

Banyan Tree Holdings Limited

Gathering momentum in management contracts



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SINGAPORE | REAL ESTATE (HOSPITALITY) | FY18 RESULTS

- PATMI met expectations excluding the surge in effective tax due to higher withholding tax and under provision of taxes in prior years.
- Sizable uptick in property sales from Phuket. Secured a record 28 new hotel management contracts in 2018, with a pipeline of 53 hotel openings from 2019 to 2022.
- Hotel investments segment took a hit from Thailand underperformance and Seychelles deconsolidation effect. Decline in forward bookings, dragged down largely by Thailand.
- Long-term growth catalysts remain intact. Focus would be the continued build-up in fee-based income and property sales.
- Maintain ACCUMULATE with adjusted target price of S\$0.76 (prev. S\$0.73).

Results at a glance

(SGD mn)/Dec Yr End	4Q18	4Q17	YoY (%)	FY18	FY17	YoY (%)	Comments (4Q18 vs 4Q17)
Revenue	92.8	88.9	4%	329.0	317.5	4%	
- Hotel Investments	47.6	54.4	-13%	192.5	201.5	-4%	Mainly due to Thailand (inventory shortage by ongoing renovations at Banyan Tree Phuket and absence of major events) and Seychelles (disposed entire assets portfolio in Nov 2018)
- Property Sales	30.0	18.6	61%	77.0	51.4	50%	Handover of Cassia Phuket, Banyan Tree Grand Residences, Laguna Park townhomes/villas and Laguna Village residences
- Fee-based segment	15.2	15.9	-5%	59.6	64.6	-8%	Lower architectural and design fees earned from projects based on project milestones
Other income	24.3	9.0	171%	43.2	50.9	-15%	Gain on disposal of assets in Seychelles and disposal of 18.6% interest in BTAC
Total Costs and Expenses	-87.7	-77.0	14%	(289.1)	(293.8)	-2%	Mainly due to increase in cost of properties sold, other operating expenses and salaries and related expenses
Operating Profit (EBITDA)	29.4	21.0	40%	83.1	74.7	11%	
Share of results from associates/JV	12.3	-0.4	-3218%	(1.2)	0.2	-687%	Fair value gain from Banyan Tree Indochina Hospitality Fund, higher profits from BTSC and BTMC and share of one-off fair value adjustment of imputed interest
PATMI	5.6	3.9	0.4	13.5	12.9	4%	

Source: Company, PSR

The Positives

+ Recovery in bulk of fee-based segment revenue. Two of the three components of the fee-based segment – hotel/fund/club management and spa/gallery operations – enjoyed positive growth in 4Q18 after registering close to -20% declines each YoY the same period a year ago. The Group's efforts to transition to an increasingly asset-light model is building its momentum. Operating profit for the fee-based segment in FY18 recorded a +86% increase YoY.

+ Sizeable uptick in property sales. Revenue for BTH's property sales segment recorded YoY increases of 61% and 50% for 4Q18 and FY18, respectively. The 61% YoY jump in 4Q18 was driven by the higher handover of units at Cassia Phuket, Laguna Park townhomes/villas and Laguna Village residences, as well as handover of units for Banyan Tree Grand Residences. Operating profit for the property sales segment in FY18 was close to double of that in FY17, albeit recognising less number of units.

The Negatives

- Hotel investments segment took a hit from Thailand underperformance and Seychelles deconsolidation effect. The 13% dip in the Group's largest revenue segment, Hotel investments (c.59% of FY18 revenue), mainly stemmed from Thailand (ongoing renovations at Banyan Tree Phuket and underperformance from Angsana Laguna Phuket due to absence of major events) and Seychelles (deconsolidation effect following disposal of entire assets portfolio in Nov 2018). RevPAR for all hotels under the Group was down 17% YoY on both lower occupancy and lower average room rate.

8 March 2019

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 0.58
FORECAST DIV	SGD 0.01
TARGET PRICE	SGD 0.76
TOTAL RETURN	34.8%

COMPANY DATA

BLOOMBERG CODE:	BTH SP
O/S SHARES (MN):	839
MARKET CAP (USD mn / SGD mn):	356 / 483
52 - WK HV/L0 (SGD):	0.62 / 0.48
3M Average Daily T/O (mn):	0.36

MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(17)	7.5	0.8
STIRETURN	13	3.8	(4.3)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD (mn)	FY 17	FY 18	FY 19 e	FY 20 e
Revenue	368	372	399	415
EBITDA	75	83	88	78
EBIT	50	61	68	57
PATMI	13	13	25	19
EPS (S'cents)	15	16	2.9	2.2
PER, x (adj.)	37.4	35.9	19.6	26.1
P/BV, x	0.8	0.7	0.7	0.7
ROA, %	0.8%	0.8%	16%	11%
ROE, %	17%	19%	3.1%	2.2%

Source: Company Data, PSR

Valuation Method

SOTP

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- Decline in forward bookings, dragged down largely by Thailand. Forward bookings for all hotels were flat YoY in 4Q18 and subsequently dropped 10% YoY in 1Q19. Forward bookings for Thailand (the single biggest geographical contributor by revenue) declined 8% YoY in 4Q18 and 13% YoY in 1Q19, still reeling from the impact by the tragic Phuket boat accident in July 2018 which killed more than 40 Chinese tourists (>40% of the Group’s customer base is from China).

