HIGH CONVICTION INITIATION

CIMB

Company Note | Alpha series

Thailand

ADD

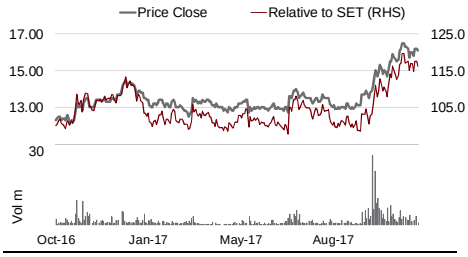
Consensus ratings*:	Buy 3	Hold 0	Sell 0

Current price:	THB16.10
Target price:	THB19.40
Previous target:	*THB*
Up/downside:	20.5%
CIMB / Consensus:	13.8%
Reuters:	SPA.BK
Bloomberg:	SPA TB
Market cap:	US$275.6m
	THB9,177m
Average daily turnover:	US$1.29m
	THB42.76m
Current shares o/s:	570.0m
Free float:	31.3%

*Source: Bloomberg

Key changes in this note

- N/A



Source: Bloomberg

Price performance	*1M*	*3M*	*12M*
Absolute (%)	9.5	19.3	30.9
Relative (%)	6.8	10.8	16.4

Major shareholders	% held
Mr. Wiboon Utsahajit	12.3
Mr. Prasert Jiravanstit	12.3
Mrs. Pranee Suphawatanakiat	10.1

Siam Wellness Group

The thriving business of wellness

- SPA is Thailand's largest spa operator by number of outlets and revenue in 2015, with proven value-creation track record via integrated business model & diversified brands.
- It has demonstrated superior profitability (CY16 net margin of 19.4%) compared to its local peers (average 4%) due to its high operational efficiency.
- We think SPA would benefit from the rising inbound tourist arrivals to Thailand.
- In addition to strong estimated FY16-19F EPS CAGR of 32.4%, we think SPA has earnings upside potential from future acquisitions and overseas market expansion.
- We initiate coverage with an Add rating and a DCF-based target price of THB19.40.

Thailand's largest spa chain

SPA is the largest spa player in Thailand in terms of number of outlets and revenue, with 2015 market share of 14%, according to Business Online. We expect SPA to maintain its market leadership position in Thailand and forecast FY16-19F EPS CAGR of 32.4%, underpinned by: 1) strong network expansion of 10 new branches p.a. in FY17-19F; 2) robust SSSG, driven by Thai tourism boom; and 3) higher margins from expansion of spa products portfolio and new mid-range hotel spa model.

Most comprehensive and efficient spa operator in the country

SPA is a fully-integrated company involved in upstream and downstream businesses on the spa value chain. Its superior operational efficiency has led to high net margin of 19.4% in CY16 (vs. local peer average of 4%). SPA also owns a massage school, which gives it a competitive edge over its competitors in spa service quality and speed of network expansion, enabling SPA to secure desirable locations before its rivals.

Strong store rollout to capitalise on Thailand's tourism boom

We expect SPA to be a major beneficiary of Thailand's tourism boom as its brands are widely recognised by tourists, especially those from China, Taiwan and Korea (large proportion of tourist arrivals in Thailand). The rising global trend of wellness tourism could also help SPA expand in tandem with the Thai tourism industry. We are positive on SPA's ongoing branch expansion as it would give the company access to a wider range of customers and enable it to fully capitalise on the rising tourist arrivals in the country.

Gross margin expansion from hotel spas and spa products

We believe SPA has significant room for gross margin expansion, driven by the increasing number of hotel spas, which generate higher FY16 gross margins (GPM) of 45-50% vs. SPA's historical 5-year average of 36%). This is mainly due to the lower investment cost and shorter payback period for a hotel spa compared to standalone spa. SPA also aims to enlarge the contribution from its spa products (FY16 GPM of 50-60%) from 7% of total revenue in 1H17 to 10% by FY19F.

High earnings upside potential from overseas expansion and M&A

Overseas expansion and future acquisitions present upside potential to our earnings forecasts. SPA is seeking opportunities abroad, especially in Cambodia, Laos, Myanmar and Vietnam (CLMV). We think SPA will enter Cambodia first because of the country's proximity to Thailand and growing tourism industry. Given its strong balance sheet, we think SPA is well positioned to undertake earnings-accretive acquisitions.

Initiate with Add

We initiate coverage with an Add rating and DCF-based target price of THB19.40 on the back of anticipated strong earnings growth and potential upside from overseas expansion and acquisitions. We think SPA's current valuation of 28x FY19F P/E is attractive as it is below the historical 5-year average of 32x. Downside risks are lower-than-expected SSSG, slower-than-expected branch expansion and tourism industry slowdown.

Financial Summary	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue (THBm)	533	725	985	1,265	1,555
Operating EBITDA (THBm)	163.5	206.8	293.7	393.7	490.5
Net Profit (THBm)	106.5	141.0	191.6	257.9	327.3
Core EPS (THB)	0.19	0.25	0.34	0.45	0.57
Core EPS Growth	220%	32%	36%	35%	27%
FD Core P/E (x)	86.18	65.10	47.89	35.58	28.04
DPS (THB)	0.10	0.10	0.13	0.18	0.23
Dividend Yield	0.62%	0.62%	0.84%	1.12%	1.43%
EV/EBITDA (x)	55.59	44.62	31.65	23.60	18.80
P/FCFE (x)	141.8	NA	NA	91.8	49.6
Net Gearing	(15.6%)	7.7%	15.7%	12.3%	4.1%
P/BV (x)	16.54	14.36	12.03	10.00	8.24
ROE	20.5%	23.6%	27.3%	30.7%	32.2%
% Change In Core EPS Estimates					
CIMB/consensus EPS (x)			0.95	0.95	0.97

SOURCE: COMPANY DATA, CIMB FORECASTS

Analyst(s)

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The thriving business of wellness

Investment thesis

The largest fully-integrated spa company in Thailand

Siam Wellness Group Pcl (SPA) is one of Thailand's most successful, fully-integrated spa companies, with businesses on the entire value chain, ranging from spa operations, hotel and restaurant business to sale of spa products and a massage school.

The company runs a traditional Thai massage school to train therapists to staff its outlets. Hence, SPA's network expansion can be executed at a faster rate than its competitors. SPA currently operates 38 spa outlets in Thailand and one in Kunming, China. SPA's revenue rose by 38% CAGR in FY11-15, considerably faster than the industry's 7%. As such, SPA has become the largest spa chain in Thailand, as we estimate it captured 14% share of the total Thai massage and spa market (revenue), valued at THB3.9bn in 2015, based on 695 spa companies registered with business information provider Business Online (BOL).

Diversified brands with superior profitability

The company operates spas under three separate brands that target different customer groups based on income and location – Let's Relax Spa, RarinJinda Wellness Spa and Baan Suan Massage. These brands give SPA access to a wider range of customer groups than its competitors, which tend to focus on narrower customer niches). In addition, SPA is a fully-integrated spa company that is involved in a wide range of spa-related businesses. Its superior operational efficiency has led to SPA registering a higher CY16 net margin of 19.4%, above the 4% average of its local peers, making SPA one of the most profitable spa operators in Thailand.

Despite SPA's superior profit margins, we believe there is still room for improvement via the increasing sales of spa products and increasing number of hotel spas, which typically generate higher margins than standalone spas.

Well positioned to capitalise on Thailand's tourism boom

Given that around 75% of SPA's customers are foreigners (as of 1H17, according to the company), we believe SPA is the one of the best options in Thailand for a wellness tourism play. The company's Let's Relax Spa brand is one of the most widely recognised brands for spa and Thai massage among tourists. We believe this is due to the large network of Let's Relax Spa outlets, which are mainly located near tourist attractions. Given that Thailand's tourism industry is expanding, we think SPA is in an ideal position to capitalise on the industry's growth, given its strong brands and strategic branch locations that meet the demands of its tourist target customer group.

