

ERW039/ACC003/2019

14<sup>th</sup> May 2019

**Subject: Management Discussion and Analysis for Period Ending 31<sup>st</sup> March 2019**

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 ("1Q19") ending 31<sup>st</sup> March 2019 as follows:

**Consolidated Profit & Loss Statement (period ending 31<sup>st</sup> March 2019)**

<b>THB Millions</b>	<b>1Q18</b>	<b>1Q19</b>	<b>% Ch.</b>
Hotels' Operating Income	1,719	1,702	-1%
Rental and Service Income	57	56	-3%
<b>Total Operating Income</b>	<b>1,776</b>	<b>1,758</b>	<b>-1%</b>
Other Income	10	17	+75%
<b>Total Income</b>	<b>1,786</b>	<b>1,775</b>	<b>-1%</b>
Operating Expenses	(1,128)	(1,163)	+3%
<b>EBITDA</b>	<b>658</b>	<b>612</b>	<b>-7%</b>
Depreciation & Amortization	(183)	(206)	+12%
<b>Operating Profit/(Loss)</b>	<b>475</b>	<b>406</b>	<b>-14%</b>
Finance Costs	(84)	(96)	+14%
<b>Pre-tax Profit / (Loss)</b>	<b>391</b>	<b>310</b>	<b>-21%</b>
Taxes	(71)	(61)	-14%
Non-Controlling Interest	(20)	(17)	-11%
<b>Normalized Net Profit / (Loss)</b>	<b>300</b>	<b>232</b>	<b>-23%</b>
<b>Extraordinary Items</b>			
Share of Profit/ (Loss) from ERWPF	(14)	3	+123%
<b>Net Profit / (Loss)</b>	<b>286</b>	<b>235</b>	<b>-18%</b>
E.P.S. (Baht)	0.1141	0.0935	-18%

## **Industry Key Highlights**

Total international tourist arrivals in 1Q19 was at 10.8 million, a 1 percent growth compared to 1Q18, which was the quarter that recorded the highest growth of tourist arrivals (+15%). Chinese arrivals, Thailand's top source market, dropped 2 percent from same period last year due to the continued impact from boat accident in July 2018 and China's economic slowdown from trade war between China and USA. However, Chinese arrivals in 1Q19 had shown recovery trend from 4Q18 which number of Chinese tourists decreased by 10 percent from same period last year. Moreover, European arrivals, another Thailand's top source market, dropped 3 percent from 1Q18 due to Thai Baht appreciation and Thailand election. India, Japan and Malaysia were the top 3 key source markets that posted the strongest growth in this quarter.

## **Hotel Growth Strategy**

We continue expanding our hotel portfolio as set forth in our 5 years' strategic plan (2016-2020) which we enter into the fourth year of this strategic plan this year. 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. All 9 new hotels will be opened in 2H19 leading to 9,559 rooms in our portfolio by the end of 2019.

## **Return Enhancing Strategy**

JW Marriott Bangkok will undergo the final phase of room renovation for 133 rooms and F&B outlets renovation which will occur 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.

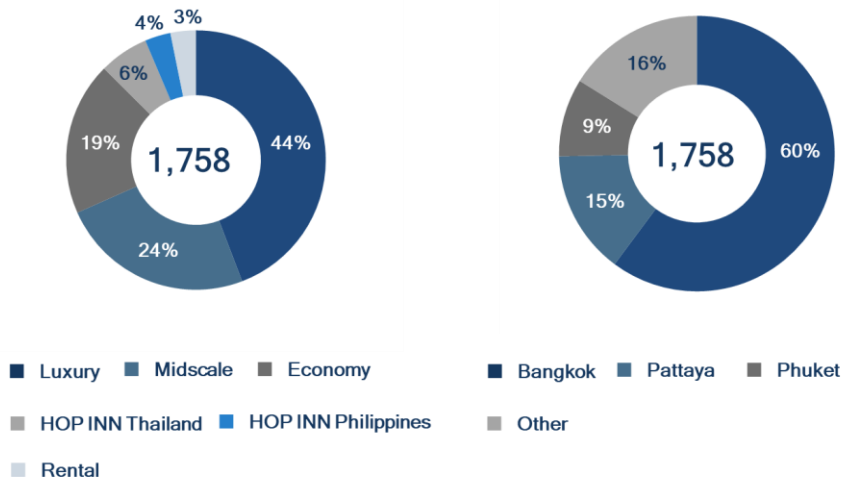
## **Group Performance in 1Q19**

In 1Q19, we recorded total operating income at THB 1,758 million, a 1 percent drop from 1Q18. Revenue from hotel operations decreased 1 percent from 1Q18 and rental and service income decreased 3 percent from the same period last year. As a result, we recorded EBITDA at THB 612 million in 1Q19, a 7 percent decrease from 1Q18 and posted EBITDA margin at 34.5 percent compared to 36.9 percent in 1Q18. In conclusion, we generated normalized net profit at THB 232 million and net profit at THB 235 million, an 18 percent decrease from the same period last year but grew 31 percent from 4Q18. If we exclude net profit result of 1Q18, net profit in 1Q19 is the historical highest quarterly net profit.

