

COMPANY UPDATE

The Erawan Group (ERW TB)

Leave It All Behind

We attended ERW's analyst meeting to review its 3Q24 results, and the tone during the meeting was positive. The results were weak due to several pressure factors during the quarter. We are positive as the outlook for hotels during the festive weeks in 4Q24 is promising and ERW's fundamentals remain strong in the long term. Maintain BUY. Target price: Bt6.60.

WHAT'S NEW

- Tone of analyst meeting was positive despite weak earnings in 3Q24.** We attended The Erawan Group's (ERW) analyst meeting to review its 3Q24 results, and the tone was positive despite the weak earnings reported. The weak earnings was understandable given the accumulation of several pressure factors during the quarter; the outlook for 4Q24 is promising and recovery is attainable.
- Lease update.** ERW has once again given a firm commitment to continuing their operations at the Grand Hyatt despite the ongoing negotiation of the lease extension. The contract of the original 30-year lease has a clause to prevent other parties from intervening and renting the land instead of ERW. Currently, ERW and the landlord are in the Public Private Partnership (PPP) process. ERW is currently paying a higher rate than the rate stated in the 30-year contract. It intends to pay the current lease rate for the 20-year extension and also pay increased rates that are in line with the market practice (typically raised every three years). The timeline for the final agreement with the landlord is still unclear as The Syndicate of Thai Hotels and Tourists Enterprises Limited is a state enterprise, which means processes will require quite a lot of time to complete. Any change of personnel in the involving parties will cause further delays to the PPP process as the new staff will need time to understand and familiarise themselves with the transaction and details.
- Hotels performance in the Philippines weakened due to gambling ban.** In Jul 24, the president of the Philippines announced a ban on gambling and forced all casinos to close down by the end of this year. This ban has significantly hurt ERW's hotel performance as Chinese tourists are gone and are unlikely to return since their main purpose for visiting the Philippines was for gambling. If we exclude the performance of the newly-opened hotels in 2024, the occupancy rate of the Hop Inn hotels in the Philippines dropped by 5% yoy and resulted in a 3% yoy drop in Revpar. ERW is currently seeking solutions by diversifying its guest mix and compensate the absence of their top guests (from China).

KEY FINANCIALS

Year to 31 Dec (Btm)	2022	2023	2024F	2025F	2026F
Net turnover	4,714.6	7,039.5	8,124.3	8,623.2	8,891.0
EBITDA	1,055.0	2,166.6	2,498.3	2,744.3	2,926.2
Operating profit	183.1	1,265.6	1,454.9	1,601.0	1,703.0
Net profit (rep./act.)	(224.2)	742.7	1,205.5	923.5	966.6
Net profit (adj.)	(224.2)	742.7	1,205.5	923.5	966.6
EPS (Bt)	(0.0)	0.2	0.2	0.2	0.2
PE (x)	n.a.	24.3	15.9	20.8	19.8
P/B (x)	3.1	2.8	2.5	2.3	2.2
EV/EBITDA (x)	30.8	15.0	13.0	11.8	11.1
Dividend yield (%)	0.0	1.8	2.0	2.2	2.3
Net margin (%)	(4.8)	10.5	14.8	10.7	10.9
Net debt/(cash) to equity (%)	221.7	219.4	172.9	160.6	160.5
Interest cover (x)	2.3	3.7	4.4	4.9	5.3
ROE (%)	(3.8)	12.3	17.3	11.7	11.4
Consensus net profit	-	-	1,016	909	992
UOBKH/Consensus (x)	-	-	1.19	1.02	0.97

Source: The Erawan Group, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt3.92
Target Price	Bt6.60
Upside	+68.4%
(Previous TP	Bt6.50)

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):	4,886.9
Market cap (Btm):	19,156.8
Market cap (US\$m):	547.4
3-mth avg daily t'over (US\$m):	2.2

Price Performance (%)

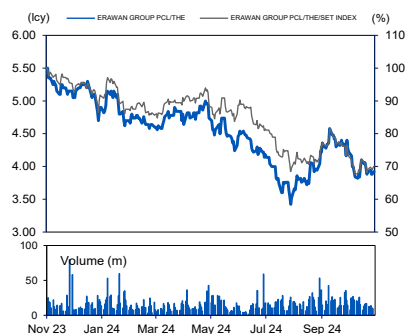
52-week high/low	Bt5.55/Bt3.40			
1mth	3mth	6mth	1yr	YTD
(9.7)	10.7	(21.0)	(23.9)	(25.3)