Strong balance sheet indicates potential earnings upside

SPA is in a strong financial position, with minimal debt (net debt-to-equity ratio of 0.08x, cash of THB50m and operating cash flow of THB206m at end-FY16. The company guided that it would use its cash in hand for overseas expansion and future acquisitions. While our earnings forecasts have not imputed any potential acquisitions and overseas expansion, the company's healthy balance sheet and strong cash flow lead us to believe that SPA could enter into earnings-accretive M&A deals with potential to create synergies.

1. Background

1.1 Leader in Thailand's spa market

Siam Wellness Group Plc (SPA) was established in 2001 by the Utsahajit and Jiravanstit families, with authorised capital of THB3m. The company started operations with the Let's Relax Spa day spa brand.

Figure 1: SPA's key corporate milestones

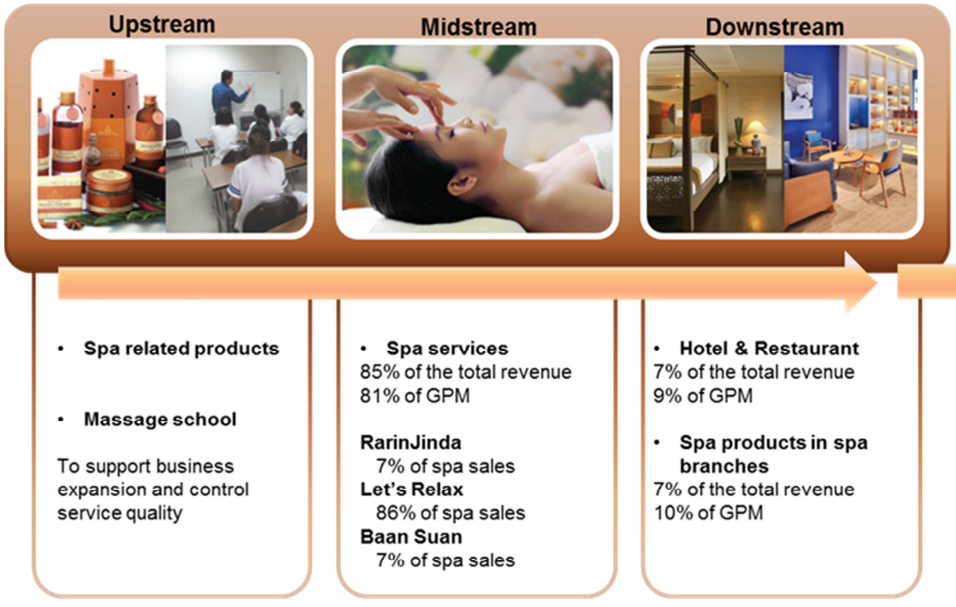
Year	Corporate milestones
2001	Siam Wellness Group Pcl founded with authorised capital of THB3m.
	Started offering spa services under Let's Relax Spa brand.
2006	RalinJinda Wellness Spa, a 4-star spa brand, established.
2007	Siam Wellness Lab Co Ltd (SWL) founded to manufacture spa-related products (body care, other spa products, health food & beverage) under the "Blooming" brand for distribution domestically and abroad.
2008	Authorised capital increased to THB40m to fund working capital and branch expansion.
2011	Siam Wellness Education Co Ltd (SWE) founded to operate a teaching institute for Thai traditional massage, certified by the Ministry of Education. The institute's main objective is to train future SPA therapists to accommodate the expansion in number of SPA branches.
2014	Listed on the Stock Exchange of Thailand (SET). Par value changed from THB100 to THB0.25 per share, authorised capital raised to THB142.5m (570m shares), with public offering of 170m ordinary shares .
2015	Acquired "Baan Suan Massage" with branches in Bangkok Metropolitan Region,
2016	Signed agreements to open Let's Relax Spa outlets in Holiday Inn Resort Krabi Aonang Beach and The Berkeley Hotel Pratunam.
2017	Acquired Tiger Eyes Trading (Thailand) Co Ltd and Tiger Eyes Education Co Ltd.
	Signed an agreement with The Sis Kata Resort Co Ltd to operate Let's Relax Spa outlets in The SIS Kata Resort, Phuket Province for 2 years (with renewal option of 2 years).
	Signed an agreement with Phuket Square Co Ltd to operate Let's Relax Spa outlet in Millennium Resort Patong Phuket for 3 years (with renewal option of 3 years).

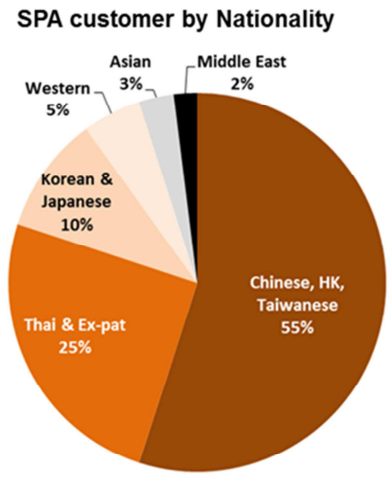
SOURCE: CIMB RESEARCH, COMPANY

1.2 Core businesses

The company is involved in the following core business segments: 1) spa operations; 2) hotel and restaurant, 3) spa products – sales and distribution; and 4) a traditional Thai massage school.

Figure 2: SPA's business operations





SOURCE: CIMB RESEARCH, COMPANY

1) Spa operations: This is SPA's largest business segment, accounting for 85% of total revenue in 1H17. SPA operates the spas under three brands to cater to different customer groups as follows:

RarinJinda Wellness Spa: Five-star (company rating) premium spas located in 5-star hotels and resorts. This brand targets the upper-income customer group.

Let's Relax Spa: Four-star (company rating) day spas situated in shopping malls and hotels, as well as standalone outlets in tourist attraction areas, targeting upper- to middle-income tourist customer segments. Its flagship Let's Relax Onsen and Spa Thonglor in the heart of Bangkok that is inspired by traditional Japanese hot spring bathing (onsen) comes under this brand. This brand is also used for SPA's new mid-range hotel spa business model.

Baan Suan Massage: Three-star (company rating) neighbourhood massage salons situated as a standalone outlets in highly-populated areas that target middle-class local consumers.

Figure 3: Spa operations, by brand

Spa business	RARINJINDA WELLNESS SPA	Let's Relax	BaanSuan Massage
Brand positioning and customer group	5-star destination spa service, Upper segment	4-star day spa service, Middle segment	3-star spa service, middle segment
Location	4-5 stars hotel and resort	Department store, hotel, tourist attaction	High populated area of middle class
Avg. spending/visit	THB2,000/visit	THB1,050/visit	THB500/visit
Customer group based on income/month	more than THB75,000	THB30,000-75,000	THB15,000-50,000
CAPEX/branch	THB25m/branch	THB15-20m/branch	THB10m/branch
Contribution to spa business sales (as of 1H17)	7%	86%	7%
Number of branches	3 branches in Thailand	25 branches in Thailand 1 branch in China	10 branches in Thailand