Outlook

Despite the continued negative impact from the July 2018 Phuket incident which compressed forward bookings in Thailand through 1Q19, long-term growth catalysts remain intact as the Group transitions to an increasingly asset-light model.

BTH managed to secure a record 28 new management contracts in 2018 (FY16: 6, FY17: 3). Based on the current inventory of management contracts secured by BTH, 53 hotels under the Banyan Tree umbrella of brands are slated to open from 2019 to 2022 (Figure 2). The securing of such management contracts, especially with strong partners such as Accor and Vanke, will be the main driver for BTH’s fee-based income.

Some of the steps the Group had taken in the past 1-2 years include: 1) the signing of collaboration deals with Accor and Vanke, which include the divestments of China assets; 2) acquisition (and subsequent increase) of stake in Laguna Resorts & Hotels Public Company Limited; and 3) disposal of entire Seychelles assets portfolio with continued operation on a management agreement.

Most recently, BTH pared down its stake in Banyan Tree Assets (China) Holdings Pte. Ltd. (BTAC) to 4.2% on 21 Nov 2018 from 50% (50:50 JV) on 10 Aug 2017. BTAC is the holding company for Banyan Tree-branded hotels and assets in China.

Maintain ACCUMULATE with adjusted target price of S\$0.76 (prev. S\$0.73).

We adjust our target price to incorporate certain changes to our revenue adjustments and discount to PPE book value. Our target price translates to 0.72x FY19e P/NAV.

Sum-of-parts Valuation (SOTP)	S\$'000	Valuation inputs used	Comments
Owned hotel business	464,484	25% discount to FY19e PPE book value	Consistent with current price discount to book. More conservative vs post GFC average price discount to book of 10%.
Property development	217,635	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	188,289	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	870,408		
Minus: FY19e Total Debt	(376,869)		
Add: FY19e Cash	148,426		
Total	641,965		
Total number of shares ('000)	839,362		
Fair value/share (S\$)	0.76		

Figure 1: New hotels contracts signed in 2018 year-to-date. This is a record year for the number of HMAs signed, to date.

Brand	HMA	MOU
Banyan Tree	6	13
Angsana	10	10
Cassia	2	3
Dhawa	10	15
Total	28	41*

* Include 21 Accor / Vanke leads.

Source: Company

- HMA – Hotel Management Agreements
 - MOU – Memorandum of Understanding
- *Out of the 41 hotels under MOU, 21 are Accor/Vanke leads

Figure 2: 53 hotels are slated to open through 2019-2022.



Source: Company

Financials

Income Statement

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Revenue	339	368	372	399	415
Total cost and expenses	(288)	(294)	(289)	(310)	(337)
EBITDA	52	75	83	88	78
Depreciation & amortisation	(25)	(25)	(22)	(20)	(21)
EBIT	27	50	61	68	57
Net finance (expense)/income	(26)	(26)	(46)	(18)	(20)
Profit before taxes	1	23	25	50	37
Taxes	(8)	(8)	(4)	(20)	(15)
Profit after tax	(7)	15	21	30	22
Non-controlling interest	9	2	1	5	4
PATMI	(16)	13	13	25	19
PATMI, adj	(38)	(27)	2	17	18

Balance Sheet

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
PP&E	658	642	599	619	638
Associates & JVs	109	122	263	263	263
Investment properties	71	71	52	52	53
Others	119	235	119	118	117
Total non-current assets	956	1,070	1,034	1,053	1,071
Development property	252	283	280	259	190
Accounts receivables	52	44	57	71	73
Cash balance	109	159	206	148	267
Others	240	123	57	55	50
Total current assets	652	609	600	534	579
Total Assets	1,608	1,679	1,634	1,587	1,650
LIABILITIES					
Short term loans	98	71	125	125	125
Notes payables	49	119	24	24	24
Accounts payables	7	7	12	12	12
Others	166	328	322	200	205
Total current liabilities	271	407	458	336	341
Long term loans	126	151	231	231	231
Notes payables	344	225	100	100	100
Others	125	119	125	124	124
Total non-current liabilities	594	495	456	455	454
Total Liabilities	865	902	914	791	796

Per share data (SGD)

Y/E Dec, SGD	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	-0.02	0.02	0.02	0.03	0.02
DPS	0.00	0.01	0.01	0.01	0.01
BVPS	0.74	0.71	0.77	0.79	0.79

EQUITY

Shareholder Equity	564	601	646	665	667
Non-controlling interest	168	177	74	131	188
Total Equity	733	778	720	795	855

