

Banyan Tree Holdings Limited

Patience as partnerships bear fruit



SINGAPORE | REAL ESTATE (HOSPITALITY) | 3Q17 RESULTS

- Sustained improvements in RevPARs for BTH's biggest market Thailand.
- Improved property sales with sales value jumping 2.5x YoY. 9M17 revenue recognised from segment made up 60% of our FY17e forecasts, we expect more recognition in 4Q17.
- Increase in operating expenses hurt EBITDA margins.
- Weakness in Maldives continues with 33% drop in RevPAR, but expected to ease in FY18.
- Downgrade to ACCUMULATE with lowered target price of S\$0.71 (from S\$0.74).

Results at a glance

(SGD mn)/Dec Yr End	3Q17	3Q16	YoY (%)	Comments
Revenue	68.3	62.6	9.1	
-Hotel Investments	39.7	42.6	(6.7)	Mainly driven by Thailand, Seychelles, partially offset by weaker Maldives
-Property Sales	15.5	6.2	151.5	Commencement of recognition revenue from sold units in Cassia Bintan
-Fee-based segment	13.0	13.9	(5.9)	Lower hotel management/spa/architectural and design fees
Other income	41.0	0.8	nm	
Total Costs and Expenses	(74.5)	(63.1)	18.1	Increase in cost of properties sold, administrative and salaries expenses
Operating Profit (EBITDA)	34.8	0.3	nm	
Net Profit	20.6	(12.0)	nm	
Net Profit, adjusted	(20.4)	(12.8)	nm	

Source: Company, PSR

The Positives

+ **Sustained improvements in RevPARs for BTH's biggest market Thailand (61% of FY16 revenue for Group-owned hotels):** 3Q17 RevPAR for Thailand grew 10% YoY, continuing growth trends for the year. Maldives, 2nd largest market for Group-owned hotels accounting for 23% of FY16 Group-owned revenue, continue to be plagued by oversupply of rooms with RevPAR dropping 33%.

+ **Improved property sales with sales value jumping 2.5x YoY:** 23 new units, mainly for Cassia Bintan, were sold in 3Q17, with sales value jumping 2.5x YoY to S\$20.4mn.

The Negatives

- **Increase in operating expenses hurt EBITDA margins.** The increase in administrative and salaries expenses were ahead of our expectations as a result of higher exchange losses from the USD depreciation and higher provision of bonus and incentives.

- **Weakness in Maldives continues, but expected to ease in FY18.** Drop in RevPAR for Maldives was main cause of 7% drop in revenue from Hotel Investments segment. We expect conditions in Maldives to stabilise in FY18 for reasons outlined in outlook below.

Outlook

We expect RevPAR strength for Thailand to sustain, given the low base caused by weak tourism numbers in the quarters following the King's passing in Oct 2016. Recovery in tourist numbers for Maldives was unable to offset the 14.7% growth in industry operational hotel beds in MYTD. We expect conditions in Maldives to improve in 2H18 as new supply tapers off after 2018. (8.2% expected new supply in 2018).

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%). We have factored in interest cost savings in our FY18e forecasts.

13 November 2017

Accumulate (Downgraded)

LAST DONE PRICE	SGD 0.61
FORECAST DIV	SGD 0.00
TARGET PRICE	SGD 0.71
TOTAL RETURN	17.4%

COMPANY DATA

BLOOMBERG CODE:	BTH SP
O/S SHARES (MN):	801
MARKET CAP (USD mn / SGD mn):	356 / 485
52 - WK HI/LO (SGD):	0.68 / 0.36
3M Average Daily T/O (mn):	193

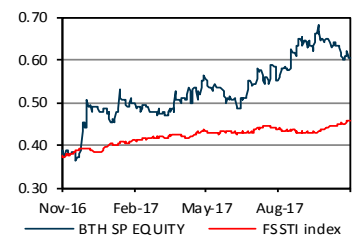
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(6.2)	6.1	59.2
STIRETURN	4.1	3.6	24.8

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD MN	FY 15	FY 16	FY 17e	FY 18e
Revenue	377	339	340	348
EBITDA	31	52	66	61
EBIT	6	27	42	36
PATMI	-28	-16	12	9
EPS (S'cents)	-3.6	-2.1	1.5	1.2
PER, x (adj.)	-	-	39.6	48.5
P/BV, x	0.8	0.7	0.8	0.7
ROA, %	-17%	-10%	0.8%	0.6%
ROE, %	-3.9%	-2.2%	15%	12%

Source: Company, PSR

Valuation Method

SOTP

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Unrecognised revenue of S\$132mn from property sales as at Sept 2017 (57% jump YoY) will also provide support to earnings. ~\$22.5mn is expected to be recognised in 4Q17.

Maintain BUY with lowered target price of S\$0.71 (from S\$0.74).

We trim our adjusted FY17e EBITDA margin to 8%, leading to a lower resultant cash balance at FY17e which trimmed our SOTP target price. We maintain our FY18e forecasts as growth in earnings is expected to be driven by sustained strength in the Group's largest market in Thailand and less challenging conditions in Maldives in FY18. The new partnerships with Accor and Vanke offer opportunities for BTH to scale up at a much faster pace than before. As the Group takes on more management contracts under these partnerships, improving EBIT margins should further drive earnings going forward. Our target price translates to 0.7x FY18e P/NAV.

