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KEY HIGHLIGHTS

Sector

Hotel

Promising earnings outlook

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AT A GLANCE

Sector

Telecommunication: True Corp won't bid in 1,800MHz spectrum auction.

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KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,754.17	2.97	0.17
SET50	1,161.26	2.46	0.21
Value (Btm) - SET	54,237		
Top 5 Sector			
BANK	506.41	0.99	0.20
PETRO	1,594.99	0.28	0.02
PROP	319.30	(0.36)	(0.11)
ENERG	27,280.78	(61.29)	(0.22)
ICT	163.60	3.94	2.47

Source: Bloomberg

TOP VOLUME

Symbol	Price (Bt)	Chg (%)	Volume ('000)
EA	38.00	4.83	110,176
CPALL	81.50	(0.31)	42,172
PTT	57.00	(0.44)	57,712
BDMS	26.25	2.94	107,546
AOT	69.75	(1.06)	38,975

TOP GAINERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
AQ	0.04	33.33	24,328
SDC	0.32	14.29	11,253
POST	2.98	11.19	6
SKE	1.50	11.11	37,458
EE	0.80	8.11	40,191

TOP LOSERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
EIC	0.06	(14.29)	162.6
TNL	19.40	(8.92)	0.1
TFI	0.35	(7.89)	113.1
BTNC	23.80	(6.67)	9.3
AF	0.90	(6.25)	5,308

KEY STATISTICS

Commodity	Current Price	%Chg		
		1m	3M	YTD
Brent crude*	79.1	7.9	22.5	20.8
Dubai crude*	74.9	5.8	21.6	17.5
Baltic Dry Index	1,273.0	(0.6)	11.1	(6.8)
Gold Spot***	1,290.2	(3.4)	(2.6)	(1.0)

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

FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY%
(180.3)	(617.2)	(3,139.4)	(6,219.8)

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 32.18

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

Thai Lending Rate (%) - MLR = 6.25

* Based on Bangkok Bank's rate

SECTOR UPDATE

Hotel – Thailand

Promising Earnings Outlook

In 1Q18, total normalised profit of hotel stocks under our coverage was Bt2.9b (flat yoy, +27% qoq). The flat yoy earnings growth was due to MINT's high earnings base last year. Meanwhile, the sector registered impressive RevPar growth. We expect sector's earnings to resume growth momentum throughout the rest of the year. **Maintain OVERWEIGHT.** Our top picks are ERW as a pure hotel play and MINT as a laggard play.

WHAT'S NEW

• **Sector core profit saw flattish yoy growth in 1Q18.** Total normalised profit of Minor International (MINT), Central Plaza Hotel (CENTEL) and The Erawan Group (ERW) was Bt2.9b in 1Q18 (flat yoy, +27% qoq). The unexciting yoy earnings growth was due to an abnormally high base from MINT last year. Meanwhile, the three stocks posted an impressive average RevPar growth (owned hotels) of 8% yoy, driven by a continued rise in tourist arrivals as well as a recovery of hotel operation in the Maldives. In the quarter, CENTEL and ERW posted higher-than-expected earnings, while MINT's earnings came in below street expectations.

a) CENTEL: Core profit grew 18% yoy. 1Q18 core profit of Bt883m (+18% yoy, +74% qoq) was 4% higher than our expectation. The qoq jump was due to seasonality while the yoy growth drivers were: a) strong hotel operations in Bangkok and the upcountry as well as a turnaround in hotel operation in the Maldives, b) improved restaurant business with total-system sales (TSS) growing 8% yoy, and c) EBIT margin widening 50bp yoy to 20.4%. Overall RevPar (excluding COSI) grew 4% yoy on higher occupancy of 87.4% (+2.4 ppt yoy) and ARR growth of 1.5% yoy.

