

ERW070/ACC004/2019

14<sup>th</sup> August 2019

Subject: Management Discussion and Analysis for Period Ending 30<sup>th</sup> June 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 ("2Q19") and 6-month ("1H19") period ending 30<sup>th</sup> June 2019 as follows:

**Consolidated Profit & Loss Statement (period ending 30<sup>th</sup> June 2019)**

THB Millions	2Q18	2Q19	% Ch.	1H18	1H19	% Ch.
Hotels' Operating Income	1,293	1,340	+4%	3,012	3,042	+1%
Rental and Service Income	56	56	-	114	112	-2%
<b>Total Operating Income</b>	<b>1,349</b>	<b>1,396</b>	<b>+3%</b>	<b>3,126</b>	<b>3,154</b>	<b>+1%</b>
Other Income	13	18	+37%	23	35	+53%
<b>Total Income</b>	<b>1,362</b>	<b>1,414</b>	<b>+4%</b>	<b>3,149</b>	<b>3,189</b>	<b>+1%</b>
Operating Expenses	(1,037)	(1,084)	+5%	(2,165)	(2,247)	+4%
<b>EBITDA</b>	<b>325</b>	<b>330</b>	<b>+1%</b>	<b>984</b>	<b>942</b>	<b>-4%</b>
Depreciation & Amortization	(188)	(207)	+10%	(371)	(413)	+11%
<b>Operating Profit/(Loss)</b>	<b>137</b>	<b>123</b>	<b>-11%</b>	<b>613</b>	<b>529</b>	<b>-14%</b>
Finance Costs	(87)	(100)	+15%	(171)	(195)	+14%
<b>Pre-tax Profit / (Loss)</b>	<b>50</b>	<b>23</b>	<b>-54%</b>	<b>442</b>	<b>334</b>	<b>-24%</b>
Taxes	(17)	(10)	-41%	(89)	(72)	-19%
Minority Interest	(6)	(4)	-30%	(27)	(22)	-16%
<b>Normalized Net Profit / (Loss)</b>	<b>27</b>	<b>9</b>	<b>-69%</b>	<b>326</b>	<b>240</b>	<b>-27%</b>
<b>Extraordinary Items</b>						
Share of Profit/(Loss) from ERWPF	3	2	-37%	(11)	5	N/A
Provision for employee benefits	-	(18)	N/A	-	(18)	N/A
<b>Net Profit / (Loss)</b>	<b>30</b>	<b>(7)</b>	<b>N/A</b>	<b>315</b>	<b>227</b>	<b>-28%</b>
E.P.S. (Baht)	0.0118	(0.0029)	N/A	0.1259	0.0905	-28%

## **Industry Key Highlights**

Total international tourist arrivals in 2Q19 was at 9.0 million, a 1 percent growth compared to 2Q18, which is the same growth rate with 1Q19. The slow growth of Thai tourism industry are affected by 1) the continued appreciation of Thai baht 2) competition from other countries, such as attracting European tourists in Turkey and attracting Chinese tourists from Japan, Korea, Vietnam and 3) the global economic slowdown. Chinese arrivals, Thailand's top source market, still dropped 8 percent from same period last year and European arrivals, another top source market, also dropped 1 percent from 2Q18. However, arrivals from other countries were growing. India, Japan and Lao were the top 3 key source markets that posted the strongest growth in this quarter. For 1H19, the number of tourists visiting Thailand was reported at 19.7 million, increased 1 percent compared to the same period last year. In addition, the number of domestic trips recorded at 76 million in 1H19, a 5 percent increase from the same period last year.

## **Hotel Growth Strategy**

We continue expanding our hotel portfolio as set forth in our 5 years' strategic plan (2016-2020). 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**