Unit : Million THB

1Q19 Operating Income by Business Unit

1Q19 Operating Income by Destination



## Performance by Business Unit

### 1. Hotel

In 1Q19 our RevPAR (excluding HOP INN hotels) dropped 9 percent from 1Q18 as a result from the decreasing of occupancy rate at 3 percent and ARR at 6 percent from the same period last year. The main reason of the decreasing came from the slowdown in Thailand tourism industry as aforementioned and the opening of 2 new hotels in 4Q18. Destination wise, RevPAR of our Bangkok hotels (excluding new hotels) dropped 3 percent from same period last year as a result of the decrease in ARR of Midscale and Economy hotels in Bangkok while occupancy rate of Bangkok hotels posted at 90 percent, in line with 1Q18. On the other hand, non-Bangkok hotels witnessed the RevPAR decreased more than Bangkok hotels, mainly from the continued impact since last quarter from the slowdown of Chinese and European market. HOP INN hotels in Philippines still continued to post strong performance and generated highest RevPAR growth.

In 1Q19, we recorded income from hotel operations at THB 1,702 million, a 1 percent decrease from 1Q18. Room revenue increased 1 percent from the same period last year, room revenue from Thailand's operation decreased 2 percent as a result of the slowdown in Thailand tourism industry. In addition, the slowdown of MICE market from the election in Thailand was also another factor to impact revenue. F&B revenue decreased 6 percent from the same period last year mainly from the drop in room revenue of non-Bangkok hotels as aforementioned. HOP INN hotels in Philippines recorded the highest revenue growth among the group from both existing hotels and additional income from new hotels.

Statistics for hotel room operations for the 1Q19 are as follows:

3-month period (Jan-Mar)	No. of rooms		Occupancy			ARR (THB/Night)			RevPAR (THB/Night)		
	1Q18	1Q19	1Q18	1Q19	+/-	1Q18	1Q19	+/-	1Q18	1Q19	+/-
<b>Thailand</b>											
Luxury Hotels	979	979	85%	83%	▼2%	6,325	5,978	▼5%	5,361	4,965	▼7%
Midscale Hotels	1,282	1,467	92%	88%	▼3%	3,146	2,945	▼6%	2,881	2,595	▼10%
Economy Hotels	2,253	2,386	91%	87%	▼4%	1,538	1,496	▼3%	1,393	1,296	▼7%
<b>Total Group (ex. HOP INN)</b>	<b>4,514</b>	<b>4,832</b>	<b>90%</b>	<b>86%</b>	<b>▼3%</b>	<b>2,987</b>	<b>2,818</b>	<b>▼6%</b>	<b>2,676</b>	<b>2,434</b>	<b>▼9%</b>
HOP INN Hotels	2,573	2,810	78%	73%	▼5%	574	600	▲4%	447	439	▼2%
<b>Philippines</b>											
HOP INN Hotels	312	843	75%	75%	-	960	996	▲4%	718	745	▲4%

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 1Q19, RevPAR in this segment dropped 7 percent from the same period last year, mainly from the decreasing of RevPAR in Luxury resort as a result of Pabuk storm in January this year and the slowdown of Chinese and European market.
- The Luxury segment generated income at THB 777 million in 1Q19, an 8 percent decrease from 1Q18. Room revenue decreased 7 percent and F&B revenue decreased 8 percent from the same period last year. EBITDA recorded at THB 253 million, a 16 percent decrease from 1Q18.

### Midscale Hotels

- Midscale segment comprised of 3 hotels in Bangkok; Courtyard by Marriott Bangkok, Mercure Bangkok Siam and Novotel Sukhumvit 4 and 2 hotels in Pattaya; Holiday Inn Pattaya and Mercure Pattaya Ocean Resort.
- In 1Q19, RevPAR of midscale segment decreased 10 percent from same period last year. Midscale hotels in Bangkok was impact from the slowdown of USA & Europe market and impact of new opening hotel in 4Q18 which ARR was below the average segment's ARR. In addition, non-Bangkok hotels were impacted from the slowdown of Chinese & India markets.

- In 1Q19, the Midscale segment generated operating income at THB 424 million, a 2 percent increase from 1Q18. EBITDA recorded at THB 172 million, a 5 percent decrease from 1Q18 respectively.