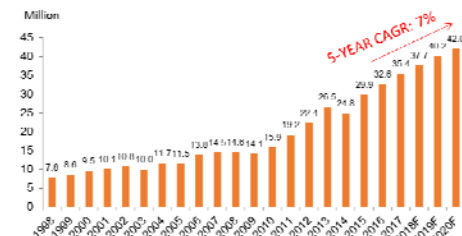
b) ERW: Core profit jumped 38% yoy. 1Q18 core profit was an impressive Bt286m (+38% yoy, +77% qoq), exceeding our expectations by 14%. Key support came from: a) the continued rise in Thailand's tourist arrivals, which helped propel ERW's top-line growth of 10% yoy to Bt1.7b, and b) EBITDA margin increasing 270bp yoy to 37.1%. Excluding the budget segment, overall RevPar rose 8% yoy, driven by ARR and occupancy growth of 7% and 200bp yoy respectively.

MINT: Core profit dropped 11% yoy due to high base. Core profit of Bt1.7b in 1Q18 (-11% yoy, +7% qoq) was 6% lower than street expectations. The yoy drop is not a concern as The Residence by Anantara in Layan, Phuket, sold three units in 1Q17, leading to an abnormally high earnings base in 1Q17. Apart from the real estate business, MINT's hotel and restaurant businesses continued to see top-line growth. In 1Q18, owned hotels in Thailand and overseas saw an impressive RevPar rising 15% yoy and 14% yoy respectively.

OVERWEIGHT

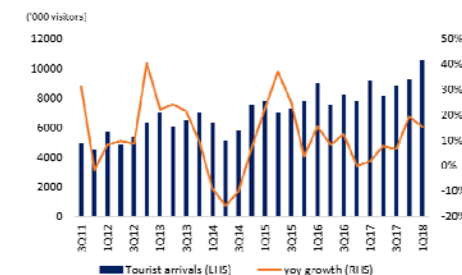
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YEARLY TOURIST ARRIVALS



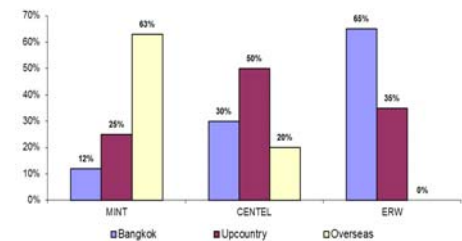
Source: TAT, UOB Kay Hian

QUARTERLY TOURIST ARRIVALS



Source: Bloomberg, UOB Kay Hian

HOTEL REVENUE CONTRIBUTION



Source: UOB Kay Hian

NORMALISED PROFIT IN 1Q18

(Btm)	4Q17	yoy % chg	qoq % chg
CENTEL	883	18	74
ERW	286	38	77
MINT	1,719	-11	7
Total	2,888	0	27

ANALYSTS

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PEER COMPARISON

Company	Rec	Share Price (Bt)	Target Price (Bt)	Mkt Cap (Btm)	Core Profit (Btm) 2018F	Core Profit (Btm) 2019F	PE (x) 2018F	PE (x) 2019F	EV/EBITDA (x) 2018F	EV/EBITDA (x) 2019F	EPS Growth (%) 2018F	EPS Growth (%) 2019F
CENTEL	HOLD	45.75	52.5	61,763	2,293	2,586	26.9	23.9	13.1	11.7	11.7	11.9
ERW	BUY	7.9	10.5	19,789	631	736	31.3	26.8	13.8	12.5	24.8	16.6
MINT	BUY	37.5	50.0	173,209	6,034	6,658	27.3	24.8	18.5	17.0	11.4	10.3

Source: UOB Kay Hian

- Tourist arrivals growth remained healthy in Apr 18.** Tourist arrivals continued to gain momentum, rising 9% yoy to 3.1m in Apr 18 and 14% yoy to 13.7m in 4M18. Thailand's tourist arrivals should continue to see promising growth throughout the rest of the year with an expected growth of 9% yoy to 38.6m in 2018, driven by continued growth from several tourist markets, such as China and Russia.
- Hotel expansion strategy.** MINT is expanding its hotel portfolio only in the upscale to luxury segments as well as expanding its network of managed hotels overseas. In 2018-19, MINT plans to open five owned hotels and more than 30 managed hotels in Thailand and overseas. For CENTEL, its expansion pipeline includes hotels in the luxury to mid-range segments. The company will open a new owned hotel (Cosi) in 2019 and nearly 10 managed hotels in 2018-19. ERW will focus on the budget or non-luxury segments. Its expansion plan seems to be the most aggressive with nearly 10 hotels per year in the next few years in Thailand and the Philippines.