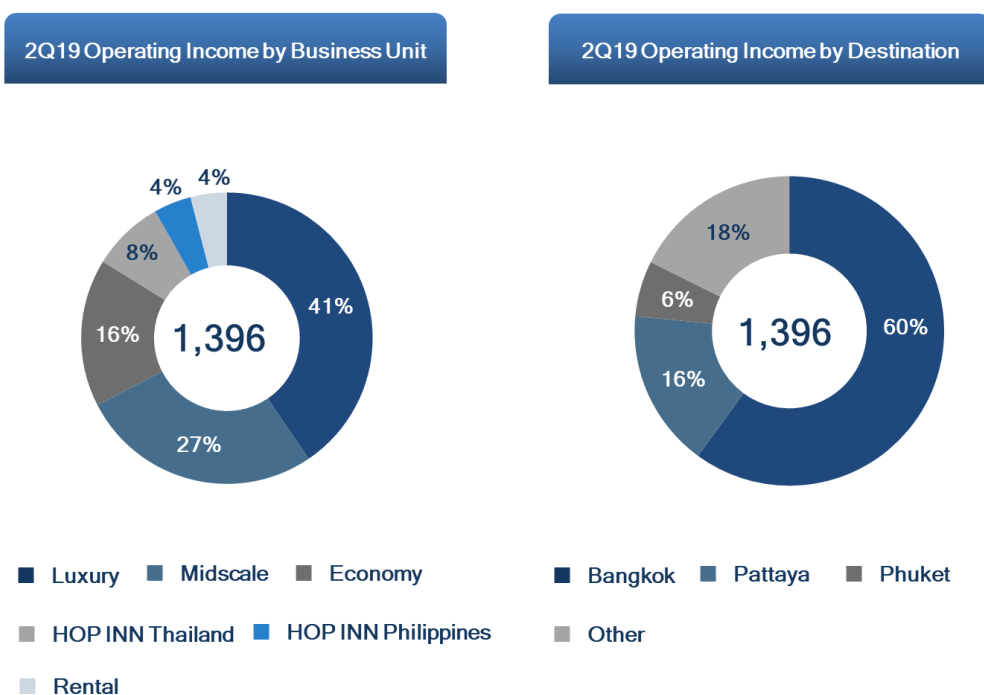
- JW Marriott Bangkok started the final phase of room renovation for 133 rooms or 30 percent of total inventory in April 2019 and the new rooms will be opened at the beginning of 4Q19. JW Marriott Bangkok has also started the renovation of Chinese and Japanese restaurant and expected to be opened in 3Q19.
- In June 2019, we also started to conduct soft renovation for 2 ibis hotels; Sathorn at 103 room and Patong at 130 rooms. The renovation were 2 years program in 2019-2020 during the low season. The new rooms will be opened in 4Q19.

## **Group Performance in 2Q19**

In 2Q19, we recorded total operating income at THB 1,396 million, a 3 percent increase from 2Q18. Revenue from hotel operations increased 4 percent from 2Q18 while rental and service income in line with same period last year. As a result, we recorded EBITDA at THB 330 million in 2Q19, a 1 percent increase from 2Q18 and posted EBITDA margin at 23.3 percent compared to 23.9 percent in 2Q18. We generated normalized net profit at THB 9 million and recorded provision for employee benefits as extra item at THB 18 million causing net loss at THB 7 million in 2Q19.

For 1H19, we recorded total operating income at THB 3,154 million, a 1 percent increase from 1H18. Revenue from hotel operations grew 1 percent from the same period last year while rental and service income dropped 2 percent from 1H18. We generated EBITDA at THB 942 million, a 4 percent decrease from 1H18. For 1H19, we generated normalized net profit at THB 240 million and net profit at THB 227 million, a 27 percent and 28 percent decrease from the same period last year respectively.

Unit: Million THB



## Performance by Business Unit

### 1. Hotel

In 2Q19 our RevPAR (excluding HOP INN hotels) dropped 6 percent from 2Q18 as a result from the decreasing of occupancy rate and ARR at 3 percent from same period last year. This mainly came from the slow growth of Thailand tourism industry as aforementioned. Destination wise, hotels located in Bangkok performed better than non-Bangkok hotels. RevPAR of our Bangkok hotels (excluding new hotels) dropped 2 percent from same period last year as a result of the decrease in ARR while occupancy rate posted at 78 percent, in line with 2Q18. On the other hand, non-Bangkok hotels witnessed the RevPAR decreased more than Bangkok hotels, especially hotels located in Samui and Phuket, mainly driven by the slowdown of Chinese and European market.

In 2Q19, we recorded income from hotel operations at THB 1,340 million, a 4 percent increase from 2Q18. Income from hotels in Thailand grew 2 percent while income from HOP INN Philippines grew 69 percent, the highest revenue growth in this quarter back by both existing and new hotels.

Room revenue increased 4 percent from the same period last year which growth driven by additional revenue from new hotels in Thailand and revenue growth from Philippines hotels. F&B revenue

decreased 4 percent from the same period last year mainly from the renovation of F&B outlets at JW Marriott Bangkok hotels and the drop of revenue from non-Bangkok hotels

We generated income from hotel operations at THB 3,042 million in 1H19, a 1 percent increase from 1H18. Room revenue recorded at 2 percent increase from 1H18 while F&B revenue dropped 5 percent from the same period last year.

