

**DISCOUNTED CASH FLOW VALUATION OF
THE ERAWAN GROUP PUBLIC COMPANY LIMITED**



**A THEMATIC PAPER SUBMITTED IN PARTIAL
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entitled
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THE ERAWAN GROUP PUBLIC COMPANY LIMITED**

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DISCOUNTED CASH FLOW VALUATION OF THE ERAWAN GROUP PUBLIC COMPANY LIMITED

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ABSTRACT

This thematic paper demonstrated how to value the stock price of The Erawan Group Public Company Limited (ERW) which applied the concept of the free cash flow to firm (FCFF) model. It reflected the company's ability generate free cash flow without debt. I applied discounted cash flow valuation method to express the value of the company's stock. We consider using FCFF valuation as it is the most appropriate method for valuation. Free cash flow to firm represent the value of firm's activities that come from the root of firm's value derived from future earnings.

As a result the ERW target price from forward FCFF method is 6.98 THB, comparing to the current price of 6.45 THB, therefore we recommend HOLD.

KEY WORDS: ERW / Valuation / Discounted cash flow Valuation /Hospitality

67 pages

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LIST OF ABBREVIATIONS

| | |
|--------|--|
| ADR | Average Daily Room Rate |
| BV | Book Value |
| CAGR | Compound Annual Growth Rate |
| CAPM | Capital Asset Pricing Model |
| CAPEX | Capital Expenditure |
| COGS | Cost of Goods Sold |
| DCF | Discounted Cash Flow |
| D/E | Debt/Equity |
| EBIT | Earnings before Interest and Taxes |
| EBITDA | Earnings before Interest, Taxes and Depreciation |
| EPS | Earnings per share |
| FCFF | Free Cash Flow to Firm |
| GDP | Gross Domestic Product |
| NOPAT | Net Operating Profit after Taxes |
| NOWC | Net Operating Working Capital |
| OCC | Occupancy rate |
| PPE | Property Plant and Equipment |
| PV | Present Value |
| RevPAR | Revenue per Available Room |
| Rf | Risk free |
| ROA | Return on Assets |
| ROE | Return on Equity |
| SET | Stock Exchange of Thailand |
| SG&A | Selling, General and Administrative Expense |
| WACC | Weighted Average Cost of Capital |
| YOY | Year on Year |

CHAPTER I

VALUATION

1.1 Highlights

We issue a HOLD recommendation on Erawan Group Public Company Limited with a one-year target price of THB 6.98 using the Discounted Free Cash Flow to Firm Method. This offers 8.16% upside from its closing price of THB 6.45 on November 23, 2018. With the tourism of Thailand's positive economic outlook, ERW is able to grow from its core business of hotel operation with strong current product portfolio and opportunity to open hotel in other traveling destinations.

1.1.1 Continuously extend its hotel portfolio

ERW still continue its investment plan as set forth in 5-year master plan (2016-2020). In 2018, the company will open 9 new hotels; 7 of their own brand "Hop Inn" in Thailand and Manila Philippines, one of Novotel and one of ibis in Sukhumvit, Bangkok. With the continuous expansion strategy as aforementioned, our portfolio as of 2018 ended with 61 hotels 8,485 rooms, increasing significantly from 52 hotels with 7,328 rooms as of 2017. Our expansion is progress as planned to support our vision to be the leading hotel developer and investor in Thailand and ASEAN.

1.1.2 Trend of economy and budget hotel

The global tourism landscape gradually changes by the tourist or demand side. As the increasing number of middle-class travelers, business travelers and travelling families, causes the economy and budget hotel are growing (Economy hotels: The rising demand, the trends and the challenges, 2015). This trend will benefit to economy and budget portfolio of ERW including, ibis, Novotel and HOP INN. Correspond with ERW's strategy for budget hotel segment, ERW has planned to expand their budget segment due to opportunity of expansion.

1.1.3 Potential growth in Philippines

Accordance with forecasted GDP of Philippines approximately 6.5% by IMF plus maintaining a strong macroeconomic fundamental by Philippines government. This outlook would enhance the potential growth in Philippines market. Currently, ERW has 4 HOP INN, a budget hotel located in Manila city and also plans to expand more in 2019.

1.1.4 Solid profitability financial ratio

The key profitability ratios accelerated above ERW 5-year performance. Most of the year, ERW reached about 50% of gross profit margin which higher than average tourism industry namely ASIA, CENTEL, DTC, GRAND, MANRIN and SHANG. ERW has lower net profit margin than average its industry during year 2017, which is 9.42%. However, expanding its hotel properties in every segment leading net profit margin continue to improve since 2014. Furthermore, ERW is attractive to invest due to 10.79% of ROE in 2017, higher than listed competitors. It could be implied that ERW has better profitability among its industry group.

Table 1.1 ERW's Key financial ratios

| ERW's Key Financial Ratios | | | | | | |
|----------------------------|----------------------------|--------|--------|--------|--------|--------|
| ERW: Profitability | Avg. Tourism Industry 2017 | 2017 | 2016 | 2015 | 2014 | 2013 |
| Gross Profit Margin (GPM) | 41.97% | 56.04% | 54.21% | 52.18% | 47.96% | 52.90% |
| Net Profit Margin (NPM) | 12.68% | 9.42% | 7.25% | 4.38% | -2.58% | 20.55% |
| Return on Asset (ROA) | 7.00% | 5.35% | 4.62% | 3.42% | 2.30% | 9.50% |
| Return on Equity (ROE) | 9.91% | 10.79% | 8.19% | 4.79% | -2.22% | 18.48% |

Source: SetSmart and Calculation

1.2 Business Description

The Erawan Group is a hospitality company of Thailand, formerly known as Amarin Plaza PCL. The company and its subsidiaries operate hotels, office buildings and shopping centers. ERAWAN Group has been developed various real estates and hotel business over the past 35 years since 1982. In 1985, The Amarin Plaza (Bangkok),

shopping center, is the origination of Erawan and after that Erawan Group decided to register on the Stock Exchange of Thailand. Erawan opened the first hotel which is Grand Hyatt Erawan Bangkok Hotel in 1991. The new chapter of Erawan began converting into a public company since 1994.

ERW's main business is to invest in and develop hotel properties in strategic locations throughout Thailand and ASEAN. ERW currently owns 52 hotels and operates other businesses including retail space rental, and management of office building. The company owns 2 luxury hotels in Bangkok, 2 luxury beach resorts, 5 mid-scale hotels, 10 Ibis hotels, approximately 30 budget hotels under its own brand called HOP INN in Thailand and 2 HOP INN in the Philippines, and 1 retail center attached to its flagship Grand Hyatt Erawan.

1.2.1 Business Strategy

1.2.1.1 Hotel Growth Strategy - Continue expanding a well-diversified hotel portfolio in high growth segments and destinations.

1.2.1.2 Return Enhancing Strategy - Providing optimal return to our shareholders through "Asset Improvement", "Asset Monetization" and "Capital Structure Optimization".

1.2.1.3 Sustainable Platform Strategy - Ensure stability and sustainable growth of organization through development of systems, human capitals, core competencies, information database for decision making and core corporate culture.

1.2.2 Vision

To be the leading hotel developer and investor in Thailand and ASEAN.

1.2.3 Mission

To continue growing quality hotel portfolio in Thailand and ASEAN which optimize values to shareholders as well as stakeholders.

1.2.4 Core Value: “ERAWAN’s SPICE”

1.2.4.1 System: Systematic management approach to enhance efficiency as well as to lessen reliance on individuals

1.2.4.2 People: Competent workforce with dedication to further learning and continual improvement

1.2.4.3 Information: Accurate, adequate, and up-to-date database for the purpose of management and decision-making

1.2.4.4 Culture: Sound corporate culture to support sustainable growth

1.2.4.5 Environment: Being a good and responsible corporate citizen by taking care of all stakeholders including community and environment

1.2.5 Shareholders Structure

As at 31st December 2017, the company’s paid up capital is Baht 2,500,893,275 divided into 2,500,893,275 ordinary shares at par value 1 Baht per share. ERW is owned by three major groups. As of December 2017, Thai Institution Investor and Foreign Institution Investor owns 35.60% of total shares, Wattanavekin Group owns 28.41% of total shares and Vongkusolkrit Group holds 20.22% shares of the company. In 2017, The Company granted such Employee Stock Option Plan (ESOP) to the employees. The employees are entitled to exercise their rights to purchase shares within 30 December 2020. During the year ended 31 December 2017, the number of ESOP was exercised 2,729,000 units as employee stock options. (Table: 2.1 Top ten shareholders holding)

1.2.6 Business Structure: Hotel & Rental Properties

Currently, ERW operates 52 hotels with 7,328 rooms over the past 35 years corresponding with good locations and targeted customers. Separating the business units from Erawan group, there are two divisions, consisting of Hotel business and Rental Properties.

1.2.6.1 Hotels

In 2017, Erawan opened 11 hotels which comprised of 10 HOP INN hotels in Thailand and 1 HOP INN hotel in Philippines. As a result, at the end

2017 ERW have 52 hotels with 7,328 rooms in the portfolio, increasing from 41 hotels with 6,385 rooms as of 2016.

- **Luxury Bangkok (Ranking as five-star 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. Ranking as five-star hotels.

- **Midscale Hotels:** The Midscale segment comprised of 2 hotels in Bangkok; Courtyard by Marriott Bangkok and Mercure Bangkok Siam, and 2 hotels in Pattaya; Holiday Inn Pattaya and Mercure Pattaya Ocean Resort.

- **Economy Hotels:** The company now have 10 Ibis hotels in 6 major tourist destinations in Thailand (Bangkok, Pattaya, Phuket, Samui, Hua Hin and Krabi).

- **Budget Hotels** The company now have 32 hotels in this segment which cover major Thailand's tourist and business destinations.

1.2.6.2 Rental Properties

The company own and operate Erawan Bangkok, a luxury retail property adjacent to Grand Hyatt Erawan Hotel, and manage Ploenchit Center as a property manager.

Table 1.2 Rental property and property management

| Rental Property | Property Management |
|---|--|
| <p>Erawan Bangkok</p>  | <p>Ploenchit Center</p>  |
| <p>Retail Shops) up-scale:(6,554 sq.m. Location: Ratchaprasong</p> | <p>Office Building: 42,847 sq.m. Location: Sukhumvit Soi 2</p> |

1.2.7 Operation Structure: Hotel Operations

There are 3 types of asset management structure in The Erawan Group's hotel operations.

1.2.7.1 Hotels managed under Hotel Management Agreement

The company selects only well-known international hotel management companies to operate our properties. The selection criteria are based on the reputation, experience, global network, and operation system of hotel operators as well as the appropriateness to our properties.



Figure 1.1 Hotel Management Company

1.2.7.2 Hotels managed by Erawan under the Franchise Agreement

The Erawan Group has entered into franchise agreement with ACCOR to have a right to use brands Mercure, ibis style and ibis to operate our properties. The Company also applies the selection criteria that the selected brands are best fitted to our properties.



Figure 1.2 Hotel brand under franchise agreement

1.2.7.3 Hotels managed by Erawan with own brand

The Erawan Group has developed its own brand HOP INN by focusing on necessity and requirements of main target group of customers.



Figure 1.3 Hotel brand by the Erawan Group

1.2.8 Financial Summary

1.2.8.1 Hotel Business Portfolio

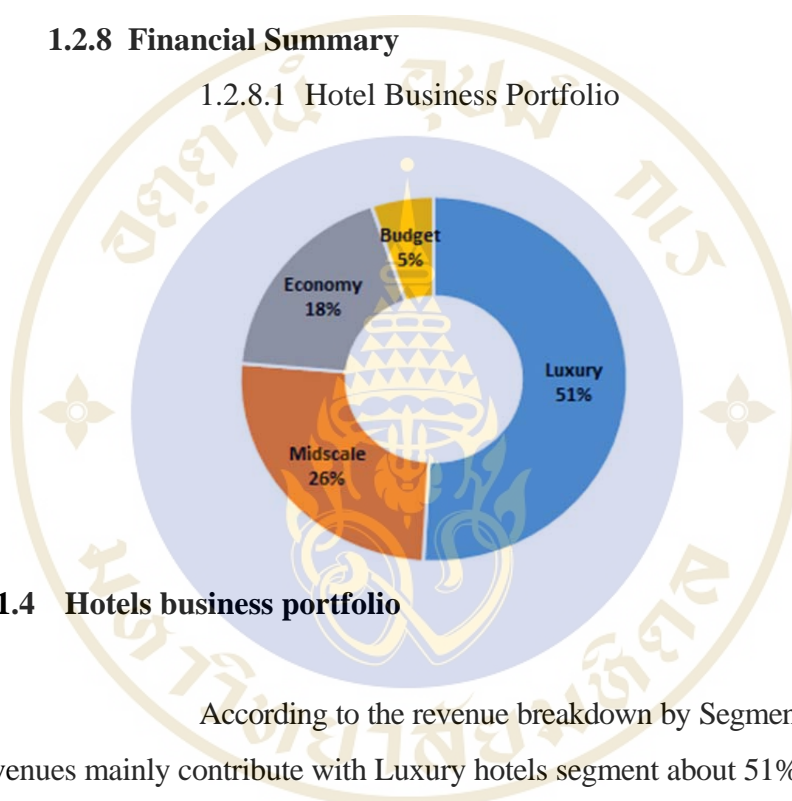


Figure 1.4 Hotels business portfolio

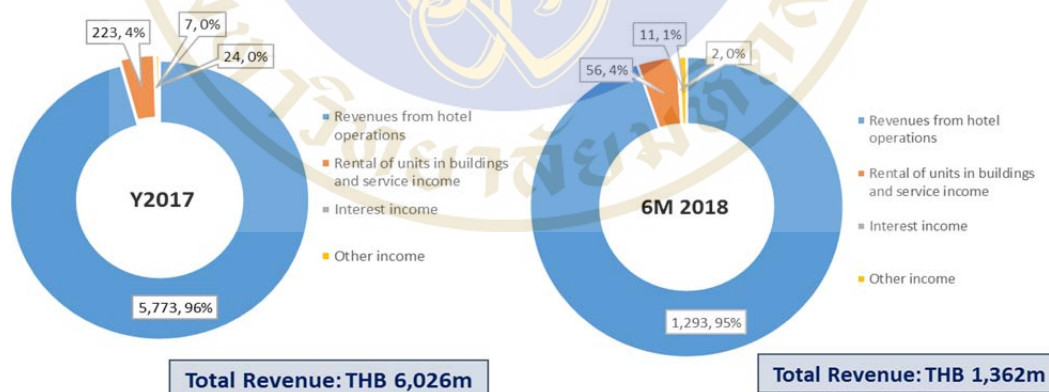
According to the revenue breakdown by Segment in 2017, ERW's hotel revenues mainly contribute with Luxury hotels segment about 51%, Midscale hotels segment about 26%, and economy hotels segment approximately 18% respectively. For Budget hotels segment, ERW operated under "HOP INN" brand which currently own 32 hotels in Thailand and 2 hotels in Philippines with continuous overseas expansion in various tourist destinations and business district areas.

1.2.8.2 ERW's Room Revenue by Country of Residence

Table 1.3 Room revenue by country of residence

| Y2017 | Contribution |
|------------------|--------------|
| 1 .Thailand | 16% |
| 2 .China | 14% |
| 3 .United States | 10% |
| 4 .Singapore | 6% |
| 5 .India | 5% |
| 6 .Hong Kong | 4% |
| 7 .Russia | 4% |
| 8 .South Korea | 3% |
| 9 .Australia | 3% |
| 10 .Germany | 3% |
| Other | 32% |

1.2.8.3 Total Revenue Breakdown

**Figure 1.5 Total revenue breakdown**

The revenue structure of ERW has two main sources of operating activities to generate the revenues; Revenues from hotel operations and Rental of units in buildings and service income which contribute about 95% and 4% respectively.

1.2.8.4 The company performance

Table 1.4 Company performance

| Unit :Million Baht | 2017 | 2016 | 2015 |
|--------------------|--------|-------|-------|
| Revenue | 6,026 | 5,679 | 5,320 |
| Net Profit | 565 | 408 | 230 |
| NPM | 9.42% | 7.25% | 4.38% |
| ROA | 5.35% | 4.62% | 3.42% |
| ROE | 10.79% | 8.19% | 4.79% |

Source: SetSmart and Calculation

The company performance has been improving overtimes corresponding with Thailand tourism industry. Erawan recorded total operating income at THB 5,679 million, an 8 percent increase from FY16. Revenue from hotel operations and rental and service income have been increasing 8 percent and 4 percent from the same period last year respectively. The Net Profit has been increasing significantly 39% from 2016. ROE and ROA has slightly increased from 2015 to 2017 resulting from the increasing in net profit.

1.2.9 Corporate Governance

ERW emphasize on operating business under good corporate governance to support sustainable growth along with taking good care of their stakeholders. The company corporate governance report continued to be acclaimed “Very Good” by the Thai Institute of Directors Association (IOD). In term of anti-corruption perspective, The Erawan Group was certified as a member of Certified Collective Action Coalition (CAC) to declaration on anti-corruption by putting in place good business principles and control against briber. In addition, we evaluated ERW’s quality of governance in following main aspects:

ERW has Nominating and Corporate Governance Committee comprised of 5 members as of December 31, 2017. The duties of the committee are to determine and review the policy and guidelines on ongoing basis, to evaluate and to ensure the management's

operations are accordance with corporate governance policies and to promote knowledge acquisition for the company's nature of business, regulations, and strategy.

ERW has well-organized structure of Audit Committee, Nominating and Corporate Governance Committee and Management Development and Compensation Committee to perform separate internal audit function inspected by the Board of Directors and enhance transparency of remuneration and compensation policy. (Table 2.4: The Erawan Group's organization structure)

1.3 Macro Economics Analysis

1.3.1 Global economy grows from consumption and export

In 2018, the global economy was projected to continue growing mainly from consumption and exports. Moreover, the U.S. economy expected to grow due to U.S. tax reform policy, a strong labor market, and improved consumer confidence. The Euro area would also record a stronger growth from the back of exports and domestic demand, improved private sector confidence, and recovery in labor market conditions would continue to support growth going forward. Japan economy would expand across all sectors from robust consumer confidence and improved labor market conditions. The Chinese economy also expected to gain but it would have some slowdown, consistent with its economic growth target in 2018 and the reformed economic by government. Other Asian economies would continue increasing from a strong growth in exports across many product and service categories that would push household consumption and employment in the period ahead.

1.3.2 Philippines maintain a strong macroeconomic fundamental

The Philippines economic outlook in 2017 has performed well since the Philippines economy grew up 6.7 percent from 6.9 percent year-on-year in 2016, which was ranked as the third in the region next below Vietnam and China. The key driver of economic growth is robust export, while import is also increased but slower than export rose, so the net effect is trade surplus. The private consumption growth was moderate because of slowed real wage growth that was blocked by rising inflation. Even though

the consumer spending decreased, the historical poverty rate tends to be lower, as economic growth remains robust. World Bank determines the poverty rate based on below middle-income of US\$3.20/day, the rate is expected to decline from 27 percent in 2015 to 22.9 percent and 21.7 percent in 2018 and 2019 respectively. For investment activity, growth significantly slowed for two consecutive years.