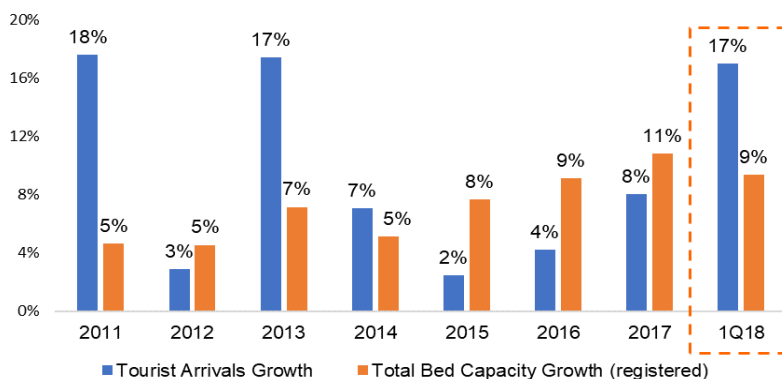
NEW HOTEL EXPANSION PLAN (OWNED HOTELS AND JOINT VENTURE HOTELS)

(No. of hotels)	2016	2017	2018F
ERW	8	11	9
CENTEL	0	2	0
MINT	11	2	2

Source: Respective companies, UOB Kay Hian

- Maldives' hotel operations to rebound after a two-year decline.** The hospitality market in the Maldives has been challenging over the past two years amid a rapid increase in hotel room supply. However, tourist arrival growth in 4Q17 to 1Q18 started to outweigh hotel supply growth, driven by strong growth in tourists from major markets like Russia, China and France. This could imply upbeat near-term performance for CENTEL's and MINT's hotel operations in the Maldives. In the longer term, we expect the Maldives' government latest strategy would help better balance hotel demand-supply growth, including: a) a slowdown in the leasing of islands for new resort developments, b) increase marketing efforts in key markets, and c) expansion of tourism infrastructure.

HOTEL DEMAND VS SUPPLY GROWTH IN THE MALDIVES



Source: UOB Kay Hian

REVPAR GROWTH OF MINT AND CENTEL IN THE MALDIVES (IN BAHT)

(%)	1Q17	2Q17	3Q17	4Q17	1Q18
CENTEL	-11.8	-2.2	-5.9	-3.5	0.1
MINT	-5.0	5.0	-22.0	11.0	15.0

Source: CENTEL, MINT, UOB Kay Hian

ACTION

- Maintain OVERWEIGHT; prefer ERW and MINT due to higher upside.** Reiterate OVERWEIGHT on the hotel sector in view of: a) promising outlook in Thai tourism in 2018, b) a gradual recovery in domestic consumption, and c) the sector's core profit growth of 12% yoy in 2018. Our top picks are ERW and MINT. ERW is expected to post the highest earnings growth within our sector coverage. Meanwhile, MINT's valuation lags the most among peers.
- Emerging opportunities due to recent share price correction.** Given that sector

CENTEL – EV/EBITDA BAND



Source: UOB Kay Hian

ERW – EV/EBITDA BAND



Source: UOB Kay Hian

MINT – EV/EBITDA BAND



Source: UOB Kay Hian

FUTURE HOTEL SUPPLY (DOWNTOWN BKK)

Segment	3-year CAGR (%)
Luxury	2.5
First-Class	4.2
Mid-range	4.5
Economy	5.4
Total	4.0

Source: CBRE

PEER COMPARISON FOR VALUATION IN 2018

	EPS Growth (%)	EV/EBITDA (x)
CENTEL	12	12.8
ERW	25	13.6
MINT	11	17.6
Average	14	16.0

Source: UOB Kay Hian

CENTEL - DCF VALUATION

earnings are expected to resume growth momentum in 2Q18, we see value emerging since the hotel sector has underperformed the SET Index, falling 16% ytd vs the SET Index's flat yoy performance.