SOURCE: CIMB RESEARCH, COMPANY

Figure 4: RarinJinda Wellness Spa outlet

SOURCE: CIMB RESEARCH, COMPANY

Figure 5: Let's Relax Spa outlet

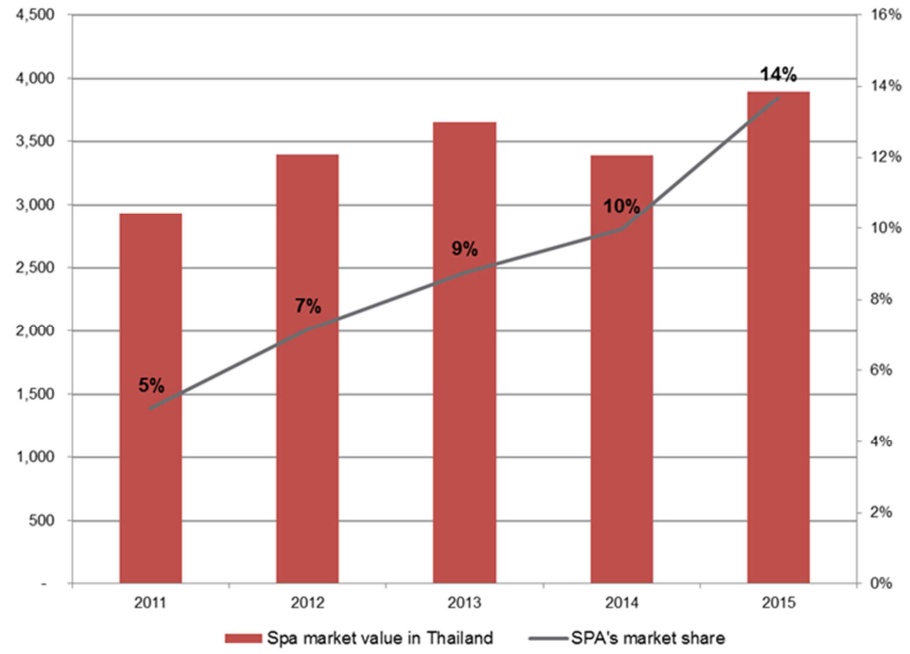
SOURCE: CIMB RESEARCH, COMPANY

Figure 6: Baan Suan Massage outlet

SOURCE: CIMB RESEARCH, COMPANY

The company's revenue increased by 38% CAGR over FY11-15, considerably faster than the Thailand spa industry's 7%. As such, SPA has become the largest spa chain in the country, with 14% share of the total Thailand spa market (revenue) of THB3.9bn in 2015, based on 695 spa companies registered with BOL in FY15.

Figure 7: Thailand's spa market value (revenue, THB m) and SPA's market share (2011-15)



SOURCE: CIMB RESEARCH, COMPANY, BUSINESS ONLINE

2) Hotel and restaurant business: In this business segment, SPA operates the RarinJinda Wellness Spa Resort, a five-star boutique resort located in Chiangmai, the largest city in Northern Thailand. The resort has 35 rooms decorated in the Northern Lanna style. According to SPA, in FY16 around 80% the resort's guests were foreign tourists, while the remaining 20% were Thais. Positioned at the luxury end of the hotel spectrum, the resort caters to high-end customers looking for healthy lifestyle, with room rates ranging from THB6,500 to THB27,000 per night. SPA also operates the "Deck 1" (in RarinJInda Wellness Spa Reosrt) and "D Bistro" restaurants in Chiang Mai.

Figure 8: RarinJinda Wellness Spa Resort in Chiangmai

SOURCE: CIMB RESEARCH, COMPANY

Figure 9: Deck 1 restaurant at the RarinJinda Wellness Spa Resort

SOURCE: CIMB RESEARCH, COMPANY

Figure 10: RarinJinda Wellness Spa Resort room rates per night (as of FY16)

Room Type	Size (sq.m.)	No. of rooms	Room Rate (THB)
Deluxe	46	22	6,500
Deluxe Pool Access	53	7	10,000
Wellness Suite	93	5	16,000
RarinJinda Villa	164	1	27,000
Total		35	

SOURCE: CIMB RESEARCH, COMPANY

3) Spa products – sales and distribution: The company sells and distributtes spa-related products under the Blooming brand, which can be divided into three categories: 1) body care products, such as body lotion, liquid and bar soaps; 2) other spa products, such as essential oils, incense and scented candles; and 3) health food and beverage products, such as herbal tea and snacks. The distribution channels for these products are SPA outlets, agents (direct sales), product exhibition fairs or tourism events and sales booths in hotels. This business segment accounted for around 7% of SPA's total revenue in 1H17.

Figure 11: Spa products under Blooming brand

SOURCE: CIMB RESEARCH, COMPANY

Figure 12: Spa products for sale in SPA outlet

SOURCE: CIMB RESEARCH, COMPANY

4) Thai massage school: SPA's massage school offers traditional Thai massage courses solely to current and future SPA employees. The school supports SPA's network expansion and helps to maintain the quality of service provided at its outlets. The school's certification by the Thailand Ministry of Education is testament to the high quality of teaching offered.

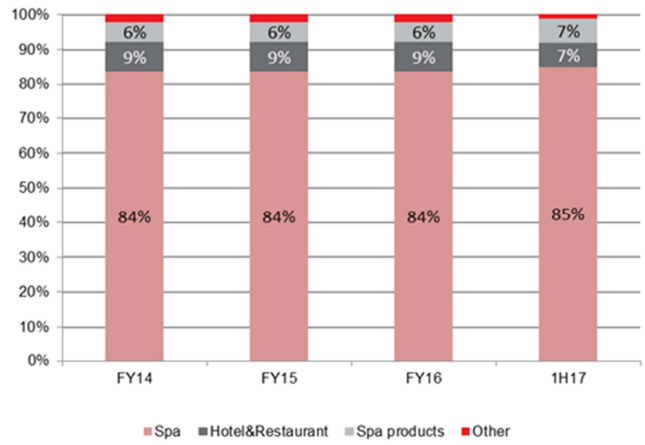
Figure 13: SPA's traditional Thai massage school

SOURCE: CIMB RESEARCH, COMPANY

1.3 Revenue breakdown

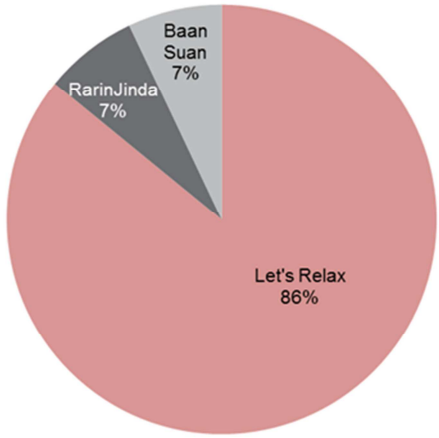
The bulk of SPA's revenue is derived from the spa operations business segment, which contributed 85% of total revenue in 1H17. Let's Relax Spa accounted for the lion's share of 1H17 spa revenue (86%), followed by RarinJinda Wellness Spa (7%) and Baan Suan Massage (7%).

Figure 14: Group revenue breakdown in 2014-1H17



SOURCE: CIMB RESEARCH, COMPANY

Figure 15: Spa revenue breakdown by brand in 1H17

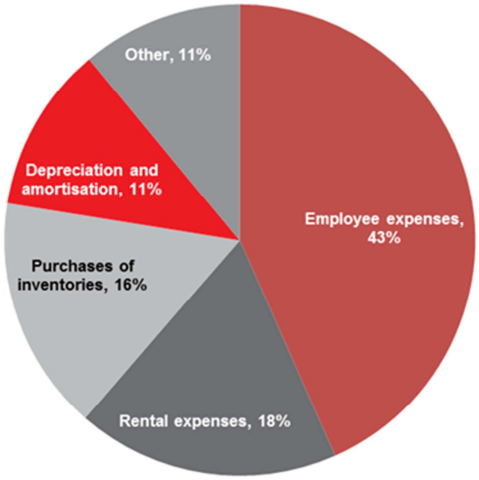


SOURCE: CIMB RESEARCH, COMPANY

1.4 Cost breakdown

We observe that staff cost (therapist salaries) comprise the biggest cost component for SPA, accounting for 43% of total cost of goods sold in 1H17, followed by rental cost at 18% and inventory cost at 16%. A therapist's salary consists of fixed basic pay of THB400 per day plus variable payment based on the number treatments delivered.

