

# Banyan Tree Holdings Limited

Increasingly going asset light



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## SINGAPORE | REAL ESTATE (HOSPITALITY) | 2Q18 RESULTS

- Losses narrowed in the traditionally off-peak season due to lower operating expenses.
- Lower total costs and expenses mainly due to deconsolidation of China operations.
- Increase in forward bookings suggest tourism sentiment still healthy.
- Near term uncertainties for Thailand operations but we expect impact to be transitional and short-term.
- Maintain ACCUMULATE with unchanged target price of S\$0.73.

### Results at a glance

(SGD mn)/Dec Yr End	2Q18	2Q17	YoY (%)	Comments
Revenue	68.4	69.8	(2.1)	
-Hotel Investments	38.7	42.0	(7.7)	Mainly from deconsolidation of China operations (-\$2.5mn) and weaker Maldives (-\$1.6mn)
-Property Sales	15.1	11.5	31.5	Handover of Cassia Phuket (Phase 2) and Cassia Bintan
-Fee-based segment	14.6	16.4	(11.1)	Deconsolidation of China operations, replaced with licence fees post divestment to Vanke
Other income	1.5	0.5	-	
Total Costs and Expenses	(60.3)	(70.0)	(13.9)	Mainly due to deconsolidation of China operations expenses. Excluding China, total costs in line with last year
Operating Profit (EBITDA)	9.6	0.4	-	
Share of results from associates/JV	(1.2)	0.2		Group's share of results from China operations are disclosed on an equity accounting basis from Aug 2017
Net Profit	(5.3)	(12.3)	-	

Source: Company, PSR

### The Positives

+ **Property sales segment saw 32% increase in revenue.** This is predominantly driven by the handover of 35 units of Cassia Phuket. Sales momentum is maintained with an 8% YoY increase in total sales value for units sold in the quarter. As a result, overall unrecognised revenue as at end 2Q18 remained stable at S\$202mn, with about a quarter due to be recognised in 2H18. This could represent a close to 50% YoY jump for upcoming revenue from this segment for 2H18.

+ **Increase in forward bookings suggest tourism sentiment still healthy.** Forward bookings revenue is 6% above same period last year driven by hotels outside Thailand which jumped 18%. This was able to offset the 2% lower forward bookings in Thailand due to slower MICE and events business for Angsana Laguna Phuket.

+ **Operating profit strengthened led by turnaround in property sales, fee-based segment and deconsolidation of China operations.** Apart from higher revenue in the property sales segment, the standout segment driving earnings was the fee-based segment. Despite an 11% drop in revenue as a result of de-consolidation of China operations, EBITDA from this segment jumped 73% due to lower operating expenses such as lower provision for bonus and incentives and exchange gains.

+ **Divesting of Seychelles assets and operating them on a management contract model.** We note that management has in recent years been increasingly embracing an asset light model which leverages on their branding and hotel management expertise, with an increasing urgency to drive shareholder returns. These measures include: 1) signings of collaboration deals with Vanke and Accor, which include the divestments of China assets 2) Offer for Laguna Resorts with an increased urgency in redevelopment of Laguna Phuket land 3) Divesting of Seychelles assets and operating them on management contracts. These deals are positive for shareholder returns.

24 August 2018

### Accumulate (Maintained)

LAST CLOSE PRICE	SGD 0.54
FORECAST DIV	SGD 0.01
TARGET PRICE	SGD 0.73
TOTAL RETURN	38.3%

### COMPANY DATA

BLOOMBERG CODE:	BTH SP
O/S SHARES (MN):	840
MARKET CAP (USD mn / SGD mn):	329 / 450
52 - WK HI/LO (SGD):	0.68 / 0.49
3M Average Daily T/O (mn):	0.18

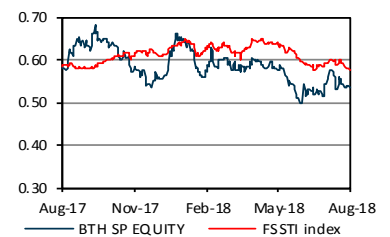
### MAJOR SHAREHOLDERS (%)

BIBACE INVESTMENT LTD	34.1%
QATAR INVESTMENT AUTHORITY	24.5%
PLATINUM ENTERPRISE LTD	3.7%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(18)	(7.8)	(6.2)
STIRETURN	(14)	(7.8)	2.2

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

SGD MN	FY 16	FY 17	FY 18 e	FY 19 e
Revenue	339	368	365	372
EBITDA	52	75	81	68
EBIT	27	50	60	46
PATMI	-16	13	28	17
EPS (S'cents)	-2.1	1.5	3.3	2.0
PER, x (adj.)	-	34	16	26
P/BV, x	0.7	0.7	0.7	0.6
ROA, %	-10%	0.8%	16%	10%
ROE, %	-2.2%	1.7%	3.4%	2.0%

Source: Company, PSR

### Valuation Method

SOTP

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### The Negatives

- **Results of associates consisting of China operations still a drag on earnings.** The Group's China operations, which have been de-consolidated since August 2017, reported a loss of S\$1.2mn in 2Q18.