In 2018 - 2019, IMF (International Monetary Fund) also supported that strong consumption and investment are the main driver to stimulate Philippines economy, approximately 6.5 percent in 2018 which a bit lower than 2017 (6.7 percent of growth in 2017) and is seen to grow at 6.7 percent in 2019 and 6.6 percent in 2020. In the first half of 2018, growth rate is a bit dropped due to weak exports of electronics and lower production from agriculture and fisheries causes by unfavorable weather conditions.

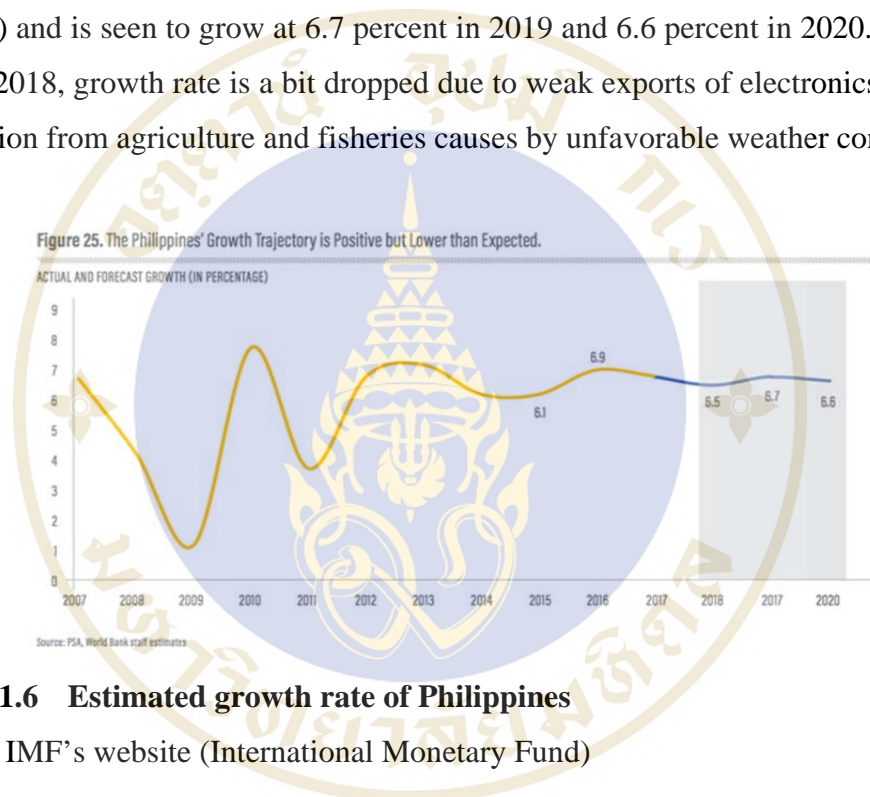


Figure 1.6 Estimated growth rate of Philippines

Source: IMF's website (International Monetary Fund)

Figure 8. The Philippine peso depreciated in the first eight months of 2018 in both nominal and real terms.

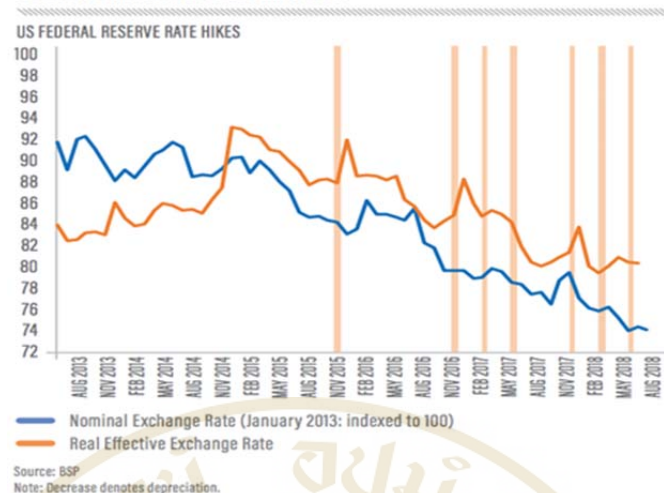


Figure 1.7 Exchange rate movement of Philippines

Source: IMF's website (International Monetary Fund)

The projected inflation quickly rises to 5.2 percent in the first half year owing to increasing international oil prices, weakening in peso, domestic demand pressure, and higher exist taxes. Furthermore, end of 2018 the expected current account will be deficit approximately 1.5 percent of GDP causes by increased import of capital goods and raw materials. The World Bank noted that the economy in medium-term will be remaining favorable, but risk will be existing in short-term. However, the Philippines government will maintain a strong macroeconomic fundamental by reducing labor market rigidities and costs, improving market competition through regulatory reforms, and improving investment and trade laws and regulations. This projected outlook would be a good sign for Erawan to expand in Philippines.

1.3.3 Thailand's economic outlook continued to expand

As the recorded GDP after seasonal adjustment, showing higher GDP from 3.3 percent in 2016 to 3.9 percent in 2017. The expansion in 2017 was mainly driven by exporting goods and services. Most of products are important for sustained improvements in external demand. Exported services are also robust due to increasing foreign tourists in almost all groups, especially Chinese and Russia tourists. While, Malaysian tourists continued to decrease because of intense competition among neighboring countries likes Vietnam has tried to attract more tourists. Private consumption continued increasing,

was supported mainly by strong purchasing power of non-agricultural household and by government measure such as social welfare card project. Private investment also improving, the construction sector continued to contract though. Government expenditure reduced from a public investment.

Bank of Thailand (BOT) has projected that Thai economy will expand by 4.1 percent growth in 2018 and 2019. The key factors that driven by stronger in merchandise exports and tourism, and expansion in household income that would support private spending. Therefore, the positive outlook of Thai economy would enhance the industry growth particularly in tourism sector.

1.3.4 Projected increase in tourism sector drives occupancy rate

Full year of 2018, the projected number of foreign tourists expected to surge from 2017 which could raise the occupancy rate. This is still mainly from Chinese tourists both group and independent tourists particular in October 1st as many Chinese people will travel during the national day holiday period. As the Phuket tour boat incident in July 2018 and Chinese tourist was hit by an airport guard, it caused a temporary dropped the total number of Chinese tourists in August 2018. However, the Thai police at Don Muang Airport also gave a warm welcome Chinese tourist to raise their confidence during their national holidays. Indian tourists also increase, after the Indian authority granted Thai airlines additional capacity rights. Malaysian tourists would also increase due to the Hari Raya Haji long holiday. Besides that, the number of Hong Kong and Japanese tourists continued to expand. Whereas, Russian tourists tend to decline, partly owing to the FIFA World Cup and the impact of US sanction.

1.3.5 Tourism policy by the government will stimulate tourism industry

The government declared travel and tourism policy that will be held in 2018 to enhance the country's image and further stimulate tourism in international markets. For example, the campaign of "Amazing Thailand Tourism Year 2018" from November 2017 to 1 January 2019 and "Thai Thiao Thai". Furthermore, Thailand will be hosted for international events in 2018 include: ASEAN Tourism Forum (ATF) in Chiang Mai, Sports Accord Convention, The 4th UNWTO World Forum on Gastronomy Tourism

and so on. This government measure would attract more domestic and foreign tourists both of leisure and business trip purposes.

1.3.6 Tourism industry is a key economic driver to achieve Thailand 4.0 policy

As the government uses Thailand 4.0 policy to change the nation income structure from middle to high income country, tourism industry is the main driver in terms of high-income generation to GDP and it also maintain a tradition, culture, and identity of Thailand. The government has focused on a sustainable tourism management, an environment and infrastructure, a modern marketing, and an establishment of tourism enterprises and start-ups based on innovation in order to move towards Thailand 4.0. Hence, tourism sector would gain much benefits from Thailand 4.0 policy.

Thailand's tourism industry has played a vital role in the economy over the past several years, and the sector contributed as much as 20% to the country's GDP last year.

1.4 Industry Analysis

Tourism industry in Thailand continued to grow in 2017 with THB 2.76 trillion of earnings, 9% more than 2016, and 35 million international tourists or 9% growth YoY.

Among those 35 million, the Chinese are the biggest part both in terms of number and revenue contributors, with other countries such as Malaysia, Korea, Japan, Russia and US also played a big part in the industry.

Moreover, the positive outlook was supported by various factors, higher demand from the Chinese as they regained their confidence both in high-end and first visit after the controversial zero-dollar tour settled down in late 2016. More importantly, both government and private sector were encouraged and involved in boosting and improving the tourism industry.



Figure 1.8 Number of foreign tourists each year and growth rate

Source: Tourism Authority of Thailand and the Tourism Council of Thailand

Fast-forward to 2018, Tourism Authority of Thailand (TAT) forecasts total earnings of THB 3 trillion, two-third would come from international tourists and the rest from domestic trips.

Tourism in Thailand should benefit from global synchronized growth, especially from the US and Europe. And industry would also benefit from domestic stimulus from the government, e.g. renovation and expansion of Suvarnabhumi International Airport and also the other two major airports in Thailand.

In addition, TAT's strategies this year is according to the government plan which is to balance the economy, environment and impact on local society. The international targets include high-end tourists, executive lady, family, millennial, Gen X and LGBT together with honeymoon & wedding, health & wellness, sport tourism and green tourism and TAT will focus on increasing the travel frequency of potential groups through several campaigns such as Amazing Thailand Go Local that promotes tourism in 55 secondary provinces in which Thai cabinet approved a personal income tax deduction scheme of up to THB 15,000 in travel expense. For 2019, The Tourism Authority of Thailand predicted that international arrivals would increase from a predicted 37.5 million in this year (2018) to 40 million next years. Furthermore, Thailand's tourism industry is expected to expand through next year with at least 10% growth in revenue from this year, achieving 3.4 trillion baht.

According to unusual circumstances during the second half of 2018, a tour boat accident off Phuket in July that killed dozens of Chinese holidaymakers, causing safety concerns. Moreover, Thailand's image in China has also been hurt by a viral video of an airport guard apparently punching a Chinese tourist resulting in the negative growth in Chinese arrivals in the second half of 2018. The government proposed providing temporarily double-entry visas or visa-free travel to Chinese visitors and ordered the Tourism Authority of Thailand (TAT) to create an online application specifically which consists of tourism news, information and assistance procedures for the China market.

Not only the recovery plan that we mentioned before, but also there are still have a chance for the country to boost visitors from other markets, particularly Europe, the Middle East, South Asia and Oceania. However, the government is confident that international visitors to Thailand will meet the expectation in this year.

In conclusion, Thailand continues to focus on this sector and aims to attract more tourists both domestic and international.

1.5 Competition Analysis

1.5.1 Market Capitalization & P/E

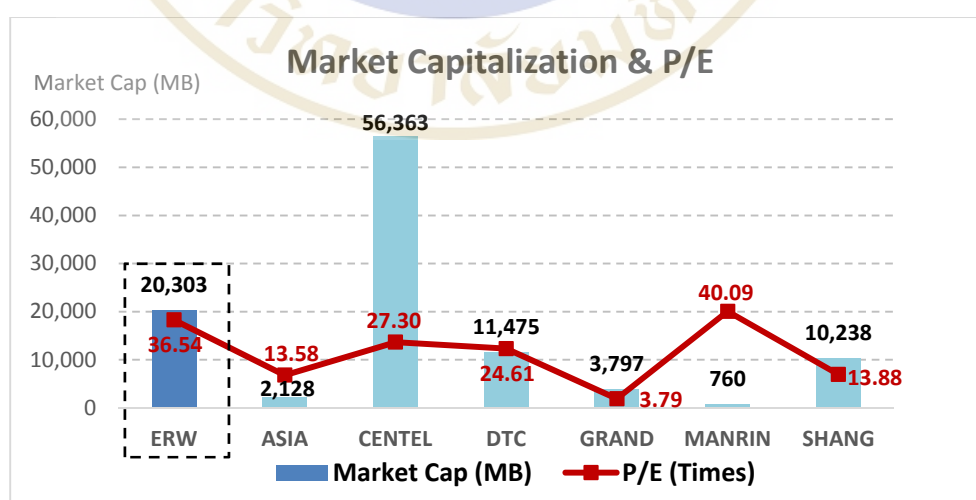


Figure 1.9 Market capitalization and price to earning ratio

Source: SetSmart, As of Q3 2018

Market capitalization or market cap is the market value of a publicly traded company's outstanding shares, derived from stock price multiplied by number of shares outstanding. Generally, market cap used as a measure of company size; small, mid, large or mega capitalization. MANRIN is small-cap; between 300 million Baht to 2 billion Baht. ASIA and GRAND are mid-cap; between 2 billion Baht and 10 billion Baht. SHANG, DTC, ERW and CENTEL are large-cap; 10 billion Baht to 200 billion Baht. More than 200 billion Baht would be considered in mega-cap.

The total market cap in tourism sector which comprised of 7 listed company accounts for 128.979 million Baht. ERW ranked the second market cap at 15.74% of tourism sector, P/E of 36.54. CENTEL is the largest market cap accounts for 47.70% of its sector, P/E of 27.30. While DTC almost has the same level of market cap, P/E of 24.61.

1.5.2 SWOT Analysis



Figure 1.10 SWOT Analysis

Source: Team Analysis (Chapter 2.4: SWOT Analysis)

1.5.3 Five Force Model



Figure 1.11 Five Force Model

Source: Team Analysis (Chapter 2.5: Five Force Model)

1.5.4 Hotel Business: Big Players

Direct Competitor of ERW: Dusit Thani Public Company Limited



Figure 1.12 Hotel brand by Dusit Thani Public Company Limited

Among the 5 companies of tourism segment in SET index, we have chosen the Dusit Thani Public Company Limited (DTC) as the direct competitor of ERW which is engaged in hospitality services which include the operations of owned hotels, providing hotel management services under trademark licensing of “Dusit Thani”. The Company also engages in education business and other businesses. DTC has the most similar revenue structure and businesses to ERW. According to the revenue breakdown as of 2018, DTC has about 82.41% revenues from hotel operations, 7.94% education businesses, and

9.65% other income such as rental and service. DTC has smaller size of market capitalization to ERW. Its market capitalization as of October 10, 2018 is THB 10,370 million. (ERW market capitalization 19,050 million)

In accordance with DTC's revenue structure classified by hotels, about 20.5% of total revenue of hotel operation come from Dusit Thani Bangkok, 17.3% Dusit Thani Maldives, and 15.8% Dusit Thani Manila in Philippine which are 5-star hotels (Luxury Segment). DTC's strategy is to diversify the variety of business types for the risk diversification and to business by doubling hospitality business to 14,000 rooms within 2021. This shows the similar strategy of hotels operation to ERW.

The significant financial information compares between ERW and DTC for the year ended 31 December 2017.

Table 1.5 Comparing keys business performance

| Y 2017 | ERW | DTC |
|--------------------------------------|--------|-------|
| Total Assets)Million Baht(| 16,048 | 9,978 |
| Total Revenues)Million Baht(| 6,026 | 5,550 |
| Net Profit)Million Baht(| 565 | 332 |
| Net profit margin) NPM(| 9.42% | 7.04% |
| Return on equity)ROE(| 10.79% | 5.92% |
| Return on assets)ROA(| 5.35% | 4.00% |
| Interest-bearing Debt to Equity) DE(| 1.68 | 0.29 |

Source: SetSmart and Calculation

1.6 Investment Summary

The Erawan Group Public Company Limited is a hospitality company of Thailand. The company and its subsidiaries operate hotels, office buildings and shopping centers. ERAWAN Group has been developed various real estates and hotel business over the past 35 years. ERW's main business is to invest in and develop hotel properties in strategic locations throughout Thailand and ASEAN. ERW currently owns 52 hotels and operates other businesses including retail space rental, and management of office building. ERW had four segments in hotel; Luxury, Midscale, Economy and Budget segment.

1.6.1 Significant recent development

ERW still continue its investment plan as set forth in our 5 years master plan (2016-2020). In 2018, the company will open 9 new hotels; 7 of their own brand “HOP INN” in Thailand and Manila Philippines, one of Novotel and one of ibis in Sukhumvit, Bangkok. With the continuous expansion strategy as aforementioned, our portfolio as of 2018 ended with 61 hotels 8,485 rooms, increasing significantly from 52 hotels with 7,328 rooms as of 2017. Our expansion is progress as planned to support our vision to be the leading hotel developer and investor in Thailand and ASEAN.

However, ERW have started room renovation program of JW Marriott Bangkok hotel since 2017. ERW certainly sure that occupancy rate and room rate would go up after opened full operation. In addition, JW Marriott Bangkok hotel could remain and enhance its competitive through the renovation strategy. Resulting in ERW’s earning would significantly rising in 4th quarter of 2018 because of the completion of renovation and the impact on tourist high seasons.

Furthermore, ERW strongly believe in their strategy which focus in high growth market and high growth return segment together with their continuous asset improvement program to enhance the competitiveness of their hotel. In addition, the strong fundamental of Thailand’s tourism industry as the world top destination and the growth of Asia Pacific as the world’s leading business hub and traveling destinations will be the key factors to support the future growth of ERAWAN.

1.6.2 Earning in 2019 expect to increase

The key drivers of ERW’s earning in 2019 are new hotel opened during year ended of 2018 including JW Marriott Bangkok hotel completed room renovation, Novotel & Ibis Style at Sukhumvit 4 and HOP INN Chiang-rai & Quezon opened in 2018. Together with new hotel which planned to open in 2019 approximately 1,781 rooms. Newly hotel consists of Mercure & Ibis will be opened in Bangkok, 7 HOP INN in up-country and hotel in Philippines more than 600 rooms.

1.6.3 Government simulations favor ERW

In 2018, Tourism Authority of Thailand (TAT) forecasts total earnings of THB 3 trillion (Deputy Governor Marketing Communications speech, 2018), two-third would come from international tourists and the rest from domestic trips. The growth will be supported by government's stimulation especially international tourism market. For example, the campaign of Amazing Thailand Tourism Year 2018, Thai Thiao Thai, being hosted for several international events in 2018. These measurements would attract more domestic and foreign tourists both of leisure and business trip purposes. In addition, the government also focused on tourism industry because it is the key economic driver for Thailand 4.0 policy in terms of high-income generation about 20% of GDP. Hence, tourism sector would gain much benefits from Thailand 4.0 policy. Although, the current trade war and the slowdown of Chinese tourists due to the Phuket tour boat incident are also the risk factors to Thailand tourism in the second half of 2018. The government proposed providing temporarily double-entry visas or visa-free travel to Chinese visitors and provided other facilities to attract Chinese market and increase their confident as well. In conclusion, Thailand government continues to focus on this sector and confidentially aims to attract more tourists both domestic and international.

1.6.4 Philippines maintain a strong macroeconomic

The Philippines government will maintain a strong macroeconomic fundamental through regulatory reforms and improving investment and trade laws and regulations. Moreover, in 2018 - 2019, IMF also supported that a strong consumption and investment are the main driver to stimulate Philippines economy. The forecasted GDP of Philippines is approximately 6.5% (Datamapper: Real GDP Growth, 2018). This projected outlook would be a good sign for Erawan to expand in Philippines.