ESSENTIALS

- CENTEL: Key takeaways from analyst meeting.** The tone of the meeting seemed to be neutral. Same-store sales (SSS) growth should remain negative in Apr 18, pressured by a slowdown in consumption in the upcountry (average SSS of restaurant outlets in Bangkok remained positive). However, the continued outlet expansion would eventually drive its restaurant top-line growth to 5-8% yoy in 2Q18. For its hotel segment, RevPar in Apr 18 came in softer yoy, but should see an uptick in May 18, according to guidance. In 2018, we expect net profit to grow 13% yoy to Bt2.3b and it is a key beneficiary of the tourism boom in Thailand. Maintain HOLD and target price of Bt52.50, based on DCF (WACC: 7.9%, terminal growth: 3.0%). Entry price is below Bt43.00.
- ERW: Key takeaways from the analyst meeting.** Our recent meeting with management confirms an optimistic outlook towards end-18. The company maintained its target revenue growth of 10% yoy in 2018, in line with our expectation. We forecast core profit to grow 25% yoy to Bt631m in 2018, higher than the sector's growth of 13%. Key drivers are: a) favourable tourism outlook, and b) improving profitability as its heavy hotel investments during the past few years are generating enhanced returns. Maintain BUY and target price of Bt10.50, based on DCF (WACC: 6.5%, terminal growth: 3.0%).
- MINT: Key takeaways from analyst meeting.** We expect earnings to resume growth momentum in 2Q18 as there would be no high base effect as seen in 1Q18. In addition, we expect hotel operations in Thailand, the Maldives and Portugal to drive earnings growth in 2Q18 due to the favourable tourism outlook. However, the SSS of its restaurant business should remain negative, given the slowdown in consumption in the upcountry. With continued expansion at its restaurant and hotel businesses, we expect core profit to grow 11% yoy to Bt6b in 2018. Our target price is Bt50.00, based on DCF (WACC: 7.2%, terminal growth: 3.0%).

ASSUMPTION CHANGES

- CENTEL: Reduce net profit forecasts for 2018-19 by about 2%** to mainly factor in: a) lower SSS assumptions of -0.5% in 2018 and +0.5% in 2019 (lower than management's target of 2-3% yoy), b) the impact from renovations at Centara Grand at Central World, and c) capex assumptions.
- MINT: Trim net profit forecasts for 2018-19 by about 1%** to mainly factor in lower SSS assumptions of -0.5% in 2018 and +0.5% in 2019 (lower than management's target of 1-2% yoy).

SECTOR CATALYSTS

- Possible acquisitions of hotel properties and food brands.

RISKS

- External risks such as natural disasters and a global economic slowdown.

Long-term D/E	50%
Beta	1.0
WACC	7.9%
Terminal growth	3.0%
Valuation (Btm)	
Enterprise value	76,762.3
Less: Net debt	5,310.8
Less: MI	636.9
Equity value	70,814.6
No. of shares (m)	1,350
Target price (Bt)	52.5

Source: UOB Kay Hian

ERW - DCF VALUATION

Long-term D/E	67%
Beta	0.8
WACC	6.5%
Terminal growth	3.0%
Valuation (Btm)	
Enterprise value	35,905.1
Less: Net debt	9,394.1
Less: MI	234.9
Equity value	26,276.1
No. of shares (m)	2,500
Target price (Bt)	10.5

Source: UOB Kay Hian

MINT - DCF VALUATION

Long-term D/E	67%
Beta	1.0
WACC	7.2%
Terminal growth	3.0%
Valuation (Btm)	
Enterprise value	287,549.2
Less: Net debt	48,812.3
Less: MI	2,901.8
Equity value	229,835.1
No. of shares (m)	4,622
Target price (Bt)	50.0

Source: UOB Kay Hian

SECTOR

Telecommunication: True Corp won't bid in 1,800MHz spectrum auction. True Corp (TRUE TB) announced it would not bid for the new 1,800MHz spectrum licence set on 4 Aug 18, to reducing investor concerns over its spending in the next couple of years. TRUE added it has sufficient frequencies in its portfolio to support its growth plans. (Source: *Tech.thaivisa.com*)

Comment: We are positive on this news as it will improve investment sentiment for the sector due to expected further improvement in the competitive landscape. TRUE may turn to focus on its financial performance than acquiring market share. This should also be good for DTAC as DTAC's chances of winning the spectrum have improved.

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