

ERW012/ACC001/2019

26<sup>th</sup> February 2019

Subject: Management Discussion and Analysis for Period Ending 31<sup>st</sup> December 2018

Attention: President, The Stock Exchange of Thailand

Dear Sir,

The Erawan Group Plc. would like to submit explanation and analysis of changes to our operations for 3-month ("4Q18") and 12-month ("2018") period ending 31<sup>st</sup> December 2018 as follows:

**Consolidated Profit & Loss Statement (period ending 31<sup>st</sup> December 2018)**

THB Millions	4Q17	4Q18	% Ch.	2017	2018	% Ch.
Hotels' Operating Income	1,524	1,637	+7%	5,773	6,022	+4%
Rental and Service Income	58	64	+9%	222	234	+5%
<b>Total Operating Income</b>	<b>1,582</b>	<b>1,701</b>	<b>+7%</b>	<b>5,995</b>	<b>6,256</b>	<b>+4%</b>
Other Income	14	16	+13%	55	52	-6%
<b>Total Income</b>	<b>1,596</b>	<b>1,717</b>	<b>+8%</b>	<b>6,050</b>	<b>6,308</b>	<b>+4%</b>
Operating Expenses	(1,090)	(1,156)	+6%	(4,207)	(4,411)	+5%
<b>EBITDA</b>	<b>506</b>	<b>561</b>	<b>+11%</b>	<b>1,844</b>	<b>1,897</b>	<b>+3%</b>
Depreciation & Amortization	(188)	(212)	+12%	(738)	(776)	+5%
<b>Operating Profit/(Loss)</b>	<b>318</b>	<b>349</b>	<b>+9%</b>	<b>1,106</b>	<b>1,121</b>	<b>+1%</b>
Finance Costs	(88)	(98)	+12%	(344)	(360)	+5%
<b>Pre-tax Profit / (Loss)</b>	<b>230</b>	<b>251</b>	<b>+9%</b>	<b>762</b>	<b>761</b>	<b>-0%</b>
Taxes	(52)	(54)	-5%	(172)	(164)	-5%
Non-Controlling Interest	(20)	(20)	-1%	(60)	(57)	-4%
<b>Normalized Net Profit / (Loss)</b>	<b>158</b>	<b>177</b>	<b>+12%</b>	<b>530</b>	<b>540</b>	<b>+2%</b>
<b>Extraordinary Items</b>						
Share of Profit/ (Loss) from ERWPF	4	3	-29%	(24)	(4)	+85%
<b>Net Profit / (Loss)</b>	<b>162</b>	<b>180</b>	<b>+12%</b>	<b>506</b>	<b>536</b>	<b>+6%</b>
E.P.S. (Baht)	0.0645	0.0717	+11%	0.2022	0.2141	+6%

## **Industry Key Highlights**

In 4Q18, Thailand tourism had rebounded from the slowdown in 3Q18, total international tourist arrivals in 4Q18 was at 9.7 million, a 5 percent growth compared to the same period last year. Malaysia, Hong Kong and India were the top 3 key source markets that posted the strongest growth in this quarter. Regarding Chinese arrivals, Thailand's top source market, which dropped due to the boat accident in July 2018 had shown recovery trend. Arrivals from Chinese back to positive figure in December 2018 after recorded the drop since July 2018. As such, Chinese arrivals in 4Q18 decreased by 10 percent from 4Q17. For 2018, the number of tourists visiting Thailand was reported at 38.3 million, increased 8 percent compared to the same period last year. In addition, the number of domestic trips recorded at 161 million in 2018, a 6 percent increase from 2017.

## **Hotel Growth Strategy**

In 4Q18, we opened midscale and economy hotels in Bangkok; Novotel and ibis Styles Sukhumvit 4, which are combo hotel that combine 2 brands in 1 building. We also opened 1 new hotel in Thailand; HOP INN Chiangmai, which is the 2<sup>nd</sup> branch in this province and 1 new hotel in Philippines, Metro Manila; HOP INN Quezon.

We continued our hotel development as set forth in our strategy. In 2018, we opened 9 hotels which comprised of 6 hotels in Thailand; (1 Midscale hotel, 1 Economy hotel, 4 HOP INN) and 3 HOP INN hotels in Philippines. As a result, we have 61 hotels with 8,485 rooms in our portfolio at the end of 2018.