1.6.5 The recommendation investment action

In term of ERW's stock price, since December 2015 ERW continuously up size over the year particularly in the 3rd - 4th quarter of 2017. However, in the beginning of 2018 ERW shown the side-way signal and quickly drop in the mid-year affected by the slowdown of tourist visitors and United States' trade war. These are the key risk factors that we concern, hence investment recommendation is "HOLD" rating.

We issue a HOLD recommendation on Erawan Group Public Company Limited with a one-year target price of THB 6.98 using the Discounted Free Cash Flow to Firm Method. This offers 8.16% upside from its closing price of THB 6.45 on November 23, 2018. With the tourism of Thailand's positive economic outlook, ERW is able to grow from its core business of hotel operation with strong current product portfolio and opportunity to open hotel in other traveling destinations.



Figure 1.13 ERW's daily share price

Source: SetSmart as of December 2015 to November 2018

1.7 Discounted Cash Flow Valuation

We use the Discounted Free Cash Flow to Firm (FCFF) method to evaluate the firm value. This method involves estimating the firm's value and adjusting it for net debt to arrive at equity value which is suitable for ERW as the company has the long term and relatively stable debt structure, and it takes in consideration the time value of money. Value of the company will be increased from an income that will be generated through the future expansion of hotel, therefore future cash flow will determine the actual value of the firm.

ERW has two main sources of operating activities to generate the revenues; revenues from hotel operations and rental of units in buildings and service income

1.7.1 Forecasted Revenue Growth Rate

1.7.1.1 Revenues from hotel operations

ERW's core business primarily involves hotel operations as main sources of revenue. As of December 2017, the revenues from hotel operation is accounted for 95.42% of total revenues. The main drivers of this business are increasing in the number of hotel rooms and Revenue per Available Room (RevPAR) (Revenue Per Available Room, 2018) which is a performance metric used in the hotel industry. It is calculated by multiplying a hotel's average daily room rate (ADR) by its occupancy rate. Based on the assumption, ERW's hotel business is expecting to increase on revenue from an increased in total number of hotel rooms and an increase in overall RevPAR. In our assumption, we forecast occupancy rate, average room rate per night, and room inventory by 4 hotel segments; Luxury, Midscale, Economy, and Budget.

- Forecasted Room inventory

We estimated the room inventory of all hotel segments based on ERW' hotel growth strategy announcement from 2018 to 2020. According to these strategies, ERW mainly focus on expanding in Budget, Economy and Midscale segment respectively. For Luxury segment, the company planned to renovate and expect to increase the room rate which will be reflected in average room rate per night assumption. For 2021-2022, there are no strategy announcement, so we decided to forecast based on CAPEX of the company. The room inventory will increase by 71% and 73% of total room inventory increased in the 2019 (latest strategy announcement) respectively which is the proportion of total CAPEX in 2021 and 2022 to total CAPEX in 2019 as follows;

Table 1.6 Growth rate assumption of each hotel segment

| Hotel segment | Growth assumption | | | | |
|---------------------------------------|-------------------|--------------|---------------|---------------|---------------|
| | 2018F | 2019F | 2020F | 2021F | 2022F |
| Luxury | - | - | - | - | - |
| Midscale | 185 | 146 | 145 | 104 | 105 |
| Economy | 133 | 105 | 105 | 75 | 76 |
| Budget | 1,076 | 896 | 896 | 640 | 650 |
| Total Room Inventory Increased | 1,394 | 1,147 | 1,146 | 818 | 831 |
| Total Room Inventory | 8,410 | 9,557 | 10,703 | 11,521 | 12,352 |

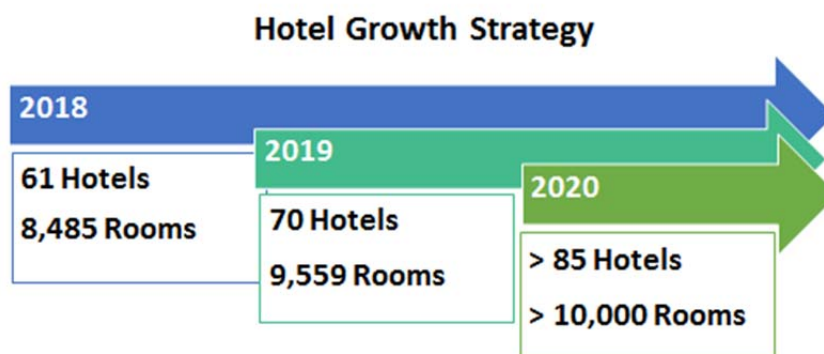


Figure 1.14 Hotel growth strategy announced by ERW

Source: Information from ERW's Opportunity day Q1- Q3 2018

- Forecasted Occupancy Rate

We use historical information to estimate the occupancy rate of all hotel segments. In our assumption, we use the 3-year average occupancy rate by segments because the budget hotels segment has been opened in 2014. Furthermore, we decided to add 2% growth in the assumption based on the increasing trend of tourism and the increasing of occupancy rate among the industry approximately 2 % (Source: BOT EC_EI_Tourism Indicators) conservatively as follows;

Table 1.7 % Occupancy rate assumption

| Hotel segment | Growth assumption | | | | |
|---------------|-------------------|--------|--------|--------|--------|
| | 2018F | 2019F | 2020F | 2021F | 2022F |
| Luxury | 80.00% | 80.00% | 80.00% | 80.00% | 80.00% |
| Midscale | 86.00% | 86.00% | 86.00% | 86.00% | 86.00% |
| Economy | 83.00% | 83.00% | 83.00% | 83.00% | 83.00% |
| Budget | 74.50% | 74.50% | 74.50% | 74.50% | 74.50% |

- Forecasted average room rate per night

We use historical information to estimate the average room rate per night of all hotel segments. In our assumption, we use the 3-year average room rate per night by segments because the budget hotels segment has been opened in 2014. Additionally, we added 2.5% in Luxury growth assumption due to the increasing of

room rate of the completed room renovation. For conservative aspect, in 2022 onwards, we decided to use the inflation rate forecast at 2% (Source: IMF data) as follows;

Table 1.8 Average room rate per night assumption

| Hotel segment | Growth assumption | | | | |
|---------------|-------------------|-------|-------|-------|-------|
| | 2018F | 2019F | 2020F | 2021F | 2022F |
| Luxury | 6.70% | 6.70% | 6.70% | 6.70% | 2.00% |
| Midscale | 3.12% | 3.12% | 3.12% | 3.12% | 2.00% |
| Economy | 4.58% | 4.58% | 4.58% | 4.58% | 2.00% |
| Budget | 7.98% | 7.98% | 7.98% | 7.98% | 2.00% |

1.7.1.2 Rental of units in buildings and service income

As of December 2017, the Rental of units in buildings and service income is accounted for 3.68% of total revenues. We assume the revenue of this business to grow by 3.95% each year based on the historical 3-year average growth.

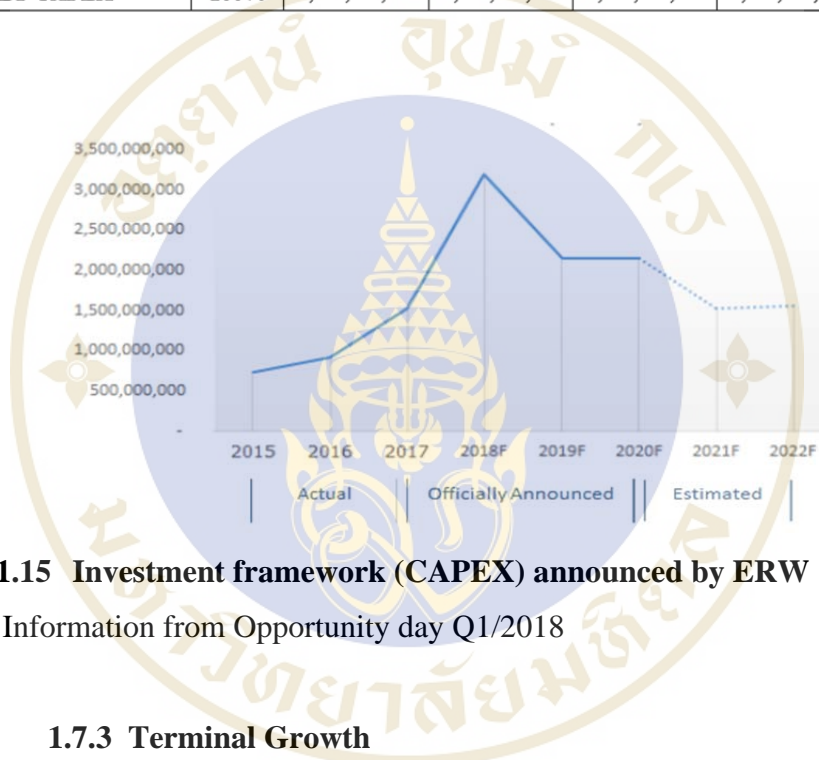
1.7.2 Capital Expenditure

The CAPEX reflects the long-term investment in hotel development, assets improvement and additional investment in the company's fixed assets. The company investment framework as set in ERW 5 years' strategic plan which focusing in high growth market has announced to invest in CAPEX 3,200 MB in 2018 and 4,300 MB during 2019-2020. The CAPEX is expected to divide into 3 parts; 15% for asset improvement, 30% for hotel development in Philippines, and 55% for hotel development in Thailand. Therefore, we assume the Property, plant and equipment, Leasehold rights for land and buildings, and Intangible assets will increase by 88.81%, 10.90%, and 0.30% of total CAPEX each year respectively which the historical 3-year average proportion of each type of fixed assets to the total fixed assets is. For 2021-2022, there are no strategy announcement, so we decided to use the average between the depreciation expense from the previous year and the CAPEX amount as a previous year which accounted to 2,150 MB because of the historical investment and strategic plan to expand continuously as following.

Table 1.9 Capital expenditure assumption

| CAPEX | | 2021F | | | 2022F | |
|---------------|--|---------------|--|--|---------------|--|
| Upper bound | | 2,150,000,000 | | | 2,150,000,000 | |
| Lower bound | | 919,788,320 | | | 968,155,691 | |
| Average CAPEX | | 1,534,894,160 | | | 1,559,077,845 | |

| CAPEX | % | 2018F | 2019F | 2020F | 2021F | 2022F |
|-------------------------------|-------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Increase in PPE | 87.82% | 2,810,293,905 | 1,888,166,218 | 1,888,166,218 | 1,347,969,907 | 1,369,208,427 |
| Increase in Leasehold rights | 11.21% | 358,613,996 | 240,943,779 | 240,943,779 | 172,010,790 | 174,720,980 |
| Increase in Intangible assets | 0.97% | 31,092,098 | 20,890,004 | 20,890,004 | 14,913,463 | 15,148,438 |
| NET CAPEX | 100% | 3,200,000,000 | 2,150,000,000 | 2,150,000,000 | 1,534,894,160 | 1,559,077,845 |

**Figure 1.15 Investment framework (CAPEX) announced by ERW**

Source: Information from Opportunity day Q1/2018

1.7.3 Terminal Growth

In our assumption, we use the forecasted Real GDP growth and inflation rate in 2023 to reflect terminal growth (Terminal Growth Rate, 2018). We assumed that the terminal growth will be equal to the forecasted real GDP and inflation rate. Because of the nature of the industry in the long-term performance will mainly be affected by Thailand's economic. The nominal GDP is 5.6 % (Inflation Rate and Average Consumer Price, 2018). Nevertheless, in uncertainty situation as signal from US economy about the trade war, China's economic, and also Thailand's government policy will be affect to Thailand's economy as well, thus we decided to conservatively use terminal growth rate at 5%.

Table 1.10 GDP and Inflation Forecasted

| Real GDP growth (Annual % change) | | | | | | |
|---|------|------|------|------|------|------|
| Thailand | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| | 4.6 | 3.9 | 3.7 | 3.5 | 3.5 | 3.6 |
| Inflation rate, average consumer prices (Annual percent change) | | | | | | |
| Thailand | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| | 0.9 | 0.9 | 1.1 | 1.4 | 1.8 | 2 |

Source: International Monetary Fund – IMF

1.7.4 Weighted Average Cost of Capital

We calculate cost of equity using CAPM model. For the risk-free rate, we assumed 10-year government bond yield of 2.72% according to Thai BMA information. Beta of the company is 1.49 as of November 23, 2018* and the market risk premium of Thailand is 6.92% according to Damadoran's website information. As a result, the cost of equity of ERW is 11.90%. In term of cost of debt, we estimate the latest cost of debt by using financial costs and interest-bearing debt information because ERW are fully financing by debt. The after-tax cost of debt is 3.08%. Therefore, WACC of the company using in DCF model is 8.60% as following.

Table 1.11 WACC calculation

| Inputs | Value | Note |
|-------------------------------|---------------|--|
| Risk Free Rate | 2.72% | 10 Years government bond yield, Thai BMA (as of 23 Nov 2018) |
| Beta | 1.49 | SetSMART, as of 23 Nov 2018 |
| Adjusted Beta | 1.33 | $0.333 + (0.667 * \text{Beta})$ |
| Market Risk Premium | 6.92% | Damadoran website (Jan 2018) |
| Cost of Equity | 11.90% | |
| Pre-tax Cost of Debt | 3.85% | Estimated Kd from Interest Expense, Y2018 |
| Marginal Tax Rate | 20% | |
| After-tax Cost of Debt | 3.08% | |
| Weight of Equity | 63% | As of 23 Nov 2018 share price, 6.45 THB/share |
| Weight of Debt | 37% | BV of Interest-bearing Debt, as of Q3 2018 |
| WACC | 8.60% | |

Source: Thomson Reuter Eikon, Damadoran, and calculation

Note * Beta 5-year monthly in Thomson Reuters Eikon is 1.53.

1.7.5 Value of Non-Operating Assets

The value of non-operating assets is THB 1,168 million consisting of THB 1,075 million cash and THB 93 million investment in associates. ERW had invested in Erawan Hotel Growth Property Fund which is an investment in property with 20% of shareholding. During the nine-month period ended 30 September 2018, there were no acquisitions and disposals of investments in associates. We value the investment by book value in the latest financial statement (Q3 2018).

1.7.6 Valuation Summary

According to above assumptions, the value of operating assets by free cash flow to firm from DCF method is THB 26,004 million. Added non-operating assets value of THB 1,168 million, the value of firm is total THB 27,173 million. By deduction of debt amount of THB 9,685 million as of Q3 2018, the value of equity is THB 17,487 million and value per share is THB 6.98. Comparing to current share price, the target price has 8.16% upside; therefore, we issue HOLD recommendation.

Table 1.12 FCFF Model (Unit: THB Million)

| Discounted Cash Flows Model | | 2018F | 2019F | 2020F | 2021F | 2022F |
|--|-------|---------------|--------------|--------------|--------------|---------------|
| EBIT | | 1,368 | 1,657 | 1,954 | 2,208 | 2,381 |
| Tax expense | | 274 | 331 | 391 | 442 | 476 |
| NOPAT | | 1,094 | 1,325 | 1,563 | 1,766 | 1,905 |
| Plus : Depreciation and amortization | | 784 | 852 | 920 | 968 | 1,017 |
| Less : CAPEX | | -3,200 | -2,150 | -2,150 | -1,535 | -1,559 |
| Less : Net Operating Working Capital | | -129 | -107 | -97 | -46 | -43 |
| Free Cash Flows to Firm (FCFF) | | -1,450 | -79 | 236 | 1,153 | 1,320 |
| <i>Weighted Average Cost of Capital</i> | 8.60% | | | | | |
| <i>Terminal Growth Rate</i> | 5.00% | | | | | |
| Terminal Value | | | | | | 38,543 |
| Net Free Cash Flows to Firm | | -1,450 | -79 | 236 | 1,153 | 39,863 |
| Discounted Free Cash Flows (PV of FCFF) | | -1,335 | -67 | 184 | 829 | 26,393 |
| EV | | 26,004 | | | | |

Table 1.13 Valuation summary

| Valuation Summary | Amount (THB) | |
|-------------------------------|-----------------------|--|
| Value of Operating Assets | 26,004,068,656 | Enterprise Value from FCFF |
| Value of Non-operating Assets | 1,168,476,000 | Cash & Investments in associates as of Q3'2018 |
| Value of Firm | 27,172,544,656 | |
| Value of Debt | 9,685,414,000 | Interest - bearing Debt as of Y2018 |
| Value of Equity | 17,487,130,656 | |
| Number of Shares Issued | 2,506,603,910 | |
| Shared Price | 6.98 | THB per share |
| Current Stock Price | 6.45 | THB per share (23 Nov 2018) |

1.8 Investment Risks and Downside Possibilities

1.8.1 Investment Risks

1.8.1.1 Market Risk

Currently, there is a problem of supply in the hotel market because the unbalanced situation of supply and demand could cause an intense competition (Thailand Hotel Industry Outlook 2018-2020, 2017). The oversupply is expected to affect the company's income and operating profit. ERW have mitigated this unbalanced demand-supply risk effectively by diversifying hotels and resorts portfolio into luxury, midscale, economy, and budget segments in various tourist destinations and business district areas. Moreover, the company have always reinforced to manage their operating expenses effectively and efficiently on an on-going basis.

1.8.1.2 Strategic risk - Risk from International Investment

ERW's business strategy is to invest internationally such as in the Philippines. The company exposes to additional threats such as exchange rate volatility, fluctuation in investment value, lack of knowledge in laws and regulations related to hotel operations, as well as licenses and permits application. Thus, the company has implemented measures to closely monitor international hotel investment by performing the due diligence process. Moreover, ERW minimizes the exchange rate risk through

natural currency hedging, a method of protecting a company against currency risk consisting in holding two assets whose value changes offset each other (Natural currency hedging ,2018), in order to reduce the above-mentioned risks. To achieve that goal, ERW need to employ local experts as to share knowhow in running business in foreign countries.

1.8.1.3 Operation Risk

- Risk of Dependence on Third-party Hotel Management Companies

ERW hires well-known international hotel operators to utilize their reputations, experiences, financial positions, and expertise in managing and administering their hotels. These third-party hotel operators include Hyatt International, Marriott International, and InterContinental Hotels Group which are amongst the world's largest with proven track records, established systems, worldwide reputations, and strong financial positions.

During the long-term management agreements contracted periods, there is a risk that operators' capabilities to compete may decline and adversely affect the company hotels' performance. Therefore, all hotel management agreements with third-party hotel operators include termination for non-performance clause, which allows the company to terminate the contract and select another international hotel operator to take over the management of the property, in case that the existing operator is not able to manage the hotel to reach expected performance level.

- Human Resources Risk

Over the past years, ERW has recruited employees and managements in many department and provides continuous training and development to existing employees. The company will attract capable professionals by using their key corporate cultures and competitive compensation and benefits policy. Moreover, ERW has long term stock option plan for executive management and employees creating commitment and loyalty to employees which will help them to work more effectively.

