

BUY (Unchanged)**TP: Bt 25.00** (From: Bt 24.00)

Change in Numbers

Upside : 26.3%

16 JANUARY 2018

Siam Wellness Group (SPA TB)

Going overseas

We revise up our earnings for SPA, a country top pick, by 6-10% over 2018-20F given its two new overseas franchise deals. The model is revenue sharing and spa-product sales without capex. We continue to see SPA as a high-growth stock with 37-57% EPS growth in 2018-20F. We reaffirm our BUY call and lift our TP to Bt25 (from Bt24).

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Boosting our earnings

We lift our earnings estimates for SPA by 6-10% over 2018-20F.

1) We factor in the recently-announced franchise deals in Cambodia and China. In these franchise models, SPA doesn't invest in capex but receives revenue sharing and front-end fees. 2) We incorporate higher sales from spa products to be sold at its overseas franchise branches. 3) We raise our ASP and margin assumptions for its spa products on its planned re-branding launch in 2H18. With our earnings hikes, we lift our DCF-based (2018F base year) 12-month TP to Bt25 (from Bt24). While SPA's 41x 2018F PE doesn't look inexpensive to us, we see its 0.9x PEG ratio as attractive given very high EPS growth at a 45% CAGR in 2018-20F. Due to our very strong EPS growth forecasts, SPA's PE falls rapidly to 29x in 2019F.

Low-risk overseas expansion

SPA has recently announced two new franchise deals in Cambodia and China (Qing-dao province). Therefore, a total of five franchised "Let's Relax" branches are scheduled to open in 1H18 – two branches in China (Tian-jin and Qing-dao) and three in Cambodia. We estimate Bt1.5-2.0m/branch p.a. in revenue sharing and a Bt3-5m front-end fee for each newly-opened branch. We expect its four partners to open two to three new overseas branches a year. In Thailand, SPA targets 10 branch openings a year with 40 existing domestic branches.

Rebranding spa products

At home, SPA has now set a timeline of 2H18 for the launch of its spa product re-branding. We agree with the company that a more premium brand should sell better. These products are to be sold at its overseas branches too. We expect the rebranding to increase both sales volume and pricing (higher ASP, higher margin). Our estimate is for spa product sales to double to Bt148m in 2020F from Bt72m in 2017F with expanding margin from economies of scale and improved brand positioning. We leave its attempts to penetrate the modern-trade channel as upside since we have not yet seen any solid progress.

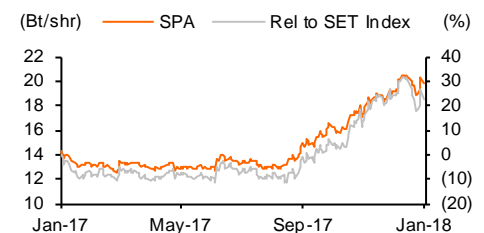
Another record in 4Q17F

We expect 4Q17F to be another record-high earnings quarter for SPA with the strong momentum continuing into 1H18F. SPA opened 10 branches as planned in 2017 while tourist arrivals were very strong. 1Q18 is still the high season for Thailand's tourism. Adding to growth is franchise-related income that we expect to come in from 2Q18F. SPA remains in our country top-picks list as a strong earnings-growth stock, which is set to benefit from Thailand's resilient tourism industry.

COMPANY VALUATION

Y/E Dec (Bt m)	2016A	2017F	2018F	2019F
Sales	725	965	1,332	1,744
Net profit	141	174	273	392
Consensus NP	—	185	256	338
Diff frm cons (%)	—	(6.1)	6.3	16.1
Norm profit	141	174	273	392
Prev. Norm profit	—	174	248	357
Chg frm prev (%)	—	(0.2)	10.0	9.9
Norm EPS (Bt)	0.2	0.3	0.5	0.7
Norm EPS grw (%)	32.4	23.2	56.9	43.8
Norm PE (x)	80.1	65.0	41.4	28.8
EV/EBITDA (x)	54.9	39.4	26.2	18.9
P/BV (x)	17.7	15.1	12.4	9.9
Div yield (%)	0.5	0.7	1.2	1.7
ROE (%)	23.6	25.1	32.9	38.3
Net D/E (%)	10.6	3.9	(6.7)	(21.1)

