

ERW100/ACC005/2019

12<sup>th</sup> November 2019

Subject: Management Discussion and Analysis for Period Ending 30<sup>th</sup> September 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 ("3Q19") and 9-month ("9M19") period ending 30<sup>th</sup> September 2019 as follows:

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

THB Millions	3Q18	3Q19	% Ch.	9M18	9M19	% Ch.
Hotels' Operating Income	1,373	1,441	+5%	4,385	4,483	+2%
Rental and Service Income	57	57	-	170	169	-1%
<b>Total Operating Income</b>	<b>1,430</b>	<b>1,498</b>	<b>+5%</b>	<b>4,555</b>	<b>4,652</b>	<b>+2%</b>
Other Income	12	11	-4%	35	46	+33%
<b>Total Income</b>	<b>1,442</b>	<b>1,509</b>	<b>+5%</b>	<b>4,590</b>	<b>4,698</b>	<b>+2%</b>
Operating Expenses	(1,089)	(1,121)	+3%	(3,253)	(3,367)	+4%
<b>EBITDA</b>	<b>353</b>	<b>388</b>	<b>+10%</b>	<b>1,337</b>	<b>1,331</b>	<b>-0%</b>
Depreciation & Amortization	(194)	(205)	+6%	(565)	(619)	+10%
<b>Operating Profit/(Loss)</b>	<b>159</b>	<b>183</b>	<b>+15%</b>	<b>772</b>	<b>712</b>	<b>-8%</b>
Finance Costs	(91)	(102)	+12%	(262)	(297)	+14%
<b>Pre-tax Profit / (Loss)</b>	<b>68</b>	<b>81</b>	<b>+18%</b>	<b>510</b>	<b>415</b>	<b>-19%</b>
Taxes	(22)	(27)	+28%	(110)	(100)	-10%
Minority Interest	(10)	(14)	+36%	(37)	(36)	-2%
<b>Normalized Net Profit / (Loss)</b>	<b>36</b>	<b>40</b>	<b>+7%</b>	<b>363</b>	<b>279</b>	<b>-23%</b>
<b>Extraordinary Items</b>						
Share of Profit/ (Loss) from ERWPF	5	3	-29%	(6)	9	N/A
Provision for employee benefits	-	-	N/A	-	(18)	N/A
<b>Net Profit / (Loss)</b>	<b>41</b>	<b>43</b>	<b>+3%</b>	<b>357</b>	<b>270</b>	<b>-24%</b>
E.P.S. (Baht)	0.0165	0.0170	+3%	0.1424	0.1075	-25%

## **Industry Key Highlights**

Total international tourist arrivals in 3Q19 recorded at 9.7 million, a 7 percent growth compared to 3Q18, a higher growth rate compared to a 1 percent growth in 1H19. The main growth in 3Q19 driven by Chinese, Thailand's top source market which grew 17 percent from same period last year. This has shown the positive sign from the decline since Phuket boat sink incident in July 2018 and recovered from a 5 percent dropped in 1H19. While European tourists, another top source market, still dropped 2 percent from same period last year as a result of Thai Baht appreciation and competition from other tourist destination. Chinese, Indian and South Korean were the top 3 key source markets that posted the strongest growth in this quarter. For 9M19, the number of tourists visiting Thailand was reported at 29.4 million, increased 3 percent compared to the same period last year. In addition, the number of domestic trips recorded at 116.3 million in 9M19, a 1 percent increase from the same period last year.

## **Hotel Growth Strategy**

In 3Q19, we added 4 new HOP INN hotels in Thailand; our first HOP INN in Bangkok , HOP INN Changwattana was opened together with new HOP INN in other province namely; Rayong and Chiang Rai, the 2<sup>nd</sup> branch in these province and Khon Kaen, the 3<sup>rd</sup> branch in the province. As a result, at the end of 3Q19 we have 65 hotels with 8,821 rooms in our portfolio.

