

**RELATIVES VALUATION OF THE ERAWAN GROUP PUBLIC  
COMPANY LIMITED**



**A THEMATIC PAPER SUBMITTED IN PARTIAL  
FULFILLMENT OF THE REQUIREMENTS FOR  
THE DEGREE OF MASTER OF MANAGEMENT  
COLLEGE OF MANAGEMENT  
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2018**

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# CHAPTER I

## VALUATION

### 1.1 Highlights

We issue a **SELL** recommendation on Erawan Group Public Company Limited with a one-year target price of THB 5.40 using the Multiple Valuation Model. This offers a 16.33% downside from its closing price of THB 6.45 on November 23, 2018. 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. Although, Thailand economic outlook is growing by Thailand 4.0 policy, there are uncertainties from external factors that would highly effect on Thailand tourism sector and ERW as well.

#### 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 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.

ERW's Key Financial Ratios

**Table 1.1: ERW's Key financial ratios**

ERW: Profitability	Avg. Tourism Industry 2017	2017	2016	2015	2014	2013
Gross Profit Margin (GMP)	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”**

**System** - Systematic management approach to enhance efficiency as well as to lessen reliance on individuals

**People** - Competent workforce with dedication to further learning and continual improvement

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

**Culture** - Sound corporate culture to support sustainable growth

**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 Vongkusolkit 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 2 divisions, consisting of Hotel business and Rental Properties.

1.2.6.1 Hotel - 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.

1. 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.

2. 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.

3. Economy Hotels

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

4. 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.

Rental Property	Property Management
<p style="text-align: center;">Erawan Bangkok</p> 	<p style="text-align: center;">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>

**Figure 1.1: Rental property and property management**

### 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.

Hotel Operators	HYATT®	Marriott®	IHG®
Luxury		   	
Midscale			

**Figure 1.2: 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.



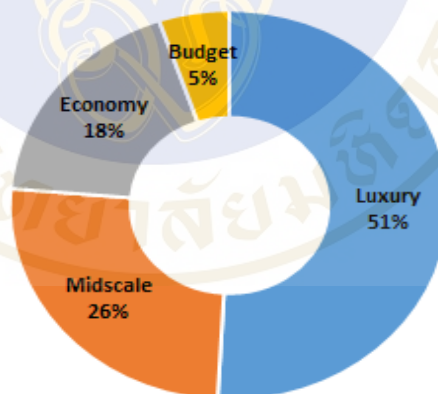
**Figure 1.3: Hotel brand under franchise agreement**

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 1.4: Hotel brand by the Erawan Group**

### 1.2.8 Financial Summary



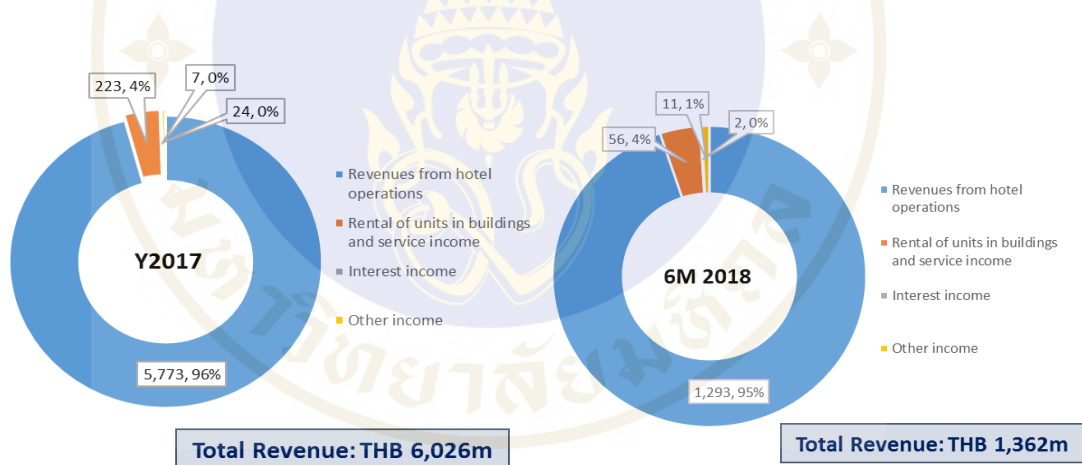
**Figure 1.5: Hotels business portfolio**

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.



**Table 1.2: 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%

**Figure 1.6: 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.

**Table 1.3: 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 Macroeconomic Analysis**

### **1.3.1 Global Economy Grows from Consumption and Export**

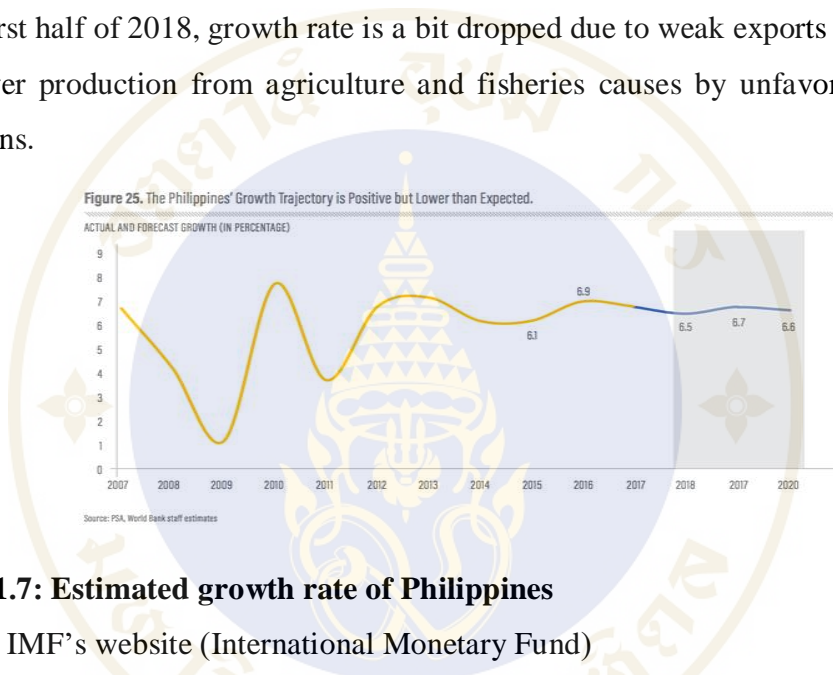
In 2018, the global economy was projected to continue growing mainly from consumption and exports. Moreover, the U.S. economy expected to grow due to U.S. tax reform policy, a strong labor market, and improved consumer confidence. The Euro area would also record a stronger growth from the back of exports 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**

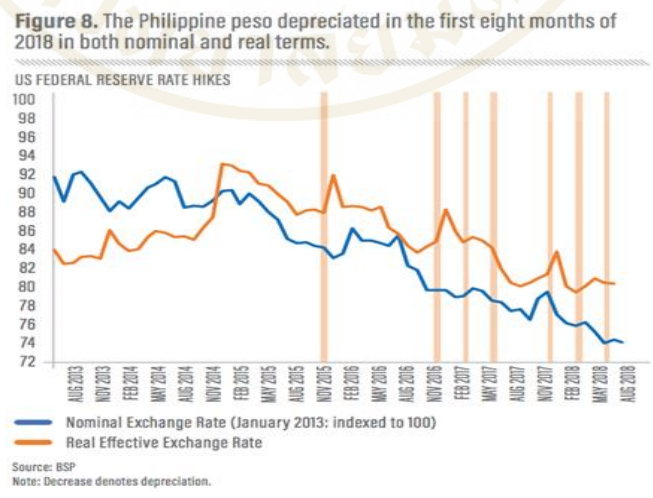
The Philippines economic outlook in 2017 has performed well since the Philippines economy grew up 6.7 percent from 6.9 percent year-on-year in 2016, which was ranked as the third in the region next below Vietnam and China. The key driver of economic growth is robust export, while import is also increased 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 1.7: Estimated growth rate of Philippines**  
Source: IMF's website (International Monetary Fund)



**Figure 1.8: 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 1.9: 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.

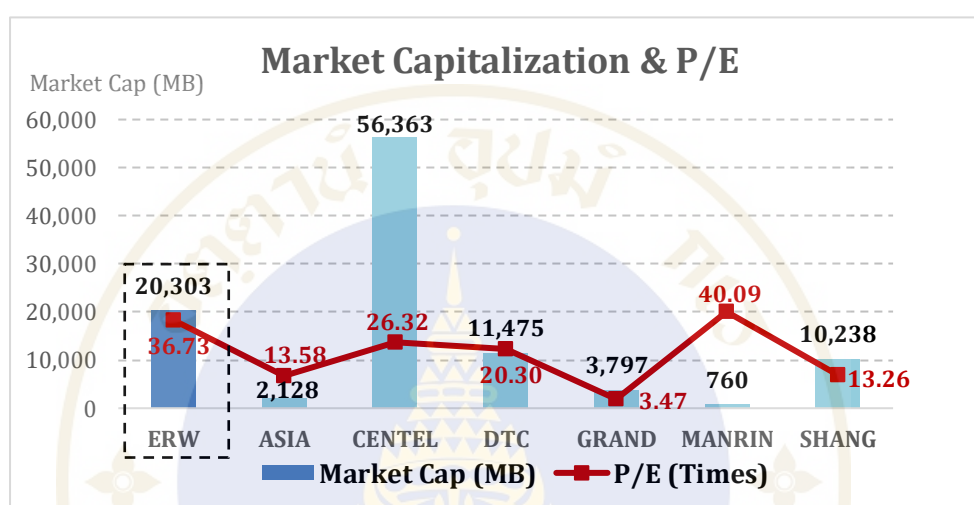
Not only the recovery plan that we mentioned before, but also there are still have a chance for the country to boost visitors from other markets, particularly Europe, the Middle East, South Asia and Oceania. However, the government is confident that international visitors to Thailand will meet the expectation 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 1.10: 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 36.73. CENTEL is the largest market cap accounts for 47.70% of its sector, P/E of 26.32. While DTC almost has the same level of market cap, P/E of 20.30.