#### Economy Hotels

- Economy segment comprised of 11 ibis hotels in 6 major tourist destinations in Thailand; Bangkok, Pattaya, Phuket, Samui, Hua Hin and Krabi. All 11 hotels comprised of 5 hotels in Bangkok and 6 hotels in non-Bangkok.
- In 1Q19, RevPAR in this segment dropped 7 percent from 1Q18 due to the decline in occupancy of non-Bangkok hotels from the slowdown of Chinese and Russian market as aforementioned.
- The Economy segment recorded operating income at THB 336 million and EBITDA at THB 149 million, a 1 percent drop from same period last year.

#### HOP INN Hotels

- We now have 36 hotels in this segment, which cover Thailand's major tourist and business destinations.
- In 1Q19, occupancy in this segment recorded at 73 percent compare to 78 percent in 1Q18 while ARR increased 4 percent from 1Q18 leading to a 2 percent drop in RevPAR from 1Q18. This mainly came from our strategy to focus on ARR growth and air pollution in northern of Thailand.
- HOP INN segment generated operating income at THB 108 million in 1Q19, an 8 percent increase from the same period last year and EBITDA recorded at THB 48 million, a 1 percent increase from the same period last year. The main reason for EBITDA growth lower than revenue growth was the increasing of operating expense to improve HOP INN system.

### **Philippines**

#### HOP INN Hotels

- We now have 5 hotels in Manila city, Philippines; Ermita, Makati, Aseana, Alabang, Tomas Morato (Quezon city).
- In 1Q19, this segment recorded occupancy at 75 percent in line with 1Q18 although additional 531 rooms from new opening hotel in 2018 have been adding to the portfolio. ARR increased 4 percent from 1Q18, led to RevPAR increased 4 percent from same period last year. Organic hotels generated RevPAR growth at 13 percent from 1Q18 as result of our strategy to increase room rate.
- HOP INN in Philippines generated operating income and EBITDA at THB 57 million and THB 23 million for 1Q19 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 decreased 3 percent to record at THB 56 million in 1Q19, mainly from the decrease of average rental rate compare to the same period last year.

### Other Items in P&L

- **Depreciation & Amortization:** This non-cash item recorded at THB 206 million in 1Q19 increased THB 23 million from 1Q18. This mainly came from additional depreciation of new hotels opened.
- **Finance Costs:** We recorded finance costs at THB 96 million in this quarter, a THB 12 million increase from 1Q18. 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 1Q19 while we recorded share of loss at THB 14 million in 1Q18.

### Financial Status

Financial Ratio (times)	FY 2018	1Q19
Interest Coverage Ratio	5.0	4.7
Interest Bearing Debt to Equity	1.7	1.7

We generated THB 614 million of operating cash flow before change in operating asset and liabilities, representing a 7 percent decrease 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 1,392 million at the end of this quarter. Interest coverage ratio recorded at 4.6 times, lower than the end of year 2018 due to the decreasing of operating cash flow.

At the end of 1Q19, we recorded total assets at THB 17,451 million compared to THB 16,949 million at the end of 2018 due to the increase in property, plant and equipment from the expansion of new hotels. Our total liabilities recorded at THB 11,492 million increased from THB 11,240 million at the end of 2018 due to the increasing of long-term loan to support hotel expansion. Shareholder's equity recorded at THB 5,959 million at the end of 1Q19 increased from THB 5,708 million at the end of 2018. Our interest bearing debt-to-equity ratio recorded at 1.7 times, in line with the end of 2018.

## Outlook for 2019

Ministry of Tourism and Sports maintain the outlook of number of international tourist arrivals to Thailand in 2019 will be approximately 41.1 million, a 7.5 percent growth from 2018. In 1H19, Thailand tourist arrival is expected to grow slightly because Chinese arrival to Thailand is still impacted from boat sink accident since last year and economic slowdown from trade war between China and USA. However, Thai government launch the stimulation package which is positive factor for tourism industry by approved the extension of visa-on-arrival fee waiver for another 6 months to citizens of 20 countries, including Chinese and Indian, Thailand's top sources. The extension period moves from the end of April to the end of October. For domestic tourism, Thai government issue tax exemption package for domestic travelling for both main and secondary provinces. In addition, 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.

For the first quarter of 2019, although occupancy rate dropped from same period last year, we still achieved occupancy rate more than 80 percent. For hotels in Bangkok, occupancy rate was in line with same period last year, although there were 2 new hotels opened in the 4Q18. This reflects the strength of the tourism industry in Bangkok, which witnessed the faster recovery pace than non-Bangkok hotels. Top 5 source markets to our room revenue in this quarter were Thai, Chinese, American, Russian and Singapore while Thai market has shown the highest growth from the same period last year.

We project our revenue from hotel operation to generate a 7-10 percent growth from 2018. Growth will be driven by existing hotels and the ramp up of new hotels opening in 2018 and 2019. JW Marriott Bangkok will fully complete renovation this year and ibis soft renovation is expected to have minimal impact to the performance. 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