

INITIATE COVERAGE

Asset World Corporation (AWC TB)

Thailand's Leading Real Estate Group With Promising Growth Potential

AWC is Thailand's leading real estate development group, focusing on the hospitality and rental businesses in Bangkok and other major cities. We forecast net profit CAGR of 82% for 2019-21. We believe AWC can achieve exponential growth due to synergies with TCC Group, economies of scale and an experienced team. Initiate coverage with a BUY and target price of Bt6.70.

WHAT'S NEW

- Promising prospects from ramp-up in investment.** We expect Asset World Corp's (AWC) operating revenue to grow at a three-year CAGR of 18% in 2019-21, mainly due to the acquisition of Asset Group 3 and ongoing expansion. AWC's investment is expected to ramp up post-IPO. The company has high earnings visibility over 2019-24 on the back of its expansion plan. We estimate AWC would expand its core business via adding 5,324 key rooms to bring the total number to 8,756 rooms, and add five retail development projects to bring the total number to 17 by 2024. For the longer term, we see potential hidden value in the synergy with TCC Group (TCC) which should enable the company to acquire more prime land for future development.
- Favourable long-term industry outlook.** Despite the slowdown in tourist arrivals in 2019, the long-term fundamentals of Thailand's tourism industry remain strong. We believe the headwinds in 2019 are only temporary. Our optimism stems from Thailand's competitive advantages, including Thailand's attractiveness, value-for-money hotels and business opportunities. We believe Thailand will remain as one of the most popular tourist destinations in ASEAN and the world in the near term. As for retail and office rental, we expect demand to remain robust and to continue to outgrow supply on the back of rising consumption, which will support occupancy rate and lift rentals.
- Healthier financials.** AWC's financial structure should improve after its listing on the SET, as the IPO proceeds will finance its expansion and enhance its competitiveness. We expect debt-to-equity to fall to 0.6x in 2020 from 2.7x in 2018 following debt repayment and an increase in share capital post-IPO. We expect a significant drop in interest expense over 2019-21 due to debt refinancing.
- Strong earnings growth outlook.** We forecast net profit CAGR of 82% in 2019-21, mainly driven by a surge in operating revenue in 2020-21, continued improvement in hotel gross margins and lower interest expense. We expect net profit to grow 67% yoy to Bt0.7b in 2019, 152% yoy to Bt1.8b in 2020 and 43% yoy to Bt2.7b in 2021.

Click [here](#) for Blue Top dated 29 Nov 19.

KEY FINANCIALS

Year to 31 Dec (Btm)	2017	2018	2019F	2020F	2021F
Net turnover	10,476.8	11,534.5	11,655.5	15,397.6	19,074.5
EBITDA	4,375.8	4,642.1	4,849.7	6,830.6	8,446.4
Operating profit	2,575.0	2,815.0	2,887.5	4,037.4	4,953.5
Net profit (rep./act.)	749.5	446.1	744.2	1,877.5	2,679.2
Net profit (adj.)	749.5	446.1	744.2	1,877.5	2,679.2
EPS (Bt)	0.08	0.02	0.02	0.06	0.08
PE (x)	70.8	317.4	245.4	100.6	70.5
P/B (x)	6.7	5.7	2.5	2.5	2.4
EV/EBITDA (x)	46.6	44.0	42.1	29.9	24.2
Dividend yield (%)	0.0	0.0	0.2	0.4	0.6
Net margin (%)	7.2	3.9	6.4	12.2	14.0
Net debt/(cash) to equity (%)	981.0	247.4	20.6	59.9	62.3
Interest cover (x)	2.9	2.0	2.4	3.9	5.1
Consensus net profit ()	-	-	1,047	2,079	2,702
UOBKH/Consensus (x)	-	-	0.71	0.90	0.99

Source: Asset World Corporation, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

Share Price	Bt5.90
Target Price	Bt6.70
Upside	+13.6%

COMPANY DESCRIPTION

AWC is a member of TCC Group. The company is engaged in real estate development and investment involving hospitality projects, lifestyle destinations, and commercial spaces.

