1,045	1,391	1,459	1,361	1,514	44.9%	11.3%	123.8%
MINT	2,773	3,476	3,176	2,737	4,118	3,688	6.1%	-10.4%	133.0%
Avg	2,627	3,026	2,947	2,745	3,584	3,584	18.4%	0.0%	136.4%

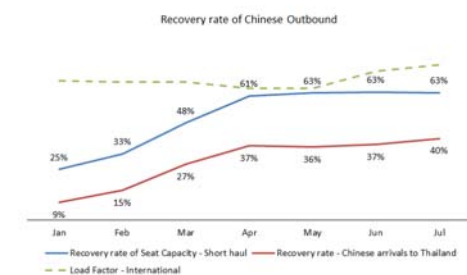
Source: Respective companies, UOB Kay Hian

MONTHLY INTERNATIONAL ARRIVALS



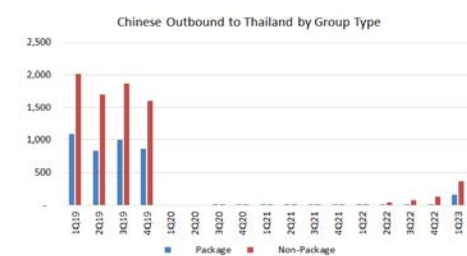
Source: MOTS, UOB Kay Hian

RECOVERY RATE OF CHINESE OUTBOUND



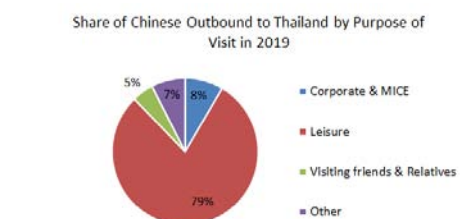
Source: Bloomberg, UOB Kay Hian

CHINESE OUTBOUND TO THAILAND BY GROUP TYPE



Source: Bloomberg, UOB Kay Hian

SHARE OF CHINESE OUTBOUND TO THAILAND BY PURPOSE OF VISIT IN 2019



Source: Bloomberg, UOB Kay Hian

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