### 1.5.2 SWOT Analysis

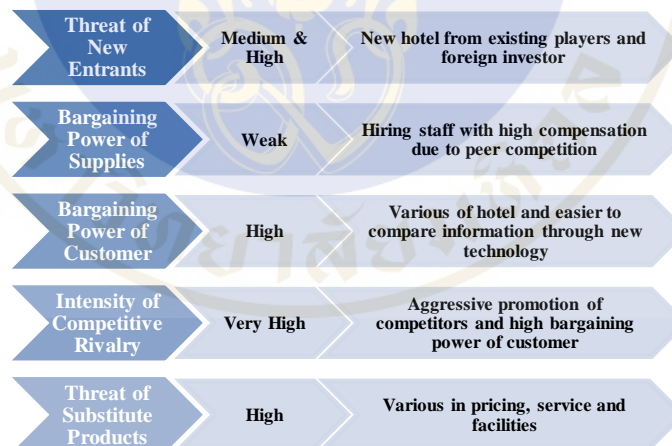


**Figure 1.11: SWOT Analysis**

**Source:** Team Analysis

(Data 2.4: SWOT Analysis)

### 1.5.3 Five Force Model



**Figure 1.12: Five Force Model**

**Source:** Team Analysis

(Data 2.5: Five Force Model)

### 1.5.4 Big Players

Direct Competitor of ERW: Dusit Thani Public Company Limited



**Figure 1.13: 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 1.4: Comparing keys business performance**

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

### **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 confidence as well. In conclusion, Thailand government continues to focus on this sector and confidentially aims to attract more tourists both domestic and international.

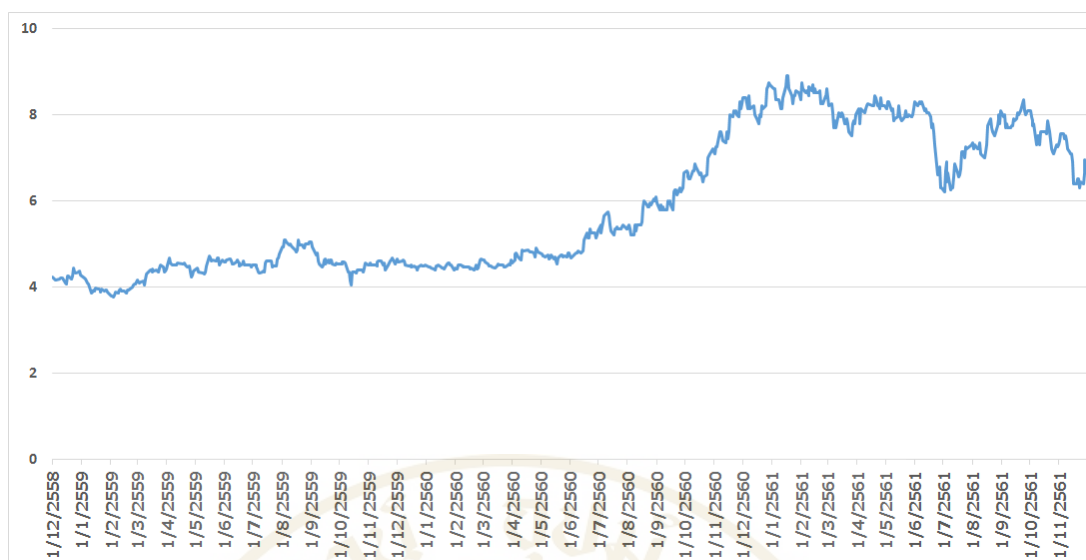
#### **1.6.4 Philippines Maintain a Strong Macroeconomic**

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**

We issue a “**SELL**” recommendation on Erawan Group Public Company Limited with a one-year target price of THB 5.40 using the relative method. This came up with 16.33% downside from its closing price of THB 6.45 on November 23, 2018. ERW can grow from its core business of hotel operation with strong current product portfolio and opportunity to open hotel in other traveling destinations. Although, Thailand economic outlook is growing by Thailand 4.0 policy, there are uncertainties from external factors that would highly effect on Thailand tourism sector and ERW as well.

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 “**SELL**” rating.



**Figure 1.14: ERW's daily share price**

**Source:** SetSmart as of December 2015 to November 2018

## 1.7 Projected Cash Flow

Assumption for ERW Projected Cash Flow. 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

To estimate 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 1.5: 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
<b>Total Room Inventory Increased</b>	<b>1,394</b>	<b>1,147</b>	<b>1,146</b>	<b>818</b>	<b>831</b>
<b>Total Room Inventory</b>	<b>8,410</b>	<b>9,557</b>	<b>10,703</b>	<b>11,521</b>	<b>12,352</b>



**Figure 1.15: Hotel growth strategy announced by ERW**

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

- Forecasted Occupancy Rate

Uses 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 1.6: % 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 1.7: 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. Assume that 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 1.8: 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
<b>NET CAPEX</b>	<b>100%</b>	<b>3,200,000,000</b>	<b>2,150,000,000</b>	<b>2,150,000,000</b>	<b>1,534,894,160</b>	<b>1,559,077,845</b>



**Figure 1.16: Investment framework (CAPEX) announced by ERW**

Source: Information from Opportunity day Q1/2018

## 1.8 Multiple Valuation Model

To value Erawan Group, we have decided to use a multiple valuation models refer from forecasted financial statement. This multiple technique is used to find a fair price of ERW in 2019 through three multiples including Trailing Price to Earnings Ratio (Trailing P/E), Trailing Price to Book Value Ratio (Trailing P/BV) and Trailing Enterprise Value to Earnings before Interest, Taxes, Depreciation and Amortization Ratio (Trailing EV/EBITDA). Ultimately, we found that EV/EBITDA multiple is the most reliable metric to get a target price as the following ideas.

### 1.8.1 Methodology

1.8.1.1 P/E Ratio - In general it referred to trailing P/E ratio which is based on the actual performance in the past. Using trailing P/E ratio as a multiple could be represent the current market price. In practice, this idea might be unreliable because the business's performance could be changed overtimes. However, P/E by using historical data benefits to imply how precise the forward P/E which based on estimate of company's future. Another word, trailing P/E ratio is useful to guide the forward P/E ratio trend whether it is rising or reducing. On the contrary, forward P/E ratio would vary by estimating because it relied on the potential future earning in next 12 months. We found that, the financial analysts almost believe forward P/E ratio rather than trailing P/E because projected future performance would be better when make a company valuation (*The key difference between forward P/E and trailing P/E, 2018*). Moreover, Forward P/E ratio also helpful in comparing the likely future performance of peer group in the same industry. In this report, we will value the market price by only trailing P/E ratio, forward P/E ratio of peer group is unavailable though.

1.8.1.2 P/BV Ratio – It provides a way to see how much investors are paying for each company's share or to see how many times the market value differs from shareholder's equity. P/BV is easily to compare with market price and can be used even when negative earning, while P/E ratio useless for relative valuation. However, this multiple might be inaccurate because there are several factors that can affect the ratio such as paying dividends, stock repurchases and issuing new stock. It is possible for a company to manipulate ratio through those factors. In

addition, P/BV ratio might be less useful in the service sector due to a smaller tangible asset. Therefore, using other relative multiples along with or apart from P/BV ratio would be more reliable. Stock valuation in this report also use trailing P/BV metric to see target price reflected by P/BV ratio.

1.8.1.3 EV/EBITDA Ratio – It is an enterprise multiple to compare the entire value of business with earning before deducted depreciation and amortization. It is useful for comparing relative values of different business, it means that in high growth industry is likely to have a higher enterprise multiple than slow growth industry. In this report will use EV/EBITDA multiple to find the proper target price.

### 1.8.2 Peer Group

To estimate by multiple relative approach, we defined a group of peers as a benchmark which listed in Stock Exchange of Thailand (SET). We got 4 companies including DTC, CENTEL, GRAND and SHANG.

Determining a benchmark, we used median value of peer group as a multiple measure. We set the criteria a group of peers to compare with ERW by comparing on sector group, business model, long-term growth rate, market capitalization, return on equity ratio, debt to equity ratio and beta. Then, we will get a peer companies which have similar characteristics as ERW, summarized in below table.