In addition, loss of executive management or key personnel of the company is also considered a risk for the company. More importantly, the company has implemented a 3-layer succession plan from President down to Vice President level. Furthermore, the company operates under an efficient system and do not rely on sole

capability. Authority has been decentralized to various level employees under the supervision of the Board of Directors which will help reduce risk from loss of key personnel.

- External Risk Factors Impacting Company's Assets and Business Operations

Unpredictable and uncontrollable external risk factors such as natural disaster, terrorism or political unrest may cause a serious impact on company's properties and business operations. However, all hotel properties of the company are covered under all-risk, business interruption, and political violence insurance policies. These external risk factors might also cause a sudden drop in number of international tourist arrival, which will have a direct impact on hotel revenue and net income.

1.8.1.4 Interest Rate Risk ERW require a large amount of funds for expanding the businesses. However, ERW finance to achieve these missions which is derived from loans from financial institutions. Thus, ERW have to make sure that every project can utilize the budget efficiently. Not only efficiency of fund, but market interest rates play a vital role in the company's cost of funds required for operations and projects developments. For the purpose of interest rate risk mitigation, in 2017 the company converted most long-term loan from floating rates into fixed rates for 3 years period due to the trends of higher interest rate in the market. It would affect to the lower cost of capital of the company.

1.8.2 Drivers of Volatility in Earnings: Downside Possibilities

To Estimate the value of ERW, there are various degrees of uncertainty that would affect on target price of ERW. According to inputs which based on business plan and our assumptions. We used sensitivity analysis to see how changes in the ERW value when major inputs are changed. For the sensitivity analysis, key inputs are discount rate, share dilution, and expenses. Following tables represent the effect of key inputs to ERW share prices.

1.8.2.1 Discount Rate : WACC and Terminal Growth Rate

Table 1.14 Sensitivity analysis: WACC and terminal growth

| | | Terminal Growth | | | | | | | |
|-------------|------|-----------------|-------------|-------------|-------------|--------------|-------------|--------------|--------------|
| | | -30% | -20% | -10% | 0% | 10% | 20% | 30% | |
| Share Value | | 6.98 | 3.50% | 4.00% | 4.50% | 5.00% | 5.50% | 6.00% | 6.50% |
| WACC | -30% | 6.02% | 13.03 | 17.14 | 23.94 | 37.44 | 77.03 | 2377.19 | -89.93 |
| | -20% | 6.88% | 8.42 | 10.49 | 13.44 | 17.97 | 25.77 | 42.48 | 103.49 |
| | -10% | 7.74% | 5.68 | 6.92 | 8.53 | 10.74 | 13.93 | 18.96 | 28.06 |
| | 0% | 8.60% | 3.88 | 4.69 | 5.69 | 6.98 | 8.68 | 11.03 | 14.51 |
| | 10% | 9.46% | 2.60 | 3.16 | 3.84 | 4.67 | 5.71 | 7.06 | 8.85 |
| | 20% | 10.32% | 1.65 | 2.06 | 2.55 | 3.12 | 3.82 | 4.67 | 5.75 |
| | 30% | 11.18% | 0.92 | 1.23 | 1.59 | 2.01 | 2.50 | 3.09 | 3.80 |

Source: Calculations

The terminal growth rate of the model has a considerable impact on ERW share price. 10% change in terminal growth, holding the WACC and other factors constant, causes ERW share price either increase or decrease by roughly 8.68 and 5.69 Baht respectively. Meanwhile, holding terminal growth and other factors constant, 10% decreases in WACC causes ERW share price increase to 10.74 Baht. While 10% increases in WACC, share value decreased to 4.67 Baht. We noticed that increases in WACC value greater than or equal to 10% then the share price would drop to 4.67 – 2.01 Baht, where we issue SELL instead of HOLD.

1.8.2.2 Share Dilution : Number of Shares and Growth Rate

Table 1.15 Sensitivity analysis: dilutive shares and terminal growth

| | | Terminal Growth | | | | | | | |
|-----------------|------|-----------------|-------------|-------------|-------------|--------------|-------------|--------------|--------------|
| | | -30% | -20% | -10% | 0% | 10% | 20% | 30% | |
| Share Value | | 6.98 | 3.50% | 4.00% | 4.50% | 5.00% | 5.50% | 6.00% | 6.50% |
| Dilutive Shares | -30% | 1,754.62 | 5.54 | 6.69 | 8.13 | 9.97 | 12.40 | 15.76 | 20.73 |
| | -20% | 2,005.28 | 4.85 | 5.86 | 7.11 | 8.72 | 10.85 | 13.79 | 18.14 |
| | -10% | 2,255.94 | 4.31 | 5.21 | 6.32 | 7.75 | 9.64 | 12.26 | 16.12 |
| | 0% | 2,506.60 | 3.88 | 4.69 | 5.69 | 6.98 | 8.68 | 11.03 | 14.51 |
| | 10% | 2,757.26 | 3.52 | 4.26 | 5.17 | 6.34 | 7.89 | 10.03 | 13.19 |
| | 20% | 3,007.92 | 3.23 | 3.90 | 4.74 | 5.81 | 7.23 | 9.19 | 12.09 |
| | 30% | 3,258.59 | 2.98 | 3.60 | 4.38 | 5.37 | 6.67 | 8.49 | 11.16 |

Source: Calculations

Holding growth rate and other factors constant, 30% increasing in number of shares leads to reducing in ERW value by roughly 1.16 Baht or equal to 5.37 Baht. On the other hand, 30% decreasing in number of shares cause target price goes up by roughly 2.99 Baht or reach to 9.97 Baht. Changing in both factors would significantly affect the rating recommendation, so it should remain HOLD as long as the target price is between plus and minus 15% or 5.93 - 8.21 Baht. According to the employee stock option plan, there are remaining right to purchase shares within 30 December 2020. Hence demand of stock tends to be increased, leading ERW's target price goes down that turns to SELL recommendation.

1.8.2.3 Expenses : Selling Expenses and Administrative Expenses

Table 1.16 Sensitivity analysis: selling expenses and administrative expenses

| | | Administrative Expenses | | | | | | | |
|-------------------------|------|-------------------------|--------------|-------------|-------------|---------------|-------------|-------------|-------------|
| | | -30% | -20% | -10% | 0% | 10% | 20% | 30% | |
| Share Value | | 6.98 | 13.63% | 15.58% | 17.53% | 19.47% | 21.42% | 23.37% | 25.31% |
| Selling Expenses | -30% | 4.44% | 12.23 | 10.89 | 9.56 | 8.22 | 6.89 | 5.56 | 4.22 |
| | -20% | 5.07% | 11.81 | 10.48 | 9.14 | 7.81 | 6.47 | 5.14 | 3.81 |
| | -10% | 5.71% | 11.39 | 10.06 | 8.73 | 7.39 | 6.06 | 4.72 | 3.39 |
| | 0% | 6.34% | 10.98 | 9.64 | 8.31 | 6.98 | 5.64 | 4.31 | 2.97 |
| | 10% | 6.97% | 10.56 | 9.23 | 7.89 | 6.56 | 5.23 | 3.89 | 2.56 |
| | 20% | 7.61% | 10.15 | 8.81 | 7.48 | 6.14 | 4.81 | 3.48 | 2.14 |
| | 30% | 8.24% | 9.73 | 8.40 | 7.06 | 5.73 | 4.39 | 3.06 | 1.73 |

Source: Calculations

ERW share price is also sensitively changes in both selling expenses and administrative expenses. With 2 factors seem to have similar impact on share value. Saving both expenses by 10% of moderate rate leading share value rises to 8.73 Baht, where we issue BUY rating. While increasing both expenses by 10% causes target price dropped to 5.23 Baht which we recommend SELL.

CHAPTER II

DATA

2.1 The Erawan Group's Shareholders Structure

1. Top ten shareholders holding the highest number of shares are as follows:

| | Shareholder's name | Number of shares | % of total shares |
|----|------------------------------------|------------------|-------------------|
| 1 | Mr. Sukakarn Wattanavekin | 376,439,178 | 15.05% |
| 2 | City Holding Co.,Ltd. | 222,728,100 | 8.91% |
| 3 | Mrs. Vansamorn Wannamethee | 149,757,004 | 5.99% |
| 4 | Mid-Siam Capital Co.,Ltd. | 144,488,645 | 5.78% |
| 5 | Thai NVDR Co.,Ltd. | 105,190,038 | 4.21% |
| 6 | N.C.B.TRUST LIMITED-NORGES BANK 11 | 74,945,100 | 2.99% |
| 7 | PAN ASIA ASSETS LIMITED | 73,000,000 | 2.92% |
| 8 | Mr. Supol Wattanavekin | 66,235,502 | 2.65% |
| 9 | UBS AG SINGAPORE BRANCH | 60,000,000 | 2.39% |
| 10 | Ms. Thitinant Wattanavekin | 43,659,291 | 1.75% |
| | Total top ten shareholders holding | 1,316,442,858 | 52.64% |

Figure 2.1 Top ten shareholders holding

Source: ERW's annual report 2017

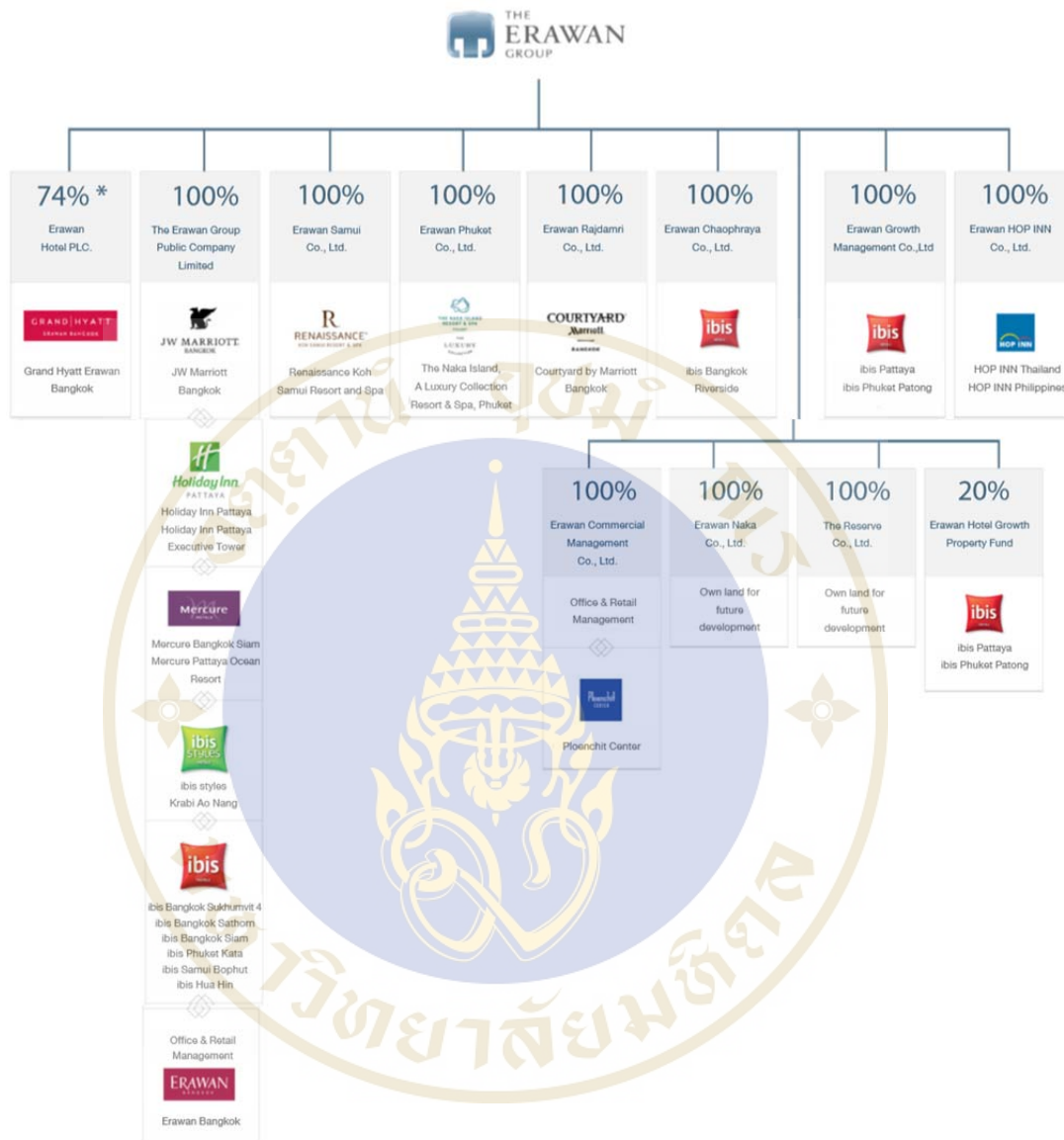
2. Detail Groups of Major Shareholders

| Group of Shareholders | Number of shares | % of total shares |
|--|------------------|-------------------|
| Vongkusolkit Group | 705,719,202 | 28.22% |
| Wattanavekin Group | 710,438,967 | 28.41% |
| Thai Institution Investor and Foreign Institution Investor | 890,403,380 | 35.60% |
| Company's executives and employees | 10,083,169 | 0.40% |
| Minor Shareholders | 184,248,557 | 7.37% |
| Total | 2,500,893,275 | 100.00% |

Figure 2.2 Groups of major shareholders

Source: ERW's annual report 2017

2.2 The Erawan Group’s Business Structure



*The Government hold 26% of shares via The Syndicate of Thai Hotels & Tourist Enterprises Limited and also the landlord

Figure 2.3 The Erawan Group’s business structure

Source: ERW’s annual report 2017

2.3 The Erawan Group's Organization Structure

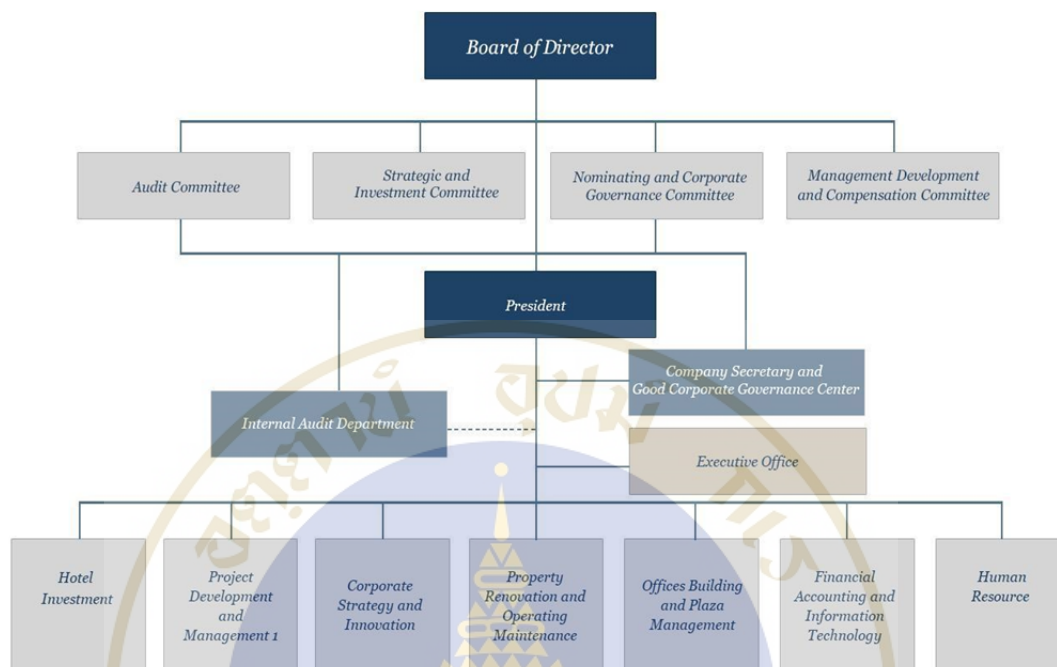


Figure 2.4 The Erawan Group's organization structure

Source: ERW's annual report 2017

2.4 SWOT Analysis

2.4.1 Strengths

2.4.1.1 The leader hotel in Thailand and ASEAN

ERW group has been well-established and improved over the past 35 years under nine brands with 52 hotels which account for 7,328 rooms. Moreover, they also be an alliance with four world-class hoteliers including HYATT, Marriott, IHG and Starwood these operation leads ERW to be the popular hotel for a tourist and business destination in Thailand and ASEAN country as well.

2.4.1.2 Hotel Growth Strategy

ERW strongly aims to expand a well-diversified hotel portfolio in high growth segments and destinations that corresponds with the company's vision to be the leading hotel developer and investor in Thailand and ASEAN.

2.4.1.3 Hotel diversification

ERW provides a wide segment of hotels including luxury, midscale, economy and budget hotel in key destinations which can serve a different kind of customer's preference.

2.4.1.4 Explicit expansion plan

Many business plans are described in annual report of 2017. ERW has properties under develop which expected to open in 2018- 2020 both in Thailand and Philippines. It could indicate that ERW is seeking an opportunity area and developing its competency to increase market share and revenue.

2.4.2 Weaknesses

2.4.2.1 Depended on High Debt

Noticed from D/E ratio in the financial statement since 2015-2017, it shows that debt to equity ratio was twice as much as equity. Meaning that the mainly source of fund comes from debt which are short-term and long-term borrowings from financial institutions. However, the financial cost was a bit lower over the year.

2.4.2.2 High hotel rates

The tourist attractions in Thailand such as Hua Hin, Phuket, Samui and etc. are various of hotel provider. Mostly, the well-known hotel brand of ERW group charges at a high price when compared with others for example, in midscale segment, Holiday Inn Pattaya rated about three thousand Baht per night. Hua Hin Marriott rated about three thousand and nine hundred Baht per night. Those ranges could grab only a high-income customers and a foreigner. In general, Thai tourist usually seek for an affordable rate that comes with a lower standard and facilities or seek for newly-opened hotel that offer a special price. Therefore, the hotel might lose some customers who is unaffordable due to a high price.

The screenshot displays two hotel listings side-by-side for comparison. The top listing is for Holiday Inn Pattaya, a 4-star hotel with an 'Excellent' rating of 8.6 based on 3,487 reviews. It is located on Pattaya Beach Road and offers a nightly rate of 3,080 Baht. The bottom listing is for the 2017 Hua Hin Marriott Resort & Spa, a 5-star hotel with an 'Exceptional' rating of 9.0 based on 875 reviews. It is located at Hua Hin City Center and offers a nightly rate of 3,900 Baht with free cancellation. Both listings include details on breakfast, cancellation policies, and guest satisfaction percentages.

Figure 2.5 Compare room rate with competitor

Source: Agoda's website

2.4.3 Opportunities

2.4.3.1 Increasing in the number of tourists

Thailand's tourism industry continued growing by showing an increased number in both international tourist arrivals and tourism revenue. In addition, the number of domestic trips has recorded with a 4 percent increase from the last year.