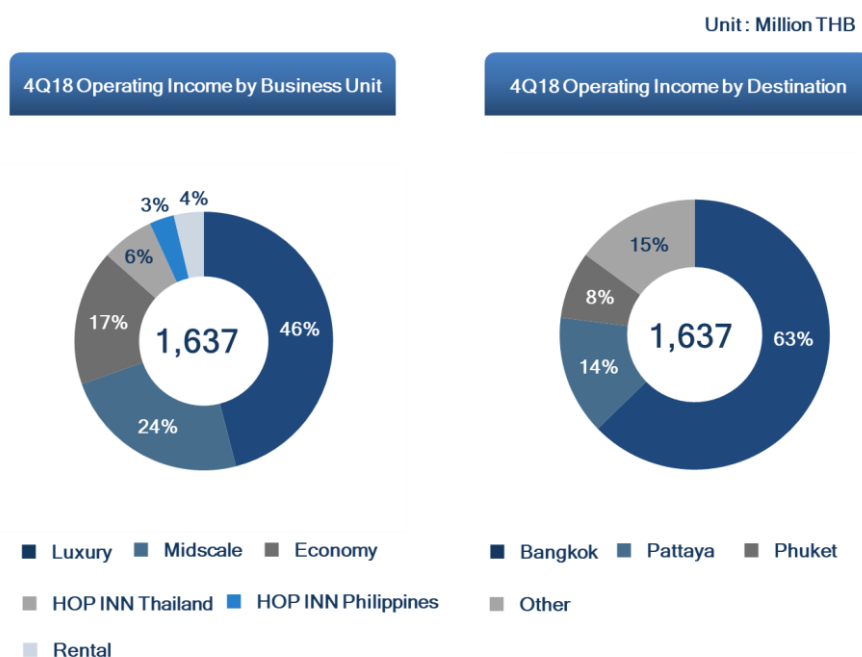
## **Return Enhancing Strategy**

JW Marriott Bangkok completed the second phase of room renovation (178 rooms or 40 percent of total room inventory) which conducted during April to September 2018. These new rooms operated in October 2018 and together with the 129 new rooms from the first phase of renovation in 2017, there are total 307 new rooms or 70 percent of total room inventory.

## **Group Performance in 4Q18**

In 4Q18 revenue from hotel operations, which is the main contributor to our group performance, increased 7 percent from 4Q17 and rental and service income grew 9 percent from the same period last year. As a result, we recorded total operating income at THB 1,701 million in 4Q18, a 7 percent increase from 4Q17. We recorded EBITDA at THB 561 million in 4Q18, an 11 percent increase from 4Q17 and posted EBITDA margin at 32.6 percent compared to 31.7 percent in 4Q17. This mainly came from the improvement of JW Marriott Bangkok hotel performance as this year room renovation occurred during 2Q18 and 3Q18 while last year occurred during 3Q17 and 4Q17. In addition, the profitability improvement of HOP INN is also contributed for growth in this quarter. In conclusion, we generated normalized net profit at THB 177 million and net profit at THB 180 million, a 12 percent increase from the same period last year.

For 2018, we recorded total operating income at THB 6,256 million, a 4 percent increase from 2017. Revenue from hotel operations grew 4 percent and rental and service income grew 5 percent from the same period last year. We generated EBITDA at THB 1,897 million, a 3 percent increase from 2017. Our normalized net profit was at THB 540 million, a 2 percent increase from 2017 and net profit at THB 536 million, a 6 percent increase from the same period last year.



## Performance by Business Unit

### 1. Hotel

In 4Q18 our average occupancy (excluding HOP INN hotels) dropped 3 percent from 4Q17 mainly from the opening of 2 new hotels; Novotel and ibis Style Sukhumvit 4 in October 2018. ARR increased 3 percent from the same period last year. As such, our RevPAR (excluding HOP INN hotels) decreased 1 percent from 4Q17 but increased 2 percent if exclude new hotels. Destination wise, hotels located in Bangkok (excluding new hotels) generated RevPAR growth at 8 percent from same period last year. On the other hand hotels located outside Bangkok still impacted from the slowdown of Chinese market, but at the lower pace compare to 3Q18. HOP INN hotels, which focus on domestic traveler, still continued to post strong performance and generated RevPAR growth both in Thailand and in the Philippines.