- **Hotel investments segment recorded slight drop in revenue.** Excluding effect of China de-consolidation, revenue from this segment would have been down a slight -1%. Maldives continues to be weak even after the state of emergency was lifted in March 2018 following a political crisis in the country. RevPAR was down 24% YoY. With the presidential elections due in September and uncertainties over the political landscape, weakness in operations could persist despite a tapering supply of hotels and resorts. Thailand's RevPAR was also down marginally at -2%, due to lower MICE and events business.

### Outlook

There could be near term uncertainties for the Group's resorts in Thailand after the Phuket boat accident in July which killed more than 40 Chinese tourists. Thailand accounted for 66% of Group's FY17 revenue for the Hotel Investment segment and tourists from China makes up 40% of total Group revenue. We expect the Group's operations to be negatively impacted near term from possible cancellations but expect the impact to be transitional for 1-2 quarters. Long term growth catalysts remain intact as the Group transitions to an increasingly asset light model, especially with the Accor/Vanke deals. Our forecasts and target price remains unchanged for now.

### Maintain ACCUMULATE with unchanged target price of S\$0.73.

Our target price translates to c.0.94x FY18e P/NAV.

**Figure 1: Valuation Table**

Sum-of-parts Valuation (SOTP)	S\$'000	Valuation inputs used	Comments
Owned hotel business	527,949	20% discount to FY18e PPE book value	Consistent with current price discount to book. More conservative vs post GFC average price discount to book of 10%
Property development	249,284	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	1,035,170		
Minus: FY18e Total Debt	(565,946)		
Add: FY18e Cash	142,648		
Total	611,872		
Total number of shares ('000)	841,156		
Fair value/share (S\$)	0.73		

Source: PSR

## Financials

### Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	377	339	368	365	372
Total cost and expenses	(346)	(288)	(294)	(284)	(303)
<b>EBITDA</b>	<b>31</b>	<b>52</b>	<b>75</b>	<b>81</b>	<b>68</b>
Depreciation & amortisation	(25)	(25)	(25)	(22)	(22)
<b>EBIT</b>	<b>6</b>	<b>27</b>	<b>50</b>	<b>60</b>	<b>46</b>
Net finance (expense)/income	(26)	(26)	(26)	(24)	(24)
<b>Profit before taxes</b>	<b>(19)</b>	<b>1</b>	<b>23</b>	<b>36</b>	<b>22</b>
Taxes	(6)	(8)	(8)	(6)	(4)
<b>Profit after tax</b>	<b>(26)</b>	<b>(7)</b>	<b>15</b>	<b>30</b>	<b>19</b>
Non-controlling interest	2	9	2	(2)	(2)
<b>PATMI</b>	<b>(28)</b>	<b>(16)</b>	<b>13</b>	<b>28</b>	<b>17</b>
<b>PATMI, adj</b>	<b>(28)</b>	<b>(38)</b>	<b>(27)</b>	<b>16</b>	<b>17</b>

### Per share data (SGD)

Y/E Dec, SGD	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	-0.04	-0.02	0.02	0.03	0.02
DPS	0.01	0.00	0.01	0.01	0.01
BVPS	0.72	0.74	0.71	0.78	0.81

### Cash Flows

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Profit for the year	(19)	1	23	36	22
Adjustments	69	36	4	48	48
WC changes	(126)	(6)	9	(60)	8
Taxes paid, others	(35)	(37)	(36)	(32)	(29)
<b>Cashflow from ops</b>	<b>(111)</b>	<b>(6)</b>	<b>(0)</b>	<b>(8)</b>	<b>49</b>
CFI					
CAPEX, net	(23)	(16)	(13)	(18)	(17)
Others	(7)	(4)	69	(1)	(1)
<b>Cashflow from investments</b>	<b>(31)</b>	<b>(20)</b>	<b>57</b>	<b>(19)</b>	<b>(18)</b>
CFF					
Increase (decr) in loans, notes	139	(24)	(58)	20	-
Others	(1)	(1)	47	(9)	(9)
<b>Cashflow from financing</b>	<b>138</b>	<b>(25)</b>	<b>(10)</b>	<b>11</b>	<b>(9)</b>
<b>Net change in cash</b>	<b>(4)</b>	<b>(52)</b>	<b>46</b>	<b>(16)</b>	<b>21</b>
Effects of exchange rates	1	0	(1)	-	-
<b>CCE, end</b>	<b>165</b>	<b>114</b>	<b>159</b>	<b>143</b>	<b>164</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