2.4.3.2 Trend of low budget travel

Adventure travel accounts for only around 10-20% of tourists coming to Thailand today. The market has been growing rapidly and will continue expanding. Many tourists come for adventure activities, such as eco-tourism, trekking, snorkeling and scuba diving. Fortunately, Erawan has investment plan in the Midscale, Economy and Budget hotel which cover major Thailand's tourist destinations to support this trend in the future.

2.4.4 Threats

2.4.4.1 Unpredictable and uncontrollable external risk factors

There are many uncontrollable situations such as natural disaster, terrorism or political unrest may cause a serious impact on company's properties and business operations.

2.4.4.2 The rising interest-rate trend

Interest rate risk, which is a result of changes of market rates in the future, will affect our operating results and cash flow. The rising interest-rate trend in Thailand may lead to higher cost of capital.

2.4.4.3 Intense competition

Risk from declining demand and increasing supply, the unbalanced situation of supply and demand could cause an intense competition in the hotel market, which may affect company's income and operating profit.

2.5 Five Force Model

2.5.1 Threat of New Entrants: Medium and High

Threat of New Entrants tends to be normal and high depend on hotel characteristics. First, the luxury segment might have some threat of new entrants at middle level because most of the highly rated hotel in Thailand is dominated by few rivals such as Dusit, Shangri-La and Centara as well as few others international hotel. Therefore, it is difficult to enter the luxury hotel market because it takes much time and requires huge capital as an initial investment to be a famous brand and to compete with existing hotel. Beside that the foreign company might interest in Thailand hotel industry that could be a good destination to invest. Second, threat of new entrant tends to be high for the midscale, economy and budget segment. Due to lower capital investment and the trend of budget tourism which try to minimize travel cost. For example, the emerging of hostel and budget hotel is rapidly growth in many destinations throughout the country.

2.5.2 Bargaining Power of Supplies: Weak

Bargaining power of supplier tends to be low. The major roles of hotel business are a room-services and a related service to the clients. Therefore, human resource is the most important suppliers to provide services to customer and in-charge of business operation. In case that, the peer competitors have a stronger competency than our hotel, so they might offer better compensation to attract more staff. When the

levels of staff demand increase, the salary also increase. Hence, the staff might resign then shift to another workplace and take the advantage of high demand in order to get their higher income. In this point, employee-oriented is one of the ERW concern to reach a long-term sustainable growth.

2.5.3 Bargaining Power of Customer: High

Bargaining power of customer tends to be high. Nowadays, the hotel business faces with intense competitions, bargaining power of customer could be the big challenges for hotel industry. Due to the advance in technology, it helps the clients access all information instantly as they need to make a choice. Moreover, there are many search engines, communities, platform such as Airbnb, Traveloka, Agoda, Trivago, Facebook-Pages and e.g. that provide a booking service and find a better deal for making decision. Thus, the customers would have almost perfect flexibility to select and changing their room because it has no switching costs and information costs. However, ERW also provide an alternative, varied by a value and unique benefits to cover the difference kinds of customer's need such as luxury, midscale, economy and budget hotel.

2.5.4 Intensity of Competitive Rivalry Very High

The intensity of competitive rivalry tends to be very high. Due to the highly bargaining power of customer and the intensive competition among existing competitors that lead to more aggressive promotion and pricing to attract more customers.

2.5.5 Threat of Substitute Products: High

Threat of substitute products tends to be in the high level. In the hotel industry, it offers in all price ranges, with variations in the levels of service and the facilities. The customers can compare and choose the services over the competitor as them prefer. With the technological advancements the internet makes the overall market to be more efficient while expanding the size of the potential market and creating the new substitution threats.

2.6 Financial Analysis

The analysis of historical income statements consisted of size analysis, common size analysis, trend analysis, and financial ratios. We provide the analysis by comparing information to ERW's key competitor: DTC.

2.6.1 Summary Figures from Financial Statements

2.6.1.1 ERW Income Statement

Table 2.1 Income statement of The Erawan Group

| Items (Unit: Million Baht) | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|--------------|--------------|--------------|--------------|--------------|
| Revenues | | | | | |
| Revenues from hotel operations | 5,773 | 5,357 | 5,049 | 4,052 | 4,498 |
| Rental of units in buildings and service income | 223 | 214 | 206 | 193 | 204 |
| Revenues from sale of properties | 0 | 53 | 0 | 39 | 0 |
| Share of profit (loss) of investment in associate | -24 | 15 | 19 | 21 | 16 |
| Other income | 55 | 40 | 46 | 70 | 895 |
| Gain on sale of hotels | 0 | 0 | 0 | 0 | 864 |
| Management service income | 0 | 0 | 0 | 0 | 0 |
| Net foreign exchange gain | - | - | - | 4 | 5 |
| Dividend income | 0 | 0 | 0 | 1 | 0 |
| Interest income | 7 | 6 | 5 | 2 | 2 |
| Other income - Other | 48 | 33 | 40 | 64 | 24 |
| Total revenues | 6,026 | 5,679 | 5,320 | 4,375 | 5,613 |
| Expenses | | | | | |
| Cost of hotel operations | 2,550 | 2,456 | 2,423 | 2,124 | 2,129 |
| Cost of rental of units in buildings and services | 86 | 88 | 90 | 85 | 86 |
| Cost of sale of properties | 0 | 32 | 0 | 20 | 0 |
| Depreciation and amortization | 738 | 730 | 717 | 672 | 665 |
| Selling expenses | 348 | 345 | 331 | 270 | 289 |
| Administrative expenses | 1,223 | 1,136 | 1,043 | 935 | 1,018 |
| Total expenses | 4,945 | 4,787 | 4,604 | 4,107 | 4,187 |
| EBIT | 1,081 | 892 | 716 | 268 | 1,425 |
| Finance costs | 344 | 362 | 387 | 360 | 368 |
| Profit (loss) before income tax expense | 737 | 529 | 329 | -91 | 1,057 |
| Income tax expense | 172 | 122 | 99 | 19 | 91 |
| Net Profit (loss) for the year | 565 | 408 | 230 | -110 | 966 |

Source: ERW Financial Statement

2.6.1.2 DTC Income Statement

Table 2.2 Income statement of Dusit Thani

| Items (Unit: Million Baht) | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|--------------|--------------|--------------|--------------|--------------|
| Revenues | | | | | |
| Revenues from hotel operations | 4,281 | 4,500 | 4,430 | 4,558 | 4,948 |
| Rental of units in buildings and service income | 442 | 474 | 465 | 118 | 65 |
| Revenues from sale of properties | - | - | - | - | - |
| Share of profit (loss) of investment in associate | 20 | 22 | 41 | 75 | 89 |
| Other income | 827 | 429 | 434 | 425 | 333 |
| Gain on sale of hotels | 323 | 1 | 10 | 0 | 1 |
| Management service income | 159 | 148 | 124 | 116 | 65 |
| Net foreign exchange gain | - | - | - | - | - |
| Dividend income | 15 | 16 | 14 | 15 | 13 |
| Interest income | 16 | 13 | 13 | 8 | 10 |
| Other income - Other | 313 | 252 | 273 | 285 | 242 |
| Total revenues | 5,570 | 5,425 | 5,370 | 5,175 | 5,434 |
| Expenses | | | | | |
| Cost of hotel operations | 2,801 | 2,915 | 2,902 | 2,903 | 2,967 |
| Cost of rental of units in buildings and services | 592 | 662 | 644 | 618 | 566 |
| Cost of sale of properties | 0 | 0 | 0 | 0 | 0 |
| Depreciation and amortization | 37 | 43 | 45 | 43 | 41 |
| Selling expenses | 388 | 405 | 388 | 395 | 390 |
| Administrative expenses | 1,281 | 1,186 | 1,049 | 1,115 | 1,177 |
| Total expenses | 5,100 | 5,211 | 5,028 | 5,075 | 5,141 |
| EBIT | 470 | 214 | 342 | 100 | 293 |
| Finance costs | 59 | 73 | 49 | 64 | 71 |
| Profit (loss) before income tax expense (EBT) | 411 | 141 | 293 | 35 | 222 |
| Income tax expense | -79 | 12 | -39 | -22 | -24 |
| Net Profit (loss) for the year | 332 | 153 | 253 | 13 | 198 |

Source: DTC Financial Statement

By comparing income statement of ERW to its key competitor, DTC, Revenues from hotel operations of ERW is larger than DTC. ERW's revenues from hotel operations is THB 5,773 million where DTC's revenues from hotel operations a bit lower than ERW accounted for THB 4,281 million as of December 2017. On the

other hand, DTC's rental of units in buildings and service income is THB 442 million which include revenue from education business along with DTC's strategy to engage in Dusit hospitality education business. The difference in term of income between two companies is the structure of service income and DTC's revenue from Hotel Management Business. In 2013, The meaning situation was that ERW skyrocketing increased in gain on sale of hotels. ERW sold and transferred ibis Phuket Patong and ibis Pattaya to Erawan Hotel Growth Property Fund (ERWPF) at the price of THB 1,828 million in 2Q13. The sale included a guarantee of the minimum rental income to ERWPF over a period of 4 years and rental payment as set out in the lease agreement with ERWPF. As such we recorded capital gain at THB 864 million from divesting 2 ibis hotels to ERWPF.

Total revenue of ERW is also larger than DTC's total revenue. ERW's total revenue is THB 6,026 million while DTC has THB 5,570 million. ERW's total expenses are consisted of cost of hotel operations, cost of rental of units in buildings and services, depreciation and amortization, selling expenses, and administration expenses. The total expenses of ERW is THB 4,945 million while DTC has total expenses THB 5,100 million as of December 2017. However, the net profit sizes of ERW is higher than DTC. ERW has THB 565 million net profit in 2017 when DTC has THB 332 million net profit in the same year.

2.6.1.3 ERW Statement of Financial Position

Table 2.3 Statement of Financial Position of The Erawan Group

| Items (Unit: Million Baht) | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|--------------|--------------|--------------|--------------|--------------|
| Current assets | | | | | |
| Cash and cash equivalents | 1,077 | 795 | 1,011 | 676 | 827 |
| Trade accounts receivable | 218 | 202 | 202 | 212 | 209 |
| Inventories | 57 | 53 | 62 | 55 | 52 |
| Advances - construction | - | - | - | 3 | 60 |
| Value added tax refundable | 129 | 86 | 44 | 27 | 11 |
| Other current assets | 92 | 97 | 90 | 73 | 69 |
| Total current assets | 1,573 | 1,234 | 1,409 | 1,047 | 1,227 |
| Non-current assets | | | | | |
| Investments in associates | 109 | 155 | 162 | 162 | 162 |
| Other long-term investments | 1 | 1 | 1 | 1 | 3 |
| Property, plant and equipment | 12,568 | 11,707 | 11,632 | 11,603 | 10,558 |
| Land held for development | 104 | 104 | 104 | 104 | 104 |
| Leasehold rights for land and buildings | 1,406 | 1,461 | 1,343 | 1,412 | 1,479 |
| Intangible assets | 34 | 35 | 37 | 46 | 41 |

Table 2.3 Statement of Financial Position of The Erawan Group (cont.)

| Items (Unit: Million Baht) | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---------------|---------------|---------------|---------------|---------------|
| Deposits for lease of land, building and equipment | 140 | 129 | 117 | 130 | 125 |
| Deferred tax assets | 13 | 13 | 11 | 7 | 7 |
| Other non-current assets | 99 | 72 | 4 | 4 | 9 |
| Total non-current assets | 14,475 | 13,677 | 13,411 | 13,470 | 12,488 |
| Total assets | 16,048 | 14,911 | 14,820 | 14,517 | 13,715 |
| Current liabilities | | | | | |
| Short-term borrowings from financial institutions | 1,095 | 1,182 | 1,337 | 689 | 0 |
| Trade accounts payable | 280 | 252 | 261 | 254 | 244 |
| Current portion of long-term borrowings from financial institutions | 915 | 1,375 | 1,280 | 1,031 | 1,002 |
| Current portion of finance lease liabilities | 1 | 1 | 2 | 1 | 2 |
| Account payable - construction | - | - | - | 132 | 258 |
| Income tax payable | 76 | 50 | 40 | - | - |
| Other current liabilities | 851 | 746 | 673 | 609 | 610 |
| Total current liabilities | 3,218 | 3,606 | 3,593 | 2,716 | 2,116 |
| Non-current liabilities | | | | | |
| Long-term borrowings from financial institutions | 7,056 | 5,867 | 5,985 | 6,721 | 6,028 |
| Finance lease liabilities | 2 | 2 | 3 | 1 | 2 |
| Accounts payable for land leasehold rights | 180 | 180 | 180 | 180 | 180 |
| Deposits from lessees | 43 | 40 | 41 | 47 | 44 |
| Deferred income | 12 | 14 | 16 | 18 | 20 |
| Deferred tax liabilities | 47 | 44 | 41 | 39 | 36 |
| Provision for employee benefits | 87 | 86 | 78 | 60 | 60 |
| Other non-current liabilities | - | - | - | - | - |
| Total non-current liabilities | 7,427 | 6,232 | 6,345 | 7,066 | 6,370 |
| Total liabilities | 10,645 | 9,839 | 9,938 | 9,783 | 8,486 |
| Shareholder's equity | | | | | |
| Share capital | | | | | |
| Authorized share capital | 2,538 | 2,538 | 2,505 | 2,505 | 2,505 |
| Issued and paid-up share capital | 2,501 | 2,498 | 2,498 | 2,479 | 2,475 |
| Shares premium on ordinary shares | 846 | 836 | 836 | 787 | 776 |
| Employee stock options | 11 | 0 | 0 | 8 | 11 |
| Retained earnings | | | | | |
| Appropriated | | | | | |
| Legal reserve | 236 | 236 | 207 | 194 | 188 |
| Unappropriated | 1,730 | 1,374 | 1,136 | 1,092 | 1,584 |
| Other components of shareholders' equity | -88 | -27 | -7 | -6 | 1 |
| Equity attributable to owners of the parent | 5,236 | 4,918 | 4,671 | 4,554 | 5,035 |
| Non-controlling interests | 167 | 155 | 212 | 180 | 194 |
| Total shareholders' equity | 5,403 | 5,073 | 4,882 | 4,734 | 5,229 |
| Total liabilities and shareholders' equity | 16,048 | 14,911 | 14,820 | 14,517 | 13,715 |

Source: ERW Financial Statement

2.6.1.4 DTC Statement of Financial Position

Table 2.4 Statement of Financial Position of Dusit Thani

| Items (Unit: Million Baht) | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|--------------|--------------|--------------|--------------|--------------|
| Current assets | | | | | |
| Cash and cash equivalents | 1,021 | 870 | 714 | 860 | 848 |
| Short-term investments | 448 | 358 | 380 | 151 | 62 |
| Trade accounts receivable | 536 | 463 | 475 | 426 | 470 |
| Inventories | 71 | 77 | 80 | 85 | 89 |
| Advances - construction | 144 | 91 | 109 | 106 | 106 |
| Value added tax refundable | 0 | 0 | 0 | 0 | 0 |
| Other current assets | 56 | 54 | 59 | 54 | 59 |
| Total current assets | 2,277 | 1,913 | 1,817 | 1,681 | 1,634 |
| Non-current assets | | | | | |
| Investments in associates | 1,276 | 1,370 | 1,405 | 1,312 | 1,310 |
| Other long-term investments | 658 | 497 | 451 | 434 | 432 |
| Property, plant and equipment | 4,322 | 4,690 | 5,108 | 4,877 | 5,050 |
| Land held for development | 177 | 233 | 246 | 260 | 273 |
| Leasehold rights for land and buildings | 847 | 75 | 154 | 225 | 312 |
| Intangible assets | 63 | 60 | 62 | 71 | 70 |
| Deposits for lease of land, building and equipment | 100 | 25 | 25 | 25 | 0 |
| Deferred tax assets | 134 | 151 | 101 | 110 | 129 |
| Withholding tax deducted | 105 | 0 | 0 | 0 | 0 |
| Other non-current assets | 19 | 19 | 27 | 18 | 17 |
| Total non-current assets | 7,701 | 7,120 | 7,579 | 7,331 | 7,593 |
| Total assets | 9,978 | 9,033 | 9,396 | 9,012 | 9,227 |
| Current liabilities | | | | | |
| Short-term borrowings from financial institutions | 548 | 467 | 543 | 644 | 663 |
| Trade accounts payable | 882 | 973 | 962 | 999 | 968 |
| Current portion of long-term borrowings from financial institutions | 213 | 157 | 324 | 241 | 185 |
| Current portion of finance lease liabilities | 1 | 1 | 1 | 1 | 1 |
| Income tax payable | 58 | 8 | 2 | 1 | 9 |
| Other current liabilities | 101 | 88 | 87 | 166 | 156 |
| Total current liabilities | 1,803 | 1,694 | 1,920 | 2,051 | 1,982 |
| Non-Current liabilities | | | | | |
| Long-term borrowings from financial institutions | 919 | 1,053 | 1,177 | 900 | 1,092 |
| Finance lease liabilities | 1 | 2 | 3 | 4 | 0 |
| Deposits from lessees | 492 | 0 | 0 | 0 | 0 |
| Deferred income | 559 | 584 | 610 | 635 | 661 |
| Deferred tax liabilities | 28 | 43 | 20 | 13 | 14 |
| Provision for employee benefits | 200 | 221 | 206 | 175 | 173 |
| Other non-current liabilities | 95 | 82 | 56 | 22 | 24 |
| Total non-current liabilities | 2,294 | 1,985 | 2,071 | 1,749 | 1,964 |
| Total liabilities | 4,098 | 3,679 | 3,991 | 3,800 | 3,946 |

Table 2.4 Statement of Financial Position of Dusit Thani (cont.)

| Items (Unit: Million Baht) | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|--------------|--------------|--------------|--------------|--------------|
| <i>Shareholder's equity</i> | | | | | |
| Share capital | | | | | |
| Authorized share capital | 850 | 850 | 850 | 850 | 850 |
| Issued and paid-up share capital | 850 | 850 | 850 | 850 | 850 |
| Shares premium on ordinary shares | 1,661 | 1,661 | 1,661 | 1,661 | 1,661 |
| Employee stock options | | | | | |
| Retained earnings | | | | | |
| Appropriated | | | | | |
| Legal reserve | 85 | 85 | 85 | 85 | 85 |
| Dusit Thani College funds | 462 | 415 | 366 | 316 | 270 |
| Unappropriated | 1,490 | 1,342 | 1,394 | 1,343 | 1,490 |
| Other components of shareholders' equity | 274 | 236 | 236 | 188 | 174 |
| Equity attributable to owners of the parent | 4,824 | 4,589 | 4,593 | 4,443 | 4,530 |
| Non-controlling interests | 1,057 | 765 | 811 | 769 | 737 |
| Total shareholders' equity | 5,881 | 5,354 | 5,404 | 5,212 | 5,268 |
| Total liabilities and shareholders' equity | 9,978 | 9,033 | 9,396 | 9,012 | 9,213 |

Source: DTC Financial Statement

In term of financial positions, ERW has larger asset size with THB 16,048 million as of 2017, consisting of THB 1,573 current assets and THB 14,475 non-current assets. DTC has THB 9,978 million total assets, having THB 2,277 million current assets and THB 7,701 non-current assets as of 2017. The major part of total asset from both companies come from property, plant and equipment because of their business structure. For liabilities in 2017, ERW has THB 10,645 total liabilities while DTC has total liabilities of THB 4,098 million. The major amount of liabilities for both companies is Long-term borrowings which represent long-term loans from financial institutions. It is the major source of fund for hotel businesses matching with the uses of fund. In addition, ERW has shareholders' equity of THB 5,403 million while DTC has shareholders' equity of THB 5,881 million as of 2017. ERW has larger paid-up share capital of THB 2,501 million and retained earnings of only THB 1,730 million while DTC has unappropriated profits of THB 1,490 million. Furthermore, ERW's shareholders approved the issuance of the employee stock option plan for the employee of the Group of 39,720,000 since 26 April 2016. The Company granted such Employee Stock Option Plan (ESOP) to the employees on 1 February 2017. The employees are entitled to exercise their rights to purchase shares within 30 December 2020. During the year ended 31

December 2017, the number of ESOP was exercised 2,729,000 units which accounted to THB 11 million as employee stock options.