Figure 16: SPA's cost breakdown in 2016



SOURCE: CIMB RESEARCH, COMPANY

1.5 Gross profit breakdown

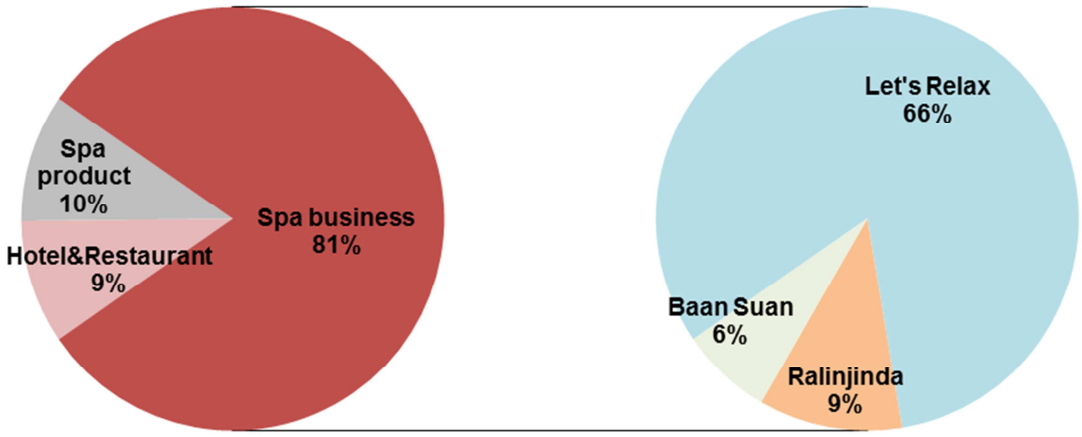
We estimate that the spa business segment was the largest contributor to the company's gross profit in FY16 at 81% (with Let's Relax Spa accounting for 66%, RarinJinda Wellness Spa constituting 9% and Baan Suan Massage comprising 6%). Let's Relax Spa was the segment's key FY16 gross profit driver, thanks to its superior gross margin (GPM of 40%, based on our estimates) compared to the other two brands (15-25%). The spa products business contributed 10% of total gross profit in FY16 and delivered the highest GPM (50-60%) of all business segments. The remaining of 9% of FY16 gross profit came from the hotel and restaurant business segment.

Figure 17: FY16 gross margin (GPM) by business segment, based on our estimates

Estimated GPM by business	%
Spa business	30-40%
Let's Relax	40%
Let's Relax Spa in hotels	45-50%
RarinJinda	20-25%
Baan Suan	15%
Hotel&Restaurant	30-40%
Spa products	50-60%

SOURCE: CIMB RESEARCH, COMPANY

Figure 18: Gross profit breakdown by business segment and spa brand (FY16), based on our estimates



SOURCE: CIMB RESEARCH, COMPANY

2. Key competitive advantages

2.1 Fully-integrated spa chain

SPA is a vertically-integrated company, with operations on the upstream (spa products and massage school) to downstream portions of the value chain (spas and hotel). In our view, this allows the company to effectively control the quality of services and products offered, as well as improve operating efficiency and reduce costs. In addition, the company's massage school enables it to ensure it has a sufficient number of therapists to staff its new outlets, allowing it to expand the number of branches at a faster pace than competitors, in our view.

2.2 Diversified branding, pricing and locations

The company's three spa brands allows it to target different customer groups and gain access to a wider pool of customers than its competitors, in our view. In terms of pricing, SPA's pricing is lower than its competitors at each level but its services are of comparable quality. Hence, SPA attracts price-sensitive consumers at each level.

In terms of industry landscape, we divide the company's three brands into three categories based on their location and target customers, as follows: 1) premium spa chain located in hotels (RarinJinda Wellness Spa); 2) standalone day spa focusing on tourist customer group (Let's Relax Spa); and 3) standalone day spa targeting locals (Baan Suan Massage).

RarinJinda Wellness Spa: We view the Devarana Spa [part of Dusit Thani (DTC TB, Not Rated)], Mandara Spa [wholly-owned by Steiner Leisure Ltd (Unlisted)] and Banyan Tree Spa [part of Banyan Tree Holdings Ltd (BTH SP, Not Rated)] as the main rivals of RarinJinda Wellness Spa, as they also offer premium spa services and are located in 4- to 5-star hotels. However, its

competitors charge more than double RarinJinda Wellness Spa's prices for the same services (Figure 18). In our view, its pricing presents a value proposition that would encourage customers at this level to choose RarinJinda Wellness Spa over its rivals.

Figure 19: Comparison between premium spa operators – RarinJinda Wellness Spa characteristics vs. competitors

Premium spa chain located at the hotel	Brand	Number of branches in Thailand	Branch locations in Thailand	Foot massage and spa price (THB/hr)
Siam wellness Group	RARINJINDA WELLNESS SPA	3	Grande Centre Point hotels in Bangkok and 1 branch at RalinJinda Resort in Chiangmai	1,000
Dusit international group	DEVARANA SPA	4	Dusit hotels in Bangkok, Pattaya, Hua Hin and Chiangmai	2,100
Mandara Spas	MANDARA SPA	3	The Roral Orchid Sheraton (Bangkok), Dusit Thani (Krabi) and JW Marriott (Phuket)	2,200
Banyan Tree	BANYAN TREE SPA	5	Banyan Tree hotels in Bangkok, Samui, and Phuket.	2,800

SOURCE: CIMB RESEARCH, COMPANY

Let's Relax Spa: Apart from lower prices, Let's Relax Spa outlets are typically located in better locations than their competitors, such as Divana (Unlisted), The Oasis Spa (Unlisted), and Asia Herb Association (Unlisted). SPA chooses locations for Let's Relax Spa outlets with tourists' convenience and proximity to local attractions in mind. For example, Let's Relax Spa branches in Bangkok are located close to popular tourist attractions, shopping malls and Skytrain stations.

Figure 20: Comparison between standalone day spa (tourist-focused) operators – Let's Relax Spa's characteristics vs. competitors

Stand-alone day spa in Thailand	Brand	Number of branches in Thailand	Branch locations in Thailand	Thai massage price (THB/hr)
Siam wellness Group	Let's Relax	25	12 branches in Bangkok and 13 branches in upcountry	600
Divana	divana	6	5 branches in Bangkok and 1 Branch in Phuket	1,070
Oasis	THE OASIS SPA THAILAND	11	2 branches in Bangkok and 9 branches in upcountry	1,950
Asia Herb Association	ASIA HERB ASSOCIATION	7	5 branches in Bangkok and 2 branch in Sriracha and Huahin	730

SOURCE: CIMB RESEARCH, COMPANY

Baan Suan Massage: In our view, Health Land (Unlisted) is a direct competitor with Baan Suan Massage as it targets the same local customer group and its branches are in highly-populated neighbourhoods. However, SPA's strategy for Baan Suan Massage is to open smaller-sized branches, giving it flexibility in terms of location. Therefore, we think that Baan Suan Massage has greater flexibility than Health Land in choice of branch location, given its smaller outlet size. This is a competitive advantage, as it allows Baan Suan Massage to extend its reach to customers more rapidly.