STOCK DATA

GICS sector	Property
Bloomberg ticker:	AWC TB
Shares issued (m):	32,000.0
Market cap (Btm):	192,000.0
Market cap (US\$m):	6,351.3
3-mth avg daily t'over (US\$m):	

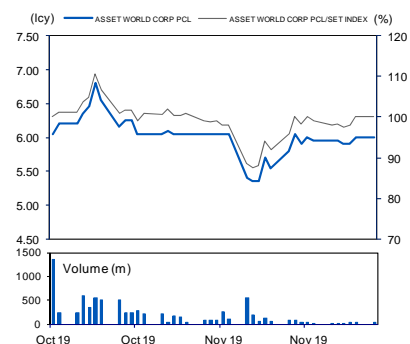
Price Performance (%)

52-week high/low		Bt/Bt
1mth	3mth	6mth
n.a.	n.a.	n.a.
1yr	YTD	
n.a.	n.a.	

Major Shareholders

TCC GROUP	29.3
Charoen Sirivadhanabhakdi	25.1
Wanna Sirivadhanabhakdi	19.8
FY19 NAV/Share (Bt)	2.38
FY19 Net Debt/Share (Bt)	0.49

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Well-diversified portfolio with solid plan for sustainable growth.** AWC plans to implement a growth strategy through geographical expansion, utilising its link with TCC to access prime locations. The company will expand into Bangkok and provincial areas so as to tap the strong rapid tourism growth and rising middle-class consumption. We expect AWC's profits to rise on: a) operational improvements at its hotels; b) implementation of a cost-efficiency programme; and c) lower interest expense.
- **Strong partnership with world-class operator.** Unlike most of the large hotel operators in Thailand, AWC does not have its own hotel brand. The company's strategy is to partner best-in-class international operators. Under this approach, AWC is expected to benefit from different operators' global distribution channels, loyalty programmes and global brand recognition. Current partners include Marriott, Sheraton, Hilton, Meridian, Okura, Banyan Tree and DoubleTree by Hilton
- **Synergies with TCC.** TCC is one of the largest conglomerates in Southeast Asia. The company operates many types of businesses, including food & beverage, consumption goods, modern retail, commerce, property, insurance, leasing and agriculture. It owns many land plots in Thailand. AWC has entered into a grant of rights (GOR) agreement with TCC, which gives AWC access to TCC's certain assets. With the help of TCC, AWC will be able to ensure future growth by expanding well-located projects, thereby strengthening its long-term earnings visibility.
- **Positioned for sustainable growth.** We expect AWC's short- to medium-term growth to be supported by its acquisition plans, operational improvement on higher occupancy and rental rates and a strong line-up of projects. We also see potential value in AWC's synergies with TCC, which should enable it to acquire more prime land for future development that can sustain longer-term growth. We estimate EBITDA to grow 24% in 2019-21.

EARNINGS REVISION/RISK

- None.

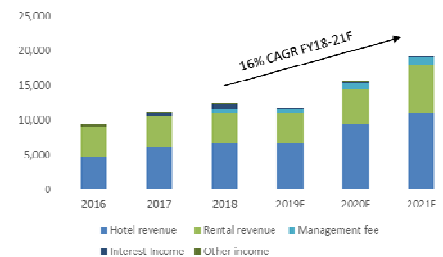
VALUATION/RECOMMENDATION

- We value AWC using DCF and cross-check our valuation methodology with EV/EBITDA-to-three-year EBITDA CAGR. Our WACC of 6.02% assumes risk-free rate of 1.25%, debt premium of 2.0%, equity risk premium of 9.1%, equity beta of 0.91 and terminal growth rate of 3%. Using a relative value approach, we peg 2020F EV/EBITDA to 2019-21 EBITDA CAGR of 1.6x, in line with the hospitality industry's 1.6x. We use the pure play methodology to calculate AWC's equity beta. Cash flows are discounted back to 2020.

SHARE PRICE CATALYST

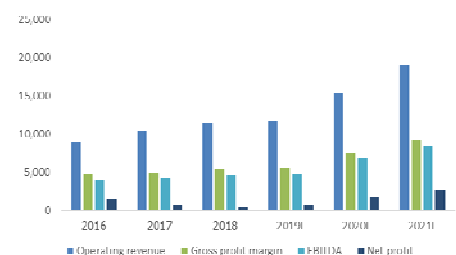
- Better-than-expected operations at its hotel and retail businesses, announcement of further projects expansion, announcement of acquisition of prime land from TCC group under the GOR agreement.