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 15-Jan-18 (Bt)	19.80
Market Cap (US\$ m)	353.6
Listed Shares (m shares)	570.0
Free Float (%)	31.3
Avg Daily Turnover (US\$ m)	1.3
12M Price H/L (Bt)	20.40/12.50
Sector	MAI
Major Shareholder	Jiravanstit family 18.7%

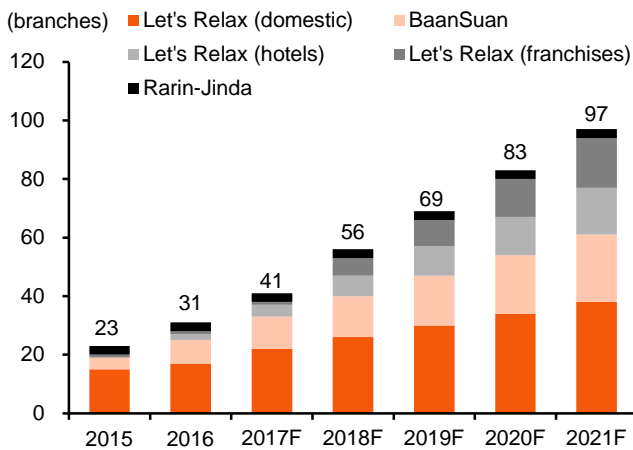
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Comparison of SPA's Business Segments (Average Per Branch)

Brand	Rarin-Jinda	Let's Relax domestic	Let's Relax hotel	Let's Relax China	Let's Relax Cambodia	BaanSuan
Investment cost (Bt m)	25.0	20.0	2.5	Na	na	10.0
Price/hour (Bt)	1,250	550	550	700	600	250
Number of therapists	8	25	15	15	15	20
GPM (%)	25	37	45	** Revenue Sharing **		16
Revenue/year (Bt m)	19.8	39.6	17.8	1.3	1.6	12.6
GP/year (Bt m)	5.0	14.6	8.0	1.3	1.6	2.0

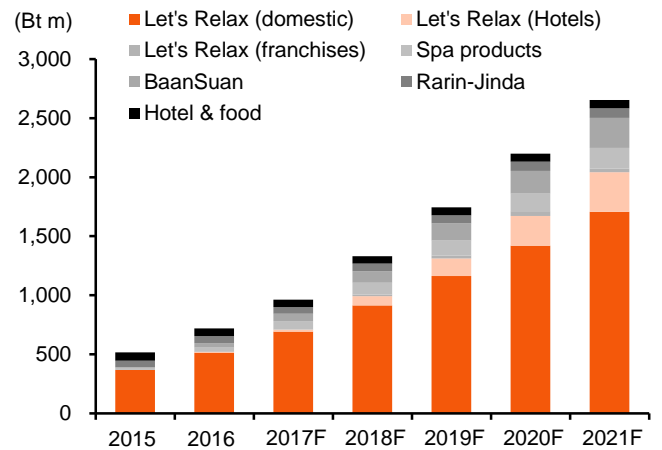
Sources: Company data, Thanachart estimates

Ex 2: Faster Expansion Pace From Franchise Model



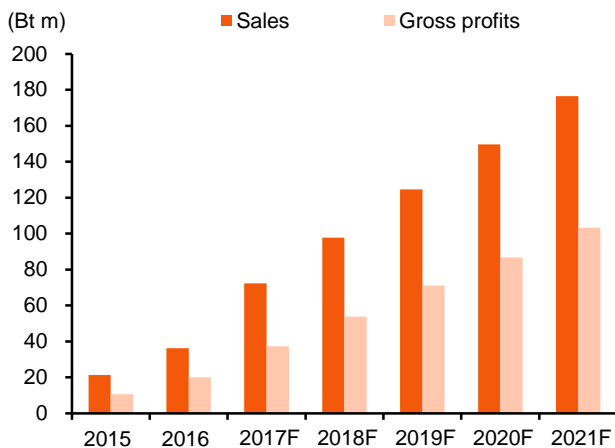
Sources: Company data; Thanachart estimates

