

BUY (Unchanged)

TP: Bt 25.00 (Unchanged)

Post Conference

Upside : 19.6%

7 FEBRUARY 2018

# Siam Wellness Group (SPA TB)

## Growth opportunities abound

This is part of Thanachart's "High Growth Focus" forum report. Management highlighted a solid growth outlook from various expansion channels. Overseas franchising drew the most investor interest. Product rebranding is its key focus this year. Let's Relax leads domestic expansion backed by its hotel spa model success.



RATA LIMSUTHIWANPOOM

662 – 617 4960

rata.lim@thanachartsec.co.th

NUTTAPOP PRASITSUKSANT

Assistant Analyst

nuttapop.pra@thanachartsec.co.th

### Many paths for growth

Assistant Managing Director Mr. Narun Wiwattanakrai and CFO Ms. Yonlawan Eiamalongkorn joined our "High Growth Focus" forum, attracting interest from 23 fund managers from 13 local funds. Recently announced overseas franchising was the key topic at the meetings. SPA has shown a cautious approach in picking the right partner to protect its established brand and limiting the risk of knowhow leaks. Spa products rebranding is the key focus, expected to be its core growth driver this year. Management maintained its target of 10 new domestic branches in 2018, mainly under the "Let's Relax" brand, both standalone and hotel spa models, which generate the highest profitability.

### Overseas expansion plan

SPA expects its five franchised branches in China and Cambodia to open in mid-2018. Strong brand recognition and market knowledge gained from the Kunming branch could bring success to new two branches in China, while rising Chinese visitors and a similar tourist profile to Thailand should be key success factors for Cambodia. SPA is also talking with potential partners to expand its franchise in China and Cambodia, Laos, Myanmar and Vietnam (CLMV). SPA insists on a careful selection approach to get the right franchising partners to ensure service quality and mitigate the risk of copycat stores and knowhow leakage.

### Rebranding its spa products

SPA is repositioning its spa products for the premium segment, with new packaging and higher prices to change the customer perception of them being middle to high quality. Management believes that its spa products are competitive versus other leading brands. It sees its own selling channel (spa branches) as its key advantage over competitors which use modern-trade outlets as their distribution channel. The rebranded products are due to be launched in 2H18 at its own branches, then penetrating modern trade and exporting to overseas branches.

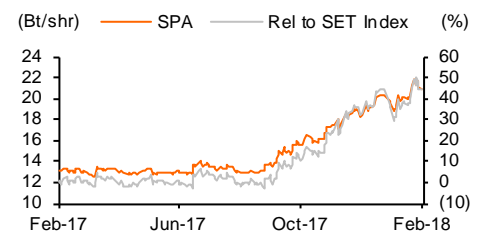
### Still room to grow in domestic market

Management believes that its goal of opening 10 new domestic branches p.a. is still feasible over 2018-22. "Let's Relax", the highest-profitability segment, still dominates the expansion plan (six to seven branches p.a.). The hotel spa model tripled its spa traffic within three months after rebranding to "Let's Relax". This is due to its well-known brand attracting non-hotel guests as customers. SPA is bullish on this business model due to its short payback period with high growth opportunities from partnering with top hotel chains, both local and international. Expansion of Baansuan is on track, targeting residential Bangkok vicinity areas.

### 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	265	354
Diff frm cons (%)	—	(6.1)	2.9	10.6
Norm profit	141	174	273	392
Prev. Norm profit	—	174	273	392
Chg frm prev (%)	—	0.0	0.0	0.0
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)	84.5	68.6	43.7	30.4
EV/EBITDA (x)	57.9	41.5	27.7	20.0
P/BV (x)	18.6	16.0	13.1	10.5
Div yield (%)	0.5	0.7	1.1	1.6
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 5-Feb-18 (Bt)	20.90
Market Cap (US\$ m)	378.0
Listed Shares (m shares)	570.0
Free Float (%)	31.3
Avg Daily Turnover (US\$ m)	1.4
12M Price H/L (Bt)	21.80/12.50
Sector	MAI
Major Shareholder	Jiravanstit family 18.7%

Sources: Bloomberg, Company data, Thanachart estimates

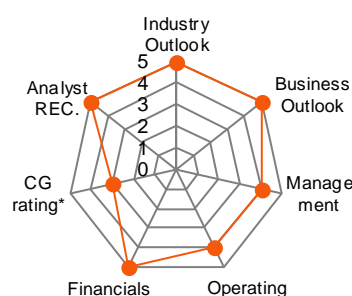


## COMPANY DESCRIPTION

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

<b>Excellent</b>	<b>5</b>
<b>Good</b>	<b>4</b>
<b>Fair</b>	<b>3</b>
<b>Weak</b>	<b>2</b>
<b>Very Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