Figure 21: Comparison between standalone day spa (local-focused) operators – Baan Suan Massage's characteristics vs. key competitor Health Land

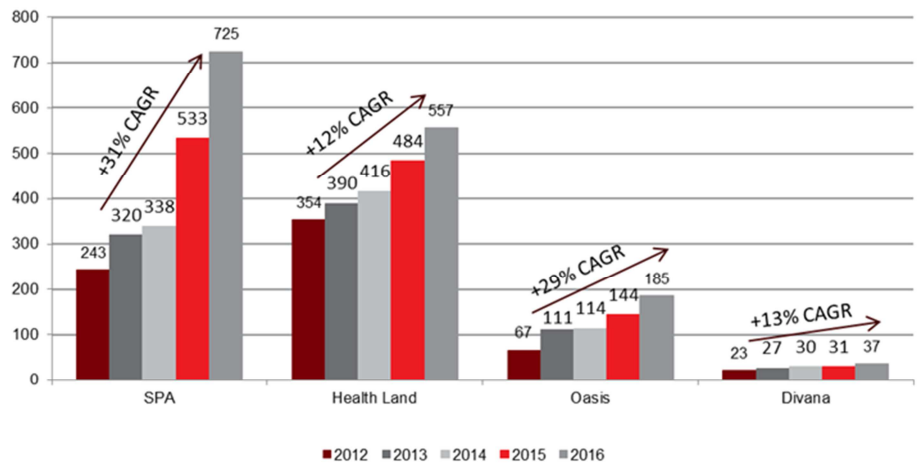
Thai massage brand located in residential area	Brand	Number of branches in Thailand	Branch locations in Thailand	Thai massage price (THB/hr)
Siam wellness Group	BaanSuan Massage	10	7 branches in Bangkok and 3 branches in upcountry (Nakhon Ratchasima, Udon Thani, Nong Khai)	245
Healthland	Health Land	10	9 branches in Bangkok and 1 branch in Pattaya	300

SOURCE: CIMB RESEARCH, COMPANY

2.3 Market leader with superior profitability

Given its significantly-higher sales growth (2012-16 CAGR of 31%) compared to rivals (12-29%), SPA has been the Thai day spa market leader by sales since 2015, according to BOL. We estimate SPA's sales increased by 31% CAGR in 2012-16, compared to only 12% for Health Land, its closest competitor and previous market leader in 2014. We expect SPA to succesfully maintain its leading position in the Thai day spa market, supported by ongoing branch expansion and solid same-store sales growth (SSSG).

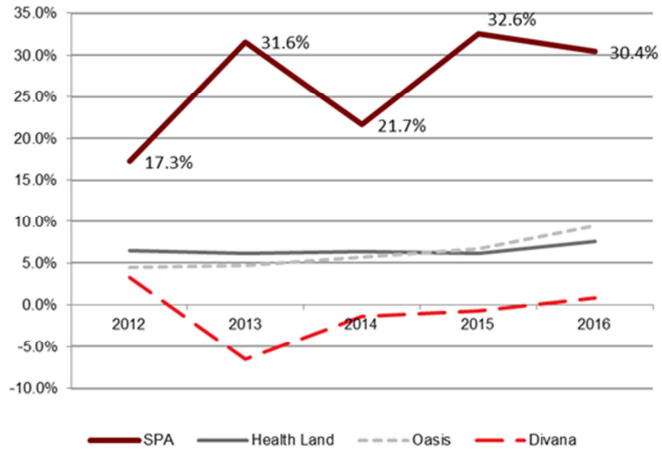
Figure 22: Thai day spa operators' sales comparison in 2012-16 (THB m)



SOURCE: CIMB RESEARCH, COMPANY

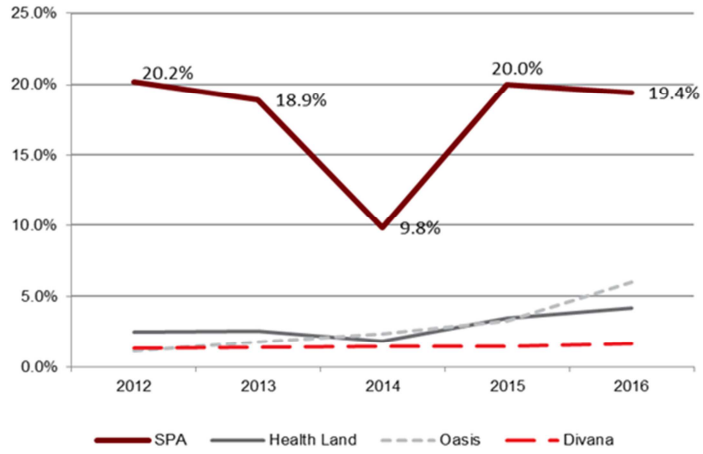
SPA has consistently delivered superior EBITDA and net margins in 2012-16 compared to local peers, illustrating its ability to boost revenue and manage costs. We believe this is mainly due to SPA's fully-integrated business model and higher number of branches, which led to superior operational efficiency and economies of scale.

Figure 23: EBITDA margin comparison – day spa operators



SOURCE: CIMB RESEARCH, COMPANY

Figure 24: Net margin comparison – day spa operators



SOURCE: CIMB RESEARCH, COMPANY

3. Outlook

SPA registered robust net profit CAGR of 33% during FY13-16. In our view, this uptrend will continue in the coming years and project that SPA will deliver revenue CAGR of 29% and net profit CAGR of 32.4% in FY16-19F, underpinned by the following catalysts:

Key revenue drivers

1) Aggressive network expansion in both domestic and overseas markets. We project that SPA will open 10 new domestic outlets p.a. in FY17-19F, which translates into the number of branches increasing by a CAGR of 25% during FY16-19F.

2) Solid SSSG of 8-12% p.a. in FY17-19F, driven by robust growth in Thailand's wellness tourism industry.

Key profit margin drivers

1) Increasing number of hotel spas, which typically generate higher margins than standalone spas due to the lower investment cost.

2) Rising earnings contribution from spa products, which earn higher margins than SPA's other business segments.

3.1 Strong rollout of new outlets

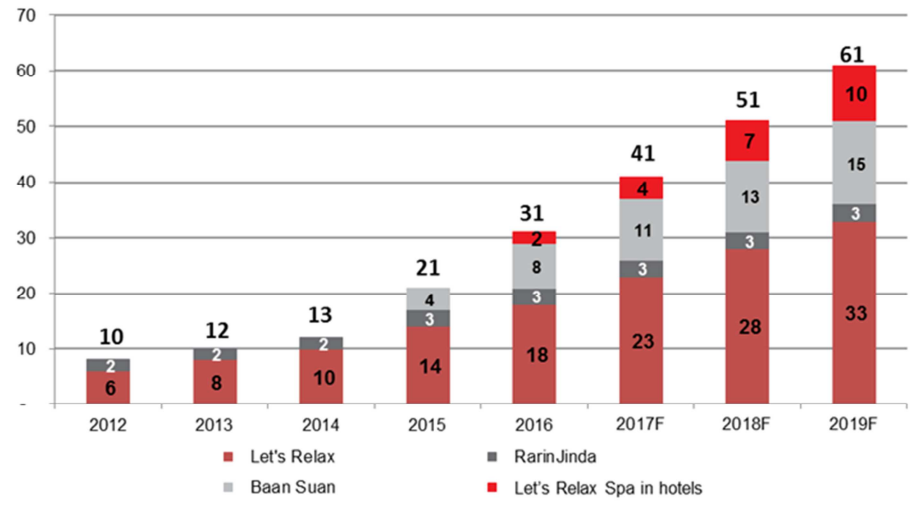
In FY17F, SPA plans to open 10 new outlets in Thailand, comprising five standalone Let's Relax Spa branches, two Let's Relax Spa branches in hotels and three Baan Suan Massage branches (in line with our forecasts). All the locations for the 10 new branches have been secured by the company and four new branches were opened in 1H17.