Ex 3: SPA's Revenue Contribution



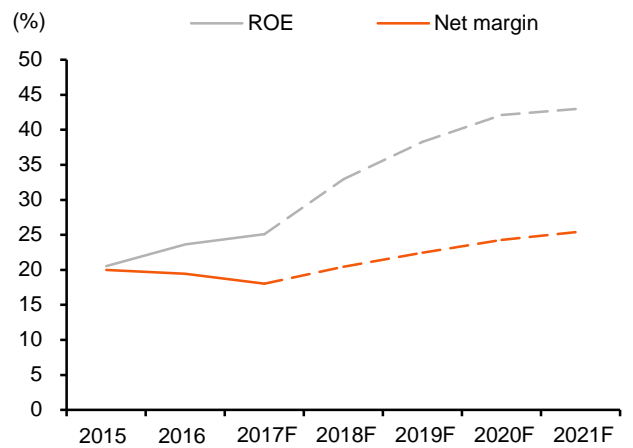
Sources: Company data; Thanachart estimates

Ex 4: Spa Product Sales Growing Fast



Sources: Company data; Thanachart estimates

Ex 5: Expanding Profitability



Sources: Company data; Thanachart estimates

Ex 6: Key Assumption Changes

	2018F	2019F	2020F
Number of branches			
- New	56	69	83
- Old	52	65	78
- Change (%)	7.7	6.2	6.4
Revenues (Bt m)			
- New	1,332	1,744	2,211
- Old	1,267	1,713	2,265
- Change (%)	5.1	1.8	(2.4)
Gross margin (%)			
- New	36.5	38.0	39.3
- Old	35.3	36.4	37.1
- Change (pp)	1.2	1.6	2.2
Normalized profits (Bt m)			
- New	273	392	537
- Old	248	357	504
- Change (%)	10.3	9.9	6.5

Source: Thanachart estimates

Ex 7: 12-month DCF-based TP Calculation, Using A Base Year Of 2018F

(Bt m)	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	Terminal value
EBITDA	428	585	780	963	1,208	1,489	1,762	2,074	2,406	2,766	—
Free cash flow	227	364	531	683	898	1,150	1,384	1,648	1,935	2,239	27,384
PV of free cash flow	227	292	382	441	520	597	644	688	724	751	8,229
Risk-free rate (%)	4.5										
Market risk premium (%)	7.5										
Beta	1.0										
WACC (%)	11.5										
Terminal growth (%)	2.0										
Enterprise value - add investments	14,264										
Net debt (2017F)	29										
Minority interest	—										
Equity value	14,235										
# of shares (m)	570										
Target price/share (Bt)	25.00										

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 8: Valuation Comparison With Regional Peers