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
<b>Target price (Bt)</b>	21.73	25.00	15%
<b>Net profit 17F (Bt m)</b>	185	174	-6%
<b>Net profit 18F (Bt m)</b>	265	273	3%
<b>Consensus REC</b>	<b>BUY: 4</b>	<b>HOLD: 1</b>	<b>SELL: 0</b>

## 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, i.e. 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 3% 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**

*Higher earnings growth rate from faster branch-expansion pace*

<b>FY ending Dec (Bt m)</b>	<b>2015A</b>	<b>2016A</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
Sales	533	725	965	1,332	1,744
Cost of sales	335	485	638	845	1,081
<b>Gross profit</b>	<b>198</b>	<b>241</b>	<b>327</b>	<b>487</b>	<b>663</b>
% gross margin	37.2%	33.2%	33.8%	36.5%	38.0%
Selling & administration expenses	74	89	126	164	201
<b>Operating profit</b>	<b>125</b>	<b>151</b>	<b>200</b>	<b>323</b>	<b>462</b>
% operating margin	23.3%	20.9%	20.7%	24.2%	26.5%
Depreciation & amortization	39	55	87	105	123
<b>EBITDA</b>	<b>164</b>	<b>207</b>	<b>287</b>	<b>428</b>	<b>585</b>
% 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)
<b>Pre-tax profit</b>	<b>134</b>	<b>164</b>	<b>212</b>	<b>341</b>	<b>490</b>
Income tax	27	23	38	68	98
<b>After-tax profit</b>	<b>106</b>	<b>141</b>	<b>174</b>	<b>273</b>	<b>392</b>
% 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
<b>NET PROFIT</b>	<b>106</b>	<b>141</b>	<b>174</b>	<b>273</b>	<b>392</b>
<b>Normalized profit</b>	<b>106</b>	<b>141</b>	<b>174</b>	<b>273</b>	<b>392</b>
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

**BALANCE SHEET**

*Strong balance sheet due to asset-light expansion model*

<b>FY ending Dec (Bt m)</b>	<b>2015A</b>	<b>2016A</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
<b>ASSETS:</b>					
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
<b>Total assets</b>	<b>655</b>	<b>865</b>	<b>1,258</b>	<b>1,289</b>	<b>1,611</b>
<b>LIABILITIES:</b>					
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
<b>Total LT debt</b>	<b>1</b>	<b>80</b>	<b>263</b>	<b>111</b>	<b>128</b>
Others LT liabilities	20	19	26	36	47
<b>Total liabilities</b>	<b>100</b>	<b>226</b>	<b>513</b>	<b>378</b>	<b>475</b>
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)
<b>Retained earnings</b>	<b>139</b>	<b>223</b>	<b>329</b>	<b>494</b>	<b>720</b>
Shareholders' equity	555	639	745	910	1,136
<b>Liabilities &amp; equity</b>	<b>655</b>	<b>865</b>	<b>1,258</b>	<b>1,289</b>	<b>1,611</b>

Sources: Company data, Thanachart estimates

**CASH FLOW STATEMENT**

<b>FY ending Dec (Bt m)</b>	<b>2015A</b>	<b>2016A</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
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
<b>Cash flow from operations</b>	<b>167</b>	<b>211</b>	<b>296</b>	<b>400</b>	<b>555</b>
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)
<b>Cash flow from investments</b>	<b>(118)</b>	<b>(281)</b>	<b>(192)</b>	<b>(205)</b>	<b>(212)</b>
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
<b>Cash flow from financing</b>	<b>(92)</b>	<b>43</b>	<b>161</b>	<b>(297)</b>	<b>(145)</b>
<b>Free cash flow</b>	<b>7</b>	<b>(63)</b>	<b>102</b>	<b>221</b>	<b>372</b>

*Internal cash flows  
should cover investment  
costs fully*

**VALUATION**

<b>FY ending Dec</b>	<b>2015A</b>	<b>2016A</b>	<b>2017F</b>	<b>2018F</b>	<b>2019F</b>
Normalized PE (x)	111.9	84.5	68.6	43.7	30.4
Normalized PE - at target price (x)	133.8	101.1	82.0	52.3	36.4
PE (x)	111.9	84.5	68.6	43.7	30.4
PE - at target price (x)	133.8	101.1	82.0	52.3	36.4
EV/EBITDA (x)	72.5	57.9	41.5	27.7	20.0
EV/EBITDA - at target price (x)	86.8	69.2	49.7	33.2	23.9
P/BV (x)	21.5	18.6	16.0	13.1	10.5
P/BV - at target price (x)	25.7	22.3	19.1	15.7	12.5
P/CFO (x)	71.5	56.5	40.3	29.8	21.5
Price/sales (x)	22.3	16.4	12.3	8.9	6.8
Dividend yield (%)	0.5	0.5	0.7	1.1	1.6
FCF Yield (%)	0.1	(0.5)	0.9	1.9	3.1
<b>(Bt)</b>					
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