For FY18-19F, we project that SPA will open 10 new outlets p.a. in Thailand (standalone Let's Relax Spa: 5, Let's Relax Spa in hotels: 3, Baan Suan Massage: 2).

We understand that SPA is also studying the possibility of opening new outlets abroad in the countries of Cambodia, Laos, Myanmar and Vietnam (CLMV) and China. In our view, this offers potential upside to our new outlet forecasts.

We expect the new outlets to help the company capitalise on the anticipated rapid expansion of the Thai and overseas spa markets.

Figure 25: Number of SPA outlets (2013-19F, based on our estimates)

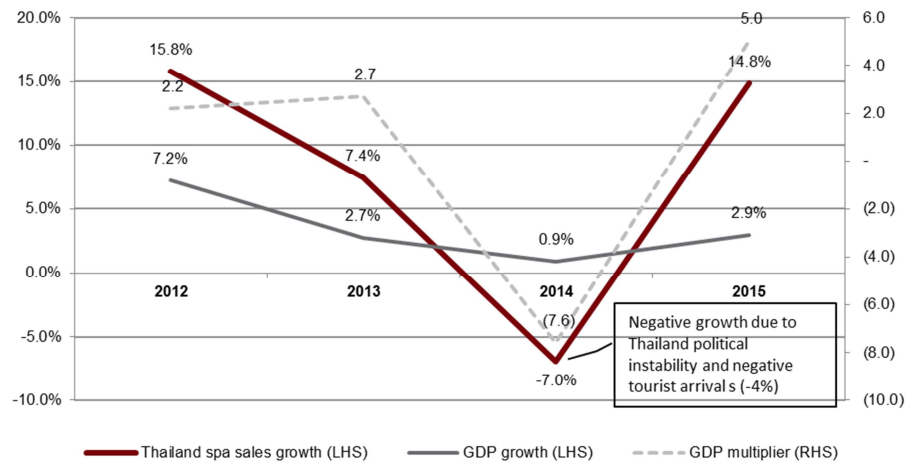


SOURCE: CIMB RESEARCH, COMPANY

3.2 Domestic market likely to remain strong

The Thai spa market delivered average sales growth of 7% p.a. in 2012-15 (based on 695 spa companies registered with BOL), much higher than Thailand's average GDP growth of 3.5% (Figure 26). Thailand's spa sales contracted by 7.0% in 2014 due to political instability in the country but bounced back strongly in 2016 to register an increase of 14.8% (5x Thailand's GDP growth of 2.9%).

Figure 26: Thailand spa sales growth vs. GDP growth (%) and GDP multiplier (x) in 2012-15

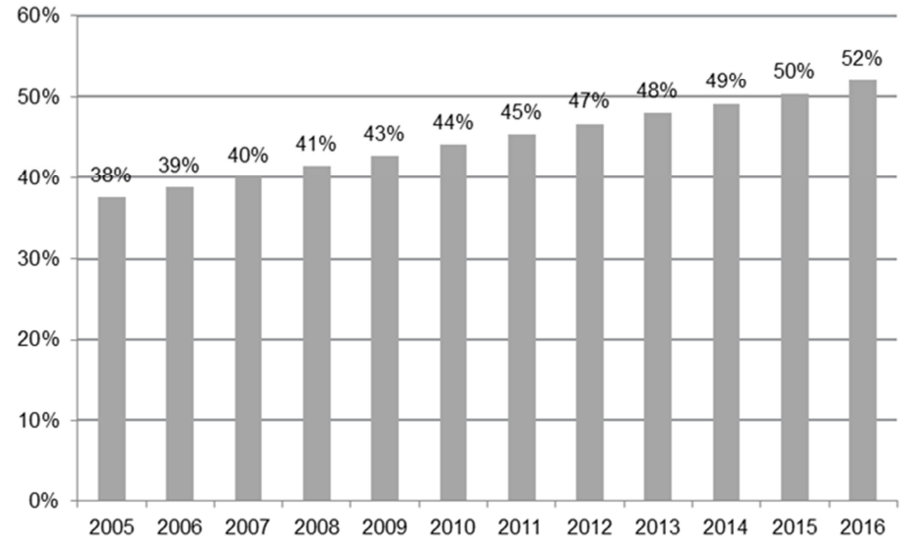


SOURCE: CIMB RESEARCH, COMPANY, BOL

Capitalising on rising urbanisation and middle-income population in Thailand

We see good growth potential for SPA's Baan Suan Massage brand, thanks to Thailand's increasing urbanisation and middle-income population. The expansion of Baan Suan Massage outlets would help SPA to diversify its customer base, as its current customer portfolio comprises mainly foreigners (75% of its total customers in 1H17). We note that the level of urbanisation in Thailand (52% in 2016) is still low compared to the 70-90% in more developed countries, according to the World Bank.

Figure 27: Urban population as percentage of total population in Thailand (2005-16)

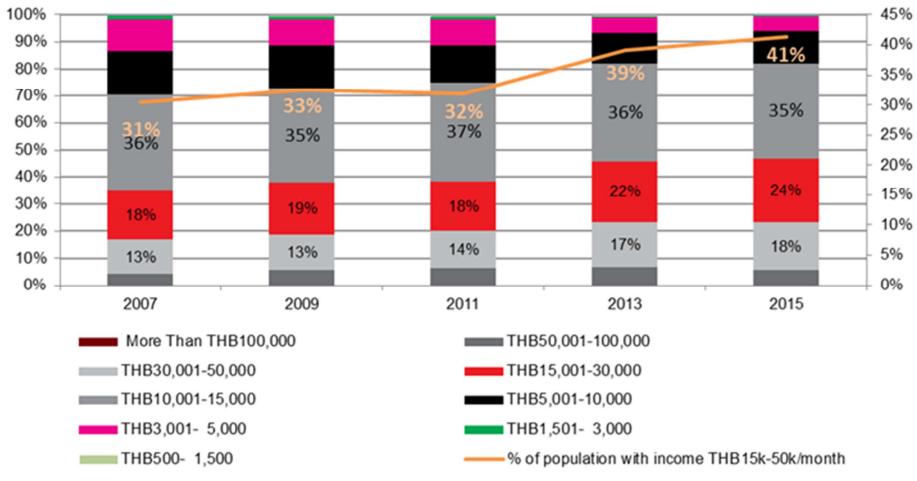


SOURCE: CIMB RESEARCH, WORLD BANK

Given that the Baan Suan Massage brand targets local middle-class customers (monthly incomes of THB15k-50k), we think the expanding middle-class population in Thailand would benefit SPA. According to the National Statistical Office (NSO), the proportion of Thais with monthly incomes of THB15k-50k in Bangkok Metropolitan Region has risen from 31% in 2007 to 42% in 2015.

We expect the rising middle-class population trend to continue in tandem with the country's economic growth. This would support Baan Suan Massage's sales growth in FY17-19F, in our view. Currently, there are seven Baan Suan Massage branches in Bangkok and three branches in second-tier cities including Udon Thani, Nong Khai, and Nonthaburi.

Figure 28: Bangkok Metropolitan Region population breakdown by monthly income



SOURCE: CIMB RESEARCH, NSO

3.3 New hotel spa business model and onsen concept to boost profit margins and widen target market

In 2016, SPA launched a new hotel spa business model to expand its target market – Let's Relax Spa outlets in hotels, which are mid-range spas (vs. RarinJinda Wellness Spa outlets that are premium spas in hotels). Also in 2016, the company introduced a new onsen spa concept with the launch of Let's Relax Onsen and Spa Thonglor, inspired by Japanese hot spring bathing. We are positive on both the new hotel spa business model and onsen concept as they provide SPA with ample room for growth in terms of number of branches and customers. We estimate that the hotel spas and onsen spas generated higher

gross margins of 45-50% in FY16 than the company's historical 5-year average of 36% (FY12-16).