Name	BBG Code	Country	EPS growth		— PE —		— P/BV —		EV/EBITDA		Div Yield	
			17F (%)	18F (%)	17F (x)	18F (x)	17F (x)	18F (x)	17F (x)	18F (x)	17F (%)	18F (%)
Emei Shan Tourism	000888 CH	China	2.5	21.5	27.8	22.9	2.5	2.2	13.0	11.5	1.1	1.2
Shanghai Jin Jiang Int'l	2006 HK	China	(14.2)	12.8	25.9	23.0	1.7	1.6	10.4	9.8	2.6	2.7
Hongkong & Shanghai	45 HK	Hong Kong	18.6	5.2	46.1	43.8	2.3	2.3	20.6	18.7	1.1	1.1
Shangri-La Asia	69 HK	Hong Kong	71.7	(5.9)	23.8	25.3	0.5	0.5	na	na	1.6	1.6
IGB Corp Bhd	IGB MK	Malaysia	12.0	(20.0)	11.9	14.9	0.8	0.8	na	na	3.4	3.4
Genting Malaysia Bhd	GENM MK	Malaysia	na	35.3	25.9	19.1	1.6	1.5	14.2	11.0	1.4	1.8
Mirvac Group	MGR AU	Australia	na	7.7	15.7	14.6	1.1	1.0	15.3	14.1	4.5	4.9
Indian Hotels	IH IN	India	na	79.3	200.0	111.6	4.4	4.3	31.4	30.1	0.4	0.4
Mandarin Oriental Int'l	MAND SP	Singapore	(18.2)	41.7	60.8	42.9	na	na	na	na	1.8	2.1
Hotel Shilla	008770 KS	South Korea	na	222.6	111.7	34.6	5.2	4.6	26.1	16.5	0.4	0.4
Resorttrust Inc	4681 JP	Japan	(7.8)	27.0	28.2	22.2	2.4	2.4	17.9	13.2	1.7	1.8
Central Plaza Hotel	CENDEL TB*	Thailand	13.4	13.5	34.8	30.6	6.2	5.5	16.9	15.2	1.2	1.3
Erawan Group	ERW TB*	Thailand	30.7	17.9	45.5	38.6	4.1	3.9	17.2	15.9	0.9	1.0
Minor International	MINT TB*	Thailand	26.1	18.8	33.8	28.5	4.7	4.2	24.4	21.2	0.7	0.8
Siam Wellness Group	SPA TB*	Thailand	23.2	56.9	65.0	41.4	15.1	12.4	39.4	26.2	0.7	1.2
Average			15.2	29.7	49.7	37.2	2.8	2.6	18.9	16.2	1.5	1.7

Sources: Company data, Thanachart estimates

Note: * Thanachart estimates, using normalized EPS

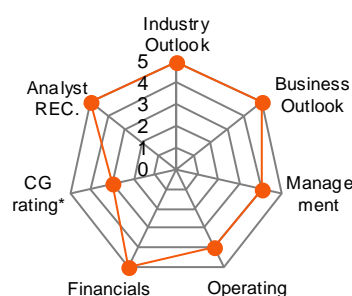
Based on 15 Jan 2018 closing prices

COMPANY DESCRIPTION

Siam Wellness Group PLC. operates wellness spas and other related businesses, with four main operations: 1. Spas under the brands "Let's Relax", "Rarin-Jinda Wellness Spa", and "BaanSuan Massage". 2. Hotel & Restaurants: A boutique resort hotel in Chiang Mai under the name "RarinJinda Wellness Spa Resort" and the "Deck 1" and "D Bistro" restaurants. 3. Spa products: Distributes and sells spa-related products under the "Blooming" brand. 4. Traditional Thai massage school "Blooming Thai Massage School" to train therapists in massage and spa services to support business expansion.

Source: Thanachart

COMPANY RATING



Rating Scale

Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Strong brand recognition especially among Chinese tourists
- Its own upstream business helps provide sufficient therapists and products for rapid expansion
- Strong balance sheet with net-cash status

O — Opportunity

- Gaining market share from smaller local players via both organic and inorganic expansion
- Expansion of its business overseas
- Adding more services at its spas to increase revenues per branch

W — Weakness

- Relies heavily on expansion to grow, due to limited capacity of service hours per branch
- Highly dependent on Chinese tourist traffic

T — Threat

- Extraordinary and uncontrollable events, i.e. geopolitical disturbances, natural disasters, etc. could disrupt its operations and decrease tourist traffic
- Large network but only a small management team

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	20.60	25.00	21%
Net profit 17F (Bt m)	185	174	-6%
Net profit 18F (Bt m)	256	273	6%
Consensus REC	BUY: 3	HOLD: 2	SELL: 0

RISKS TO OUR INVESTMENT CASE

- A slower pace of expansion, both for domestic and overseas branches, would represent downside risk to our earnings forecasts.
- Any events causing a downturn in Thailand's tourism industry, ie, involving politics, the global economy or natural disasters, would be negative for our numbers.