**Statistics for hotel room operations for the 2Q19 and 1H19 are as follows:**

3-month period (Apr-Jun)	No. of rooms		Occupancy			ARR (THB/Night)			RevPAR (THB/Night)		
	2Q18	2Q19	2Q18	2Q19	+/-	2Q18	2Q19	+/-	2Q18	2Q19	+/-
<b>Thailand</b>											
Luxury Hotels	979	979	64%	65%	-	5,439	5,259	▼3%	3,503	3,394	▼3%
Midscale Hotels	1,282	1,467	84%	83%	▼1%	2,724	2,580	▼5%	2,288	2,135	▼7%
Economy Hotels	2,253	2,386	80%	75%	▼5%	1,072	1,043	▼3%	856	777	▼9%
<b>Total Group (ex. HOP INN)</b>	<b>4,514</b>	<b>4,832</b>	<b>78%</b>	<b>75%</b>	<b>▼3%</b>	<b>2,364</b>	<b>2,293</b>	<b>▼3%</b>	<b>1,837</b>	<b>1,720</b>	<b>▼6%</b>
HOP INN Hotels	2,652	2,810	76%	74%	▼2%	581	601	▲4%	441	442	-
<b>Philippines</b>											
HOP INN Hotels	508	843	78%	80%	▲2%	946	932	▼1%	739	750	▲1%

6-month period (Jan-Jun)	No. of rooms		Occupancy			ARR (THB/Night)			RevPAR (THB/Night)		
	1H18	1H19	1H18	1H19	+/-	1H18	1H19	+/-	1H18	1H19	+/-
<b>Thailand</b>											
Luxury Hotels	979	979	75%	74%	▼1%	5,940	5,662	▼5%	4,427	4,175	▼6%
Midscale Hotels	1,282	1,467	88%	85%	▼2%	2,943	2,767	▼6%	2,583	2,364	▼8%
Economy Hotels	2,253	2,386	85%	81%	▼5%	1,318	1,285	▼2%	1,123	1,035	▼8%
<b>Total Group (ex. HOP INN)</b>	<b>4,514</b>	<b>4,832</b>	<b>84%</b>	<b>81%</b>	<b>▼3%</b>	<b>2,696</b>	<b>2,573</b>	<b>▼5%</b>	<b>2,254</b>	<b>2,075</b>	<b>▼8%</b>
HOP INN Hotels	2,652	2,810	77%	73%	▼3%	577	601	▲4%	444	441	▼1%
<b>Philippines</b>											
HOP INN Hotels	508	843	77%	78%	▲1%	951	963	▲1%	731	747	▲2%

**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 2Q19, RevPAR in this segment dropped 3 percent from the same period last year. Luxury BKK RevPAR was in line with 2Q18 while Luxury resort RevPAR dropped due to the decline of Chinese and European tourists, the main customers in this segment, as aforementioned.

- The Luxury segment generated income at THB 566 million in 2Q19, a 4 percent decrease from 2Q18. Room revenue decreased 3 percent and F&B revenue decreased 4 percent from the same period last year, mainly from the soft performance of Luxury resort and the renovation of F&B outlet at JW Marriott Bangkok hotel. EBITDA recorded at THB 100 million, a 10 percent decrease from 2Q18.
- For 1H19, the Luxury segment generated operating income at THB 1,343 million and EBITDA at THB 353 million, a 6 percent and a 14 percent decrease from the same period last year respectively.

#### 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 2Q19, RevPAR of midscale segment decreased 7 percent from same period last year. Midscale hotels in Bangkok (exclude new hotel) recorded RevPAR in line with 2Q18 while non- Bangkok hotels were still impacted from the slowdown of Chinese markets.
- In 2Q19, the Midscale segment generated operating income at THB 376 million, a 10 percent increase from 2Q18, mainly from improving performance of Bangkok hotels and additional income from new hotels. EBITDA recorded at THB 134 million, a 3 percent increase from 2Q18.
- For 1H19, the Midscale segment generated operating income at THB 800 million, a 5 percent increase from same period last year. EBITDA was recorded at THB 306 million, a 1 percent decrease from 1H18.