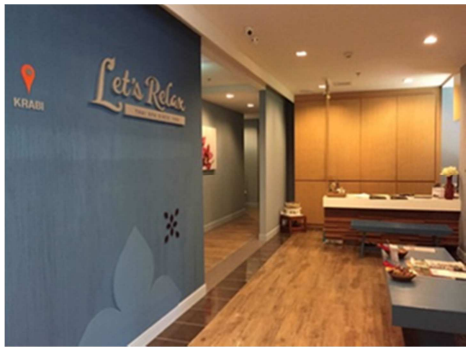
Let's Relax Spa outlets in hotels have shorter payback period than standalone outlets

The new Let's Relax Spa outlets in hotels have a shorter payback period of less than six months vs. three years for a standalone Let's Relax Spa outlet due to the lower capex per outlet of THB1m-2m vs. THB15m-20m for a standalone outlet, as most of the renovation works required are typically carried out by the hotel operators. We note that the Let's Relax Spa outlets in the Holiday Inn Resort Krabi and Berkeley Hotel Pratunam, which opened in May and Aug 2016, respectively, have already achieved break even at net profit level.

This strategy enables the company to speed up network expansion with lower risk, allowing SPA to widen its target market while boosting sales and profitability.

In 1H17, SPA signed an agreement with The SIS Kata Resort Co Ltd to open a Let's Relax Spa outlet in The SIS Kata Resort, Phuket. In Aug 2017, SPA entered into an agreement with Phuket Square Co Ltd to open a Let's Relax Spa in the Millennium Resort Patong Phuket in 4Q17F. At present, SPA has four Let's Relax Spa outlets in hotels (Barkeley Hotel Pratunam, The SIS Kata, Holiday Inn Resort Aonang and Millennium Resort Patong Phuket). However, it is in negotiations with many hotels to open more outlets. We believe expanding this hotel spa business model will be a key focus area for SPA in 2018F.

Figure 29:Let's Relax Spa in Holiday Inn Resort Krabi broke even at net profit level within 6 months after opening

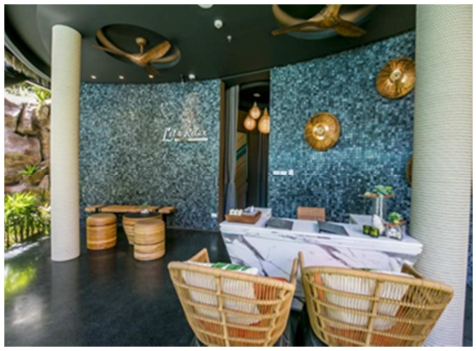


SOURCE: CIMB RESEARCH, COMPANY

Figure 30: Let's Relax Spa in Berkeley Hotel Pratunam at net profit level within 6 months after opening

SOURCE: CIMB RESEARCH, COMPANY

Figure 31: Let's Relax Spa in The SIS Kata Phuket – slated for opening in 3Q17F



SOURCE: CIMB RESEARCH, COMPANY

Enlarging customer base with new onsen spa concept

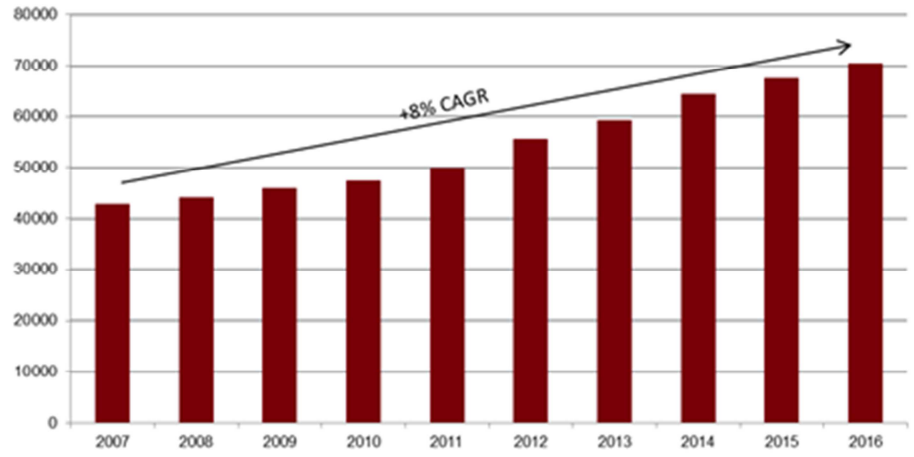
In Nov 2016, SPA opened its flagship Let's Relax Onsen and Spa Thonglor in a central Bangkok district popular with Japanese expatriates. The company has positioned this flagship spa to appeal to the Japanese expatriate market in the hope of attracting long-term customers, as well as Korean tourists and locals who want an authentic onsen experience.

The Embassy of Japan in Thailand estimates the number of Japanese expatriates in Thailand has increased by 8% p.a. in 2007-16. Japanese nationals are now the largest group of expatriates in Thailand, accounting for over 20% of the expatriate working population in 2016, according to a Bangkok Post report in Nov 2016.

Figure 32: Let's Relax Onsen and Spa Thonglor

SOURCE: CIMB RESEARCH, COMPANY

Figure 33: Number of Japanese expatriates in Thailand (2007-16)

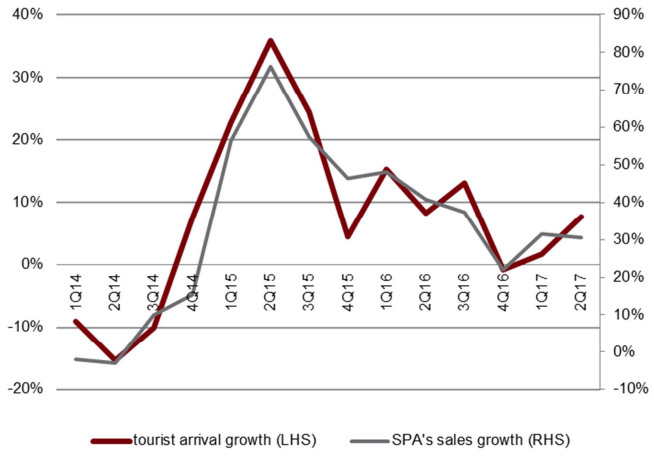


SOURCE: CIMB RESEARCH, EMBASSY OF JAPAN IN THAILAND

3.4 Benefits from Thailand's tourism boom

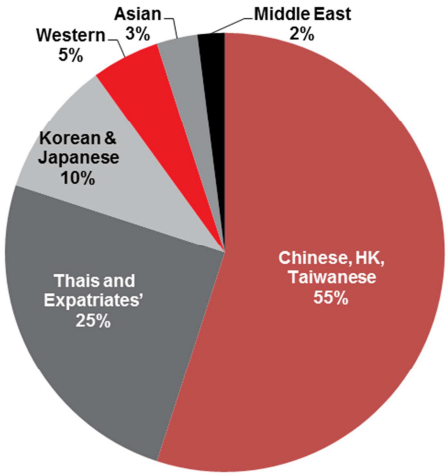
Given that around 75% of SPA's customers in 1H17 were foreigners, we believe SPA is one of the best proxies for rising wellness tourism to Thailand. Despite intense competition in the Thailand spa industry, we think SPA is in a good position to capitalise on the increasing tourist arrivals in the country, on the back of its strong brands and widespread spa network. Our analysis shows strong direct correlation of 0.94 between SPA's sales growth yoy and Thailand tourist arrivals growth in 1Q14-2Q17 (Figure 33). We believe this is mainly due to SPA brands being widely recognised by tourists and its strategic outlet locations close to popular tourist attractions. We note that Let's Relax Spa has been featured in popular travel guides such as Lonely Planet, received the Thailand Trust Mark (quality assurance standard) from the Department of International Trade Promotion (DITP) in 2012 and was awarded "Best of Spa" at "The Best of Thailand Awards Voted by Chinese Tourists" in 2015-17 organised by the Tourism Authority of Thailand.