**Table 1.9: Summary of peer group**

Peer Group	Ticker	Price (B)	5 Yr. Hist Growth (%)	Divid end Yield (%)	Listed Shares (Million Shares)	Market Cap (MB.)	D/E Times)	Net Profit Margin (%)	ROA (%)	ROE (%)	Beta
<b>THE ERAWAN GROUP</b>	<b>ERW</b>	<b>6.45</b>	6.90	1.11	2,506.60	20,303.49	2.11	7.78	6.76	9.96	1.55
DUSIT THANI	DTC	9.85	0.80	1.17	850.00	11,475.00	1.07	4.32	6.99	9.74	1.04
CENTRAL PLAZA HOTEL	CENTEL	40.5	6.60	1.44	1,350.00	56,362.50	1.02	10.41	11.63	18.15	1.05
GRANDE ASSET HOTELS AND PROPERTY	GRAND	0.85	N/A	0.34	3,615.93	3,796.73	1.74	9.86	11.97	27.63	0.54
SHANGRI-LA HOTEL	SHANG	74	3.00	2.86	130.00	10,237.50	0.06	28.98	10.86	9.28	0.16

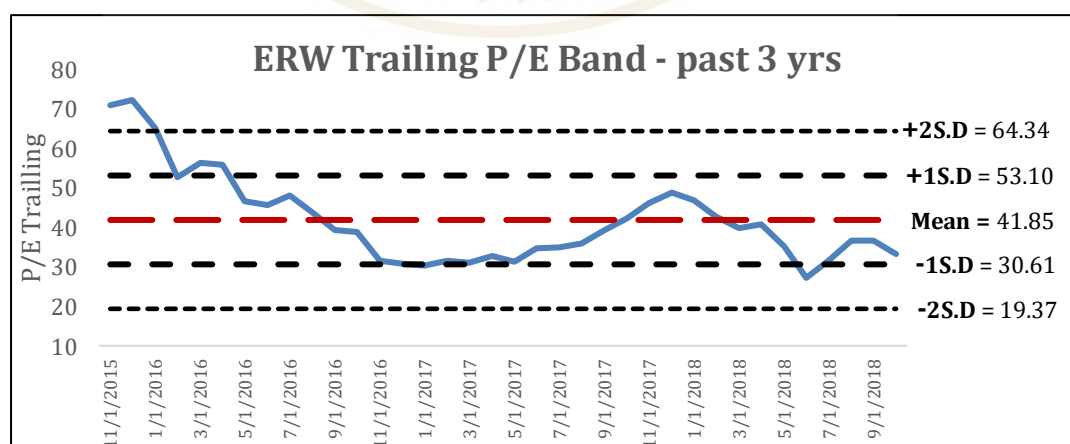
**Source:** Thomson Reuters Eikon and Calculations

All of peer companies operated in tourism and leisure segment, which are services industry. Source of revenue mainly from hotel operation namely **DTC**; Dusit International comprises an international portfolio under 5 brand, Dusit Thani, DusitD2, Dusit Princess, Dusit Devarana and ASAI hotels which is a new affordable

lifestyle brand. Currently operates 25 properties worldwide in key destinations. **CENTEL**; Centara Hotels and Resorts has a dynamic portfolio with a mix of hotels and city. There are now 63 properties in major Thai destination and in the middle east area. For example, **GRAND**; Grand Asset invests in hotel located in central business area with prime location in Bangkok and selectively beachfront hotels in attractive places of tourist. For example, The Westin Grande Sukhumvit Hotel, The Hyatt Regency Bangkok Sukhumvit Hotel, The Sheraton Hua Hin Resort and Spa located as well as Sheraton Hua Hin Pranburi Villas in Pranburi. **SHANG**; Shangri-La Hotel, Thailand based company owns and manages Shangri-La Hotel, Bangkok and Shangri-La Hotel, Chiang Mai. Noticeable that beta of SHANG is quite very low owing to its small trade volume and sometimes its negative beta. However, SHANG can be a listed peer because its ROA is close to ERW.

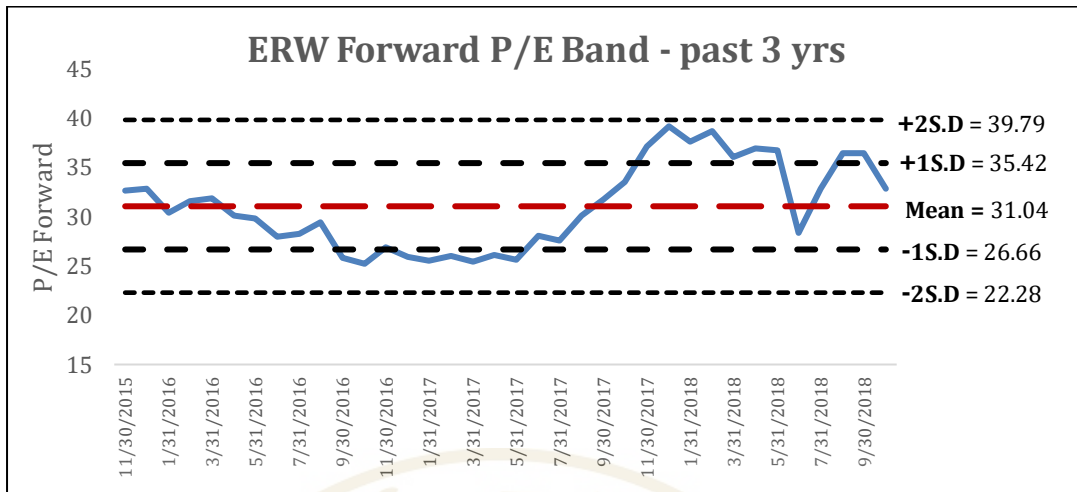
### 1.8.3 Valuation Model

Primarily, we can assume that whether ERW is under or overvalued by grouping a trailing P/E ratio bands and forward P/E ratio based on 3 years history. Currently, ERW has 36.73 of P/E ratio as of 30 Sep 2018. We found that at a reporting date ERW's stock price is a bit undervalued because current P/E of ERW is 36.73, ranged between average and minus 1 standard deviation over the past 3 years. However, ERW's forward P/E ratio is ranged between the average and 1 standard deviations along its historical 3 years, providing to below chart. Therefore, ERW likely to be overvalued in the future.



**Figure 1.17: Trailing P/E band along past 3 year**

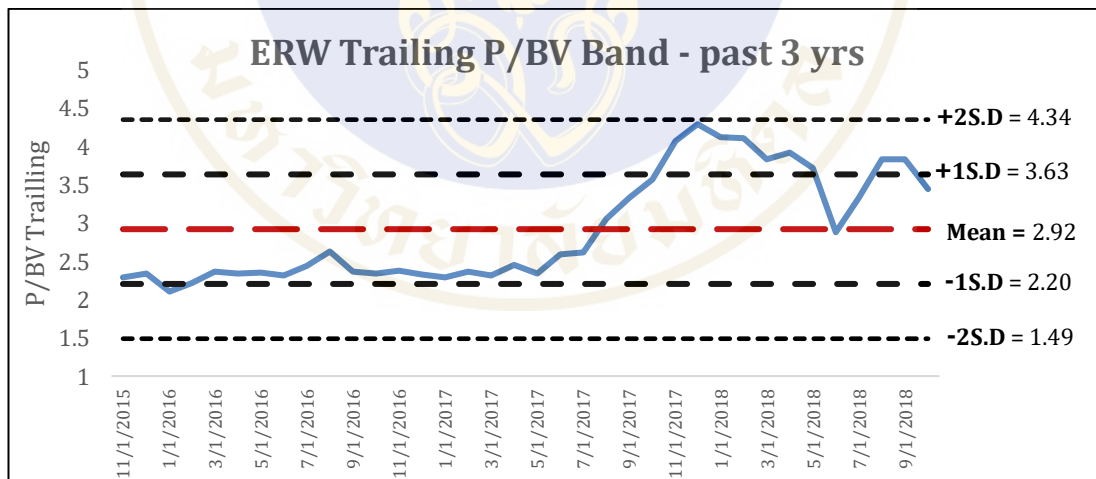
**Source:** Thomson Reuters Eikon and Calculations



**Figure 1.18: Forward P/E band along past 3 years**

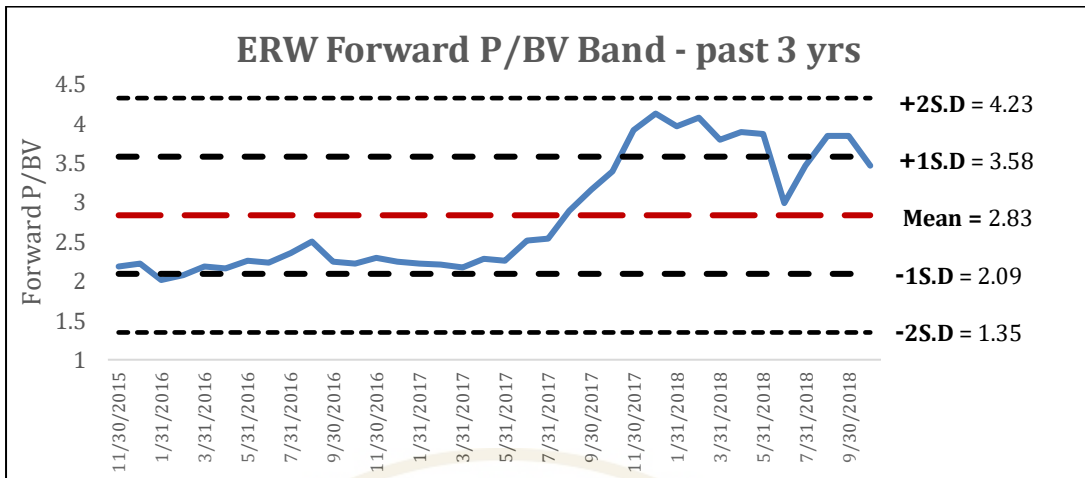
**Source:** Thomson Reuters Eikon and Calculations

In term of P/BV ratio we also grouping a trailing P/BV ratio bands and forward P/BV ratio based on 3-year history. Recent P/BV ratio is 3.44 as of 30 Sep 2018. It Shown that ERW’s stock price is likely overvalued as same as Forward P/BV because current P/BV is lied above 1 standard deviation along past 3 years following to below chart. Therefore, ERW likely to be overvalued in the future in term of P/BV metric.