In 4Q18, we recorded income from hotel operations at THB 1,637 million, a 7 percent increase from 4Q17. Room revenue increased 11 percent while F&B revenue decreased 1 percent from the same period last year mainly from the drop in F&B revenue of non-Bangkok hotels as aforementioned. HOP INN hotels recorded the highest revenue growth among the group from both existing hotels and additional income from new hotels.

We generated income from hotel operations at THB 6,022 million in 2018, a 4 percent increase from 2017. Room revenue recorded at 8 percent increase from 2017 while F&B revenue was dropped 1 percent from the same period last year.

Statistics for hotel room operations for the 4Q18 and 2018 periods are as follows:

3-month period (Oct-Dec)	No. of rooms		Occupancy			ARR (THB/Night)			RevPAR (THB/Night)		
	4Q17	4Q18	4Q17	4Q18	+/-	4Q17	4Q18	+/-	4Q17	4Q18	+/-
<b>Thailand</b>											
Luxury Hotels	979	979	70%	78%	▲7%	6,094	5,789	▼5%	4,295	4,498	▲5%
Midscale Hotels	1,282	1,467	85%	81%	▼4%	2,980	2,964	▼1%	2,523	2,391	▼5%
Economy Hotels	2,253	2,386	87%	80%	▼7%	1,267	1,380	▲9%	1,096	1,104	▲1%
<b>Total Group (ex. HOP INN)</b>	<b>4,202</b>	<b>4,832</b>	<b>83%</b>	<b>80%</b>	<b>▼3%</b>	<b>2,657</b>	<b>2,737</b>	<b>▲3%</b>	<b>2,193</b>	<b>2,182</b>	<b>▼1%</b>
HOP INN Hotels	2,502	2,810	78%	75%	▼2%	557	587	▲5%	432	441	▲2%
<b>Philippines</b>											
HOP INN Hotels	312	843	71%	77%	▲7%	1,020	1,003	▼2%	720	776	▲8%

12-month period (Jan-Dec)	No. of rooms		Occupancy			ARR (THB/Night)			RevPAR (THB/Night)		
	2017	2018	2017	2018	+/-	2017	2018	+/-	2017	2018	+/-
<b>Thailand</b>											
Luxury Hotels	979	979	77%	74%	▼3%	5,685	5,836	▲3%	4,358	4,290	▼2%
Midscale Hotels	1,282	1,467	88%	85%	▼3%	2,783	2,907	▲4%	2,453	2,483	▲1%
Economy Hotels	2,253	2,386	85%	81%	▼4%	1,209	1,302	▲8%	1,029	1,056	▲3%
<b>Total Group (ex. HOP INN)</b>	<b>4,202</b>	<b>4,832</b>	<b>84%</b>	<b>81%</b>	<b>▼3%</b>	<b>2,554</b>	<b>2,672</b>	<b>▲5%</b>	<b>2,150</b>	<b>2,158</b>	-
HOP INN Hotels	2,502	2,810	75%	75%	-	543	580	▲7%	407	438	▲8%
<b>Philippines</b>											
HOP INN Hotels	312	843	76%	76%	-	929	980	▲5%	705	743	▲5%

Details of each segment are as follows:

(Note: EBITDA by segment is calculated without taking non-property-specific expenses into account)

## Thailand

### Luxury Hotels

- The Luxury segment comprised of 2 hotels in Bangkok; Grand Hyatt Erawan Bangkok and JW Marriott Bangkok, and 2 hotels in Samui and Phuket; Renaissance Koh Samui Resort and Spa and The Naka Island, a Luxury Collection Resort and Spa, Phuket.
- In 4Q18, this segment generated a 5 percent RevPAR growth from the same period last year driven by the growth in occupancy which recorded at 78 percent compared to 70 percent in 4Q17 mainly from the increasing occupancy of JW Marriott Bangkok. Luxury resort, on the contrary, still impacted from the slowdown of Chinese market.

- The Luxury segment generated income at THB 782 million in 4Q18, a 3 percent increase from 4Q17. Room revenue increased 5 percent and F&B revenue increased 1 percent from the same period last year. EBITDA recorded at THB 250 million, a 5 percent increase from 4Q17.
- For 2018, the Luxury segment generated operating income at THB 2,851 million and EBITDA at THB 804 million, a 2 percent and a 9 percent decrease from 2017 respectively.

