

Banyan Tree Holdings Limited

Turnaround in operations



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SINGAPORE | REAL ESTATE (HOSPITALITY) | 2Q17 RESULTS

- 2Q17 revenue and EBITDA within our expectations.
- Turnaround in operating performance driven by hotel investments and fee-based segment, continuing the trend from 1Q17.
- RevPARs improve 15%/28% for Thailand/Seychelles, Maldives' down 9%.
- Maintain BUY with a lower target price of S\$0.74 to account for the lower than expected disposal gain of S\$39mn vs S\$66mn forecasted.

Results at a glance

(SGD mn)/Dec Yr End	2Q17	2Q16	YoY (%)	Comments
Revenue	69.8	65.9	6.0	
-Hotel Investments	42.0	38.3	9.5	Mainly driven by Thailand, partially offset by weaker Maldives
-Property Sales	11.5	14.5	(20.8)	Lower handover and recognition of property units
-Fee-based segment	16.4	13.1	25.5	Higher management fees from resorts in China, Mauritius and Mexico, higher revenue from Spa/Gallery operations in China
-Other income	0.5	1.4	(62.8)	
Total Costs and Expenses	(70.0)	(70.6)	(0.9)	
Operating Profit (EBITDA)	0.4	(3.4)	nm	
Net Profit	(13.9)	(15.3)	(9.1)	After factoring in depreciation, amortization, finance costs, tax

Source: Company, PSR

The positives

+ **Turnaround in operating profit driven by hotel investments and fee-based segment:** Thailand, which accounts for 40% of Group revenue, continued its growth momentum from 1Q17, driving most of the 10% YoY increase in revenue for the Hotel Investments segment.

+ **General improvements in RevPARs except for Maldives:** RevPAR for Thailand grew 15% and Seychelles 28%, offsetting a 9% decrease for Maldives. Increase in resort supply and moderating growth in Chinese tourists continue to hurt Maldives' performance.

The negatives

- **Disposal gains of China properties lower than expected:** Profits from the disposal of China assets into Banyan Tree Assets (China) amounted to S\$39mn vs our estimated S\$66mn. The Group has stated its intention to utilise proceeds to reduce gearing.

Outlook

Stable earnings outlook on growing RevPARs. We expect RevPAR growth to continue in 2H17 in Thailand as tourism slowly recovers from the passing of the Thai king. Revenue recognition from property sales will also be higher in 2H17. As of June 17, the Group has unrecognised revenue of S\$154mn (77% jump YoY) for this segment. 30% of this will be recognised in 2H17.

Interest cost savings to drive bottom line growth. The Group has stated intentions to utilise cash proceeds from the disposal of China assets and placement to reduce gearing. Assuming a 4% cost of debt, interest cost savings of \$4.6mn can increase FY18e NPAT by 54% (or FY18e EPS by 46%).

Maintain BUY with lower target price of S\$0.74.

We have incorporated the effects of the actual China disposal gain and the utilisation of the placement proceeds to reduce gearing (see Figure 1 for details of finalised Vanke deal). The lowering of our TP by 3c is mainly due to the lower than forecasted gains on disposal of China assets. Our target price translates to a FY18e P/NAV of 0.87.

14 August 2017

BUY (Maintained)

LAST DONE PRICE	SGD 0.55
FORECAST DIV	SGD 0.00
TARGET PRICE	SGD 0.74
TOTAL RETURN	34.5%

COMPANY DATA

BLOOMBERG CODE:	BTH SP
O/S SHARES (MN):	761
MARKET CAP (USD mn / SGD mn):	307 / 419
52 - WK HI/LO (SGD):	0.6 / 0.36
3M Average Daily T/O (mn):	0.89

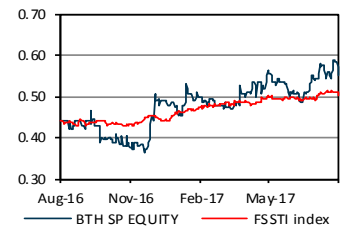
MAJOR SHAREHOLDERS (%)

BIBACE INVESTMENT LTD	37.6%
QATAR INVESTMENT AUTHORITY	27.1%
PLATINUM ENTERPRISE LTD	4.1%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	4.6	3.6	29.5
STIRETURN	3.1	3.3	19.5

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD M N	FY 15	FY 16	FY 17e	FY 18e
Revenue	377	339	340	348
EBITDA	31	52	57	61
EPS (S'cents)	-3.6	-2.1	5.3	13
PER, x (adj.)	-	-	10.4	42.5
P/BV, x	0.8	0.7	0.7	0.6
ROA, %	-17%	-10%	2.6%	0.6%
ROE, %	-3.9%	-2.2%	5.0%	12%