**Figure 1.19: Trailing P/BV band along past 3 year**

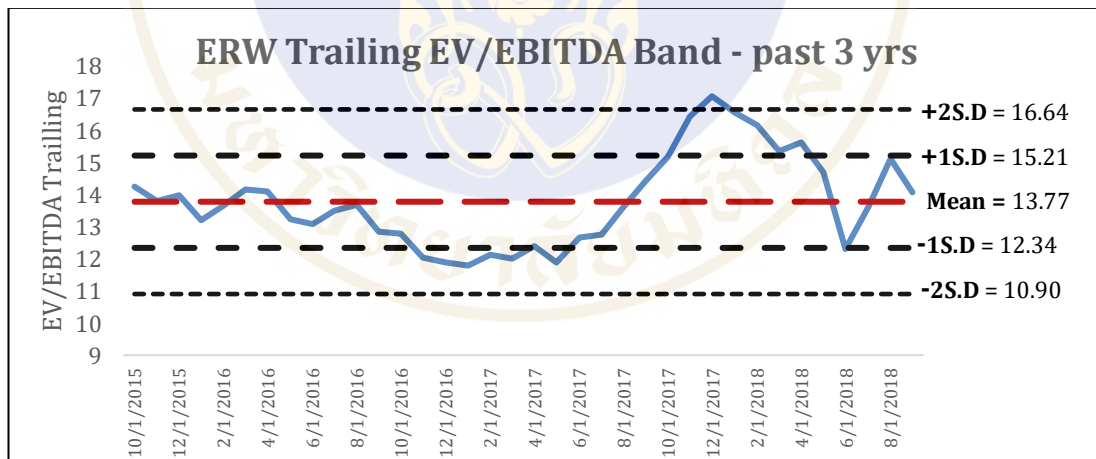
**Source:** Thomson Reuters Eikon and Calculations



**Figure 1.20: Forward P/BV band along past 3 years**

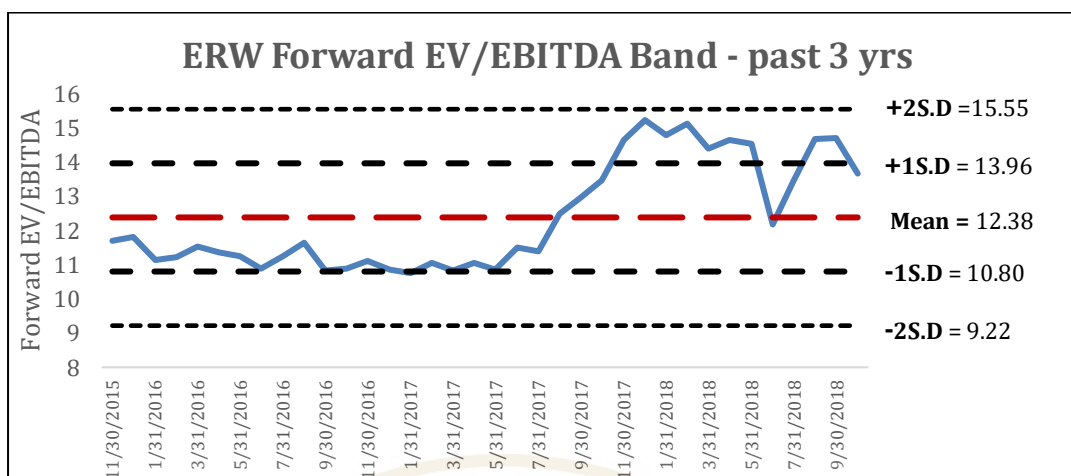
**Source:** Thomson Reuters Eikon and Calculations

In term of EV/EBITDA band we plotted trailing EV/EBITDA ratio bands and forward EV/EBITDA ratio from last 3 years. Its relation shown that ERW is fair valued. Because current trailing EV/EBITDA is 14.06 as of 30 Sep 2018, closely lied to the mean. While, forward EV/EBITDA is between 1 and 2 standard deviations above its 3 years mean. Therefore, ERW likely to be overvalued in the future in term of EV/EBITDA metric as the following chart below.



**Figure 1.21: Trailing EV/EBITDA band along past 3 years**

**Source:** Thomson Reuters Eikon and Calculations



**Figure 1.22: Trailing EV/EBITDA band along past 3 years**

**Source:** Thomson Reuters Eikon and Calculations

Next, we projected EPS and EBITDA for the future year (2019) by calculated a proforma income statement. The assumptions are aligned with company roadmap and prudentially reasonable. To determine sales growth, we concern both hotel operation and rental and other services. There are 3 key factors linked with its revenue; number of rooms, occupancy rate and room rate per night. For the fiscal year 2019, we forecasted a profit of 804.77 million Baht and shareholders' equity of 6,524.69 million Baht of ERW. We assumed that there are no movement in number of shares which is set same as 2017, since it was no evidence in its business plan. In term of projected EBITDA, ERW has a huge amount in PPE due to business itself. For the investment plan reflected by CAPEX, ERW continue expanding in high growth markets and high growth segments. During 2018 - 2019, ERW strives to open new hotel such as Novotel & IBIS Style Sukhumvit 4, Mercure & IBIS Sukhumvit 24, HOP INN Thailand and HOP INN Philippines. Accordance with ERW's road map, the total portfolio of ERW could reach approximately more than 85 hotels with more than 10,000 rooms which covered 25 hotels in luxury, midscale and economy as well as 50 HOP INN Thailand and 12 Hotels in Philippines.



**Table 1.10: Forecasted statement of comprehensive income**

<b>Statement of comprehensive income</b>						
	<b>2017</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
<b>Revenues</b>						
Revenues from hotel operations	5,773.12	6,502.13	7,166.45	7,878.52	8,541.82	9,064.83
Rental of units in buildings and service income	222.51	231.30	240.44	249.93	264.80	280.56
Revenues from sale of properties	0.00	0.00	0.00	0.00	0.00	0.00
Interest income	6.70	7.35	8.08	8.87	9.61	10.20
Other income	78.48	77.29	85.02	93.30	101.09	107.27
<b>Total revenues</b>	<b>6,025.98</b>	<b>6,818.06</b>	<b>7,499.99</b>	<b>8,230.63</b>	<b>8,917.32</b>	<b>9,462.86</b>
<b>Expenses</b>						
Cost of hotel operations	2,549.63	2,871.59	3,057.48	3,321.89	3,601.56	3,822.08
Cost of rental of units in buildings and services	86.01	87.10	90.54	94.11	97.06	102.84
Cost of sale of properties	0.00	0.00	0.00	0.00	0.00	0.00
Depreciation and amortisation	738.42	784.29	852.04	919.79	968.16	1,017.29
Selling expenses	347.80	379.75	382.71	420.74	413.45	438.77
Administrative expenses	1,223.26	1,327.66	1,460.45	1,520.42	1,629.43	1,700.73
<b>Total expenses</b>	<b>4,945.13</b>	<b>5,450.38</b>	<b>5,843.22</b>	<b>6,276.95</b>	<b>6,709.66</b>	<b>7,081.70</b>
<b>EBIT</b>	<b>1,080.86</b>	<b>1,367.69</b>	<b>1,656.77</b>	<b>1,953.68</b>	<b>2,207.65</b>	<b>2,381.16</b>
Finance costs	343.67	349.07	484.40	519.23	546.05	539.87
<b>Profit (loss) before income tax expense</b>	<b>737.18</b>	<b>1,018.61</b>	<b>1,172.37</b>	<b>1,434.45</b>	<b>1,661.60</b>	<b>1,841.29</b>
Income tax expense	172.17	203.72	234.47	286.89	332.32	368.26
Share of profit (loss) of investment in associate	-24.47	-24.47	-24.47	-24.47	-24.47	-24.47
<b>Profit (loss) for the year</b>	<b>565.02</b>	<b>790.41</b>	<b>913.42</b>	<b>1,123.09</b>	<b>1,304.81</b>	<b>1,448.56</b>

**Source:** Calculation

**Table 1.11: Key input data from forecasted financial statement**

<i>from forecasted earning in 2019(F)</i>	<b>value</b>
Listed Shares (Million Shares) 2017(A)	<b>2,506.60</b>
Shareholders'Equity (MB)	<b>6,535.90</b>
EBIT (MB)	<b>1,656.77</b>
Depreciation and Amortisation (MB)	<b>852.04</b>
Profit (loss) for The Year (MB)	<b>913.42</b>
Interest Bearing Debt (MB)	<b>13,490.31</b>
Non-Operating Asset (MB)	<b>1,297.14</b>
<b>EPS</b>	<b>0.36</b>
<b>BV</b>	<b>2.61</b>
<b>EBITDA (MB)</b>	<b>2,508.81</b>

**Source:** Calculations

For the valuation, using forward multiple is more reliable predictors than past data. Because it considers of future earning and it also useful for comparing current earning to future earnings. Still, we rely on past performance because forward-looking multiples of peer group does not provide in Thomson & Reuters. Thereby, we

find a median peer group excepted ERW in each relative method. Then we arrive at a P/E ratio of 16.78x, P/BV ratio of 1.53x and EV/EBITDA of 10.25x. The results are in the below table.