*44x 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
<b>Growth Rate</b>					
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
<b>Operating performance</b>					
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
<b>DuPont</b>					
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

**General Disclaimers And Disclosures:**

This report is prepared and issued by Thanachart Securities Public Company Limited (TNS) as a resource only for clients of TNS, Thanachart Capital Public Company Limited (TCAP) and its group companies. Copyright © Thanachart Securities Public Company Limited. All rights reserved. The report may not be reproduced in whole or in part or delivered to other persons without our written consent.

This report is prepared by analysts who are employed by the research department of TNS. While the information is from sources believed to be reliable, neither the information nor the forecasts shall be taken as a representation or warranty for which TNS or TCAP or its group companies or any of their employees incur any responsibility. This report is provided to you for informational purposes only and it is not, and is not to be construed as, an offer or an invitation to make an offer to sell or buy any securities. Neither TNS, TCAP nor its group companies accept any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable. However, TNS, TCAP and its group companies make no representation or warranty, express or implied, as to their accuracy or completeness. Expressions of opinion herein are subject to change without notice. The use of any information, forecasts and opinions contained in this report shall be at the sole discretion and risk of the user.

TNS, TCAP and its group companies perform and seek to perform business with companies covered in this report. TNS, TCAP, its group companies, their employees and directors may have positions and financial interest in securities mentioned in this report. TNS, TCAP or its group companies may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any entity mentioned in this report. Therefore, investors should be aware of conflict of interest that may affect the objectivity of this report.

Thanachart Securities Public Company Limited may act as a Market Maker and Derivative Warrants Issuer of the securities listed in this research report. Investors are advised to carefully review the details and information in the prospectus before making investment decisions.

### Recommendation Structure:

Recommendations are based on absolute upside or downside, which is the difference between the target price and the current market price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is SELL. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on the market price and the formal recommendation.

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.

### Thanachart Securities Pcl.

Research Team

19 Floor, MBK Tower

444 Phayathai Road, Pathumwan Road, Bangkok 10330

Tel: 662 - 617 4900

Email: thanachart.res@thanachartsec.co.th

#### Pimpaka Nichgaroon, CFA

Head of Research

pimpaka.nic@thanachartsec.co.th

#### Kalvatee Thongsomaung

Food, Hotel, Media

kalvatee.tho@thanachartsec.co.th

#### Rata Limsuthiwanpoom

Industrial Estate, Property Fund, REITs

rata.lim@thanachartsec.co.th

#### Siriporn Arunothai

Small Cap Research, Healthcare

siriporn.aru@thanachartsec.co.th

#### Witchanan Tambamroong

Technical Analyst

witchanan.tam@thanachartsec.co.th

#### Sittichet Rungrassameephat

Assistant Analyst, Quantitative

sittichet.run@thanachartsec.co.th

#### Adisak Phupiphathirungul, CFA

Retail Market Strategy

adisak.phu@thanachartsec.co.th

#### Pattarawan Wangmingmat

Senior Technical Analyst

pattarawan.wan@thanachartsec.co.th

#### Saksid Phadthananarak

Construction, Transportation

saksid.pha@thanachartsec.co.th

#### Supanna Suwankird

Energy, Utilities

supanna.suw@thanachartsec.co.th

#### Nuttapop Prasitsuksant

Assistant Analyst

nuttapop.pra@thanachartsec.co.th

#### Thaloengsak Kucharoenpaisan

Assistant Analyst

thaloengsak.kuc@thanachart.co.th

#### Chak Reungsinpinya

Energy, Petrochemical

chak.reu@thanachartsec.co.th

#### Phannarai Tiyapittayarut

Property, Retail

phannarai.von@thanachartsec.co.th

#### Sarachada Sornsong

Bank, Financial, Telecom

sarachada.sor@thanachartsec.co.th

#### Wichaya Wongpanuwich, CFA, FRM

Analyst, Retail Market

wichaya.won@thanachartsec.co.th

#### Pattadol Bunnak

Assistant Analyst

pattadol.bun@thanachartsec.co.th