#### Midscale Hotels

- In 4Q18, we opened 1 midscale hotels in Bangkok, Novotel Sukhumvit 4. We have 2 existing hotels in Bangkok; Courtyard by Marriott Bangkok and Mercure Bangkok Siam. At the end of 4Q18, midscale segment comprised of 3 hotels in Bangkok and 2 hotels in Pattaya; Holiday Inn Pattaya and Mercure Pattaya Ocean Resort.
- In 4Q18, occupancy in midscale segment recorded at 81 percent compared to 85 percent in 4Q17 mainly from the new hotel opening. As such, RevPAR decreased 5 percent from 4Q17. Excluding new hotel, hotels in Bangkok generated RevPAR growth at 3 percent from 4Q17 while non-Bangkok hotels still impacted from slowdown of Chinese tourist.
- In 4Q18, the Midscale segment generated operating income and EBITDA at THB 402 million and THB 161 million, a 7 percent and an 8 percent increase from 4Q17 respectively.
- For 2018, the Midscale segment generated operating income at THB 1,523 million and EBITDA at THB 597 million, a 4 percent and a 3 percent increase from the same period last year respectively.

#### Economy Hotels

- In 4Q18 we opened 1 new economy hotel in Bangkok; ibis Style Sukhumvit 4. At the end of 4Q18, the Economy segment comprised of 11 ibis hotels in 6 major tourist destinations in Thailand (Bangkok, Pattaya, Phuket, Samui, Hua Hin and Krabi).
- Occupancy in this segment recorded at 80 percent in 4Q18 compared to 87 percent in 4Q17 due to the new hotel opening and the decline in occupancy of non-Bangkok hotels as aforementioned. All hotels in this segment generate ARR growth in this quarter leading to a 9 percent growth from 4Q17. As such RevPAR increased 1 percent from 4Q17 and 6 percent if excluding new hotels on the back of the good performance of Bangkok hotels.
- The Economy segment recorded operating income at THB 289 million, a 3 percent increase from 4Q17 and EBITDA at THB 108 million, in line with same period last year.
- For 2018, the Economy segment generated operating income at THB 1,074 million, 2 percent increase from 2017, while EBITDA recorded at THB 369 million, a 4 percent decrease from 2017.

### HOP INN Hotels

- In 4Q18, we opened new HOP INN hotel at Chiangmai, which is the 2<sup>nd</sup> branch in this province. We now have 36 hotels in this segment which cover Thailand's major tourist and business destinations.
- In 4Q18, occupancy in this segment recorded at 75 percent compare to 78 percent in 4Q17 while ARR increased 5 percent from 4Q17. This driving from our strategy to focus on ARR growth and led to a 2 percent RevPAR growth from 4Q17.
- HOP INN segment generated operating income at THB 112 million in 4Q18, a 25 percent increase from the same period last year. Growth was driven by both existing 32 hotels, an 11 percent increase from 4Q17 and additional income from 4 new hotels opened. EBITDA recorded at THB 57 million, representing a 37 percent increase from the same period last year.
- For 2018, HOP INN recorded operating income at THB 422 million and EBITDA at THB 204 million, a 44 percent and a 69 percent increase from the same period last year respectively.

### **Philippines**

#### HOP INN Hotels

- In 4Q18, we opened new HOP INN hotel with 167 rooms in Quezon, Manila. We now have 5 hotels in Manila city, Philippines.
- In 4Q18, occupancy in this segment recorded at 77 percent compare to 71 percent from 4Q17 while ARR decreased 2 percent as result of Philippines Peso depreciate against Thai baht. In 4Q18, RevPAR growth 8 percent from the same period last year and would recorded a 19 percent growth if calculated in Peso.
- HOP INN in Philippines generated operating income and EBITDA at THB 53 million and THB 20 million for 4Q18 and THB 152 million and THB 53 million for 2018 respectively.

### **2. Rental Properties**

We own and operate Erawan Bangkok, a luxury retail property adjacent to Grand Hyatt Erawan Hotel, and manage Ploenchit Center as a property manager. Income from rental and service increased 9 percent to record at THB 64 million in 4Q18.