**Table 1.12: Summary of multiple values**

**Source:** Thomson Reuters Eikon and Calculations

Peer Group	Ticker	Price (B)	Dividend Yield (%)	Listed Shares (Million Shares)	Market Cap (MB.)	Trailing P/E	Trailing P/BV	Trailing EV/EBITDA	
THE ERAWAN GROUP	ERW	6.45	1.11	2,506.60	20,303.49	36.73	3.44	14.06	
DUSIT THANI	DTC	9.85	1.17	850.00	11,475.00	20.30	1.92	53.21	
CENTRAL PLAZA HOTEL	CENDEL	40.50	1.44	1,350.00	56,362.50	26.32	4.53	15.36	
GRANDE ASSET HOTELS AND PROPERTY	GRAND	0.85	0.34	3,615.93	3,796.73	3.47	0.8	5.11	
SHANGRI-LA HOTEL	SHANG	74.00	2.86	130.00	10,237.50	13.26	1.14	5.14	
						<b>Peer Average</b>	<b>15.84</b>	<b>2.10</b>	<b>19.71</b>
						<b>Peer Median</b>	<b>16.78</b>	<b>1.53</b>	<b>10.25</b>

Based on median of peer group, the target price of ERW shares will derived from the multiple values times with its respective earning. For P/E ratio, we arrive at a target price of 6.21 Baht. P/BV ratio comes with a target price of 3.99 Baht. EV/EBITDA arrives at a target price of 5.40 Baht. The results are in the below table.

**Table 1.13: Summary of target price**

Relative Multiple	Peer Median	Earning	ERW Value	Target Price 2019(F)	Up/Downside
<b>Trailing P/E</b>	16.78	<b>EPS 2019(F)</b>	0.36	<b>6.21</b>	<b>-5.19%</b>
<b>Trailing P/BV</b>	1.53	<b>BV 2019(F)</b>	2.61	<b>3.99</b>	<b>-38.18%</b>
<b>Trailing EV/EBITDA</b>	10.25	<b>EBITDA 2019(F)</b>	2,508.81	<b>5.40</b>	<b>-16.33%</b>

**Source:** Thomson Reuters Eikon and Calculations

Since we arrived 3 kinds of target price varied by multiple methods, we have to select the most reliable one. The literature and valuation research (*Equity Valuation: NH Hotel Group, 2016*) about hospitality industry identifies EV/EBITDA as the most suitable multiple used for relative valuation technique. Because the hotel industry highly operates and invests in non-current asset such as land, building, property, equipment or leasehold right. Hotel's properties have to be realized the

depreciation. Using EV/EBITDA metric, it eliminates the amount of depreciation that would impact on net income, while other multiples take depreciation value into account. Therefore, EV/EBITDA technique is the most useful in hotel business to identify whether company's share is undervalued or overvalued. Nevertheless, it is wrong for comparing with companies in different industries as they have various debt level or capital expenditure requirements.

#### **1.8.4 Valuation Summary**

In conclusion, we believe that EV/EBITDA multiple; Enterprise Value to Earnings before Interest, Taxes, Depreciation and Amortization is appropriate multiple under relative valuation model as it reflects hotel industry. As current ERW stock price is 6.45 Baht per share, while we forecasted the target price in 2019 based on relative valuation model is around 5.40 Baht per share. ERW share price is downside about 16.33%. Thus, we recommend “**SELL**” comparing when ERW share price is 6.45 Baht as of 23 November 2018.

### **1.9 Investment Risks and Downside Possibilities**

#### **1.9.1 Investment Risks**

##### **1.9.1.1 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.

### 1.9.1.2 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.

### 1.9.1.3 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.

### 1.9.1.4 Human Resources Risk

Over the past years, ERW has recruited employees and managements in many departments 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.

#### 1.9.1.5 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.

#### 1.9.1.6 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.

### 1.9.2 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.

#### 1.9.2.1 Cost:Cost of Hotel Operation and Cost of Hotel Rental

**Table 1.14: Sensitivity analysis: Cost of Hotel Operation and Cost of Hotel Rental**

		cost of hotel operation							
		-30%	-20%	-10%	0%	10%	20%	30%	
<b>Share Value</b>	5.40	30.91%	35.33%	39.75%	<b>44.16%</b>	48.58%	53.00%	57.41%	
<b>cost of hotel rental</b>	-30%	26.36%	9.39	8.10	6.80	<b>5.51</b>	4.21	2.92	1.62
	-20%	30.12%	9.35	8.06	6.77	<b>5.47</b>	4.18	2.88	1.59
	-10%	33.89%	9.32	8.02	6.73	<b>5.43</b>	4.14	2.84	1.55
	<b>0%</b>	<b>37.66%</b>	<b>9.28</b>	<b>7.99</b>	<b>6.69</b>	<b>5.40</b>	<b>4.10</b>	<b>2.81</b>	<b>1.51</b>
	10%	41.42%	9.24	7.95	6.65	<b>5.36</b>	4.07	2.77	1.48
	20%	45.19%	9.21	7.91	6.62	<b>5.32</b>	4.03	2.73	1.44
	30%	48.95%	9.17	7.87	6.58	<b>5.29</b>	3.99	2.70	1.40

**Source:** Calculations

Cost of hotel operation has a considerable impact on ERW share price. 10% change in cost of hotel operation, holding the cost of rental and other factors constant, causes ERW share price either increase or decrease by roughly 6.69 and 4.10 Baht respectively. Meanwhile, holding cost of hotel operation and other factors constant, 10% decreases in cost of hotel rental causes ERW share price increase to 5.43 Baht. While 10% increases in cost of hotel rental, share value decreased to 5.36 Baht. We noticed that saving in cost of hotel operation at least 10% or more, then the share price would rise to 6.69 – 9.28 Baht, where we issue BUY instead of SELL.

## 1.9.2.2 Share Dilution: Number of Shares and EBITDA

**Table 1.15: Sensitivity analysis: dilutive shares and EBITDA**

		EBITDA							
		-30%	-20%	-10%	0%	10%	20%	30%	
<b>Share Value</b>	5.40	1,756	2,007	2,258	<b>2,509</b>	2,760	3,011	3,261	
<b>No. of Shares</b>	-30%	1,755	3.31	4.78	6.24	<b>7.71</b>	9.18	10.64	12.11
	-20%	2,005	2.90	4.18	5.46	<b>6.75</b>	8.03	9.31	10.59
	-10%	2,256	2.58	3.72	4.86	<b>6.00</b>	7.14	8.28	9.42
	<b>0%</b>	<b>2,507</b>	<b>2.32</b>	<b>3.34</b>	<b>4.37</b>	<b>5.40</b>	<b>6.42</b>	<b>7.45</b>	<b>8.47</b>
	10%	2,757	2.11	3.04	3.97	<b>4.91</b>	5.84	6.77	7.70
	20%	3,008	1.93	2.79	3.64	<b>4.50</b>	5.35	6.21	7.06
	30%	3,259	1.78	2.57	3.36	<b>4.15</b>	4.94	5.73	6.52

**Source:** Calculations

Holding growth rate and other factors constant, 30% increasing in number of shares leads to reducing in ERW value by roughly 1.25 Baht or equal to 4.15 Baht. On the other hand, 30% decreasing in number of shares cause target price goes up by roughly 2.31 Baht or reach to 7.71 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 4.59 – 6.21 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.

## 1.9.2.3 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%	
<b>Share Value</b>	5.40	13.63%	15.58%	17.53%	<b>19.47%</b>	21.42%	23.37%	25.31%	
<b>Selling Expenses</b>	-30%	4.44%	7.75	7.15	6.55	<b>5.95</b>	5.36	4.76	4.16
	-20%	5.07%	7.56	6.96	6.37	<b>5.77</b>	5.17	4.57	3.98
	-10%	5.71%	7.37	6.78	6.18	<b>5.58</b>	4.99	4.39	3.79
	<b>0%</b>	<b>6.34%</b>	<b>7.19</b>	<b>6.59</b>	<b>5.99</b>	<b>5.40</b>	<b>4.80</b>	<b>4.20</b>	<b>3.60</b>
	10%	6.97%	7.00	6.41	5.81	<b>5.21</b>	4.61	4.02	3.42
	20%	7.61%	6.82	6.22	5.62	<b>5.02</b>	4.43	3.83	3.23
	30%	8.24%	6.63	6.03	5.44	<b>4.84</b>	4.24	3.64	3.05

**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 6.96 Baht, where we issue BUY rating. While increasing both expenses by 20% causes target price dropped to 3.83 Baht which we recommend SELL.