Source: Company, PSR

Valuation Method

SOTP

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Figure 1: Completion of definitive agreements with China Vanke
Details of finalised definitive agreements with China Vanke
1) Divestment of BTH's China assets into Banyan Tree Assets China (BTAC) and subsequent injection of capital by China Vanke

Injection of capital by China Vanke into Banyan Tree Assets China	S\$90mn
Cash proceeds due to BTH for injection of 50% of China assets	S\$90mn
Net profits attributable to BTH after fees	S\$39mn

2) Issuance of BTH shares to Vanke for 5% equity stake (with option to increase a further 5%)

Issuance of 40mn shares at S\$0.60 (for 5% stake)	S\$24mn
Expiry of initial option for further 5% stake	5 market days before BTH 2018 AGM
Total cash proceeds from Vanke to BTH	S\$114mn
Group intention for use of proceeds	Reduce gearing and for general working capital

Source: Company, PSR

Figure 2: Valuation Table

Sum-of-parts Valuation (SOTP)	S\$'000	Valuation inputs used	Comments
Owned hotel business	541,555	20% discount to FY17e PPE book value	Consistent with current price discount to book. More conservative vs post GFC average price discount to book of 10% (Initiation Report Figure 10)
Property development	223,164	30% discount to RNAV, assuming 20% development margins	RNAV discount consistent with our in-house discount value for mid-cap property developers. More conservative vs peer average discount of 20% (Initiation Report Figure 8)
Fee-based segment	250,425	Assuming 30% EBITDA margins and EV/EBITDA multiple of 10	Consistent with post GFC average EBITDA margins of 29% for fee-based segment. EV/EBITDA of 10 more conservative than large-cap hotel operators average multiple of 13.7 (Initiation Report Figure 9)
Total	1,015,145		
Minus: FY17e Total Debt	(502,585)		
Add: FY17e Cash	76,741		
Total	589,300		
Total number of shares ('000)	801,057		Increased by 40mn shares to account for Vanke Share placement
Fair value/share (S\$)	0.74		

Source: PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
Revenue	377	339	340	348	372
Total cost and expenses	(346)	(288)	(283)	(287)	(307)
EBITDA	31	52	57	61	64
Depreciation & amortisation	(25)	(25)	(24)	(25)	(26)
EBIT	6	27	34	36	39
Net finance (expense)/income	(21)	(22)	(26)	(26)	(22)
Profit before taxes	(19)	1	50	14	17
Taxes	(6)	(8)	(9)	(2)	(3)
Profit after tax	(26)	(7)	42	12	14
Non-controlling interest	2	9	(2)	(2)	(2)
PATMI	(28)	(16)	40	10	12

Per share data (SGD)

Y/E Dec, SGD	FY15	FY16	FY17e	FY18e	FY19e
EPS, reported	-0.04	-0.02	0.05	0.01	0.02
DPS (S'cents)	0.13	0.00	0.00	0.00	0.00
BVPS	0.72	0.74	0.84	0.88	0.93

Cash Flows

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
CFO					
Profit for the year	(19)	1	50	14	17
Adjustments	69	36	46	47	47
WC changes	(126)	(6)	(38)	(12)	20
Taxes paid, others	(35)	(37)	(44)	(27)	(27)
Cashflow from ops	(111)	(6)	15	22	57
CFI					
CAPEX, net	(23)	(16)	(19)	(20)	(20)
Others	(7)	(4)	62	(0)	(0)
Cashflow from investments	(31)	(20)	43	(20)	(20)
CFF					
Increase (decrease) in loans, notes	139	(24)	(114)	-	-
Others	(1)	(1)	19	(1)	(1)
Cashflow from financing	138	(25)	(95)	(1)	(1)
Net change in cash	(4)	(52)	(37)	1	36
Effects of exchange rates	1	0	-	-	-
CCE, end	165	114	77	78	114