For 2018, income from rental and service increased 5 percent from 2017 to record at THB 234 million.

## Other Items in P&L

- **Depreciation & Amortization:** This non-cash item recorded at THB 212 million in 4Q18 increased THB 24 million from 4Q17 and recorded at THB 776 million in 2018, a THB 38 million increase from 2017. This mainly came from additional depreciation of new hotels opened.
- **Finance Costs:** We recorded finance costs at THB 98 million in this quarter, a THB 10 million increase from 4Q17 and recorded at THB 360 million in 2018, increased THB 16 million from 2017. This mainly came from the recognition of interest expense of new hotels opened.
- **Extraordinary Items:**
  - **Investment in ERWPF:** We recorded share of profit from 20 percent investment in ERWPF at THB 3 million in 4Q18 while we recorded share of loss at THB 4 million in 2018 due to the revaluation of asset in 1Q18.

## Financial Status

Financial Ratio (times)	FY 2017	FY2018
Interest Coverage Ratio	5.0	5.0
Interest Bearing Debt to Equity	1.7	1.7

We generated THB 1,907 million of operating cash flow before change in operating asset and liabilities, representing a 2 percent increase from the same period last year. We utilized cash flow generated, together with bank loans to fund the development of new hotels. Cash on hand was recorded at THB 1,051 million at the end of this quarter. Interest coverage ratio recorded at 5.0 times, in line with 2017.

At the end of 2018, we recorded total assets at THB 16,949 million compared to THB 16,048 million at the end of 2017 due to the increase in property, plant and equipment from the expansion of new hotels. Our total liabilities recorded at THB 11,240 million increased from THB 10,645 million at the end of 2017 due to the increasing of long-term loan to support hotel expansion. Shareholder's equity recorded at THB 5,709 million at the end of 4Q18 increased from THB 5,403 million at the end of 2017. Our interest bearing debt-to-equity ratio recorded at 1.7 times, in line with the end of 2017.

## Outlook for 2019

Ministry of Tourism and Sports forecast that the number of international tourist arrivals to Thailand in 2019 will be approximately 41.1 million, a 7.5 percent growth from 2018. In 2019, growth drivers for Thailand's tourism will come from the stimulation package by government with the strategy to focuses on creating effective tourism in Thailand such as creating confidence in safety and increasing number of first time visitor in order to expand number of total tourist arrivals. While risk factors for Thailand

tourism industry are competition in tourism among country and global economic slowdown. Meanwhile, domestic tourism in Thailand is also expected the continuous growth at 3 percent from 2018 with the number of tourists visiting Thailand at 166 million.

We continue expanding our hotel portfolio as set forth in our 5 years' strategic plan (2016-2020) which we will enter into the fourth year of this strategic plan in 2019. We plan to add 9 new hotels in Thailand; 7 hotels will be operated under "HOP INN" brands and 2 hotels in Bangkok; Mercure and ibis Sukhumvit 24. By the end of 2019, we target to own 70 hotels with 9,559 rooms in our portfolio. For our return enhancing strategy, JW Marriott Bangkok will undergo the final phase of room renovation and F&B outlets renovation during 2Q and 3Q in 2019. In addition we will conduct soft renovation for 3 ibis hotels; Sathorn, Patong and Samui during low season in 2019 to 2020 and will add more 10 deluxe rooms to The Naka Island, a Luxury Collection Resort and Spa, Phuket to expand new target customer and increase competitive advantage and will be opened by the end of 2019.

We project our revenue from hotel operation to generate a 10-15 percent growth from 2018. Growth will be driven by existing hotels and the ramp up of new hotels opening in 2018 and 2019. We expect occupancy for total group at the level of 80 percent and RevPAR (ex. HOP INN) growth at 3-5 percent from 2018. This will be supported by the continuing growth of Thailand tourism and the larger hotel portfolio as per our growth strategy. With the outlined strategy, our portfolio has increased steadily and covered all key segments in Thailand and expanded to the Philippines. We also focus on improving our business in all aspects as the fundamental to support our long term growth alongside with delivering sustainable value to our stakeholders. If there is any change in the forecast and guidance of our performance due to the change of situation, we will inform accordingly.

Sincerely yours

Kanyarat Krisnathevin  
Executive Vice President and Chief Financial Officer