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2017F earnings are 6% below the Bloomberg consensus number, which we attribute to us having higher expense assumptions, while our 2018F number is 6% higher, which we believe is due to us factoring in the new franchise deals signed recently.
- Our DCF-based TP is higher than the Street's as we factor in long-term growth potential of its expanding franchise partners.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2015A	2016A	2017F	2018F	2019F
Sales	533	725	965	1,332	1,744
Cost of sales	335	485	638	845	1,081
Gross profit	198	241	327	487	663
% gross margin	37.2%	33.2%	33.8%	36.5%	38.0%
Selling & administration expenses	74	89	126	164	201
Operating profit	125	151	200	323	462
% operating margin	23.3%	20.9%	20.7%	24.2%	26.5%
Depreciation & amortization	39	55	87	105	123
EBITDA	164	207	287	428	585
% EBITDA margin	30.7%	28.5%	29.8%	32.1%	33.5%
Non-operating income	10	14	18	25	32
Non-operating expenses	0	0	0	0	0
Interest expense	(1)	(2)	(7)	(7)	(5)
Pre-tax profit	134	164	212	341	490
Income tax	27	23	38	68	98
After-tax profit	106	141	174	273	392
% net margin	20.0%	19.4%	18.0%	20.5%	22.5%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	0	0	0	0	0
Extraordinary items	0	0	0	0	0
NET PROFIT	106	141	174	273	392
Normalized profit	106	141	174	273	392
EPS (Bt)	0.2	0.2	0.3	0.5	0.7
Normalized EPS (Bt)	0.2	0.2	0.3	0.5	0.7

Higher earnings growth rate from faster branch-expansion pace

BALANCE SHEET

FY ending Dec (Bt m)	2015A	2016A	2017F	2018F	2019F
ASSETS:					
Current assets:	114	88	348	265	484
Cash & cash equivalent	60	33	300	200	400
Account receivables	4	9	11	15	19
Inventories	14	20	27	35	45
Others	35	26	11	15	20
Investments & loans	0	0	0	0	0
Net fixed assets	480	699	806	880	940
Other assets	61	78	104	143	188
Total assets	655	865	1,258	1,289	1,611
LIABILITIES:					
Current liabilities:	75	120	214	218	283
Account payables	39	70	96	127	163
Bank overdraft & ST loans	0	0	0	0	0
Current LT debt	0	21	66	28	32
Others current liabilities	36	30	52	63	88
Total LT debt	1	80	263	111	128
Others LT liabilities	20	19	26	36	47
Total liabilities	100	226	513	378	475
Minority interest	0	0	0	0	0
Preferreds shares	0	0	0	0	0
Paid-up capital	143	143	143	143	143
Share premium	279	279	279	279	279
Warrants	0	0	0	0	0
Surplus	(6)	(6)	(6)	(6)	(6)
Retained earnings	139	223	329	494	720
Shareholders' equity	555	639	745	910	1,136
Liabilities & equity	655	865	1,258	1,289	1,611

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

	FY ending Dec (Bt m)	2015A	2016A	2017F	2018F	2019F
Earnings before tax		134	164	212	341	490
Tax paid		(15)	(28)	(28)	(65)	(88)
Depreciation & amortization		39	55	87	105	123
Chg In working capital		(4)	20	17	19	21
Chg In other CA & CL / minorities		13	(1)	10	4	11
Cash flow from operations		167	211	296	400	555
Capex		(160)	(274)	(194)	(179)	(182)
ST loans & investments		74	8	18	0	0
LT loans & investments		0	0	0	0	0
Adj for asset revaluation		0	0	0	0	0
Chg In other assets & liabilities		(33)	(15)	(16)	(26)	(29)
Cash flow from investments		(118)	(281)	(192)	(205)	(212)
Debt financing		(58)	100	228	(190)	21
Capital increase		0	0	0	0	0
Dividends paid		0	0	(68)	(107)	(166)
Warrants & other surplus		(35)	(57)	0	0	0
Cash flow from financing		(92)	43	161	(297)	(145)
Free cash flow		7	(63)	102	221	372