Source: Company, Phillip Securities Research (Singapore) Estimates

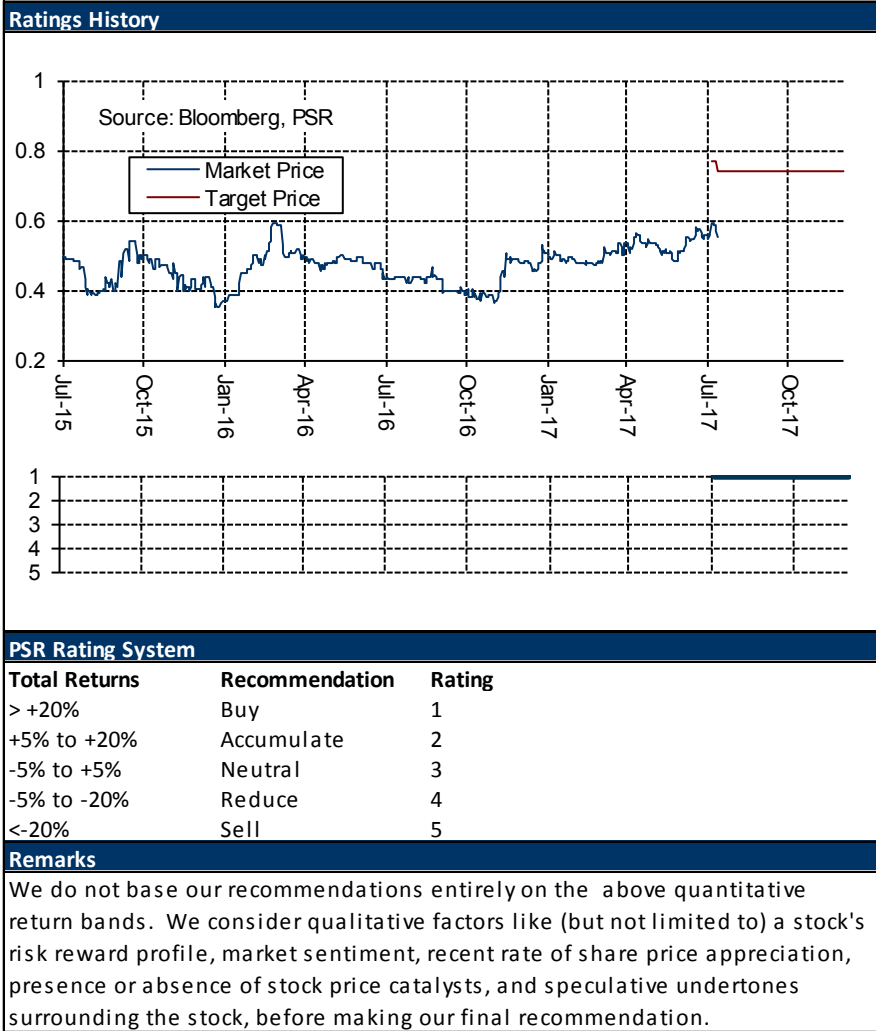
*Forward multiples and yields are based on current market price; historical multiples and yields are based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
ASSETS					
PP&E	657	658	677	697	716
Associates & JVs	107	109	109	109	109
Investment properties	68	71	71	71	72
Others	127	119	219	218	216
Total non-current assets	959	956	1,076	1,094	1,113
Development property	336	252	266	279	258
Accounts receivables	80	52	78	74	75
Cash balance	166	109	77	78	114
Others	53	240	53	55	57
Total current assets	634	652	473	486	505
Total Assets	1,593	1,608	1,549	1,580	1,618
LIABILITIES					
Short term loans	90	98	98	98	98
Notes payables	-	49	49	49	49
Accounts payables	9	7	7	7	7
Others	117	176	155	155	157
Total current liabilities	215	281	260	260	262
Long term loans	171	126	12	12	12
Notes payables	392	344	344	344	344
Others	116	125	125	126	126
Total non-current liabilities	679	594	481	481	481
Total Liabilities	894	875	741	741	744
EQUITY					
Shareholder Equity	549	564	640	672	708
Non-controlling interest	151	168	168	167	166
Total Equity	699	733	808	839	874

Valuation Ratios

Y/E Dec	FY15	FY16	FY17e	FY18e	FY19e
P/E (X), adj.	-	-	10.4	42.5	34.0
P/B (X)	0.8	0.7	0.7	0.6	0.6
Dividend Yield	0.2%	0.0%	0.0%	0.0%	0.0%
Growth & Margins					
Growth					
Revenue	12.0%	-10.0%	0.4%	2.2%	6.8%
EBIT	-78.4%	322.6%	26.0%	7.7%	7.6%
Net Income, adj.	13.2%	-16.5%	8.7%	2.2%	6.9%
Margins					
EBIT margin	1.7%	7.9%	9.9%	10.4%	10.5%
Net Profit Margin	-7.0%	-2.2%	12.4%	3.4%	3.9%
Key Ratios					
ROE (%)	-3.9%	-2.2%	5.0%	1.2%	1.4%
ROA (%)	-1.7%	-1.0%	2.6%	0.6%	0.8%
Net cash (debt) (\$\$mn)	(487)	(508)	(426)	(425)	(388)
Gearing (X)	0.41	0.38	0.32	0.32	0.31



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