

Management's Discussion and Analysis for the performance of the nine months ended of the year 2019

Business Overview

In the nine months ended of the year 2019, S Hotels and Resorts Public Company Limited ("the Company") had total revenue of THB 2,639.7 million, increased 65.9% from the nine months period of 2018 as a result of commercially available for two hotels as part of the Project Crossroads Phase 1 which commenced the operation on September 1, 2019.

Significant Developments

On September 1, 2019, two hotels as part of the Project Crossroads Phase 1 in the Emboodhoo Lagoon in the Republic of Maldives including; SAii Lagoon Maldives Curio Collection by Hilton (198 keys), and Hard Rock Hotel Maldives (178 keys) commenced its operation.

On November 8, 2019, the Company received payment for additional ordinary shares for the amount of 1,437,456,000 shares offered for initially offering to the public. Such ordinary shares have a par value of THB 5 per share, which was offered at the price of THB 5.20 per share, totaling the net offering of THB 7,351.6 million (after deduction of related fees and expenses). In addition, the Company had repaid loans from the related parties, which was utilized in the acquisition of the Outrigger Hotels in 2018 and other projects amounting of THB 5,357.8 million. For the nine months September 30, 2019, financial costs for loans from related parties was THB 151.7 million. The capital increase from Initial Public Offering would result in the marked decrease in Debt-to-Equity ratio and financial costs going forward.

Discussion of results of operations

	Consolidated financial statements				
	9 Months 2018		9 Months 2019		% Change
	THB million	%	THB million	%	
Revenue from services	1,590.7	100.0%	2,639.7	100.0%	66.0%
Costs of services	(920.2)	(57.9%)	(1,682.4)	(63.7%)	82.8%
Gross profit	670.4	42.1%	957.3	36.3%	42.8%
Selling expenses	(148.5)	(9.3%)	(245.0)	(9.3%)	65.0%
Administrative expenses	(311.6)	(19.6%)	(799.4)	(30.3%)	156.6%
Other income	452.4	28.4%	147.5	5.6%	(67.4%)
Share of profit (loss) from investment in an associate and joint ventures	73.9	4.6%	(1.6)	(0.1%)	(102.1%)
Finance costs (Interest expenses)	(181.3)	(11.4%)	(314.7)	(11.9%)	73.5%
<i>Finance costs - Loans for projects</i>	<i>(113.8)</i>	<i>(7.2%)</i>	<i>(163.0)</i>	<i>(6.2%)</i>	<i>43.3%</i>
<i>Finance costs - Loans from related parties</i>	<i>(67.5)</i>	<i>(4.2%)</i>	<i>(151.7)¹</i>	<i>(5.7%)</i>	<i>124.7%</i>
Profit (loss) before income taxes	555.3	34.9%	(255.9)	(9.7%)	(146.1%)
Income tax expenses	(90.9)	(5.7%)	(44.0)	(1.7%)	(51.6%)
Profit (loss) of the year	464.4	29.2%	(299.9)	(11.4%)	(164.6%)
<u>Adjusted items</u>					
Net unrealized loss on exchange rate	-	-	29.0	1.1%	-
Non-recurring items ²	235.5	14.8%	(261.8)	(9.9%)	(211.2)
Adjusted EBITDA³	715.8	45.0%	782.9	29.7%	9.4%
Adjusted Net Profit of the year after⁴	228.9	14.4%	(9.1)	(0.3%)	(104.0%)

¹ On 8 November 2019, the Company repaid a related party loan utilized in the acquisition of Outrigger Hotels in 2018 and other projects during the past year

² Non-recurring items is defined as realized gains on exchange rate, expenses relating to the Combined Offering, pre-operation expenses for Project Crossroads Phase One comprise expenses incurred in preparing for the opening of Project Crossroads Phase One that was not recorded as capital expenditure, expenses relating to employee benefits from implementation of the amended Thai Labor Protection Act

³ Adjusted EBITDA is calculated from Profit (loss) before income taxes, plus Finance costs, plus Depreciation and Amortization, deduct gain from exchange rate, and deduct Interest income from Loan to JVs and adjusted by unrealized loss from exchange rates and non-recurring items

⁴ Adjusted Profit (loss) is calculated from Profit (loss) of the year and deduct unrealized loss from exchange rates and non-recurring items

Overview

The Company is a holding company engaging in the management of hotels and investments in international hotel companies. Over the past three fiscal years, the Company's consolidated total assets has grown at an average rate of 102.2% per year. The Company has a unique portfolio of hotels in desirable global holiday destinations, as follows

- (1) Two self-manage hotels in Thailand, operate under independent branding, namely, Phi Phi Island Village Beach Resort located on Beachfront of Phi Phi Don Island in Krabi and Santiburi Hotel located on Beachfront of Koh Samui in Surat Thani "**Self-Managed Hotels**";
- (2) Six hotels operate under the Outrigger brand and manage under hotel management agreements, which consists of two hotels in Thailand, two hotels in the Republic of Fiji Islands, one hotel in the Republic of Maldives and one hotel in Mauritius "**Outrigger Hotels**";
- (3) Two upper upscale successfully developed hotels, as part of Project Crossroads Phase 1 in the Emboodhoo lagoon in the Republic of Maldives, consists of two islands undergoing development, (i) SAii Lagoon Maldives, Curio Collection by Hilton and (ii) Hard Rock Hotel Maldives "**Project Crossroads Phase 1 Hotels** "; and
- (4) 29 upper midscale hotels operated under the Mercure and Holiday Inn brands in the United Kingdom, of which the Company holds 50% in an equal joint venture "**UK Portfolio Hotels**".