## CHAPTER II

### DATA

#### 2.1 The Erawan Group's Shareholders Structure

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

**Table 2.1: Top ten shareholders holding**

	Shareholder's name	Number of shares	% of total shares
1	Mr. Sukakam 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%

**Source:** ERW's annual report 2017

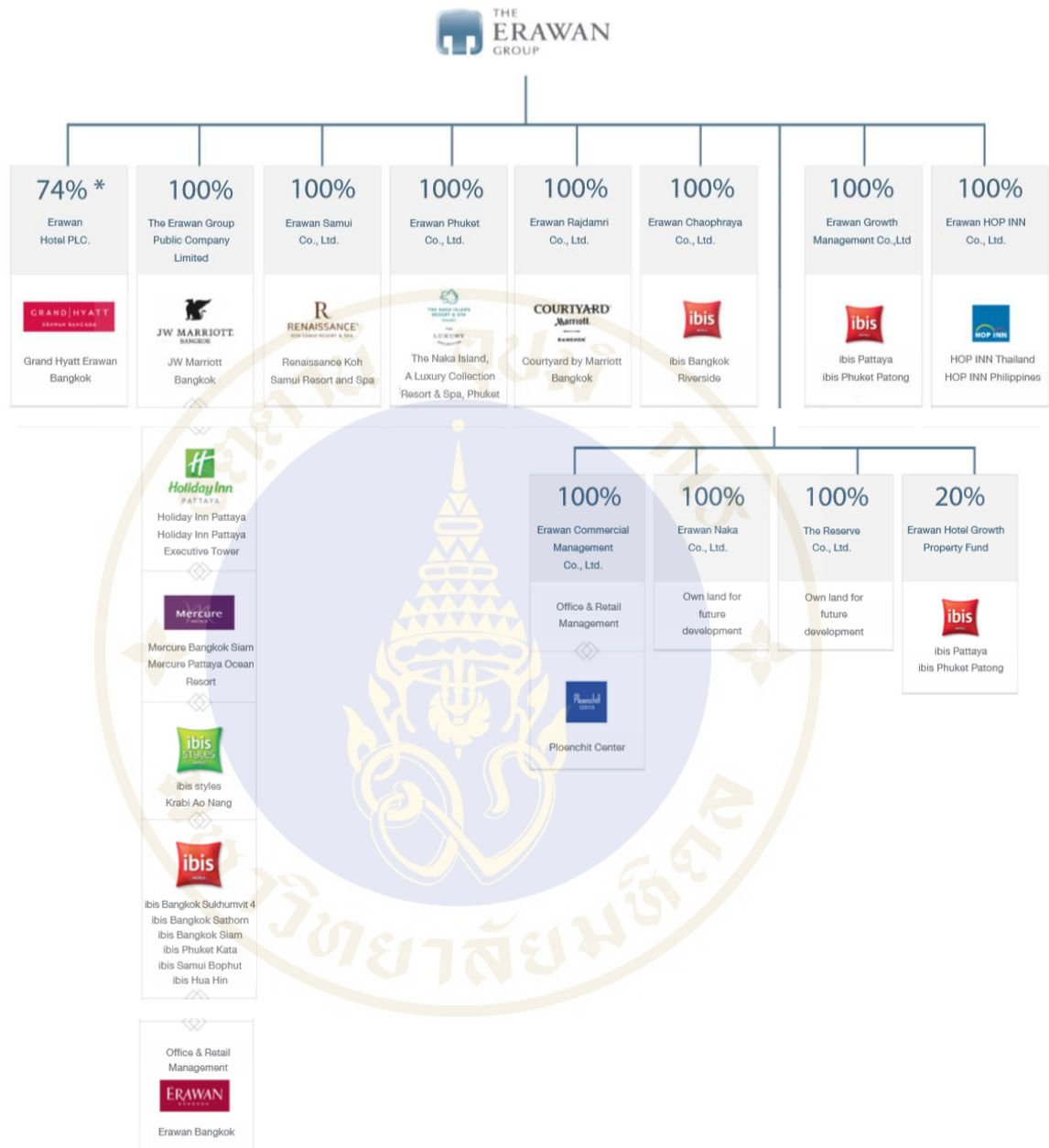
Detail Groups of Major Shareholders

**Table 2.2: 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%

**Source:** ERW's annual report 2017

## 2.2 The Erawan Group’s Business Structure



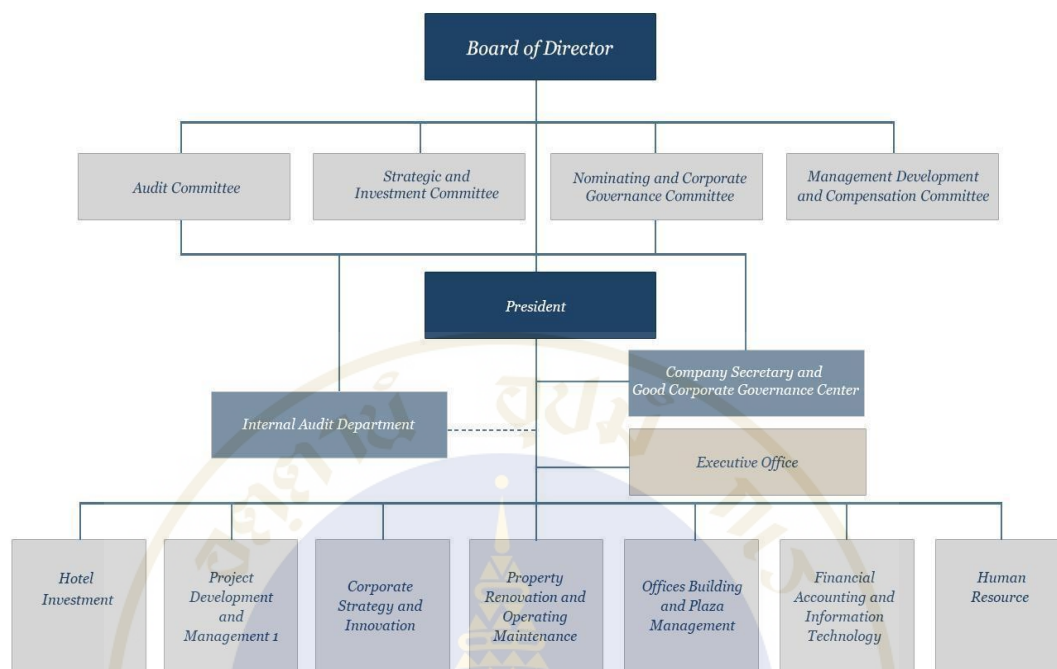
\*The Government hold 26% of shares via The Syndicate of Thai Hotels &

Tourist Enterprises Limited and also the landlord

**Figure 2.1: The Erawan Group’s business structure**

Source: ERW’s annual report 2017

## 2.3 The Erawan Group's Organization Structure



**Figure 2.2: 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 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.

**Figure 2.3: Compare room rate with competitor**

The image shows a comparison of two hotel listings on the Agoda website. The top listing is for Holiday Inn Pattaya, which has an 'Excellent' rating of 8.6 based on 3,487 reviews. It is located on Pattaya Beach Road and offers a room with breakfast for THB 3,080 per night. The bottom listing is for Hua Hin Marriott Resort & Spa, which has an 'Exceptional' rating of 9.0 based on 875 reviews. It is located in Hua Hin City Center and offers a room with breakfast for THB 3,900 per night. Both listings include details about cancellation policies, payment options, and amenities.

Hotel Name	Rating	Reviews	Nightly Rate (as low as)	Special Offer
Holiday Inn Pattaya	Excellent	3,487	฿3,080	Free cancellation
Hua Hin Marriott Resort & Spa	Exceptional	875	฿3,900	FREE cancellation

**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 Income Statement of ERW

**Table 2.3: Income statement of The Erawan Group**

Items (Unit: Million Baht)	2017	2016	2015	2014	2013
<b>Revenues</b>					
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
<b>Total revenues</b>	<b>6,026</b>	<b>5,679</b>	<b>5,320</b>	<b>4,375</b>	<b>5,613</b>
<b>Expenses</b>					
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
<b>Total expenses</b>	<b>4,945</b>	<b>4,787</b>	<b>4,604</b>	<b>4,107</b>	<b>4,187</b>
<b>EBIT</b>	<b>1,081</b>	<b>892</b>	<b>716</b>	<b>268</b>	<b>1,425</b>
Finance costs	344	362	387	360	368
<b>Profit (loss) before income tax expense</b>	<b>737</b>	<b>529</b>	<b>329</b>	<b>-91</b>	<b>1,057</b>
Income tax expense	172	122	99	19	91
<b>Net Profit (loss) for the year</b>	<b>565</b>	<b>408</b>	<b>230</b>	<b>-110</b>	<b>966</b>

Source: ERW Financial Statement



## 2.6.1.2 Income Statement of DTC

**Table 2.4: Income statement of Dusit Thani**

Items (Unit: Million Baht)	2017	2016	2015	2014	2013
<b>Revenues</b>					
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
<b>Total revenues</b>	<b>5,570</b>	<b>5,425</b>	<b>5,370</b>	<b>5,175</b>	<b>5,434</b>
<b>Expenses</b>					
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
<b>Total expenses</b>	<b>5,100</b>	<b>5,211</b>	<b>5,028</b>	<b>5,075</b>	<b>5,141</b>
<b>EBIT</b>	<b>470</b>	<b>214</b>	<b>342</b>	<b>100</b>	<b>293</b>
Finance costs	59	73	49	64	71
<b>Profit (loss) before income tax expense (EBT)</b>	<b>411</b>	<b>141</b>	<b>293</b>	<b>35</b>	<b>222</b>
Income tax expense	-79	12	-39	-22	-24
<b>Net Profit (loss) for the year</b>	<b>332</b>	<b>153</b>	<b>253</b>	<b>13</b>	<b>198</b>

**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 Statement of Financial Position of ERW

**Table 2.5: Statement of Financial Position of The Erawan Group**

Items (Unit: Million Baht)	2017	2016	2015	2014	2013
<b>Current assets</b>					
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
<b>Total current assets</b>	<b>1,573</b>	<b>1,234</b>	<b>1,409</b>	<b>1,047</b>	<b>1,227</b>
<b>Non-current assets</b>					
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
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
<b>Total non-current assets</b>	<b>14,475</b>	<b>13,677</b>	<b>13,411</b>	<b>13,470</b>	<b>12,488</b>