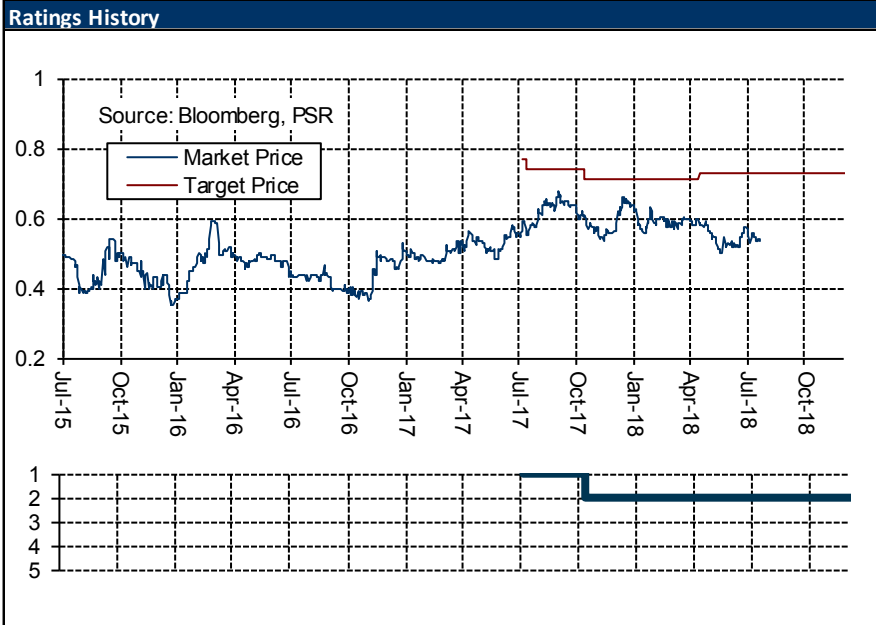
\*Forward multiples and yields are based on current market price; historical multiples and yields are based on historical market price.

### Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>ASSETS</b>					
PP&E	657	658	642	660	677
Associates & JVs	107	109	122	122	122
Investment properties	68	71	71	71	71
Others	127	119	235	233	231
<b>Total non-current assets</b>	<b>959</b>	<b>956</b>	<b>1,070</b>	<b>1,086</b>	<b>1,102</b>
Development property	336	252	283	297	276
Accounts receivables	80	52	45	74	75
Cash balance	166	109	159	143	164
Others	53	240	123	126	141
<b>Total current assets</b>	<b>634</b>	<b>652</b>	<b>610</b>	<b>639</b>	<b>656</b>
<b>Total Assets</b>	<b>1,593</b>	<b>1,608</b>	<b>1,680</b>	<b>1,726</b>	<b>1,758</b>
<b>LIABILITIES</b>					
Short term loans	90	98	71	71	71
Notes payables	-	49	119	119	119
Accounts payables	9	7	7	7	7
Others	117	176	329	322	324
<b>Total current liabilities</b>	<b>215</b>	<b>281</b>	<b>408</b>	<b>400</b>	<b>403</b>
Long term loans	171	126	151	151	151
Notes payables	392	344	225	225	225
Others	116	125	119	120	119
<b>Total non-current liabilities</b>	<b>679</b>	<b>594</b>	<b>495</b>	<b>495</b>	<b>495</b>
<b>Total Liabilities</b>	<b>894</b>	<b>875</b>	<b>902</b>	<b>895</b>	<b>897</b>
<b>EQUITY</b>					
Shareholder Equity	549	564	601	655	685
Non-controlling interest	151	168	177	176	176
<b>Total Equity</b>	<b>699</b>	<b>733</b>	<b>778</b>	<b>831</b>	<b>861</b>

### Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	-	-	39.0	18.0	30.0
P/B (X)	0.83	0.81	0.84	0.77	0.74
Dividend Yield	0.0%	0.0%	1.7%	1.7%	1.7%
<b>Growth &amp; Margins</b>					
<b>Growth</b>					
Revenue	12.0%	-10.0%	8.6%	-1.0%	1.8%
EBIT	-78.4%	322.6%	86.1%	20.3%	-22.8%
Net Income, adj.	13.2%	-16.5%	2.6%	8.4%	6.9%
<b>Margins</b>					
EBITDA margin	8.4%	16.7%	23.5%	23.6%	18.5%
EBIT margin	1.7%	7.9%	13.4%	16.3%	12.4%
Net Profit Margin	-7.0%	-2.2%	4.7%	8.7%	5.1%
<b>Key Ratios</b>					
ROE (%)	-3.9%	-2.2%	1.7%	3.4%	2.0%
ROA (%)	-1.7%	-1.0%	0.8%	1.6%	1.0%
Net cash (debt) (\$mn)	(487)	(508)	(407)	(423)	(402)
Gearing (X)	0.41	0.38	0.34	0.33	0.32



**PSR Rating System**

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

**Remarks**

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation.

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