Cash Flows

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Profit for the year	1	23	25	50	37
Adjustments	59	4	15	37	39
WC changes	(6)	9	17	(105)	78
Taxes paid, others	(37)	(36)	(39)	(40)	(37)
Cashflow from ops	16	(0)	18	(57)	118
CFI					
CAPEX, net	(16)	(13)	(28)	(20)	(19)
Others	(4)	69	90	21	20
Cashflow from investments	(20)	57	63	1	1
CFF					
Increase (decr) in loans, notes	(24)	(58)	(25)	-	-
Others	(1)	47	(10)	(1)	(1)
Cashflow from financing	(25)	(10)	(34)	(1)	(1)
Net change in cash	(29)	46	47	(58)	118
Effects of exchange rates	0	(1)	159	-	0
CCE, end	136	159	206	148	267

Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.	-	37.4	35.9	19.6	26.1
P/B (X)	0.78	0.81	0.75	0.73	0.72
Dividend Yield	0.0%	1.7%	1.7%	1.7%	1.7%

Growth & Margins

Growth					
Revenue	-10.0%	8.6%	1.0%	7.1%	4.2%
EBIT	322.6%	86.1%	22.6%	11.7%	-15.8%
Net Income, adj.	-16.5%	2.6%	3.6%	6.0%	4.7%

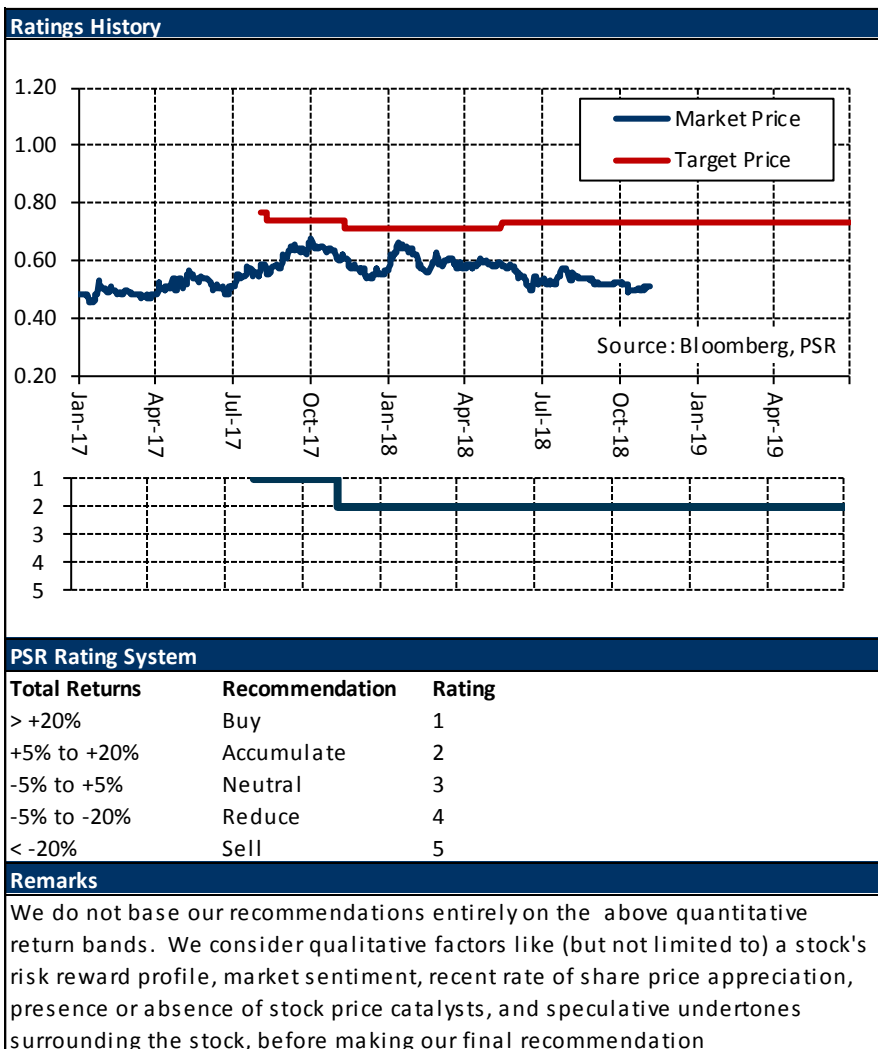
Margins

EBITDA margin	16.7%	23.5%	25.3%	25.3%	21.4%
EBIT margin	7.9%	13.4%	16.3%	17.0%	13.8%
Net Profit Margin	-2.2%	4.7%	6.3%	8.5%	6.1%

Key Ratios

ROE (%)	-2.2%	1.7%	1.9%	3.1%	2.2%
ROA (%)	-1.0%	0.8%	0.8%	1.6%	1.1%
Net cash (debt) (\$mn)	(508)	(407)	(273)	(331)	(213)
Gearing (X)	0.38	0.34	0.29	0.30	0.29

Source: Company, Phillip Securities Research (Singapore) Estimates



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