Nevertheless, DTC has appropriated retained earnings for Dusit Thani College funds of THB 462 million.

2.6.2 Common Size Analysis

2.6.2.1 Common size: Income statement

Table 2.5 Common size analysis of income statement of Dusit Thani

| Items | DTC 2017 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| Revenues | | | | | | |
| Revenues from hotel operations | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| Rental of units in buildings and service income | 10.32% | 3.85% | 4.00% | 4.08% | 4.76% | 4.54% |
| Revenues from sale of properties | 0.00% | 0.00% | 0.99% | 0.00% | 0.97% | 0.00% |
| Share of profit (loss) of investment in associate | 0.46% | -0.42% | 0.27% | 0.38% | 0.51% | 0.35% |
| Other income | 19.32% | 0.95% | 0.74% | 0.91% | 1.72% | 19.89% |
| Gain on sale of hotels | 7.55% | 0.00% | 0.00% | 0.00% | 0.00% | 19.21% |
| Management service income | 3.72% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Net foreign exchange gain | 0.00% | 0.00% | 0.00% | 0.00% | 0.09% | 0.11% |
| Dividend income | 0.36% | 0.00% | 0.00% | 0.00% | 0.01% | 0.00% |
| Interest income | 0.37% | 0.12% | 0.12% | 0.11% | 0.04% | 0.04% |
| Other income - Other | 7.32% | 0.83% | 0.62% | 0.80% | 1.57% | 0.53% |
| Total revenues | 149.41% | 105.33% | 106.75% | 106.28% | 109.67% | 144.67% |
| Expenses | | | | | | |
| Cost of hotel operations | 65.43% | 44.16% | 45.84% | 47.98% | 52.42% | 47.32% |
| Cost of rental of units in buildings and services | 13.83% | 1.49% | 1.64% | 1.79% | 2.11% | 1.92% |
| Cost of sale of properties | 0.00% | 0.00% | 0.59% | 0.00% | 0.49% | 0.00% |
| Depreciation and amortization | 0.86% | 12.79% | 13.62% | 14.21% | 16.57% | 14.79% |
| Selling expenses | 9.06% | 6.02% | 6.44% | 6.55% | 6.67% | 6.42% |
| Administrative expenses | 29.93% | 21.19% | 21.22% | 20.66% | 23.08% | 22.64% |
| Total expenses | 119.11% | 85.66% | 89.36% | 91.19% | 101.33% | 93.09% |
| EBIT | 30.30% | 19.67% | 17.38% | 15.09% | 8.34% | 51.57% |
| Finance costs | 1.37% | 5.95% | 6.76% | 7.66% | 8.88% | 8.18% |
| Profit (loss) before income tax expense | 28.92% | 13.72% | 10.63% | 7.42% | -0.54% | 43.39% |
| Income tax expense | 1.84% | 2.98% | 2.27% | 1.96% | 0.47% | 2.02% |
| Net Profit (loss) for the year | 27.08% | 16.70% | 12.90% | 9.38% | -0.07% | 45.41% |

Source: Calculation

According to common size analysis of income statements, the major income of ERW is Revenues from hotel operations having 3.85% rental of units in buildings and service income to sale revenues. We can see that DTC has larger Rental of units in buildings and service income size as it has 10.32% to sale revenues because of the difference business structure. DTC's strategy is to engage in education business and other businesses by expanding Dusit Hospitality Education overseas. Moreover, DTC sold Dusit Princess Korat which is located in Nakhon Ratchasima consisting of 186 hotel rooms to Imperial Nakorn Ratchasima Company Limited and Sup Imperial Korat Company during 2017, having 7.55% gain on sale of hotels to sale revenues (THB 565 million).

In cost and expenses' perspective, DTC seems to be less efficient in hotel operations with higher cost of hotel operations proportion of 65.43%, comparing to ERW which has 44.16% COGS to sales because DTC had more employee expense due to the increasing in the numbers of Hotel Management Business contracts. Moreover, ERW seems to perform better in rental of units in buildings and services with lower Cost of rental of units in buildings and services; as well as, it has lower selling expenses proportion to sale of 6.02%.

Moreover, total expenses of ERW is 85.66% to sales which is lower than DTC by 33.45%. On the other hand, DTC seems to perform better in managing financial costs with lower financial costs to sale revenues because of the lower long-term loan from financial institutions and income tax expenses of DTC is lower by having 1.84% tax expenses to sale while ERW has approximately 3%. Considering the net profit, DTC has higher net profit margin to sales of 27.08% while ERW has only 16.70% margin. It resulted from higher Rental of units in buildings and service income, higher other income, lower financial expenses, and lower tax payment of DTC.

2.6.2.2 Common size: Statement of Financial Position

Table 2.6 Common size analysis of statement of financial position of Dusit Thani

| Items | DTC 2017 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| <i>Current assets</i> | | | | | | |
| Cash and cash equivalents | 10.23% | 6.71% | 5.33% | 6.82% | 4.66% | 6.03% |
| Short-term investments | 4.49% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Trade accounts receivable | 5.37% | 1.36% | 1.36% | 1.36% | 1.46% | 1.52% |
| Inventories | 0.72% | 0.35% | 0.36% | 0.42% | 0.38% | 0.38% |
| Advances - construction | 1.45% | 0.00% | 0.00% | 0.00% | 0.02% | 0.44% |
| Value added tax refundable | 0.00% | 0.80% | 0.58% | 0.30% | 0.19% | 0.08% |
| Other current assets | 0.56% | 0.58% | 0.65% | 0.61% | 0.50% | 0.50% |
| Total current assets | 22.82% | 9.80% | 8.27% | 9.50% | 7.21% | 8.95% |
| <i>Non-current assets</i> | | | | | | |
| Investments in associates | 12.79% | 0.68% | 1.04% | 1.09% | 1.11% | 1.18% |
| Other long-term investments | 6.60% | 0.01% | 0.01% | 0.01% | 0.01% | 0.02% |
| Property, plant and equipment | 43.32% | 78.31% | 78.52% | 78.49% | 79.93% | 76.98% |
| Land held for development | 1.78% | 0.65% | 0.70% | 0.70% | 0.72% | 0.76% |
| Leasehold rights for land and buildings | 8.49% | 8.76% | 9.79% | 9.06% | 9.72% | 10.79% |
| Intangible assets | 0.63% | 0.21% | 0.23% | 0.25% | 0.31% | 0.30% |
| Deposits for lease of land, building and equipment | 1.00% | 0.87% | 0.86% | 0.79% | 0.90% | 0.91% |
| Deferred tax assets | 1.34% | 0.08% | 0.09% | 0.07% | 0.05% | 0.05% |
| Withholding tax deducted | 1.05% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Other non-current assets | 0.19% | 0.62% | 0.48% | 0.03% | 0.03% | 0.06% |
| Total non-current assets | 77.18% | 90.20% | 91.73% | 90.50% | 92.79% | 91.05% |
| Total assets | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| <i>Current liabilities</i> | | | | | | |
| Short-term borrowings from financial institutions | 5.49% | 6.82% | 7.93% | 9.02% | 4.75% | 0.00% |
| Trade accounts payable | 8.84% | 1.74% | 1.69% | 1.76% | 1.75% | 1.78% |
| Current portion of long-term borrowings from financial institutions | 2.14% | 5.70% | 9.22% | 8.63% | 7.10% | 7.31% |
| Current portion of finance lease liabilities | 0.01% | 0.01% | 0.01% | 0.01% | 0.01% | 0.02% |
| Account payable - construction | 0.00% | 0.00% | 0.00% | 0.00% | 0.91% | 1.88% |
| Income tax payable | 0.58% | 0.47% | 0.33% | 0.27% | 0.00% | 0.00% |
| Other current liabilities | 1.01% | 5.30% | 5.00% | 4.54% | 4.19% | 4.45% |
| Total current liabilities | 18.07% | 20.05% | 24.18% | 24.24% | 18.71% | 15.43% |
| <i>Non-current liabilities</i> | | | | | | |
| Long-term borrowings from financial institutions | 9.21% | 43.97% | 39.35% | 40.39% | 46.30% | 43.95% |
| Finance lease liabilities | 0.01% | 0.01% | 0.01% | 0.02% | 0.01% | 0.01% |
| Accounts payable for land leasehold rights | 0.00% | 1.12% | 1.21% | 1.21% | 1.24% | 1.31% |
| Deposits from lessees | 4.93% | 0.27% | 0.26% | 0.28% | 0.32% | 0.32% |
| Deferred income | 5.60% | 0.08% | 0.10% | 0.11% | 0.13% | 0.15% |
| Deferred tax liabilities | 0.28% | 0.29% | 0.29% | 0.28% | 0.27% | 0.26% |
| Provision for employee benefits | 2.00% | 0.54% | 0.57% | 0.52% | 0.41% | 0.44% |
| Other non-current liabilities | 0.95% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Total non-current liabilities | 22.99% | 46.28% | 41.80% | 42.81% | 48.68% | 46.45% |
| Total liabilities | 41.07% | 66.33% | 65.98% | 67.06% | 67.39% | 61.88% |

Table 2.6 Common size analysis of statement of financial position of Dusit Thani (cont.)

| Items | DTC 2017 | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Shareholder's equity | | | | | | |
| Share capital | | | | | | |
| Authorized share capital | 8.52% | 15.81% | 17.02% | 16.90% | 17.26% | 18.26% |
| Issued and paid-up share capital | 8.52% | 15.58% | 16.75% | 16.86% | 17.08% | 18.04% |
| Shares premium on ordinary shares | 16.65% | 5.27% | 5.61% | 5.64% | 5.42% | 5.66% |
| Employee stock options | 0.00% | 0.07% | 0.00% | 0.00% | 0.06% | 0.08% |
| Retained earnings | | | | | | |
| Appropriated | | | | | | |
| Legal reserve | 0.85% | 1.47% | 1.58% | 1.39% | 1.34% | 1.37% |
| Dusit Thani College funds | 4.63% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Unappropriated | 14.94% | 10.78% | 9.22% | 7.67% | 7.53% | 11.55% |
| Other components of shareholders' equity | 2.75% | -0.55% | -0.18% | -0.05% | -0.04% | 0.01% |
| Equity attributable to owners of the parent | 48.34% | 32.63% | 32.98% | 31.52% | 31.37% | 36.71% |
| Non-controlling interests | 10.59% | 1.04% | 1.04% | 1.43% | 1.24% | 1.41% |
| Total shareholders' equity | 58.93% | 33.67% | 34.02% | 32.94% | 32.61% | 38.12% |
| Total liabilities and shareholders' equity | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

Source: Calculation

Based on above common size analysis of statement of financial position, current assets of ERW contributed about 9.80% of total assets which is lower than the competitor. DTC has larger size of current assets due to larger Cash and cash equivalents of 10.23% of total assets and trade accounts receivable of 5.37% of total assets. Another major difference is investment in associated in non-current assets part. DTC has about 12.79% investment in associates while ERW has small size of investments. In addition, ERW has larger proportion of property, plant and equipment which may imply that it has larger proportion of hotels and land for future developments.

In term of liabilities, total liabilities of ERW contributed about 66.33% of total assets which is higher than the competitor. ERW seems to use more long-term loans and less short-term liabilities. It has 46.38% long-term liabilities in balance sheet while DTC has only 23% of total assets. The major difference is in Long-term borrowings from financial institutions in non-current liabilities part. ERW has about 43.97% while DTC has only 9.21% of total assets.

Moreover, DTC has higher retained earnings proportion of total assets at about 14.94%. This reflected lower liabilities proportion to total assets of the company compared to ERW.

2.6.3 Trend Analysis

2.6.3.1 Income statement

Table 2.7 Trend analysis of income statement of The Erawan Group

| ERW | CMS 2017 | CAGR% | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Revenues | | | | | | | |
| Revenues from hotel operations | 100.00% | 5.12% | 128.35% | 119.09% | 112.25% | 90.09% | 100.00% |
| Rental of units in buildings and service income | 3.85% | 1.73% | 108.94% | 104.97% | 100.82% | 94.36% | 100.00% |
| Revenues from sale of properties | 0.00% | - | 0.00% | 134.41% | 0.00% | 100.00% | 0.00% |
| Share of profit (loss) of investment in associate | -0.42% | -209.20% | -155.25% | 92.57% | 123.27% | 132.34% | 100.00% |
| Other income | 0.95% | -42.79% | 6.13% | 4.45% | 5.11% | 7.78% | 100.00% |
| Gain on sale of hotels | 0.00% | -100.00% | 0.00% | 0.00% | 0.00% | 0.00% | 100.00% |
| Net foreign exchange gain | 0.00% | -100.00% | 0.00% | 0.00% | 0.00% | 74.07% | 100.00% |
| Dividend income | 0.00% | - | 0.00% | 0.00% | 0.00% | 100.00% | 0.00% |
| Interest income | 0.12% | 27.27% | 28.30% | 26.80% | 22.53% | 7.32% | 8.47% |
| Other income - Other | 0.83% | 15.23% | 203.18% | 141.13% | 170.65% | 269.20% | 100.00% |
| Total revenues | 105.33% | 1.43% | 107.36% | 101.17% | 94.79% | 77.95% | 100.00% |
| Expenses | | | | | | | |
| Cost of hotel operations | 44.16% | 3.68% | 119.78% | 115.37% | 113.81% | 99.79% | 100.00% |
| Cost of rental of units in buildings and services | 1.49% | -0.10% | 99.49% | 101.74% | 104.45% | 98.88% | 100.00% |
| Cost of sale of properties | 0.00% | - | 0.00% | 160.58% | 0.00% | 100.00% | 0.00% |
| Depreciation and amortization | 12.79% | 2.11% | 110.99% | 109.70% | 107.84% | 100.96% | 100.00% |
| Selling expenses | 6.02% | 3.80% | 120.48% | 119.58% | 114.61% | 93.57% | 100.00% |
| Administrative expenses | 21.19% | 3.73% | 120.11% | 111.59% | 102.41% | 91.83% | 100.00% |
| Total expenses | 85.66% | 3.38% | 118.09% | 114.32% | 109.95% | 98.07% | 100.00% |
| EBIT | 19.67% | -5.38% | 75.84% | 62.55% | 50.23% | 18.83% | 100.00% |
| Finance costs | 5.95% | -1.37% | 93.35% | 98.35% | 105.08% | 97.75% | 100.00% |
| Profit (loss) before income tax expense | 13.72% | -6.96% | 69.74% | 50.08% | 31.13% | -8.65% | 100.00% |
| Income tax expense | 2.98% | 13.67% | 189.76% | 134.15% | 108.88% | 20.94% | 100.00% |
| Profit (loss) for the year | 16.70% | -10.18% | 58.47% | 42.19% | 23.83% | -11.43% | 100.00% |

Source: Calculation

Table 2.8 Trend analysis of income statement of Dusit Thani

| DTC | CMS 2017 | CAGR% | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|----------------|---------------|----------------|----------------|----------------|---------------|----------------|
| Revenues | | | | | | | |
| Revenues from hotel operations | 100.00% | -2.85% | 86.53% | 90.95% | 89.54% | 92.11% | 100.00% |
| Rental of units in buildings and service income | 10.32% | 46.67% | 678.84% | 729.22% | 714.31% | 181.15% | 100.00% |
| Share of profit (loss) of investment in associate | 0.46% | -25.95% | 22.26% | 24.93% | 45.86% | 84.33% | 100.00% |
| Other income | 19.32% | 19.99% | 248.68% | 128.91% | 130.44% | 127.65% | 100.00% |
| Gain on sale of hotels | 7.55% | 195.10% | 22378.40% | 64.58% | 662.05% | 0.00% | 100.00% |
| Management service income | 3.72% | 19.60% | 244.66% | 226.90% | 190.78% | 178.47% | 100.00% |
| Dividend income | 0.36% | 3.04% | 116.17% | 118.23% | 108.38% | 110.40% | 100.00% |
| Interest income | 0.37% | 9.20% | 155.29% | 123.60% | 126.17% | 82.06% | 100.00% |
| Other income - Other | 7.32% | 5.26% | 129.24% | 103.81% | 112.48% | 117.66% | 100.00% |
| Total revenues | 149.41% | 0.49% | 102.49% | 99.83% | 98.81% | 95.23% | 100.00% |
| Expenses | | | | | | | |
| Cost of hotel operations | 65.43% | -1.14% | 94.41% | 98.25% | 97.80% | 97.83% | 100.00% |
| Cost of rental of units in buildings and services | 13.83% | 0.92% | 104.66% | 116.97% | 113.83% | 109.32% | 100.00% |
| Depreciation and amortization | 0.86% | -1.93% | 90.70% | 105.76% | 110.80% | 106.64% | 100.00% |
| Selling expenses | 9.06% | -0.12% | 99.40% | 103.66% | 99.40% | 101.14% | 100.00% |
| Administrative expenses | 29.93% | 1.71% | 108.84% | 100.77% | 89.08% | 94.74% | 100.00% |
| Total expenses | 119.11% | -0.16% | 99.19% | 101.36% | 97.79% | 98.71% | 100.00% |
| EBIT | 30.30% | 9.92% | 160.48% | 73.12% | 116.73% | 34.10% | 100.00% |
| Finance costs | 1.37% | -3.68% | 82.89% | 102.67% | 69.64% | 90.84% | 100.00% |
| Profit (loss) before income tax expense | 28.92% | 13.13% | 185.28% | 63.68% | 131.77% | 15.96% | 100.00% |
| Income tax expense | 1.84% | 26.51% | 324.00% | -47.43% | 161.82% | 91.09% | 100.00% |
| Profit (loss) for the year | 27.08% | 10.96% | 168.18% | 77.38% | 128.07% | 6.70% | 100.00% |

Source: Calculation

From trend analysis, ERW's revenues from hotel operation grew at 5% during the past five years and comparing with the growth rate of cost of hotel operations which accounted to 4%, the growth rate of revenues is a bit higher. It can imply that ERW able to manage its profit margin well by controlling the growth rate of expenses not to grow faster than the revenues. While DTC's revenues from hotel operation and cost of hotel operations dropped approximately 3% and 1% on average respectively. ERW's rental and service income grew at only 2% during the past five years while other income significantly dropped by 43% of 2011. This is the opposite perspective to DTC's performance that DTC's rental and service income grew at very high rate of 47% increase from year 2011.