REVENUE OUTLOOK



Source: AWC, UOB Kay Hian

EARNINGS OUTLOOK



Source: AWC, UOB Kay Hian

POTENTIAL ASSETS UNDER GOR

Mixed-used Properties
The Imperial Pattaya Hotel
The 12-rai plot of land adjacent to the Grand Sole hotel
The Sails Pattaya Project
Bang Na Km.1
The plot of land at Verngnakornkasem
The plot of land at Sukhumvit 103/1
The plot of land close to Phraya krai Temple
The plot of land at Charoen Nakhon
The plot of land at Semsuk
O.P. Garden
The group of plots of land at Anusarn market
The group of land plots at Galae and Night Bazaar
The Imperial Chiang Mai Reseory & Sports Club
City hotel
The plot of land at Sukhumvit 22
The plot of land at Wong Wat 1, and Song Wat 2
The plot of land at Sukhumvit 38
Resort
The plots of land surrounding Chiang Mai Sports Club
Some Phakdi
The imperial River House Resort
Retail business
The plot of land on Rama 2 Road

Source: AWC

PROFIT & LOSS

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Net turnover	11,534	11,656	15,398	19,075
EBITDA	4,642	4,850	6,831	8,446
Deprec. & amort.	1,827	1,962	2,793	3,493
EBIT	2,815	2,888	4,037	4,954
Total other non-operating income	115	115	118	122
Associate contributions	0	0	0	0
Net interest income/(expense)	(2,282)	(2,004)	(1,743)	(1,655)
Pre-tax profit	648	998	2,413	3,420
Tax	(159)	(210)	(490)	(694)
Minorities	(43)	(44)	(46)	(47)
Net profit	446	744	1,878	2,679
Net profit (adj.)	446	744	1,878	2,679

CASH FLOW

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Operating	1,331	2,991	5,387	6,265
Pre-tax profit	648	998	2,413	3,420
Tax	(159)	(210)	(490)	(694)
Deprec. & amort.	1,827	1,962	2,793	3,493
Working capital changes	(922)	297	550	24
Non-cash items	(63)	(57)	121	22
Other operating cashflows	0	0	0	0
Investing	(1,753)	(4,343)	(34,964)	(8,527)
Capex (growth)	(2,596)	(4,080)	(35,080)	(8,480)
Investments	(327)	0	0	0
Others	1,170	(263)	116	(47)
Financing	(41,281)	44,000	(5,298)	(3,251)
Dividend payments	0	0	(298)	(751)
Issue of shares	13,760	48,000	0	0
Proceeds from borrowings	(57,049)	(4,000)	(5,000)	(2,500)
Others/interest paid	2,009	0	0	0
Net cash inflow (outflow)	(41,703)	42,648	(34,876)	(5,513)
Beginning cash & cash equivalent	42,953	1,250	43,898	9,023
Ending cash & cash equivalent	1,250	43,898	9,023	3,510

BALANCE SHEET

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Fixed assets	89,335	91,453	123,740	128,727
Other LT assets	997	1,032	1,333	1,494
Cash/ST investment	1,250	43,898	9,023	3,510
Other current assets	1,461	1,604	1,885	2,464
Total assets	93,043	137,987	135,981	136,195
ST debt	20,331	19,331	17,331	14,831
Other current liabilities	2,354	2,738	3,689	4,315
LT debt	42,794	39,794	36,794	36,794
Other LT liabilities	2,559	2,331	2,748	2,861
Shareholders' equity	25,005	73,750	75,330	77,258
Minority interest	0	44	90	137
Total liabilities & equity	93,043	137,987	135,981	136,195

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	40.2	41.6	44.4	44.3
Pre-tax margin	5.6	8.6	15.7	17.9
Net margin	3.9	6.4	12.2	14.0
Net profit (adj.)	(40.5)	66.8	152.3	42.7
Leverage				
Debt to total capital	71.6	44.5	41.8	40.0
Debt to equity	252.4	80.2	71.9	66.8
Net debt/(cash) to equity	247.4	20.6	59.9	62.3
Interest cover (x)	2.0	2.4	3.9	5.1

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