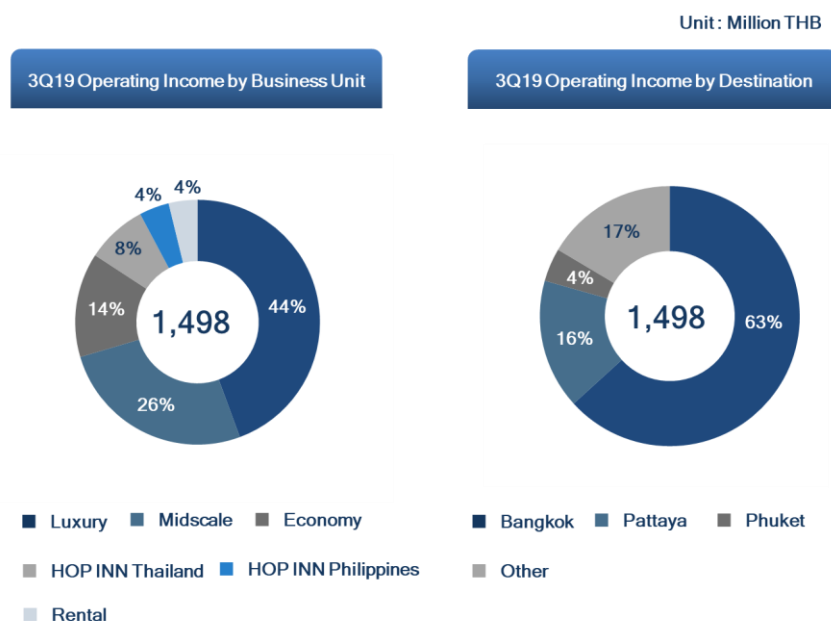
## **Return Enhancing Strategy**

- We conducted the final phase of room renovation for JW Marriott Bangkok, 133 rooms or 30 percent of total inventory, during April to September 2019 and the new rooms already opened at the beginning of October 2019 as planned. In addition, JW Marriott Bangkok has also finished the renovation of Chinese and Japanese restaurant and opened at the beginning of 3Q19.
- We also conducted soft renovation for 2 ibis hotels; Sathorn at 103 rooms and Patong at 130 rooms during April to September 2019 and the new rooms already opened at the beginning of 4Q19. In addition, ibis Samui has started 88 rooms renovation in 3Q19 and expected to open at the end of 4Q19.

## **Group Performance in 3Q19**

In 3Q19, we recorded total operating income at THB 1,498 million, a 5 percent increase from 3Q18. Revenue from hotel operations increased 5 percent from 3Q18 while rental and service income in line with same period last year. As a result, we recorded EBITDA at THB 388 million in 3Q19, a 10 percent increase from 3Q18 and posted EBITDA margin at 25.7 percent compared to 24.5 percent in 3Q18. We generated normalized net profit at THB 40 million and recorded net profit at THB 43 million in 3Q19, a 7 percent and 3 percent increase from the same period last year respectively.

For 9M19, we recorded total operating income at THB 4,652 million, a 2 percent increase from 9M18. Revenue from hotel operations grew 2 percent from the same period last year while rental and service income dropped 1 percent from 9M18. We generated EBITDA at THB 1,331 million, in line with 9M18. For 9M19, we generated normalized net profit at THB 279 million and net profit at THB 270 million, a 23 percent and 24 percent decrease from the same period last year respectively.



## Performance by Business Unit

### 1. Hotel

In 3Q19 our RevPAR (excluding HOP INN hotels) dropped 6 percent from 3Q18 as a result of the decreasing of occupancy and ARR at 2 percent and 3 percent respectively. Destination wise, hotels located in Bangkok still performed better than non-Bangkok hotels which is the same trend as 1H19. RevPAR of our Bangkok hotels (excluding new hotels) dropped 1 percent from same period last year as a result of the decrease in ARR while occupancy rate posted at 82 percent, a 1 percent increase from 3Q18. On the other hand, non-Bangkok hotels especially hotels located in Samui and Phuket witnessed the RevPAR decreased more than Bangkok hotels. This mainly driven by the decrease of the occupancy from the drop of Chinese, Russian and European whose are main customers of hotels in these destinations. However, our HOP INN hotels both in Thailand and Philippines which focus on domestic customers still generated RevPAR growth from same period last year.

In 3Q19, we recorded income from hotel operations at THB 1,441 million, a 5 percent increase from 3Q18. Room revenue increased 6 percent from the same period last year on the back of growing revenue from new hotels opened in 2018 both in Thailand and Philippines. F&B revenue increased 4 percent from the same period last year mainly from the increasing of F&B revenue from Luxury Bangkok hotels.

We generated income from hotel operations at THB 4,483 million in 9M19, a 2 percent increase from 9M18. Room revenue recorded at 4 percent increase from 9M18 while F&B revenue dropped 2 percent from the same period last year.