Since May 2014, Thailand was controlled by the military power which resulted in many protests especially in the heart of Bangkok such as Ratchaprasong Junction, Ratchadamnern Junction, Asoke Area, Sukhumvit Road or even the airport. Due to the political uncertainty, number of foreign tourists dropped approximately 20%. Thus, ERW also affected in revenue loss 11.43% when compared with based year in 2013. Besides that, many chaos also appeared in 2015, such as bomb exploded in Siam Square, Ratchaprasong Junction, car bomb exploded in Koh Samui etc. Thailand's tourism and economy continued to fall. This event brought ERW faced with negative growth along 5 years. However, if we ignore the bad events, the profit of ERW has been improved over times.

2.6.3.2 Statement of Financial Position

Table 2.9 Trend analysis of statement of financial position of The Erawan Group

| ERW | CMS 2017 | CAGR% | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|----------------|--------------|----------------|----------------|----------------|----------------|----------------|
| Assets | | | | | | | |
| <i>Current assets</i> | | | | | | | |
| Cash and cash equivalents | 6.71% | 5.41% | 130.16% | 96.13% | 122.21% | 81.70% | 100.00% |
| Trade accounts receivable | 1.36% | 0.86% | 104.36% | 97.04% | 96.91% | 101.74% | 100.00% |
| Inventories | 0.35% | 1.95% | 110.12% | 103.15% | 119.21% | 107.24% | 100.00% |
| Advances - construction | 0.00% | -100.00% | - | - | - | 5.30% | 100.00% |
| Value added tax refundable | 0.80% | 64.62% | 1208.81% | 807.61% | 411.86% | 252.38% | 100.00% |
| Other current assets | 0.58% | 6.00% | 133.85% | 140.17% | 130.11% | 105.91% | 100.00% |
| Total current assets | 9.80% | 5.09% | 128.17% | 100.56% | 114.80% | 85.30% | 100.00% |
| <i>Non-current assets</i> | | | | | | | |
| Investments in associates | 0.68% | -7.56% | 67.49% | 95.60% | 99.65% | 99.70% | 100.00% |
| Other long-term investments | 0.01% | -15.86% | 42.18% | 53.55% | 53.04% | 49.63% | 100.00% |
| Property, plant and equipment | 78.31% | 3.55% | 119.04% | 110.89% | 110.18% | 109.91% | 100.00% |
| Land held for development | 0.65% | 0.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| Leasehold rights for land and buildings | 8.76% | -1.01% | 95.06% | 98.73% | 90.80% | 95.43% | 100.00% |
| Intangible assets | 0.21% | -3.55% | 83.47% | 84.34% | 89.50% | 111.07% | 100.00% |
| Deposits for lease of land, building and equipment | 0.87% | 2.27% | 111.88% | 102.92% | 93.41% | 103.98% | 100.00% |
| Deferred tax assets | 0.08% | 12.86% | 183.09% | 177.25% | 146.53% | 102.03% | 100.00% |
| Other non-current assets | 0.62% | 62.09% | 1118.79% | 817.20% | 48.99% | 49.76% | 100.00% |
| Total non-current assets | 90.20% | 3.00% | 115.91% | 109.52% | 107.39% | 107.86% | 100.00% |
| Total assets | 100.00% | 3.19% | 117.01% | 108.72% | 108.05% | 105.84% | 100.00% |

**Table 2.9 Trend analysis of statement of financial position of The Erawan Group
(cont.)**

| ERW | CMS 2017 | CAGR% | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|----------------|--------------|----------------|----------------|----------------|----------------|----------------|
| <i>Current liabilities</i> | | | | | | | |
| Short-term borrowings from financial institutions | 6.82% | 9.71% | 158.93% | 171.55% | 194.05% | 100.00% | - |
| Trade accounts payable | 1.74% | 2.79% | 114.78% | 103.59% | 107.34% | 104.28% | 100.00% |
| Current portion of long-term borrowings from financial institutions | 5.70% | -1.80% | 91.33% | 137.25% | 127.71% | 102.89% | 100.00% |
| Current portion of finance lease liabilities | 0.01% | -13.06% | 49.66% | 48.38% | 61.47% | 59.47% | 100.00% |
| Account payable - construction | 0.00% | -100.00% | 0.00% | 0.00% | 0.00% | 51.14% | 100.00% |
| Income tax payable | 0.47% | 13.63% | 189.43% | 123.81% | 100.00% | - | - |
| Other current liabilities | 5.30% | 6.89% | 139.54% | 122.29% | 110.34% | 99.83% | 100.00% |
| Total current liabilities | 20.05% | 8.74% | 152.07% | 170.42% | 169.78% | 128.36% | 100.00% |
| <i>Non-Current liabilities</i> | | | | | | | |
| Long-term borrowings from financial institutions | 43.97% | 3.20% | 117.06% | 97.33% | 99.30% | 111.49% | 100.00% |
| Finance lease liabilities | 0.01% | -3.67% | 82.94% | 94.33% | 153.97% | 67.62% | 100.00% |
| Accounts payable for land leasehold rights | 1.12% | 0.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| Deposits from lessees | 0.27% | -0.82% | 95.96% | 88.83% | 93.12% | 105.91% | 100.00% |
| Deferred income | 0.08% | -9.61% | 60.33% | 70.25% | 80.17% | 90.08% | 100.00% |
| Deferred tax liabilities | 0.29% | 5.82% | 132.71% | 123.62% | 115.39% | 108.47% | 100.00% |
| Provision for employee benefits | 0.54% | 7.62% | 144.36% | 142.76% | 129.49% | 100.34% | 100.00% |
| Total non-current liabilities | 46.28% | 3.12% | 116.58% | 97.84% | 99.60% | 110.93% | 100.00% |
| Total liabilities | 66.33% | 4.64% | 125.43% | 115.93% | 117.10% | 115.27% | 100.00% |
| <i>Shareholder's equity</i> | | | | | | | |
| Share capital | | | | | | | |
| Authorized share capital | 15.81% | 0.26% | 101.31% | 101.31% | 100.00% | 100.00% | 100.00% |
| Issued and paid-up share capital | 15.58% | 0.21% | 101.06% | 100.95% | 100.95% | 100.17% | 100.00% |
| Shares premium on ordinary shares | 5.27% | 1.75% | 109.04% | 107.78% | 107.78% | 101.35% | 100.00% |
| Employee stock options | 0.07% | 0.62% | 103.11% | 0.00% | 0.00% | 76.21% | 100.00% |
| Retained earnings | | | - | - | - | - | - |
| Legal reserve | 1.47% | 4.57% | 125.06% | 125.06% | 109.64% | 102.89% | 100.00% |
| Unappropriated | 10.78% | 1.77% | 109.18% | 86.74% | 71.72% | 68.95% | 100.00% |
| Other components of shareholders' equity | -0.55% | -363.36% | -12668.26% | -3833.01% | -971.31% | -849.80% | 100.00% |
| Equity attributable to owners of the parent | 32.63% | 0.78% | 103.99% | 97.67% | 92.76% | 90.44% | 100.00% |
| Non-controlling interests | 1.04% | -2.91% | 86.27% | 79.88% | 109.32% | 92.88% | 100.00% |
| Total shareholders' equity | 33.67% | 0.66% | 103.33% | 97.01% | 93.37% | 90.53% | 100.00% |
| Total liabilities and shareholders' equity | 100.00% | 3.19% | 117.01% | 108.72% | 108.05% | 105.84% | 100.00% |

Source: Calculation

Table 2.10 Trend analysis of statement of financial position of Dusit Thani

| DTC | CMS 2017 | CAGR% | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|----------------|---------------|----------------|----------------|----------------|----------------|----------------|
| Assets | | | | | | | |
| <i>Current assets</i> | | | | | | | |
| Cash and cash equivalents | 10.23% | 3.79% | 120.44% | 102.68% | 84.26% | 101.43% | 100.00% |
| Short-term investments | 4.49% | 48.43% | 720.39% | 575.68% | 611.81% | 242.32% | 100.00% |
| Trade accounts receivable | 5.37% | 2.68% | 114.15% | 98.46% | 101.11% | 90.77% | 100.00% |
| Inventories | 0.72% | -4.29% | 80.33% | 86.59% | 89.49% | 95.26% | 100.00% |
| Advances - construction | 1.45% | 6.46% | 136.76% | 85.95% | 103.27% | 100.14% | 100.00% |
| Other current assets | 0.56% | -1.09% | 94.66% | 91.83% | 99.35% | 90.94% | 100.00% |
| Total current assets | 22.82% | 6.87% | 139.39% | 117.11% | 111.24% | 102.92% | 100.00% |
| <i>Non-current assets</i> | | | | | | | |
| Investments in associates | 12.79% | -0.53% | 97.39% | 104.59% | 107.21% | 100.13% | 100.00% |
| Other long-term investments | 6.60% | 8.81% | 152.55% | 115.07% | 104.43% | 100.54% | 100.00% |
| Property, plant and equipment | 43.32% | -3.06% | 85.59% | 92.86% | 101.15% | 96.58% | 100.00% |
| Land held for development | 1.78% | -8.30% | 64.82% | 85.16% | 90.14% | 95.02% | 100.00% |
| Leasehold rights for land and buildings | 8.49% | 22.12% | 271.65% | 24.21% | 49.50% | 72.11% | 100.00% |
| Intangible assets | 0.63% | -2.16% | 89.68% | 86.18% | 88.19% | 100.95% | 100.00% |
| Deposits for lease of land, building and equipment | 1.00% | 31.70% | 396.16% | 100.00% | 100.00% | 100.00% | 0.00% |
| Deferred tax assets | 1.34% | 0.69% | 103.49% | 116.72% | 78.17% | 85.26% | 100.00% |
| Withholding tax deducted | 1.05% | 0.00% | 100.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Other non-current assets | 0.19% | 2.32% | 112.16% | 110.74% | 156.39% | 103.82% | 100.00% |
| Total non-current assets | 77.18% | 0.28% | 101.43% | 93.77% | 99.81% | 96.55% | 100.00% |
| Total assets | 100.00% | 1.58% | 108.15% | 97.90% | 101.83% | 97.68% | 100.00% |
| <i>Current liabilities</i> | | | | | | | |
| Short-term borrowings from financial institutions | 5.49% | -3.72% | 82.73% | 70.41% | 81.94% | 97.12% | 100.00% |
| Trade accounts payable | 8.84% | -1.83% | 91.16% | 100.51% | 99.46% | 103.20% | 100.00% |
| Current portion of long-term borrowings from financial institutions | 2.14% | 2.85% | 115.09% | 84.91% | 175.15% | 130.17% | 100.00% |
| Current portion of finance lease liabilities | 0.01% | 11.46% | 172.06% | 160.19% | 149.14% | 121.11% | 100.00% |
| Account payable - construction | | | | | | | |
| Income tax payable | 0.58% | 43.79% | 614.57% | 89.99% | 24.14% | 6.37% | 100.00% |
| Other current liabilities | 1.01% | -8.37% | 64.59% | 56.45% | 55.39% | 106.25% | 100.00% |
| Total current liabilities | 18.07% | -1.87% | 90.99% | 85.49% | 96.87% | 103.48% | 100.00% |
| <i>Non-Current liabilities</i> | | | | | | | |
| Long-term borrowings from financial institutions | 9.21% | -3.38% | 84.20% | 96.40% | 107.80% | 82.46% | 100.00% |
| Finance lease liabilities | 0.01% | -32.86% | 13.64% | 47.05% | 78.16% | 100.00% | 0.00% |
| Deposits from lessees | 4.93% | 0.00% | 100.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Deferred income | 5.60% | -3.29% | 84.60% | 88.45% | 92.30% | 96.15% | 100.00% |
| Deferred tax liabilities | 0.28% | 15.38% | 204.51% | 310.19% | 145.49% | 90.91% | 100.00% |
| Provision for employee benefits | 2.00% | 2.94% | 115.57% | 128.01% | 119.02% | 101.17% | 100.00% |
| Other non-current liabilities | 0.95% | 31.33% | 390.60% | 335.77% | 228.41% | 91.98% | 100.00% |
| Total non-current liabilities | 22.99% | 3.16% | 116.84% | 101.07% | 105.49% | 89.09% | 100.00% |
| Total liabilities | 41.07% | 0.76% | 103.85% | 93.24% | 101.16% | 96.32% | 100.00% |

**Table 2.10 Trend analysis of statement of financial position of Dusit Thani
(cont.)**

| DTC | CMS 2017 | CAGR% | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|----------------|--------------|----------------|----------------|----------------|---------------|----------------|
| <i>Shareholder's equity</i> | | | | | | | |
| Share capital | | | | | | | |
| Authorized share capital | 8.52% | 0.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| Issued and paid-up share capital | 8.52% | 0.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| Shares premium on ordinary shares | 16.65% | 0.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| Retained earnings | | | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Legal reserve | 0.85% | 0.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| Dusit Thani College funds | 4.63% | 11.37% | 171.36% | 153.81% | 135.80% | 117.09% | 100.00% |
| Unappropriated | 14.94% | 0.01% | 100.04% | 90.08% | 93.58% | 90.12% | 100.00% |
| Other components of shareholders' equity | 2.75% | 9.48% | 157.31% | 135.11% | 135.49% | 107.97% | 100.00% |
| Equity attributable to owners of the parent | 48.34% | 1.26% | 106.47% | 101.29% | 101.39% | 98.08% | 100.00% |
| Non-controlling interests | 10.59% | 7.47% | 143.35% | 103.75% | 110.01% | 104.25% | 100.00% |
| Total shareholders' equity | 58.93% | 2.23% | 111.63% | 101.64% | 102.59% | 98.94% | 100.00% |
| Total liabilities and shareholders' equity | 100.00% | 1.61% | 108.30% | 98.04% | 101.98% | 97.82% | 100.00% |

Source: Calculation

According to ERW and DTC, the main business are hotel and service operation, the biggest proportion of total asset is property, land and equipment. ERW's property, land and equipment increase to 119% of the base year which is higher than DTC. This also reflects business structure difference that DTC enhances in education business.

In term of liabilities, ERW has long-term borrowing from financial institutions grew a bit faster than DTC at 3% of CAGR, while DTC reduced its borrowing by 3%. Due to the expansion and development ERW's hotel along the 5 years to serve more capacity rooms and to accommodate a wide range of tourist demand. During the past 5 years, there was a new construction and land leasing for new hotel which covers in luxury; Naka Island in Phuket midscale; Ibis Hotel, economy; Ibis style and budget hotel; Hop Inn. Almost 80% of long-term borrowing got a fixed interest rate and had collateral backed up. Investing in Philippines, ERW borrowed in Peso currency which was a floating rate of RRP (Reverse Repurchase Interest Rate) that also secured by collateral. For employee stock options (ESOP), ERW offered the right to their staff since 2014 and again in 2017 about only 0.07% in common size. The ESOP project will be held for 5 years since April, 2016 and will be expired in 2020. On the other hands, DTC did

not have employee stock policy. For unappropriated profits, ERW's retained earnings in 2017 was 109% of the base year while DTC's was only 100% of the base year.

2.6.4 Financial Ratios

2.6.4.1 Financial Ratios: Profitability

Table 2.11 Profitability ratios of The Erawan Group

| | ERW: Profitability | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---------------------------|-------------|-------------|-------------|-------------|-------------|
| % | Gross Profit Margin (GMP) | 56.04% | 54.21% | 52.18% | 47.96% | 52.90% |
| % | Profit Margin (PM) | 14.42% | 12.68% | 10.90% | 5.01% | 24.25% |
| % | Net Profit Margin (NPM) | 9.42% | 7.25% | 4.38% | -2.58% | 20.55% |
| % | Return on Asset (ROA) | 5.35% | 4.62% | 3.42% | 2.30% | 9.50% |
| % | Return on Equity (ROE) | 10.79% | 8.19% | 4.79% | -2.22% | 18.48% |

Source: Calculation

Table 2.12 Profitability ratios of Dusit Thani

| | DTC: Profitability | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---------------------------|-------------|-------------|-------------|-------------|-------------|
| % | Gross Profit Margin (GMP) | 28.15% | 28.09% | 27.56% | 24.69% | 29.53% |
| % | Profit Margin (PM) | 7.96% | 3.44% | 5.59% | 1.71% | 4.67% |
| % | Net Profit Margin (NPM) | 7.04% | 3.07% | 5.17% | 0.28% | 3.94% |
| % | Return on Asset (ROA) | 4.00% | 2.51% | 3.21% | 0.41% | 2.83% |
| % | Return on Equity (ROE) | 5.92% | 2.84% | 4.77% | 0.25% | 3.75% |

Source: Calculation

As of 2017, gross profit margin of ERW is 56.04% and most of the year reaches more than 50%. While DTC has lower gross profit margin of 28.15%, less than ERW about 2 times. ERW's gross profit continue to improve overtime since it significantly dropped in 2013. The profit margin has climbed up from 5.01% in 2014 to 14.42% in 2017, meaning that ERW became stronger in the industry. Whereas, DTC's profit margin gradually increased from 3.44% in 2016 to 7.96% in 2017, but it slightly fluctuates during the year. Net profit margin also increased from 7.25% in 2016 to 9.42% in 2017, almost greater than DTC every year. However, it showed underperform in 2014 due to the political uncertainty in Thailand. Noticeable net profit margin of DTC was not differed much from profit margin due to very small portion in income tax expense,

leading DTC's net profit margin equal to 7.04% in 2017. In ROA aspect, ERW had 5.35% of ROA. It implied that in case ERW has no debt and still pay taxes at the effective tax rate, out of 100 Baht of total assets, ERW would generate net income of 5.35 Baht which a bit higher than DTC of 4% ROA. In terms of ROA, ERW has more efficient in earning performance by ignoring the firm's liabilities than DTC. Another measure is ROE, ERW's ROE was 10.79%, meaning that out of 100 Baht of company equity investment, shareholders would receive a return back in form of net income of 10.79 Baht. On the other hand, DTC has lower ROE of 5.92% in 2017. Therefore, in the profitability measure, ERW could be worthwhile investments that investing in DTC.