Major Shareholders

	%
Wattanavekin family	28.2
Vongkusolkit family	28.4
-	-

FY24 NAV/Share (Bt)	1.56
FY24 Net Debt/Share (Bt)	2.70

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

• **Weak earnings in 3Q24 is understandable.** ERW reported a net profit of Bt124m (-18.6% yoy, -17.8% qoq) for 3Q24, which is in line with our and consensus estimates. The main reasons for the weak earnings are: a) the Grand Hyatt incident which affected occupancy rate until the end of Oct 24, b) the renovation of Holiday Inn Pattaya which lasted the whole quarter, c) the slow ramp-up of the new hotel in the Philippines and the impact of gambling ban, d) the flood in the northern provinces of Thailand, and e) the strengthening of the Thai baht in Sep 24. Considering all the factors mentioned above, the weak earnings are entirely understandable.

3Q24 RESULTS

Year to 31 Dec (Btm)	3Q23	2Q24	3Q24	yoy (%)	qoq (%)
Total revenue	1,736	1,834	1,849	6.5	0.8
Gross profit	746	782	782	4.8	(0.1)
SG&A	454	488	490	8.0	0.4
Operating EBITDA	531	543	552	4.0	1.7
Core profit	153	151	124	(18.6)	(17.8)
Net profit	148	361	124	(16.1)	(65.6)
(%)	3Q23	2Q24	3Q24	yoy (ppts)	qoq (ppts)
Gross margin	43.0	42.7	42.3	(0.7)	(0.4)
SG&A to sales	26.2	26.6	26.5	0.4	(0.1)
EBITDA margin	30.6	29.6	29.9	(0.7)	0.3
Recurring profit margin	8.8	8.3	6.7	(2.1)	(1.5)
Net profit margin	8.5	19.7	6.7	(1.8)	(13.0)

Source: ERW, UOB Kay Hian

• **Bright 4Q24 awaits.** Despite the soft occupancy rate during the Golden Week in Oct 24, Grand Hyatt is now back to its best shape with an occupancy rate of 80% in Nov 24. There are many city events, strong demand from corporates, and strong MICE demand. The pace of booking for the festive period in Dec 24 is also picking up very fast. Holiday Inn Pattaya is operating with its full room inventory in 4Q24 with an uplifted ADR of at least 10% from the renovation. The qtd statistics for most of its hotels are also promising. The current cost of debt stood at 4.4% in 3Q24, and is expected to drop from Nov 24 onwards as a result of the rate cut in Oct 24. We are optimistic and look forward to seeing an improved performance in 4Q24.

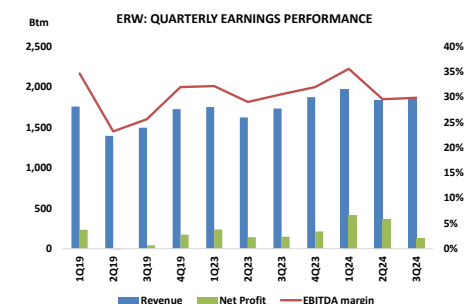
VALUATION/RECOMMENDATION

• **Maintain BUY with a target price of Bt6.60.** Our valuation is based on 2025 EV/EBITDA multiple to 17x, 1SD above its historical trading levels. ERW's current share price appears to have already accounted for the negatives from 3Q24. We see this as an attractive buying opportunity, with ERW poised to benefit from the upcoming peak travel season in Nov and Dec 24. Additionally, the downward trend in interest rates is likely to support ERW's growth in the near future.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

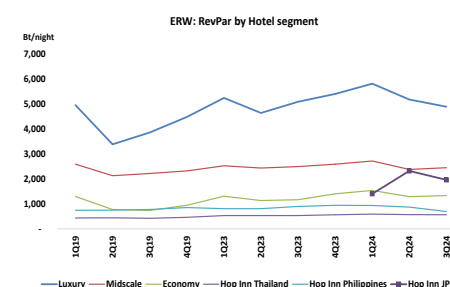
CG Report: 5
SET ESG Rating: A
<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - Prioritising effective and balanced use of resources as well as taking into account the reduction of greenhouse gas generation, including management of ecosystems and biodiversity. • Social <ul style="list-style-type: none"> - Respecting human rights based on the principles of international criteria, equality, fairness, and non-discrimination. - Focusing on enhancing quality of life and potential of employees by promoting a volunteering spirit to cultivate social and environmental responsibility. • Governance <ul style="list-style-type: none"> - Board gender diversity. Male to female ratio of 3:1. - Board balance and composition. Four board members are independent directors, amounting to 33% of the board members.