Results for the UK Portfolio, operating under a joint venture, are not consolidated within the Company's hospitality business, and are instead accounted for using the equity method, pursuant to which the Company receives a share of profit or loss from the investment in the joint ventures.

As of September 30, 2019, the Self-Managed Hotels, Outrigger Hotels, UK Portfolio Hotels and Project Crossroads Phase 1 are comprised with the total of 39 hotels and 4,647 rooms,

Revenue from services

(Unit: THB Million)	2017				2018				9 Months		9 Months	
	2017	%	2018	%	2018	%	2019	%				
Self-Managed Hotels	1,074.0	100.0%	1,099.0	42.6%	835.4	52.5%	759.3	28.8%				
Outrigger Hotels	-	-	1,476.7	57.4%	755.3	47.5%	1,797.2	68.1%				
Project Crossroads Phase 1 Hotels	-	-	-	-	-	-	83.2	3.1%				
Total revenue from services	1,074.0	100.0%	2,575.7	100.0%	1,590.7	100.0%	2,639.7	100.0%				

Room revenue

The room revenue increased by 66.2% from the nine months ended September 30, 2018 to THB 1,588.6 million for the nine months ended September 30, 2019, primarily as a result of realization of the revenue from Outrigger Hotels which was acquired on June 12, 2018 and from the commercial opening of two hotels in Project Crossroads Phase 1.

Key indicators in respect of the Self-Managed Hotels are set out as follows

Indicators	2017	2018	9 Months 2018	9 Months 2019
No. of Hotels ⁽¹⁾	2	2	2	2
No. of Keys ⁽²⁾	278	291	289	297
Average Occupancy Rate (%) ⁽²⁾	80.9	76.1	77.7	72.7
ADR (THB)	8,074	8,415	8,530	7,915
RevPAR (THB)	6,532	6,401	6,624	5,751

Note

- (1) As at the end of the respective periods
- (2) Based on the weighted average number of keys for the year. In particular, the Company added 19 newly built pool villas to Santiburi Koh Samui in May 2018, thereby increasing the number of keys in Santiburi Koh Samui from 77 keys to 96 keys

In relation to the Self-Managed Hotels, the RevPAR, Average Occupancy Rate, and ADR for the nine months ended September 30, 2019 was THB 5,751, 72.7%, and THB 7,915, respectively.

Key indicators in respect of the Outrigger Hotels are set out as follows

Indicators	2017	2018	9 Months 2018	9 Months 2019
No. of Hotels	6	6	6	6
No. of Keys	859	859	859	859
Average Occupancy Rate (%)	79.0	78.5	77.4	77.1
ADR (THB)	5,887	6,287	5,942	6,002
RevPAR (THB)	4,652	4,935	4,600	4,625

Note

- (1) The Company acquired the Outrigger Hotels on June 12, 2018

In relation to the Outrigger Hotels, the RevPAR, Average Occupancy Rate, and ADR for the nine months ended September 30, 2019 was THB 4,625, 77.1%, and THB 6,002, respectively.

Key indicators in respect of the UK Portfolio Hotels are set out as follows

Indicators	2017	2018	9 Months 2018	9 Months 2019
No. of Hotels ⁽¹⁾	29	29	29	29
No. of Keys ⁽¹⁾	3,112	3,115	3,115	3,115
Average Occupancy Rate (%)	71.6	71.5	72.4	69.6
ADR (GBP)	67	67	68	68
RevPAR (GBP)	48	48	49	48

Note

(1) As at the end of the respective periods

In relation to the UK Portfolio, the RevPAR, Average Occupancy Rate, and ADR for the nine months ended September 30, 2019 was GBP 48 , 69.6%, and GBP 68, respectively.

Food and beverage revenue

The food and beverage revenue increased by 70.6% from the nine months ended September 30, 2018 to THB 796.7 million for the nine months ended September 30, 2019, primarily as a result of realization of the revenue from Outrigger Hotels and from the commercial opening of two hotels in Project Crossroads Phase 1.

Other revenue

The other revenue increased by 51.4% from the nine months ended September 30, 2018 to THB 254.4 million for the nine months ended September 30, 2019, primarily as a result of realization of the revenue from Outrigger Hotels and from the commercial opening of two hotels in Project Crossroads Phase 1.