Statistics for hotel room operations for the 3Q19 and 9M19 are as follows:

3-month period (Jul-Sep)	No. of rooms		Occupancy			ARR (THB/Night)			RevPAR (THB/Night)		
	3Q18	3Q19	3Q18	3Q19	+/-	3Q18	3Q19	+/-	3Q18	3Q19	+/-
<b>Thailand</b>											
Luxury Hotels	979	979	67%	74%	▲7%	5,663	5,202	▼8%	3,812	3,869	▲1%
Midscale Hotels	1,282	1,467	86%	86%	-	2,773	2,583	▼7%	2,389	2,224	▼7%
Economy Hotels	2,253	2,386	74%	66%	▼8%	1,176	1,118	▼5%	875	738	▼16%
<b>Total Group (ex. HOP INN)</b>	<b>4,514</b>	<b>4,832</b>	<b>76%</b>	<b>74%</b>	<b>▼2%</b>	<b>2,548</b>	<b>2,470</b>	<b>▼3%</b>	<b>1,942</b>	<b>1,824</b>	<b>▼6%</b>
HOP INN Hotels	2,731	3,146	73%	71%	▼2%	580	604	▲4%	424	428	▲1%
<b>Philippines</b>											
HOP INN Hotels	676	843	73%	83%	▲10%	989	933	▼6%	721	775	▲7%

9-month period (Jan-Sep)	No. of rooms		Occupancy			ARR (THB/Night)			RevPAR (THB/Night)		
	9M18	9M19	9M18	9M19	+/-	9M18	9M19	+/-	9M18	9M19	+/-
<b>Thailand</b>											
Luxury Hotels	979	979	72%	74%	▲2%	5,853	5,507	▼6%	4,220	4,072	▼4%
Midscale Hotels	1,282	1,467	87%	86%	▼2%	2,886	2,705	▼6%	2,518	2,317	▼8%
Economy Hotels	2,253	2,386	82%	76%	▼6%	1,274	1,236	▼3%	1,039	935	▼10%
<b>Total Group (ex. HOP INN)</b>	<b>4,514</b>	<b>4,832</b>	<b>81%</b>	<b>78%</b>	<b>▼3%</b>	<b>2,649</b>	<b>2,540</b>	<b>▼4%</b>	<b>2,149</b>	<b>1,990</b>	<b>▼7%</b>
HOP INN Hotels	2,731	3,146	76%	72%	▼3%	578	602	▲4%	437	436	-
<b>Philippines</b>											
HOP INN Hotels	676	843	75%	79%	▲4%	968	952	▼2%	726	757	▲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 3Q19, RevPAR in this segment increased 1 percent from the same period last year driven by the 7 percent RevPAR growth in Luxury Bangkok hotels from the increase in occupancy while RevPAR of Luxury resort still dropped due to the decline of Chinese and European tourists.
- The Luxury segment generated operating income at THB 665 million in 3Q19, a 4 percent increase from 3Q18. Room revenue increased 4 percent and F&B revenue increased 6 percent from the same period last year, mainly from the increasing of Luxury Bangkok F&B revenue from both outlet and events. EBITDA recorded at THB 156 million, a 10 percent increase from 3Q18.
- For 9M19, the Luxury segment generated operating income at THB 2,008 million and EBITDA at THB 509 million, a 3 percent and an 8 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 3Q19, RevPAR of midscale segment decreased 7 percent from same period last year. Excluding new hotel, RevPAR dropped 4 percent from 3Q18, mainly from the decreasing of ARR as a result of market competition while occupancy rate increased slightly from the same period last year.
- In 3Q19, the Midscale segment generated operating income at THB 390 million, a 7 percent increase from 3Q18, mainly the additional income from new hotels. EBITDA recorded at THB 144 million, a 14 percent increase from 3Q18.
- For 9M19, the Midscale segment generated operating income at THB 1,190 million, a 6 percent increase from same period last year. EBITDA was recorded at THB 450 million, a 3 percent increase from 9M18.

### 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 3Q19, RevPAR in this segment dropped 16 percent from 3Q18 as a result of the slowdown of Chinese and Russian market which is the same trend of 1H19.
- The Economy segment recorded operating income at THB 207 million, an 8 percent decrease from 3Q18. EBITDA was recorded at THB 48 million, a 10 percent drop from same period last year.
- For 9M19, the Economy segment generated operating income at THB 772 million, a 2 percent decrease from same period last year. EBITDA was recorded at THB 253 million, a 3 percent drop from the same period last year.