Figure 1: 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%
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%
Fee-based segment	257,938	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
Total	1,022,658		
Minus: FY17e Total Debt	(502,585)		
Add: FY17e Cash	48,071		
Total	568,143		
Total number of shares ('000)	801,057		Increased by 40mn shares to account for Vanke Share placement
Fair value/share (S\$)	0.71		

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	66	61	64
Depreciation & amortisation	(25)	(25)	(24)	(25)	(26)
EBIT	6	27	42	36	39
Net finance (expense)/income	(26)	(26)	(26)	(23)	(22)
Profit before taxes	(19)	1	16	13	16
Taxes	(6)	(8)	(3)	(2)	(3)
Profit after tax	(26)	(7)	13	11	14
Non-controlling interest	2	9	(2)	(2)	(2)
PATMI	(28)	(16)	12	9	12
PATMI, adj	(28)	(38)	(27)	9	12

Per share data (SGD)

Y/E Dec, SGD	FY15	FY16	FY17e	FY18e	FY19e
EPS, reported	-0.04	-0.02	0.02	0.01	0.02
DPS (S'cents)	0.13	0.00	0.00	0.00	0.00
BVPS	0.72	0.74	0.80	0.84	0.89

Cash Flows

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
CFO					
Profit for the year	(19)	1	16	13	16
Adjustments	69	36	50	47	48
WC changes	(126)	(6)	(38)	(12)	20
Taxes paid, others	(35)	(37)	(42)	(27)	(27)
Cashflow from ops	(111)	(6)	(14)	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)	(66)	1	36
Effects of exchange rates	1	0	-	-	-
CCE, end	165	114	48	49	85

Source: Company, Phillip Securities Research (Singapore) Estimates

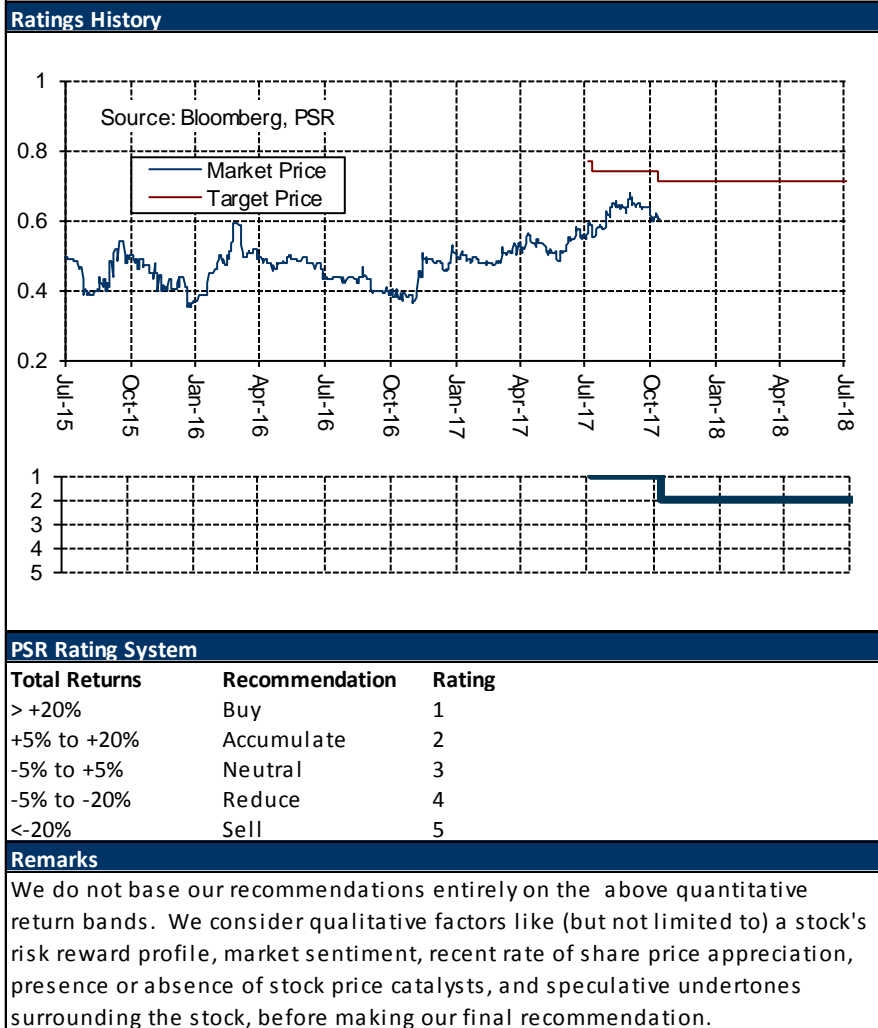
*Forward multiples and yields are based on current market price; historical multiples and yields are based on historical market price.

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	48	49	85
Others	53	240	53	55	57
Total current assets	634	652	445	457	476
Total Assets	1,593	1,608	1,520	1,551	1,589
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	611	643	678
Non-controlling interest	151	168	168	167	166
Total Equity	699	733	779	810	845

Valuation Ratios

Y/E Dec	FY15	FY16	FY17e	FY18e	FY19e
P/E (X), adj.	-	-	39.6	48.5	38.5
P/B (X)	0.83	0.81	0.75	0.71	0.67
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%	59.1%	-14.7%	7.6%
Net Income, adj.	13.2%	-16.5%	8.7%	2.2%	6.9%
Margins					
EBIT margin	1.7%	7.9%	12.5%	10.4%	10.5%
Net Profit Margin	-7.0%	-2.2%	3.9%	3.2%	3.7%
Key Ratios					
ROE (%)	-3.9%	-2.2%	1.5%	1.2%	1.4%
ROA (%)	-1.7%	-1.0%	0.8%	0.6%	0.7%
Net cash (debt) (\$\$mn)	(487)	(508)	(455)	(454)	(418)
Gearing (X)	0.41	0.38	0.33	0.32	0.32



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