**Table 2.5: Statement of Financial Position of The Erawan Group (cont.)**

Items (Unit: Million Baht)	2017	2016	2015	2014	2013
<b>Total assets</b>	<b>16,048</b>	<b>14,911</b>	<b>14,820</b>	<b>14,517</b>	<b>13,715</b>
<i>Current liabilities</i>					
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
<b>Total current liabilities</b>	<b>3,218</b>	<b>3,606</b>	<b>3,593</b>	<b>2,716</b>	<b>2,116</b>
<i>Non-current liabilities</i>					
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	-	-	-	-	-
<b>Total non-current liabilities</b>	<b>7,427</b>	<b>6,232</b>	<b>6,345</b>	<b>7,066</b>	<b>6,370</b>
<b>Total liabilities</b>	<b>10,645</b>	<b>9,839</b>	<b>9,938</b>	<b>9,783</b>	<b>8,486</b>
<i>Shareholder's equity</i>					
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
<b>Equity attributable to owners of the parent</b>	<b>5,236</b>	<b>4,918</b>	<b>4,671</b>	<b>4,554</b>	<b>5,035</b>
Non-controlling interests	167	155	212	180	194
<b>Total shareholders' equity</b>	<b>5,403</b>	<b>5,073</b>	<b>4,882</b>	<b>4,734</b>	<b>5,229</b>
<b>Total liabilities and shareholders' equity</b>	<b>16,048</b>	<b>14,911</b>	<b>14,820</b>	<b>14,517</b>	<b>13,715</b>

**Source:** ERW Financial Statement

## 2.6.1.4 Statement of Financial Position of DTC

**Table 2.6: Statement of Financial Position of Dusit Thani**

Items (Unit: Million Baht)	2017	2016	2015	2014	2013
<i>Current assets</i>					
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
<b>Total current assets</b>	<b>2,277</b>	<b>1,913</b>	<b>1,817</b>	<b>1,681</b>	<b>1,634</b>
<i>Non-current assets</i>					
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
<b>Total non-current assets</b>	<b>7,701</b>	<b>7,120</b>	<b>7,579</b>	<b>7,331</b>	<b>7,593</b>
<b>Total assets</b>	<b>9,978</b>	<b>9,033</b>	<b>9,396</b>	<b>9,012</b>	<b>9,227</b>
<i>Current liabilities</i>					
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
<b>Total current liabilities</b>	<b>1,803</b>	<b>1,694</b>	<b>1,920</b>	<b>2,051</b>	<b>1,982</b>
<i>Non-Current liabilities</i>					
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

**Table 2.6: Statement of Financial Position of Dusit Thani (cont.)**

Deferred tax liabilities	28	43	20	13	14
Provision for employee benefits	200	221	206	175	173
<b>Items (Unit: Million Baht)</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Other non-current liabilities	95	82	56	22	24
<b>Total non-current liabilities</b>	<b>2,294</b>	<b>1,985</b>	<b>2,071</b>	<b>1,749</b>	<b>1,964</b>
<b>Total liabilities</b>	<b>4,098</b>	<b>3,679</b>	<b>3,991</b>	<b>3,800</b>	<b>3,946</b>
<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
<b>Equity attributable to owners of the parent</b>	<b>4,824</b>	<b>4,589</b>	<b>4,593</b>	<b>4,443</b>	<b>4,530</b>
Non-controlling interests	1,057	765	811	769	737
<b>Total shareholders' equity</b>	<b>5,881</b>	<b>5,354</b>	<b>5,404</b>	<b>5,212</b>	<b>5,268</b>
<b>Total liabilities and shareholders' equity</b>	<b>9,978</b>	<b>9,033</b>	<b>9,396</b>	<b>9,012</b>	<b>9,213</b>

**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 of DTC

**Table 2.7: Common size analysis of income statement of Dusit Thani**

Items	DTC 2017	2017	2016	2015	2014	2013
<b>Revenues</b>						
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%
<b>Total revenues</b>	149.41%	105.33%	106.75%	106.28%	109.67%	144.67%
<b>Expenses</b>						
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%
<b>Total expenses</b>	119.11%	85.66%	89.36%	91.19%	101.33%	93.09%
<b>EBIT</b>	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%
<b>Profit (loss) before income tax expense</b>	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%
<b>Net Profit (loss) for the year</b>	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 2.8: 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%
<b>Total current assets</b>	<b>22.82%</b>	<b>9.80%</b>	<b>8.27%</b>	<b>9.50%</b>	<b>7.21%</b>	<b>8.95%</b>
<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%
<b>Total non-current assets</b>	<b>77.18%</b>	<b>90.20%</b>	<b>91.73%</b>	<b>90.50%</b>	<b>92.79%</b>	<b>91.05%</b>
<b>Total assets</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
<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%
<b>Total current liabilities</b>	<b>18.07%</b>	<b>20.05%</b>	<b>24.18%</b>	<b>24.24%</b>	<b>18.71%</b>	<b>15.43%</b>
<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%
<b>Total non-current liabilities</b>	<b>22.99%</b>	<b>46.28%</b>	<b>41.80%</b>	<b>42.81%</b>	<b>48.68%</b>	<b>46.45%</b>



**Table 2.8: Common size analysis of statement of financial position of Dusit Thani (cont.)**

Items	DTC 2017	2017	2016	2015	2014	2013
<b>Total liabilities</b>	41.07%	66.33%	65.98%	67.06%	67.39%	61.88%
<i>Shareholder's equity</i>						
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%
<b>Equity attributable to owners of the parent</b>	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%
<b>Total shareholders' equity</b>	58.93%	33.67%	34.02%	32.94%	32.61%	38.12%
<b>Total liabilities and shareholders' equity</b>	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 Trend Analysis: Income statement of ERW

**Table 2.9: Trend analysis of income statement of The Erawan Group**

ERW	CMS 2017	CAGR%	2017	2016	2015	2014	2013
<b>Revenues</b>							
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%
<b>Total revenues</b>	<b>105.33%</b>	<b>1.43%</b>	<b>107.36%</b>	<b>101.17%</b>	<b>94.79%</b>	<b>77.95%</b>	<b>100.00%</b>
<b>Expenses</b>							
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%
<b>Total expenses</b>	<b>85.66%</b>	<b>3.38%</b>	<b>118.09%</b>	<b>114.32%</b>	<b>109.95%</b>	<b>98.07%</b>	<b>100.00%</b>
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%
<b>Profit (loss) before income tax expense</b>	<b>13.72%</b>	<b>-6.96%</b>	<b>69.74%</b>	<b>50.08%</b>	<b>31.13%</b>	<b>-8.65%</b>	<b>100.00%</b>
Income tax expense	2.98%	13.67%	189.76%	134.15%	108.88%	20.94%	100.00%
<b>Profit (loss) for the year</b>	<b>16.70%</b>	<b>-10.18%</b>	<b>58.47%</b>	<b>42.19%</b>	<b>23.83%</b>	<b>-11.43%</b>	<b>100.00%</b>

**Source:** Calculation

## 2.6.3.2 Trend Analysis: Income statement of DTC

**Table 2.10: Trend analysis of income statement of Dusit Thani**

DTC	CMS 2017	CAGR %	2017	2016	2015	014	2013
<b>Revenues</b>							
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%
<b>Total revenues</b>	<b>149.41%</b>	<b>0.49%</b>	<b>102.49%</b>	<b>99.83%</b>	<b>98.81%</b>	<b>95.23%</b>	<b>100.00%</b>
<b>Expenses</b>							
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%
<b>Total expenses</b>	<b>119.11%</b>	<b>-0.16%</b>	<b>99.19%</b>	<b>101.36%</b>	<b>97.79%</b>	<b>98.71%</b>	<b>100.00%</b>
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%
<b>Profit (loss) before income tax expense</b>	<b>28.92%</b>	<b>13.13%</b>	<b>185.28%</b>	<b>63.68%</b>	<b>131.77%</b>	<b>15.96%</b>	<b>100.00%</b>
Income tax expense	1.84%	26.51%	324.00%	-47.43%	161.82%	91.09%	100.00%
<b>Profit (loss) for the year</b>	<b>27.08%</b>	<b>10.96%</b>	<b>168.18%</b>	<b>77.38%</b>	<b>128.07%</b>	<b>6.70%</b>	<b>100.00%</b>

**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.

#### 2.6.3.4 Trend Analysis: Financial Position of ERW

**Table 2.11: Trend analysis of statement of financial position of The Erawan Group**

ERW	CMS 2017	CAGR%	2017	2016	2015	2014	2013
<b>Assets</b>							
<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%
<b>Total current assets</b>	<b>9.80%</b>	<b>5.09%</b>	<b>128.17%</b>	<b>100.56%</b>	<b>114.80%</b>	<b>85.30%</b>	<b>100.00%</b>
<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%
<b>Total non-current assets</b>	<b>90.20%</b>	<b>3.00%</b>	<b>115.91%</b>	<b>109.52%</b>	<b>107.39%</b>	<b>107.86%</b>	<b>100.00%</b>
<b>Total assets</b>	<b>100.00%</b>	<b>3.19%</b>	<b>117.01%</b>	<b>108.72%</b>	<b>108.05%</b>	<b>105.84%</b>	<b>100.00%</b>
<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%