### HOP INN Hotels

- In 3Q19, we opened 4 new HOP INN hotels in Thailand. We now have 40 hotels in this segment that cover Thailand's major tourist and business destinations.
- In 3Q19, occupancy in this segment recorded at 71 percent decreased slightly from 73 percent in 3Q18, mainly from 4 new hotels opening with additional 336 rooms to total group in this quarter. ARR increased 4 percent as a result of our strategy to focus on rate growth leading to a 1 percent RevPAR growth from 3Q18.

- HOP INN segment generated operating income at THB 120 million in 3Q19, a 16 percent increase from the same period last year. EBITDA recorded at THB 51 million, a 7 percent increase from the same period last year.
- For 9M19, HOP INN recorded operating income at THB 340 million, a 10 percent increase from same period last year. EBITDA recorded at THB 149 million, a 2 percent increase from the same period last year.

## Philippines

### HOP INN Hotels

- We now have 5 hotels in Manila city, Philippines; Ermita, Makati, Aseana, Alabang, Tomas Morato (Quezon city).
- In 3Q19, RevPAR of this segment increased 7 percent from 3Q18 mainly driven from growing occupancy of new hotel opened in 3Q18 which enter the first full year operation in this quarter and led to RevPAR growth at 93 percent from 3Q18.
- HOP INN in Philippines generated operating income at THB 59 million, a 32 percent increase from the same period last year. EBITDA recorded at THB 25 million, a 46 percent increase from the same period last year.
- For 9M19, HOP INN recorded operating income at THB 174 million and EBITDA at THB 72 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 57 million in 3Q19, in line with same period last year

For 9M19, income from rental and service dropped 1 percent from 9M18 to record at THB 169 million.

### Other Items in P&L

- **Depreciation & Amortization:** This non-cash item recorded at THB 205 million in 3Q19 increased THB 11 million from 3Q18 and recorded at THB 619 million in 9M19, a THB 54 million increase from 9M18. This mainly came from additional depreciation of new hotels opened.
- **Finance Costs:** We recorded finance costs at THB 102 million in this quarter, a THB 11 million increase from 3Q18 and recorded at THB 297 million in 9M19, increased THB 35 million from 9M18. 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 3Q19 and recorded share of profit at THB 9 million in 9M19.
- **Provision for employee benefits:** In 2Q19 and 9M19, 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	3Q19
Interest Coverage Ratio	5.0	4.1
Interest Bearing Debt to Equity	1.7	1.8

We generated THB 1,331 million of operating cash flow before change in operating asset and liabilities, representing a 1 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 1,008 million at the end of this quarter. Interest coverage ratio recorded at 4.1 times, lower than the end of year 2018 due to the decreasing of operating cash flow.

At the end of 3Q19, we recorded total assets at THB 17,569 million compared to THB 16,949 million at the end of 2018 due to the increase in property, plant and equipment from the new hotels development. Our total liabilities recorded at THB 11,831 million increased from THB 11,240 million at the end of 2018 due to the increasing of long-term loan to support expansion plan. Shareholder's equity recorded at THB 5,738 million at the end of 3Q19 increased from THB 5,708 million at the end of 2018. Our interest bearing debt-to-equity ratio recorded at 1.8 times at the end of 3Q19 compare to 1.7 times at the end of 2018.

## Outlook for 2019

In 3Q19, Ministry of Tourism and Sports revised target of 2019 international tourist arrivals to Thailand from 40.1 million to 39.8 million with expected growth rate at 4 percent from 2018. For 9M19, Thailand tourist arrival recorded 3 percent growth from the same period last year. Chinese arrivals show the positive recovery trend in 3Q19 compare to the slowdown in 1H19. However, Thai baht appreciation, global economic slowdown and market competition still affected hotel business and tourism industry.

For the 9 months of 2019, occupancy rate of our Bangkok hotels (ex. new hotels) recorded at 83 percent while our ARR slightly dropped from same period last year as a result of market competition. Non-Bangkok hotels such as Samui and Phuket were still impacted from tourism slow down. Top 5 source markets to our room revenue in 9M19 were Thai, Chinese, American, Indian and Singapore.

We revised our revenue from hotel operation growth in 2019 to 3-5 percent from 2018. The main reason is our 9M19 revenue growth was lower than our projection due to the slowdown of Thailand tourism as aforementioned. However, growth will be driven by some existing hotels, the ramp up of new hotels opening in 2018 and additional income from new hotel in 2019, 7 HOP INN hotels and 2 hotels in Bangkok; Mercure and ibis Sukhumvit 24. 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

Woramon Inkatanuvat  
Executive Vice President and Chief Financial Officer