Table 2.13 ROE Dupont's analysis of The Erawan Group

| ERW: ROE analysis | | 2017 | 2016 | 2015 | 2014 | 2013 |
|-------------------|-----------------------------|--------|-------|-------|--------|--------|
| % | Dupont's analysis of ROE | 10.84% | 8.06% | 4.77% | -2.40% | 18.48% |
| % | Net Profit Margin (NPM) | 9.42% | 7.25% | 4.38% | -2.58% | 20.55% |
| Times | Total Asset Turnover (TATO) | 0.39 | 0.38 | 0.36 | 0.30 | 0.34 |
| Times | Equity Multiplier | 2.97 | 2.94 | 3.04 | 3.07 | 2.62 |

Source: Calculation

Table 2.14 ROE Dupont's analysis of Dusit Thani

| DTC: ROE analysis | | 2017 | 2016 | 2015 | 2014 | 2013 |
|-------------------|-----------------------------|-------|-------|-------|-------|-------|
| % | Dupont's analysis of ROE | 5.93% | 2.80% | 4.78% | 0.25% | 3.75% |
| % | Net Profit Margin (NPM) | 7.04% | 3.07% | 5.17% | 0.28% | 3.94% |
| Times | Total Asset Turnover (TATO) | 0.50 | 0.54 | 0.53 | 0.51 | 0.54 |
| Times | Equity Multiplier | 1.70 | 1.69 | 1.74 | 1.73 | 1.75 |

Source: Calculation

In term of ROE, we can analyze further that what is the source of return on equity of firm through the ROE Dupont's analysis which composed of 3 components; net profit margin, asset turnover and equity multiplier. ROE of ERW almost greater than DTC overtimes, due to higher net profit margin of ERW at 9.42% while DTC was 7.04%. The asset turnover ratio of both companies was quite stable, but DTC had a bit higher than ERW. It means that DTC had more efficient to converts its assets into revenues. The last component is equity multiplier, be measured a company financial

leverage. ERW was 2.97 of equity multiplier which bigger than DTC. It shown that ERW used larger portion of debt to finances its operation than DTC did. Hence, when we consider those 3 factors, ERW got 10.84% almost double of DTC at 5.93%. It clear that ERW is more attractive to invest than DTC in terms of Dupont's analysis of ROE.

2.6.4.2 Financial Ratio: Risk

Table 2.15 Risk ratios of The Erawan Group

| | ERW: Risk | 2017 | 2016 | 2015 | 2014 | 2013 |
|-------|-------------------------------|-------------|-------------|-------------|-------------|-------------|
| Times | Current Ratio (CR) | 0.49 | 0.34 | 0.39 | 0.39 | 0.58 |
| Times | Debt to Equity Ratio (DE) | 1.68 | 1.66 | 1.76 | 1.78 | 1.35 |
| Times | Interest Coverage Ratio (ICR) | 3.15 | 2.46 | 1.85 | 0.75 | 3.87 |
| Times | AR Turnover (ARTO) | 28.55 | 27.81 | 25.37 | 20.37 | 22.55 |
| Times | Inventory Turnover (ITO) | 47.89 | 44.89 | 43.01 | 41.69 | 42.92 |
| Times | AP Turnover (APTO) | 9.93 | 10.00 | 9.78 | 8.98 | 9.31 |
| Days | Cash Conversion Cycle (CCC) | -16.37 | -15.26 | -14.46 | -13.98 | -14.53 |

Source: Calculation

Table 2.16 Risk ratios of Dusit Thani

| | DTC: Risk | 2017 | 2016 | 2015 | 2014 | 2013 |
|-------|-------------------------------|-------------|-------------|-------------|-------------|-------------|
| Times | Current Ratio (CR) | 1.26 | 1.13 | 0.95 | 0.82 | 0.82 |
| Times | Debt to Equity Ratio (DE) | 0.29 | 0.31 | 0.38 | 0.34 | 0.37 |
| Times | Interest Coverage Ratio (ICR) | 7.99 | 2.94 | 6.92 | 1.55 | 4.13 |
| Times | AR Turnover (ARTO) | 9.46 | 10.61 | 10.86 | 10.43 | 10.67 |
| Times | Inventory Turnover (ITO) | 45.70 | 45.67 | 43.15 | 40.54 | 39.71 |
| Times | AP Turnover (APTO) | 3.65 | 3.69 | 3.61 | 3.58 | 3.74 |
| Days | Cash Conversion Cycle (CCC) | -53.33 | -56.41 | -59.01 | -58.04 | -54.12 |

Source: Calculation

ERW's liquidity has been improved from the previous year, as it has 0.49 times current ratio in 2017, lower than DTC which has been increasing over times. In term of interest-bearing debt to equity ratio, ERW has DE ratio at 1.68 times which is always greater than 1.5 times. While DTC's debt to equity ratio only at 0.29 times in 2016, therefore DTC has very low financial leverage because it used less debt to finance its assets relative to its equity value. To determine financial risk, the average

debt to equity ratio for the tourism sector was 0.87 times, leading ERW has higher financial risk than DTC. Due to high debt proportion and also high level of cost of funds, ERW has low interest coverage ratios, compared with DTC. ERW's interest coverage ratio was at 3.15 times while DTC was at 7.99 times in 2017. In term of cash conversion cycle, ERW has shorter CCC of -16 days while DTC has -53.33 days CCC in 2016. With negative of CCC, both companies can hold onto the cash for a longer period of time before paying to the creditors.

Table 2.17 CCC analysis of The Erawan Group

| ERW: CCC analysis | 2017 | 2016 | 2015 | 2014 | 2013 |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash Conversion Cycle (CCC) | -16.37 | -15.26 | -14.46 | -13.98 | -14.53 |
| Receivable Conversion period (RCP) | 12.78 | 13.12 | 14.39 | 17.92 | 16.19 |
| Inventory Conversion period (ICP) | 7.62 | 8.13 | 8.49 | 8.75 | 8.50 |
| Payable Conversion period (PDP) | 36.77 | 36.52 | 37.34 | 40.65 | 39.21 |

Source: Calculation

Table 2.18 CCC analysis of Dusit Thani

| DTC: CCC analysis | 2017 | 2016 | 2015 | 2014 | 2013 |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash Conversion Cycle (CCC) | -53.33 | -56.41 | -59.01 | -58.04 | -54.12 |
| Receivable Conversion period (RCP) | 38.60 | 34.40 | 33.61 | 34.98 | 34.21 |
| Inventory Conversion period (ICP) | 7.99 | 7.99 | 8.46 | 9.00 | 9.19 |
| Payable Conversion period (PDP) | 99.91 | 98.80 | 101.08 | 102.03 | 97.52 |

Source: Calculation

For further analysis in cash conversion cycle (CCC), it has 3 parts; receivable, inventory and payables to measure how many days that company can convert its inventories and receivable into cash. Since DTC had shorten the cash conversion cycle, implied that DTC had more liquidity in term of holding free cash for 53 days on hands, before due payment to its suppliers. While ERW got only 16 days. The ideas behind CCC are that DTC has longer credit for its receivable of 38 days, but they slow down a payment because of a longer credit term for 99 days. Therefore, ERW should speed up the sales operating, shorten the receivable collection and delay account payable

still within the due date in order to reducing the cash conversion cycle. That would increase company's liquidity through holding the free cash.

2.7 Income Statement Including Projections

Table 2.19 Chicken Meat Exports of Thailand 2016

(Unit: THB Million)

| Income Statement | | | | | | |
|---|---|--------------|--------------|--------------|--------------|--------------|
| | Assumption | 2018F | 2019F | 2020F | 2021F | 2022F |
| Revenues | | | | | | |
| Revenues from hotel operations | | 6,502 | 7,166 | 7,879 | 8,542 | 9,065 |
| Rental of units in buildings and service income | 3.95% Historical Avg. growth | 231 | 240 | 250 | 265 | 281 |
| Revenues from sale of properties | Assume Zero (One-time transaction) | 0 | 0 | 0 | 0 | 0 |
| Interest income | 0.11% % of total revenue | 7 | 8 | 9 | 10 | 10 |
| Other income | 1.13% % of total revenue | 77 | 85 | 93 | 101 | 107 |
| Total revenues | | 6,818 | 7,500 | 8,231 | 8,917 | 9,463 |
| Expenses | | | | | | |
| Cost of hotel operations | 44.16% % of revenue from hotel operations | 2,872 | 3,057 | 3,322 | 3,602 | 3,822 |
| Cost of rental of units in buildings and services | 37.66% % of rental and service income | 87 | 91 | 94 | 97 | 103 |
| Cost of sale of properties | Assume Zero (One-time transaction) | 0 | 0 | 0 | 0 | 0 |
| Depreciation and amortization | "PPE tab" | 784 | 852 | 920 | 968 | 1,017 |
| Selling expenses | 6.34% % of revenue from hotel operations | 380 | 383 | 421 | 413 | 439 |
| Administrative expenses | 19.47% % of total revenue | 1,328 | 1,460 | 1,520 | 1,629 | 1,701 |
| Total expenses | | 5,450 | 5,843 | 6,277 | 6,710 | 7,082 |
| EBIT | | 1,368 | 1,657 | 1,954 | 2,208 | 2,381 |
| Finance costs | 3.85% Kd calculation (Y2018) | 349 | 484 | 519 | 546 | 540 |
| Profit (loss) before income tax expense | | 1,019 | 1,172 | 1,434 | 1,662 | 1,841 |
| Income tax expense | 20% Marginal Tax | 204 | 234 | 287 | 332 | 368 |
| Share of profit (loss) of investment in associate | Same as previous year | -24 | -24 | -24 | -24 | -24 |
| Profit (loss) for the year | | 790 | 913 | 1,123 | 1,305 | 1,449 |
| Dividend | 40% Dividend Payout Policy | 316 | 365 | 449 | 522 | 579 |
| Addition to Retained Earnings | | 474 | 548 | 674 | 783 | 869 |

Source: Company IR Report

2.8 Balance Sheet Including Projections

Table 4.20 Statement of financial position including projections of The Erawan Group

(Unit: THB Million)

| Statement of financial position | | | | | | | |
|---|----------------------------------|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Assets | Assumption | | 2018F | 2019F | 2020F | 2021F | 2022F |
| Current assets | | | | | | | |
| Cash and cash equivalents | 5.91% | % of Total Assets | 1,201 | 1,295 | 1,384 | 1,426 | 1,466 |
| Trade accounts receivable | 4.28% | % of Total Core Revenues | 279 | 307 | 338 | 366 | 388 |
| Inventories | 42.00 | Inventory Turnover Ratio | 68 | 74 | 80 | 86 | 90 |
| Value added tax refundable | 0.39% | % of Total Assets | 79 | 85 | 91 | 94 | 96 |
| Other current assets | 0.57% | % of Total Assets | 115 | 124 | 133 | 137 | 141 |
| Total current assets | | | 1,742 | 1,885 | 2,026 | 2,109 | 2,181 |
| Non-current assets | | | | | | | |
| Investments in associates | Same as previous year | | 109 | 109 | 109 | 109 | 109 |
| Other long-term investments | 0.01% | % of Total Assets | 2 | 2 | 2 | 2 | 3 |
| Property, plant and equipment | Separate Calculation - "PPE tab" | | 16,424 | 17,722 | 18,952 | 19,519 | 20,060 |
| Land held for development | Same as previous year | | 104 | 104 | 104 | 104 | 104 |
| Leasehold rights for land and buildings | Separate Calculation - "PPE tab" | | 1,668 | 1,803 | 1,931 | 1,983 | 2,032 |
| Intangible assets | Separate Calculation - "PPE tab" | | 57 | 70 | 81 | 86 | 91 |
| Deposits for lease of land, building and equipment | Same as previous year | | 140 | 140 | 140 | 140 | 140 |
| Deferred tax assets | 0.07% | % of Total Assets | 14 | 15 | 16 | 17 | 17 |
| Other non-current assets | 0.24% | % of Total Assets | 50 | 54 | 57 | 59 | 61 |
| Total non-current assets | | | 18,569 | 20,020 | 21,393 | 22,020 | 22,617 |
| Total assets | | | 20,310 | 21,905 | 23,419 | 24,128 | 24,799 |
| Current liabilities | | | | | | | |
| Short-term borrowings from financial institutions | 9.96% | % of Total IBD | 1,256 | 1,352 | 1,429 | 1,422 | 1,402 |
| Trade accounts payable | 9.05 | A/P Turnover | 317 | 342 | 372 | 398 | 418 |
| Current portion of long-term borrowings from financial institutions | 13.55% | % of Total IBD | 1,708 | 1,839 | 1,944 | 1,934 | 1,908 |
| Current portion of finance lease liabilities | 0.02% | % of Total IBD | 2 | 3 | 3 | 3 | 3 |
| Income tax payable | 0.96% | % of Total Revenues | 66 | 72 | 79 | 86 | 91 |
| Other current liabilities | 4.70% | % of Total Assets | 954 | 1,029 | 1,100 | 1,133 | 1,165 |
| Total current liabilities | | | 4,304 | 4,637 | 4,926 | 4,977 | 4,986 |
| Non-Current liabilities | | | | | | | |
| Long-term borrowings from financial institutions | 76.45% | % of Total IBD | 9,641 | 10,381 | 10,970 | 10,917 | 10,766 |
| Finance lease liabilities | 0.02% | % of Total IBD | 3 | 3 | 3 | 3 | 3 |
| Accounts payable for land leasehold rights | Same as previous year | | 180 | 180 | 180 | 180 | 180 |
| Deposits from lessees | 0.29% | % of Total Assets | 59 | 64 | 68 | 70 | 72 |
| Deferred income | 0.11% | % of Total Assets | 23 | 24 | 26 | 27 | 28 |
| Deferred tax liabilities | 0.28% | % of Total Assets | 57 | 61 | 65 | 67 | 69 |
| Provision for employee benefits | 0.50% | % of Total Assets | 101 | 109 | 117 | 120 | 124 |
| Total non-current liabilities | | | 10,064 | 10,823 | 11,429 | 11,385 | 11,242 |
| Total liabilities | | | 14,368 | 15,460 | 16,356 | 16,362 | 16,228 |

Table 4.20 Statement of financial position including projections of The Erawan Group (cont.)

(Unit: THB Million)

| Statement of financial position | | | | | | |
|--|---|--------------|--------------|--------------|--------------|--------------|
| Assets | Assumption | 2018F | 2019F | 2020F | 2021F | 2022F |
| Shareholder's equity | | | | | | |
| Share capital | | | | | | |
| Authorized share capital | Same as previous year | 2,538 | 2,538 | 2,538 | 2,538 | 2,538 |
| Issued and paid-up share capital | Q3 2018 - The latest information | 2,507 | 2,507 | 2,507 | 2,507 | 2,507 |
| Shares premium on ordinary shares | Same as previous year | 846 | 846 | 846 | 846 | 846 |
| Employee stock options | Q3 2018 - The latest information | 14 | 14 | 14 | 14 | 14 |
| Retained earnings | | | | | | |
| Appropriated | | | | | | |
| Legal reserve | Same as previous year | 236 | 236 | 236 | 236 | 236 |
| Unappropriated | Unappropriated of previous year + addition to Retained Earnings | 2,204 | 2,752 | 3,426 | 4,209 | 5,078 |
| Other components of shareholders' equity | Same as previous year | -88 | -88 | -88 | -88 | -88 |
| Equity attributable to owners of the parent | | 5,718 | 6,266 | 6,940 | 7,723 | 8,592 |
| Non-controlling interests | 1.23% % of Total Assets | 250 | 270 | 288 | 297 | 305 |
| Total shareholders' equity | | 5,968 | 6,536 | 7,228 | 8,020 | 8,897 |

Source: Calculation

2.9 Statement of Cash Flow Including Projections

Table 2.21 Statement of cash flow including projections of The Erawan Group

(Unit: THB Million)

| Statement of Cash Flow | 2018F | 2019F | 2020F | 2021F | 2022F |
|---|--------------|--------------|--------------|--------------|--------------|
| Cash flows from operating activities | | | | | |
| Profit for the year | 748 | 804 | 1,001 | 1,157 | 1,327 |
| <i>Adjustments to reconcile profit (loss) to cash receipts (payments)</i> | | | | | |
| Income tax expense | 193 | 207 | 256 | 295 | 338 |
| Finance costs | 370 | 514 | 554 | 585 | 582 |
| Depreciation and amortization | 784 | 852 | 920 | 968 | 1,017 |
| Provision for employee benefit | 15 | 8 | 8 | 4 | 3 |
| Share of (profit) loss of investment in associate | 24 | 24 | 24 | 24 | 24 |
| Recognized rental deposits and deferred income to income | -10 | -2 | -2 | -1 | -1 |
| Interest income | -7 | -8 | -9 | -10 | -10 |
| | 2,116 | 2,399 | 2,752 | 3,023 | 3,281 |

**Table 2.21 Statement of cash flow including projections of The Erawan Group
(cont.)**

(Unit: THB Million)

| Statement of Cash Flow | 2018F | 2019F | 2020F | 2021F | 2022F |
|---|---------------|---------------|---------------|---------------|---------------|
| <i>Changes in operating assets and liabilities</i> | | | | | |
| Trade accounts receivable | -31 | -28 | -31 | -28 | -22 |
| Inventories | -12 | -5 | -6 | -6 | -4 |
| Value added tax refundable | -50 | -6 | -6 | -3 | -3 |
| Other current assets | 23 | 9 | 9 | 4 | 4 |
| Other non-current assets | -48 | 5 | 5 | 2 | 2 |
| Trade accounts payable | 38 | 25 | 30 | 27 | 19 |
| Deposits from lessees | 17 | 5 | 4 | 2 | 2 |
| Net cash generated from operating | 2,053 | 2,403 | 2,757 | 3,021 | 3,279 |
| Income tax paid | -193 | -207 | -256 | -295 | -338 |
| Net cash from operating activities | 1,859 | 2,196 | 2,501 | 2,726 | 2,941 |
| <i>Cash flows from investing activities</i> | | | | | |
| Investment in associate | 0 | 0 | 0 | 0 | 0 |
| Other long-term investments | 1 | 0 | 0 | 0 | 0 |
| Acquisition of property, plant and equipment | -2,810 | -1,888 | -1,888 | -1,348 | -1,369 |
| Acquisition of leasehold rights for land and buildings | -359 | -241 | -241 | -172 | -175 |
| Acquisition of intangible assets | -31 | -21 | -21 | -15 | -15 |
| Interest received | 7 | 8 | 9 | 10 | 10 |
| Net cash used in investing activities | -3,192 | -2,142 | -2,141 | -1,525 | -1,549 |
| <i>Cash flows from financing activities</i> | | | | | |
| Proceeds from short-term borrowings from financial institutions | 955 | 228 | 181 | -16 | -47 |
| Repayment of short-term borrowings from financial institutions | -1,417 | -92 | -86 | -42 | -42 |
| Proceeds from long-term borrowings from financial institutions | 2,586 | 740 | 589 | -52 | -152 |
| Repayment of long-term borrowings from financial institutions | 0 | 0 | 0 | 0 | 0 |
| Payment by a lease for reduction of the outstanding liability relating to a finance lease | 0 | 0 | 0 | 0 | 0 |
| Dividends paid to owners of the Company | -299 | -321 | -400 | -463 | -531 |
| Finance costs | -370 | -514 | -554 | -585 | -582 |
| Net cash from (used in) financing activities | 1,456 | 40 | -270 | -1,159 | -1,353 |
| Net increase (decrease) in cash and cash equivalent | 124 | 94 | 90 | 42 | 40 |
| Cash and cash equivalents at 1 January | 1,077 | 1,201 | 1,295 | 1,384 | 1,426 |
| Cash and cash equivalents at 31 December | 1,201 | 1,295 | 1,384 | 1,426 | 1,466 |

Source: Calculation

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