#### 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 2Q19, RevPAR in this segment dropped 9 percent from 2Q18 due to the decline in occupancy from both Bangkok and non-Bangkok hotels as a result of the slowdown of Chinese and Russian market as aforementioned.
- The Economy segment recorded operating income at THB 229 million, a 3 percent increase from 2Q18, mainly from income from new hotels. EBITDA was recorded at THB 56 million, a 2 percent drop from same period last year.
- For 1H19, the Economy segment generated operating income at THB 565 million, a 1 percent increase from same period last year. EBITDA was recorded at THB 206 million, a 1 percent drop from the 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 2Q19, occupancy in this segment recorded at 74 percent compare to 76 percent in 2Q18 while ARR increased 4 percent from our strategy to focus on rate growth leading to RevPAR to be in line with 2Q18.
- HOP INN segment generated operating income at THB 112 million in 2Q19, a 6 percent increase from the same period last year and EBITDA recorded at THB 50 million in line with the same period last year. The main reason for EBITDA growth lower than revenue growth was the increasing of expense, which focus on improving HOP INN management system. This is part of our strategy to develop HOP INN to be the leading quality budget hotel to drive sustainable growth for the company.
- For 1H19, HOP INN recorded operating income at THB 220 million and EBITDA at THB 99 million, a 7 percent increase from the same period last year respectively.

### **Philippines**

#### HOP INN Hotels

- We now have 5 hotels in Manila city, Philippines; Ermita, Makati, Aseana, Alabang, Tomas Morato (Quezon city).
- In 2Q19, RevPAR of this segment increased 1 percent from 2Q18. Existing hotels generated RevPAR growth at 16 percent driven from both occupancy and ARR. In addition, 2 New hotels which opened in 2H18 continued to generate good performance as RevPAR growth posted at 9 percent compare to 1Q19.
- HOP INN in Philippines generated operating income and EBITDA at THB 58 million and THB 24 million for 2Q19 respectively.
- For 1H19, HOP INN recorded operating income at THB 115 million and EBITDA at THB 47 million.

### **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 was recorded at THB 56 million in 2Q19, in line with same period last year

For 1H19, income from rental and service dropped 2 percent from 1H18 to record at THB 112 million.

## Other Items in P&L

- **Depreciation & Amortization:** This non-cash item recorded at THB 207 million in 2Q19 increased THB 19 million from 2Q18 and recorded at THB 413 million in 1H19, a THB 42 million increase from 1H18. This mainly came from additional depreciation of new hotels opened.
- **Finance Costs:** We recorded finance costs at THB 100 million in this quarter, a THB 13 million increase from 2Q18 and recorded at THB 195 million in 1H19, increased THB 24 million from 1H18. 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 2 million in 2Q19 and recorded share of profit at THB 6 million in 1H19.
  - **Provision for employee benefits:** We recorded provision for employee benefits at THB 18 million for the provision for retirement benefits due to amending the Labor Protection Act.

## Financial Status

Financial Ratio (times)	FY 2018	2Q19
Interest Coverage Ratio	5.0	4.3
Interest Bearing Debt to Equity	1.7	1.8

We generated THB 942 million of operating cash flow before change in operating asset and liabilities, representing a 5 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 974 million at the end of this quarter. Interest coverage ratio recorded at 4.3 times, lower than the end of year 2018 due to the decreasing of operating cash flow.

At the end of 2Q19, we recorded total assets at THB 17,248 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 11,561 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 5,686 million at the end of 2Q19 decreased from THB 5,708 million at the end of 2018 mainly due to the dividend payment at THB 226 million. Our interest bearing debt-to-equity ratio recorded at 1.8 times compare to 1.7 times at the end of 2018.

## Outlook for 2019

In 2Q19, Ministry of Tourism and Sports announced to change target of international tourist arrivals to Thailand in 2019 to be 40.2 million from 41.1 million. Expected growth rate of arrival will be 4.5 percent from 2018. In 1H19, Thailand tourist arrival recorded slow growth at 1 percent from the same

period last year. Thai baht appreciation and global economic slowdown still affected our main source markets to Thailand such as Chinese and European tourists. However, Thailand tourism trend is expected to recovery in 2H19 on the back of stimulus package for Thailand economy and tourism industry from the new government and Thailand political stability.

For the first half of 2019, although Thailand tourism industry posted the slow growth, we still achieved occupancy rate more than 80 percent. Top 5 source markets to our room revenue in 1H19 were Thai, Chinese, American, Indian and Singapore. Thai market has continued growing and posted the highest growth from the same period last year as a result of HOP INN growth strategy in Thailand.

We maintain our revenue from hotel operation to generate a 7-10 percent growth from 2018. Growth will be driven by existing hotels, the ramp up of new hotels opening in 2018 and additional income from new hotel in 2019. In 2H19, we will open 7 HOP INN hotels and 2 hotels in Bangkok; Mercure and ibis Sukhumvit 24, which is combo hotel with more than 500 room inventories. 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