QUARTERLY EARNINGS PERFORMANCE



Source: ERW, UOB Kay Hian

REVPAR PERFORMANCE



Source: ERW, UOB Kay Hian

LEASE EXTENSION OF THE GRAND HYATT



Source: ERW, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2023	2024F	2025F	2026F
Net turnover	7,039	8,124	8,623	8,891
EBITDA	2,167	2,498	2,744	2,926
Deprec. & amort.	901	1,043	1,143	1,223
EBIT	1,266	1,455	1,601	1,703
Total other non-operating income	23	364	0	0
Associate contributions	36	30	30	30
Net interest income/(expense)	(582)	(564)	(565)	(554)
Pre-tax profit	743	1,285	1,066	1,179
Tax	17	(45)	(104)	(172)
Minorities	(17)	(35)	(38)	(40)
Net profit	743	1,205	923	967
Net profit (adj.)	743	1,205	923	967

CASH FLOW

Year to 31 Dec (Btm)	2023	2024F	2025F	2026F
Operating	1,767	1,950	2,275	2,158
Pre-tax profit	743	1,285	1,066	1,179
Tax	17	(45)	(104)	(172)
Deprec. & amort.	901	1,043	1,143	1,223
Working capital changes	(23)	(17)	32	(17)
Non-cash items	176	47	138	(55)
Other operating cashflows	(47)	0	0	0
Investing	(2,957)	(3,121)	(1,834)	(2,616)
Capex (growth)	(3,004)	(3,000)	(2,200)	(2,400)
Investments	(21)	(12)	(12)	(12)
Others	68	(109)	378	(204)
Financing	875	1,683	(324)	(660)
Dividend payments	0	(317)	(379)	(416)
Issue of shares	0	0	0	0
Proceeds from borrowings	939	2,000	55	(245)
Others/interest paid	(65)	0	0	0
Net cash inflow (outflow)	(315)	512	117	(1,119)
Beginning cash & cash equivalent	1,532	2,982	3,494	3,611
Ending cash & cash equivalent	1,217	3,494	3,611	2,492

BALANCE SHEET

Year to 31 Dec (Btm)	2023	2024F	2025F	2026F
Fixed assets	21,423	21,316	22,373	23,549
Other LT assets	367	486	582	583
Cash/ST investment	1,217	3,494	3,611	2,492
Other current assets	669	629	745	709
Total assets	23,675	25,925	27,310	27,334
ST debt	1,752	795	795	795
Other current liabilities	1,306	1,089	1,375	1,267
LT debt	13,352	15,910	15,965	15,720
Other LT liabilities	895	403	865	650
Shareholders' equity	6,330	7,640	8,185	8,736
Minority interest	40	86	125	165
Total liabilities & equity	23,675	25,925	27,310	27,334

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	30.8	30.8	31.8	32.9
Pre-tax margin	10.6	15.8	12.4	13.3
Net margin	10.5	14.8	10.7	10.9
ROA	3.3	4.9	3.5	3.5
ROE	12.3	17.3	11.7	11.4
Growth				
Turnover	49.3	15.4	6.1	3.1
EBITDA	105.4	15.3	9.8	6.6
Pre-tax profit	n.a.	72.9	(17.1)	10.7
Net profit	n.a.	62.3	(23.4)	4.7
Net profit (adj.)	n.a.	62.3	(23.4)	4.7
EPS	n.a.	52.8	(23.4)	4.7
Leverage				
Debt to total capital	70.3	68.4	66.9	65.0
Debt to equity	238.6	218.6	204.8	189.0
Net debt/(cash) to equity	219.4	172.9	160.6	160.5
Interest cover (x)	3.7	4.4	4.9	5.3