**Table 2.11: Trend analysis of statement of financial position of The Erawan Group (cont.)**

ERW	CMS 2017	CAGR%	2017	2016	2015	2014	2013
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%
<b>Total current liabilities</b>	<b>20.05%</b>	<b>8.74%</b>	<b>152.07%</b>	<b>170.42%</b>	<b>169.78%</b>	<b>128.36%</b>	<b>100.00%</b>
<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%
<b>Total non-current liabilities</b>	<b>46.28%</b>	<b>3.12%</b>	<b>116.58%</b>	<b>97.84%</b>	<b>99.60%</b>	<b>110.93%</b>	<b>100.00%</b>
<b>Total liabilities</b>	<b>66.33%</b>	<b>4.64%</b>	<b>125.43%</b>	<b>115.93%</b>	<b>117.10%</b>	<b>115.27%</b>	<b>100.00%</b>
<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%
<b>Equity attributable to owners of the parent</b>	<b>32.63%</b>	<b>0.78%</b>	<b>103.99%</b>	<b>97.67%</b>	<b>92.76%</b>	<b>90.44%</b>	<b>100.00%</b>
Non-controlling interests	1.04%	-2.91%	86.27%	79.88%	109.32%	92.88%	100.00%
<b>Total shareholders' equity</b>	<b>33.67%</b>	<b>0.66%</b>	<b>103.33%</b>	<b>97.01%</b>	<b>93.37%</b>	<b>90.53%</b>	<b>100.00%</b>
<b>Total liabilities and shareholders' equity</b>							
	<b>100.00%</b>	<b>3.19%</b>	<b>117.01%</b>	<b>108.72%</b>	<b>108.05%</b>	<b>105.84%</b>	<b>100.00%</b>

Source: Calculation

## 2.6.3.5 Trend Analysis: Financial Position of DTC

**Table 2.12: Trend analysis of statement of financial position of Dusit Thani**

DTC	CMS 2017	CAGR %	2017	2016	2015	2014	2013
<b>Assets</b>							
<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%
<b>Total current assets</b>	<b>22.82%</b>	<b>6.87%</b>	<b>139.39%</b>	<b>117.11%</b>	<b>111.24%</b>	<b>102.92%</b>	<b>100.00%</b>
<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%
<b>Total non-current assets</b>	<b>77.18%</b>	<b>0.28%</b>	<b>101.43%</b>	<b>93.77%</b>	<b>99.81%</b>	<b>96.55%</b>	<b>100.00%</b>
<b>Total assets</b>	<b>100.00%</b>	<b>1.58%</b>	<b>108.15%</b>	<b>97.90%</b>	<b>101.83%</b>	<b>97.68%</b>	<b>100.00%</b>
<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%
<b>Total current liabilities</b>	<b>18.07%</b>	<b>-1.87%</b>	<b>90.99%</b>	<b>85.49%</b>	<b>96.87%</b>	<b>103.48%</b>	<b>100.00%</b>
<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%
<b>Total non-current liabilities</b>	<b>22.99%</b>	<b>3.16%</b>	<b>116.84%</b>	<b>101.07%</b>	<b>105.49%</b>	<b>89.09%</b>	<b>100.00%</b>
<b>Total liabilities</b>	<b>41.07%</b>	<b>0.76%</b>	<b>103.85%</b>	<b>93.24%</b>	<b>101.16%</b>	<b>96.32%</b>	<b>100.00%</b>

**Table 2.12: 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%
<b>Equity attributable to owners of the parent</b>	<b>48.34%</b>	<b>1.26%</b>	<b>106.47%</b>	<b>101.29%</b>	<b>101.39%</b>	<b>98.08%</b>	<b>100.00%</b>
Non-controlling interests	10.59%	7.47%	143.35%	103.75%	110.01%	104.25%	100.00%
<b>Total shareholders' equity</b>	<b>58.93%</b>	<b>2.23%</b>	<b>111.63%</b>	<b>101.64%</b>	<b>102.59%</b>	<b>98.94%</b>	<b>100.00%</b>
<b>Total liabilities and shareholders' equity</b>	<b>100.00%</b>	<b>1.61%</b>	<b>108.30%</b>	<b>98.04%</b>	<b>101.98%</b>	<b>97.82%</b>	<b>100.00%</b>

**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 Profitability Ratios of ERW and DTC

**Table 2.13: Profitability ratios of The Erawan Group**

	<b>ERW: Profitability</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
%	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 2.14: Profitability ratios of Dusit Thani**

	<b>DTC: Profitability</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
%	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 overtimes 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 to be worthwhile investments that investing in DTC.

#### Dupont's Analysis of ROE of ERW and DTC

**Table 2.15: 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 2.16: 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 Risk Ratios of ERW and DTC

**Table 2.17: Risk ratios of The Erawan Group**

	<b>ERW: Risk</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
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 2.18: Risk ratios of Dusit Thani**

	<b>DTC: Risk</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
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 before paying to the creditors.

## Cash Conversion Cycle Analysis of ERW and DTC

**Table 2.19: CCC analysis of The Erawan Group**

ERW: CCC analysis	2017	2016	2015	2014	2013
<b>Cash Conversion Cycle (CCC)</b>	<b>-16.37</b>	<b>-15.26</b>	<b>-14.46</b>	<b>-13.98</b>	<b>-14.53</b>
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 2.20: CCC analysis of Dusit Thani**

DTC: CCC analysis	2017	2016	2015	2014	2013
<b>Cash Conversion Cycle (CCC)</b>	<b>-53.33</b>	<b>-56.41</b>	<b>-59.01</b>	<b>-58.04</b>	<b>-54.12</b>
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 Projected Income Statement of ERW

**Table 2.21: Projected Income Statement of The Erawan Group**

Income Statement							
(Unit: THB Million)	Assumption		2018F	2019F	2020F	2021F	2022F
<b>Revenues</b>							
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
<b>Total revenues</b>			<b>6,818</b>	<b>7,500</b>	<b>8,231</b>	<b>8,917</b>	<b>9,463</b>
<b>Expenses</b>							
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
<b>Total expenses</b>			<b>5,450</b>	<b>5,843</b>	<b>6,277</b>	<b>6,710</b>	<b>7,082</b>
EBIT			1,368	1,657	1,954	2,208	2,381
Finance costs	3.85%	Kd calculation (Y2018)	349	484	519	546	540
<b>Profit (loss) before income tax expense</b>			<b>1,019</b>	<b>1,172</b>	<b>1,434</b>	<b>1,662</b>	<b>1,841</b>
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
<b>Profit (loss) for the year</b>			<b>790</b>	<b>913</b>	<b>1,123</b>	<b>1,305</b>	<b>1,449</b>
Dividend	40%	Dividend Payout Policy	316	365	449	522	579
Addition to Retained Earnings			474	548	674	783	869

**Source:** Calculation

## 2.8 Projected Statement of Financial Position of ERW

**Table 2.22: Projected Statement of Financial Position of The Erawan Group**

Statement of financial position							
Assets (Unit: THB Million)	Assumption		2018F	2019F	2020F	2021F	2022F
<b>Current assets</b>							
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
<b>Total current assets</b>			<b>1,742</b>	<b>1,885</b>	<b>2,026</b>	<b>2,109</b>	<b>2,181</b>
<b>Non-current assets</b>							
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
<b>Total non-current assets</b>			<b>18,569</b>	<b>20,020</b>	<b>21,393</b>	<b>22,020</b>	<b>22,617</b>
<b>Total assets</b>			<b>20,310</b>	<b>21,905</b>	<b>23,419</b>	<b>24,128</b>	<b>24,799</b>
<b>Current liabilities</b>							
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
<b>Total current liabilities</b>			<b>4,304</b>	<b>4,637</b>	<b>4,926</b>	<b>4,977</b>	<b>4,986</b>
<b>Non-Current liabilities</b>							
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
<b>Total non-current liabilities</b>			<b>10,064</b>	<b>10,823</b>	<b>11,429</b>	<b>11,385</b>	<b>11,242</b>
<b>Total liabilities</b>			<b>14,368</b>	<b>15,460</b>	<b>16,356</b>	<b>16,362</b>	<b>16,228</b>
<b>Shareholder's equity</b>							
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
<b>Equity attributable to owners of the parent</b>			<b>5,718</b>	<b>6,266</b>	<b>6,940</b>	<b>7,723</b>	<b>8,592</b>
Non-controlling interests	1.23%	% of Total Assets	250	270	288	297	305
<b>Total shareholders' equity</b>			<b>5,968</b>	<b>6,536</b>	<b>7,228</b>	<b>8,020</b>	<b>8,897</b>

Source: Calculation

## 2.9 Projected Cash Flow

**Table 2.23: Projected Cash Flow of The Erawan Group**

Statement of Cash Flow (Unit: THB Million)	2018F	2019F	2020F	2021F	2022F
<b>Cash flows from operating activities</b>					
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
	<b>2,116</b>	<b>2,399</b>	<b>2,752</b>	<b>3,023</b>	<b>3,281</b>
<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
<b>Net cash from operating activities</b>	<b>1,859</b>	<b>2,196</b>	<b>2,501</b>	<b>2,726</b>	<b>2,941</b>
<b>Cash flows from investing activities</b>					
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
<b>Net cash used in investing activities</b>	<b>-3,192</b>	<b>-2,142</b>	<b>-2,141</b>	<b>-1,525</b>	<b>-1,549</b>
<b>Cash flows from financing activities</b>					
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
<b>Net cash from (used in) financing activities</b>	<b>1,456</b>	<b>40</b>	<b>-270</b>	<b>-1,159</b>	<b>-1,353</b>
<b>Net increase (decrease) in cash and cash equivalent</b>	<b>124</b>	<b>94</b>	<b>90</b>	<b>42</b>	<b>40</b>
Cash and cash equivalents at 1 January	1,077	1,201	1,295	1,384	1,426
<b>Cash and cash equivalents at 31 December</b>	<b>1,201</b>	<b>1,295</b>	<b>1,384</b>	<b>1,426</b>	<b>1,466</b>

Source: Calculation