Internal cash flows cover investment costs fully

VALUATION

	FY ending Dec	2015A	2016A	2017F	2018F	2019F
Normalized PE (x)		106.0	80.1	65.0	41.4	28.8
Normalized PE - at target price (x)		133.8	101.1	82.0	52.3	36.4
PE (x)		106.0	80.1	65.0	41.4	28.8
PE - at target price (x)		133.8	101.1	82.0	52.3	36.4
EV/EBITDA (x)		68.7	54.9	39.4	26.2	18.9
EV/EBITDA - at target price (x)		86.8	69.2	49.7	33.2	23.9
P/BV (x)		20.3	17.7	15.1	12.4	9.9
P/BV - at target price (x)		25.7	22.3	19.1	15.7	12.5
P/CFO (x)		67.8	53.6	38.2	28.2	20.3
Price/sales (x)		21.2	15.6	11.7	8.5	6.5
Dividend yield (%)		0.5	0.5	0.7	1.2	1.7
FCF Yield (%)		0.1	(0.6)	0.9	2.0	3.3
(Bt)						
Normalized EPS		0.2	0.2	0.3	0.5	0.7
EPS		0.2	0.2	0.3	0.5	0.7
DPS		0.1	0.1	0.1	0.2	0.3
BV/share		1.0	1.1	1.3	1.6	2.0
CFO/share		0.3	0.4	0.5	0.7	1.0
FCF/share		0.0	(0.1)	0.2	0.4	0.7

41x PE in 2018F looks justified by a 45% EPS CAGR over 2018-20F

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2015A	2016A	2017F	2018F	2019F
Growth Rate					
Sales (%)	57.6	36.0	33.0	38.1	30.9
Net profit (%)	220.3	32.4	23.2	56.9	43.8
EPS (%)	220.3	32.4	23.2	56.9	43.8
Normalized profit (%)	220.3	32.4	23.2	56.9	43.8
Normalized EPS (%)	220.3	32.4	23.2	56.9	43.8
Dividend payout ratio (%)	53.5	40.4	45.0	50.0	50.0
Operating performance					
Gross margin (%)	37.2	33.2	33.8	36.5	38.0
Operating margin (%)	23.3	20.9	20.7	24.2	26.5
EBITDA margin (%)	30.7	28.5	29.8	32.1	33.5
Net margin (%)	20.0	19.4	18.0	20.5	22.5
D/E (incl. minor) (x)	0.0	0.2	0.4	0.2	0.1
Net D/E (incl. minor) (x)	(0.1)	0.1	0.0	(0.1)	(0.2)
Interest coverage - EBIT (x)	106.2	96.7	30.3	44.9	100.7
Interest coverage - EBITDA (x)	139.5	132.0	43.6	59.6	127.4
ROA - using norm profit (%)	17.0	18.5	16.4	21.4	27.0
ROE - using norm profit (%)	20.5	23.6	25.1	32.9	38.3
DuPont					
ROE - using after tax profit (%)	20.5	23.6	25.1	32.9	38.3
- asset turnover (x)	0.8	1.0	0.9	1.0	1.2
- operating margin (%)	25.3	22.8	22.6	26.1	28.3
- leverage (x)	1.2	1.3	1.5	1.5	1.4
- interest burden (%)	99.1	99.1	97.0	97.9	99.1
- tax burden (%)	79.7	86.0	82.0	80.0	80.0
WACC (%)	11.5	11.5	11.5	11.5	11.5
ROIC (%)	22.7	26.3	23.2	33.4	43.5
NOPAT (Bt m)	99	130	164	258	370

Sources: Company data, Thanachart estimates

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For sectors, we look at two areas, ie, the sector outlook and the sector weighting. For the sector outlook, an arrow pointing up, or the word "Positive", is used when we see the industry trend improving. An arrow pointing down, or the word "Negative", is used when we see the industry trend deteriorating. A double-tipped horizontal arrow, or the word "Unchanged", is used when the industry trend does not look as if it will alter. The industry trend view is our top-down perspective on the industry rather than a bottom-up interpretation from the stocks we cover. An "Overweight" sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. "Underweight" is used when we have SELLs on majority of the stocks we cover by market cap. "Neutral" is used when there are relatively equal weightings of BUYs and SELLs.

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