Costs of services

The costs of services increased by 82.8% from the nine months ended September 30, 2018 to THB 1,682.4 million for the nine months ended September 30, 2019. The increase in costs of services was largely consistent with the increase in revenues from the acquisition of the Outrigger Hotel in June 2018 and from the opening Project Crossroads Phase 1 Hotels. The Cost of services for the Project Crossroads Phase 1 consists of costs relating to hotel rooms, food and beverage costs and depreciation.

Gross profit

Gross profit increased by 42.8% from the nine months ended September 30, 2018 to THB 957.3 million for the nine months ended September 30, 2019, which is consistent with the increase in the revenue from services.

Selling expenses

The selling expenses was THB 245.0 million for the nine months September 30, 2019, which increased 65.0% compared to the period of the nine months September 30, 2018. The increase was primarily attributable to selling expenses incurred in relation to the Outrigger Hotels and the Project Crossroads Phase 1.

Administrative expenses

The administrative expenses was THB 799.4 million for the nine months ended September 30, 2019, which increased 156.5% compare to the period of the nine months September 30, 2018. The increase of administrative expenses was primarily attributable to administrative expenses incurred in relation to the Outrigger Hotels and the employee expenses, administrative expenses in relation to Project Crossroads Phase 1. In addition, there are non-recurring items that consist of expenses related to the Company's securities offering, and expenses for Pre-operation of Project Crossroads Phase 1 and costs related to employee benefits in according to the amended Labor Protection Act, in total amounted to THB 264 million.

Financial Costs (interest expenses)

The financial costs was THB 314.7 million for the nine months ended September 30, 2019, which increased 156.5% compared to the period of the nine months September 30, 2018. In this regard, financial costs are divided into two types, namely financial costs for project loans of THB 163.0 million and financial costs for loans from related parties of THB 151.7 million which was repaid on November 8, 2019.

Other income

The other income was THB 147.5 million for the nine months ended September 30, 2019, consisting of interest income from loans to joint ventures amounted to THB 84.4 million, other income and Project Crossroads management fee amounted to THB 63.1 million.

The other income was THB 452.4 million for the nine months ended September 30, 2018, consisting of interest income from loans to joint ventures amounted to THB 89.8 million, other income and realized gains in exchange rate amounted to THB 362.6 million.

Share of profit (loss) from an associate and joint ventures

The share of profit from an associate and joint ventures was THB (1.6) million, which decreased 75.5% compared to the period of the nine months September 30, 2018. The decrease was primarily due to the share of loss from joint ventures that invested in UK portfolio.

Adjusted EBITDA

Adjusted EBITDA increased 9.4% from the nine months ended September 30, 2018 to THB 782.9 million for the nine months ended September 30, 2019, primarily due to the acquisition of the Outrigger Hotels in June 12, 2018 and from the commercial opening of two hotels in Project Crossroads Phase 1.

Profit (loss) for the period

For the nine months ended September 30, 2019, the Company had a loss of THB 299.9 million due to the one-off item of expenses. The adjusted profit (loss) for the period equal to THB (9.1) million.

Analysis of Financial Position and Investment Structure

The total assets as of September 30, 2019 was THB 26,903.4 million increased from THB 2,513.8 million as of December 31, 2018, which consists of THB 84.8 million of total current assets and THB 2,429.0 million of total non-current asset. The total liabilities was THB 16,046.9 million, which consists of interest bearing debt in amount of THB 12,900.3 million. In 2019, the Company withdrew additional loans from financial institutions for the development of the Project Crossroads Phase 1, resulting in the ratio of net interest-bearing liabilities to shareholders increased from 0.8 times to 1.2 times.

On November 8, 2019, the Company received payment from the capital increase totaling THB 7,474.7 million, which was used to repay loans for the acquisition of the Outrigger Hotels for 5,357.8 million from the related parties. The Company expects that the ratio of interest-bearing debt to shareholders will be reduced significantly.

	December 31, 2018	September 30, 2019
	(THB million)	(THB million)
Cash and cash equivalents	1,892.9	1,636.6
Total current assets	2,961.9	3,046.7
Property, plant and equipments, net	16,321.5	19,183.8
Total non-current assets	21,427.7	23,856.7
Total assets	24,389.7	26,903.4
Total interest bearing debt	10,030.2	12,900.3
Loan from related parties	5,295.8	5,357.8 ⁵
Loan from financial institutions	4,734.4	7,542.5
Other liabilities	2,375.7	3,146.6
Total liabilities	12,405.9	16,046.9
Total equity	11,983.7	10,856.5⁵
Interest-bearing debt to shareholders (time)	0.8	1.2

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⁵ On November 8, 2019, the Company received payment from the capital increase totaling THB 7,474.7 million which was used to repay loans for the acquisition of the Outrigger Hotels for THB 5,357.8 million from the related parties