

# Banyan Tree Holdings Limited

Improved profitability across major business segments



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## SINGAPORE | REAL ESTATE (HOSPITALITY) | 1Q18 RESULTS

17 May 2018

- Revenue and earnings outperformed our forecasts due to stronger performance from Group-owned hotels.
- Better operating performance from Group-owned hotels in biggest market Thailand offset weakness in Maldives.
- Improved profitability in Fee-based segment.
- Property sales segment turned in losses even with 155% YoY increase in revenue.
- Maintain ACCUMULATE with higher target price of S\$0.73 after factoring in divestment gains.

### Results at a glance

(SGD mn)/Dec Yr End	1Q18	1Q17	YoY (%)	Comments
Revenue	98.2	90.4	8.6	
-Hotel Investments	68.3	65.4	4.5	Higher revenue from Thailand and Seychelles, partially offset by deconsolidation of China operations and weaker Maldives
-Property Sales	14.8	5.8	155.2	Handover of Cassia Phuket (Phase 2) and Cassia Bintan
-Fee-based segment	15.1	19.3	(21.6)	Lower architectural/design fees. Deconsolidation of China operations, replaced with licence fees post divestment to Vanke
Other income	17.1	0.4	-	
Total Costs and Expenses	(78.0)	(72.3)	7.9	Higher property development costs, write-off of deposit paid for land purchase
Operating Profit (EBITDA)	37.3	18.6	100.9	
EBITDA, adjusted	20.2	18.1	11.4	Net of one-off other income
Net Profit	21.5	2.8	-	
Net Profit, adjusted	4.4	2.8	55.1	

Source: Company, PSR

### The Positives

+ **Better operating performance from Group owned hotels in biggest market Thailand offset weakness in Maldives.** Strong RevPAR growth in Thailand (13%) and Seychelles (27%) more than offset weakness in Maldives. Profitability in the segment improved following the divestment and deconsolidation of the less profitable China operations. Weakness in Maldives was largely expected and within our expectations with the state of emergency in the country.

+ **Improved profitability in Fee-based segment.** Despite lower revenue, operating margins for the segment improved as a result of write-back of provision for doubtful debts and non-consolidation of China operations. Operating margins improved YoY to c.33% from 18% for the segment.

### The Negatives

- **Property sales segment turned in losses even with 155% YoY increase in revenue.** This is as a result of the write-off of deposit paid for land purchase in Thailand and higher expenses on projects where revenue recognition has not commenced.

- **Increase in head office expenses by 53% (or S\$1.4mn).** This was mainly due to higher travelling expenses and provision for founder's grant.

### Outlook

Outlook is positive as we expect the strong RevPAR growth in the Group's biggest market in Thailand to sustain given the low base effect last year. Profitability of the Group should improve with the divestment of the China operations which had lower profitability. Lower depreciation expenses as a result should also improve profitability.

### Accumulate (Maintained)

LAST CLOSE PRICE	SGD 0.59
FORECAST DIV	SGD 0.01
TARGET PRICE	SGD 0.73
<b>TOTAL RETURN</b>	<b>26.5%</b>

### COMPANY DATA

BLOOMBERG CODE:	BTH SP
O/S SHARES (MN) :	840
MARKET CAP (USD mn / SGD mn) :	366 / 492
52 - WK HI/LO (SGD) :	0.68 / 0.49
3M Average Daily T/O (mn) :	0.40

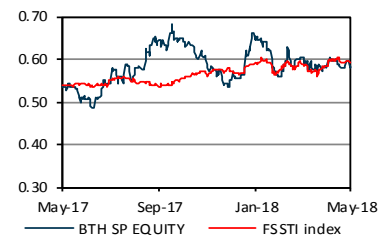
### MAJOR SHAREHOLDERS (%)

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

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	0.8	5.3	7.3
STI RETURN	2.2	4.1	12.1

### 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 (Scents)	-2.1	1.5	3.3	2.0
PER, x (adj.)	-	39	18	30
P/BV, x	0.7	0.8	0.8	0.7
ROA, %	-10%	0.8%	1.6%	10%
ROE, %	-2.2%	1.7%	3.4%	2.0%

Source: Company, PSR

### Valuation Method

SOTP

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**Maintain ACCUMULATE with higher target price of S\$0.73 (from S\$0.71).**

Our target price is raised after factoring in divestment gains. We expect earnings to be driven by sustained strength in the Group's largest market in Thailand and less challenging conditions in Maldives in 2H18. The new partnerships with Accor and Vanke offer opportunities for BTH to scale up at a much faster pace than before. 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
<b>Revenue</b>	<b>377</b>	<b>339</b>	<b>368</b>	<b>365</b>	<b>372</b>
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
<b>CFO</b>					
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>
<b>CFI</b>					
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>
<b>CFF</b>					
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

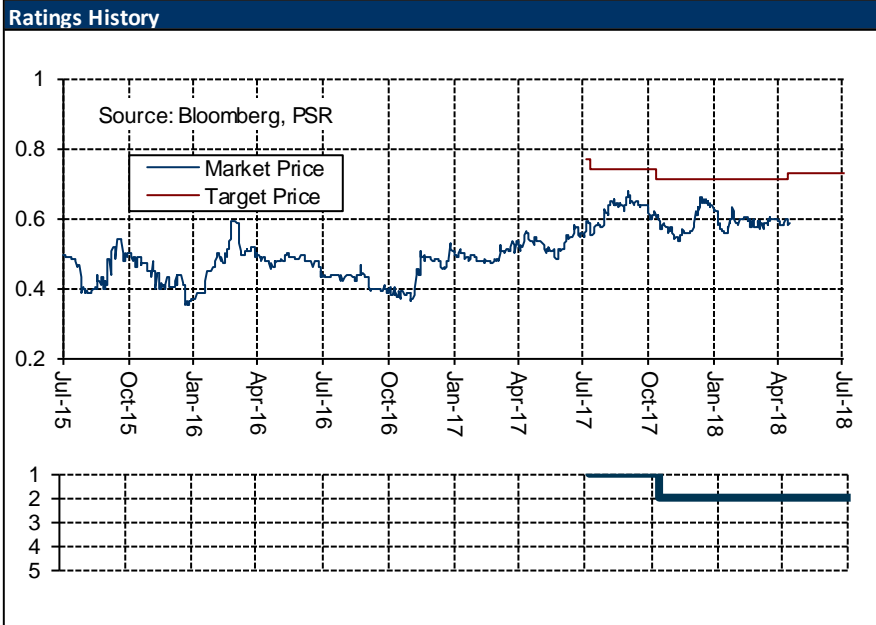
\*Forward multiples and yields are based on current market price; historical multiples and yields are based on historical market price.

### 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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