Figure 34: SPA's sales growth and Thailand tourist arrivals growth (% yoy) have direct, correlation of 0.94



SOURCE: CIMB RESEARCH, COMPANY

Figure 35: SPA's customer breakdown by nationality in 1H17



SOURCE: CIMB RESEARCH, COMPANY

Riding on the fast-growing global wellness tourism trend

Wellness tourism refers to travel in the pursuit of maintaining or enhancing personal wellbeing. We believe the rising global popularity of wellness tourism, resulting from changing population demographics, emerging middle class, increasing health awareness and the healthy lifestyle trend, will drive robust demand for spa services in future.

The Global Wellness Institute (GWI) estimates global wellness tourism expenditure was US$563bn in 2015, up 6.8% p.a. in 2013-15 (double the 3.4% annual growth in global tourism expenditure). GWI projects the trend to continue and that worldwide wellness tourism expenditure will rise to US$808bn by 2020F (7% p.a.).

Figure 36: Global wellness tourism expenditure – US$563bn in 2015

SOURCE: CIMB RESEARCH, GWI

Activities associated with wellness tourism include spa treatments (GWI estimates spa expenditure represented about 40% of global wellness tourism expenditure in 2015). According to GWI, Thailand is ranked global No.13 by wellness tourism market (expenditure) size and No.16 by spa market (revenue) size.

We believe SPA will benefit from the rising wellness tourism trend as Thailand is one of the leading destinations globally for wellness tourists. In our view, SPA is in a good position to capitalise on this opportunity, given its strong brands and strategic branch locations that meet the demands of tourists.

Figure 37: Top twenty spa markets by size (revenue) in 2015

Rank	Country	Spa facility revenue (US$ bn)	Number of spas	Number of spa facility employees
1	United States	18.7	24,421	378,783
2	China	7.1	12,595	288,368
3	Germany	6.0	6,488	143,134
4	Japan	5.1	7,069	115,515
5	France	3.0	4,011	77,297
6	United Kingdom	2.8	3,185	55,342
7	Italy	2.5	3,023	66,441
8	Russia	1.9	3,010	105,461
9	Canada	1.9	3,885	45,390
10	Spain	1.9	2,672	48,756
11	Austria	1.6	1,354	30,477
12	Mexico	1.5	3,099	51,530
13	South Korea	1.5	2,966	38,971
14	India	1.5	4,734	55,862
15	Switzerland	1.2	783	19,438
16	Thailand	1.0	2,304	70,897
17	Indonesia	0.9	2,070	60,682
18	Australia	0.8	1,162	12,208
19	United Arab Emira	0.7	687	20,606
20	Hong Kong	0.7	739	12,431

SOURCE: CIMB RESEARCH, GWI

Thailand is one of the top destinations worldwide for wellness tourism

Thailand is a leading destination for international wellness tourists as it is seen as a safe country and the government has launched several marketing campaigns to promote the country's health and wellness tourism sector. As the number of foreign visitors seeking health services in Thailand is on the rise, the government has identified medical and wellness tourism as one of 10 target industries to actively promote under the "Thailand 4.0" policy. Hence, we expect SPA's earnings to rise in tandem with the tourism industry, supported by the government's ongoing promotion.

Thailand received 30m tourists in 2015, of which 15m (50%) were wellness tourists, based on the Tourism Authority of Thailand (TAT). By 2018F, TAT expects the number of wellness tourists to increase to more than 25m (+16% p.a. in 2016-18F). We expect this to benefit spa businesses in Thailand, as spas are an integral part of wellness tourism and account for a major portion of wellness tourism revenue, according to GWI. In 2013-15 Thailand was No.22 in the world by number of wellness tourist arrivals, with 1.5m trips p.a. (increase of 8.5% p.a. in 2013-15), according to GWI.

Figure 38: Leading growth markets for wellness tourism trips in 2013-15

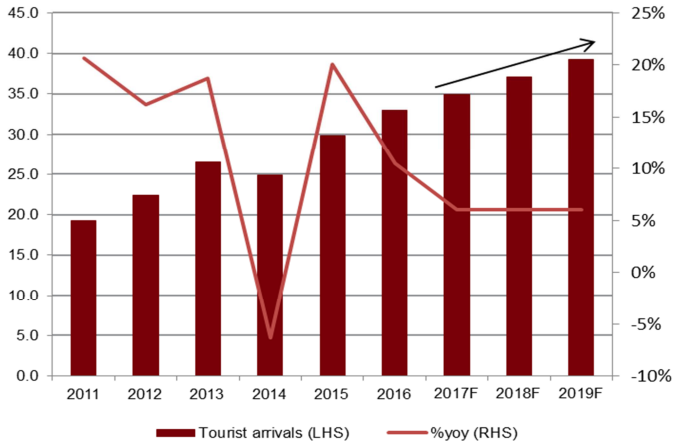
Rank	Country	Number of wellness arrivals/trips added from 2013-2015 (m)	Average annual growth rate (2013-15)
1	China	18.1	26.6%
2	United States	12.6	4.1%
3	Germany	8.3	7.9%
4	India	6	8.8%
5	France	4.9	9.0%
6	Australia	4	36.7%
7	Mexico	3.3	13.0%
8	Russia	3.2	14.4%
9	Brazil	2.7	21.0%
10	Austria	2.6	10.0%
11	South Korea	2.4	7.3%
12	Spain	2.4	9.9%
13	Vietnam	2.3	25.3%
14	Canada	2.2	4.7%
15	Sweden	2.2	35.0%
16	Japan	1.8	2.5%
17	Chile	1.8	26.5%
18	United Kingdom	1.7	4.4%
19	Indonesia	1.6	18.7%
20	Argentina	1.6	29.1%
21	Greece	1.5	15.0%
22	Thailand	1.5	8.5%
23	Malaysia	1.4	17.0%
24	Romania	1.3	34.4%
25	Poland	1.2	11.7%

OURCE: CIMB RESEARCH, GWI

The number of international tourist arrivals to Thailand have risen steadily by estimated 11% CAGR during 2011-16, based on data from the Ministry of Tourism and Sports. We believe that the steady momentum will continue and that total tourist arrivals growth is on track to meet our forecast of 6% yoy for 2017F. We also forecast Thailand tourist arrivals growth of 6% yoy in 2018-19F.

Thailand welcomed 3.13m tourists in Aug (+8.6% yoy), a record-high for a month in the low season. As such, the number of tourist arrivals improved 5% yoy in 8M17. Although Chinese tourist arrivals contracted by -0.3% yoy in 8M17, the monthly numbers have improved from 3.2% yoy in May 2017 to 10.3% in Aug.

Figure 39: International tourist arrivals in Thailand (2011-19F), based on our estimates



SOURCE: CIMB RESEARCH, MINISTRY OF TOURISM AND SPORTS

Figure 40: Thailand tourist arrivals and growth breakdown by region/country of origin in 8M17

	8M17	8M17 % of total	8M16	%yoy
ASEAN	6,058,355	26%	5,713,143	6%
China	6,632,964	28%	6,656,221	0%
Korea	1,142,169	5%	1,000,560	14%
Europe-Russia	3,417,837	15%	3,370,815	1%
Russia	829,274	4%	651,823	27%
US	688,120	3%	629,585	9%
India	928,020	4%	798,074	16%
Others	3,848,354	16%	3,601,563	7%
Total	23,545,093	100%	22,421,784	5.0%

SOURCE: CIMB RESEARCH, MINISTRY OF TOURISM AND SPORTS

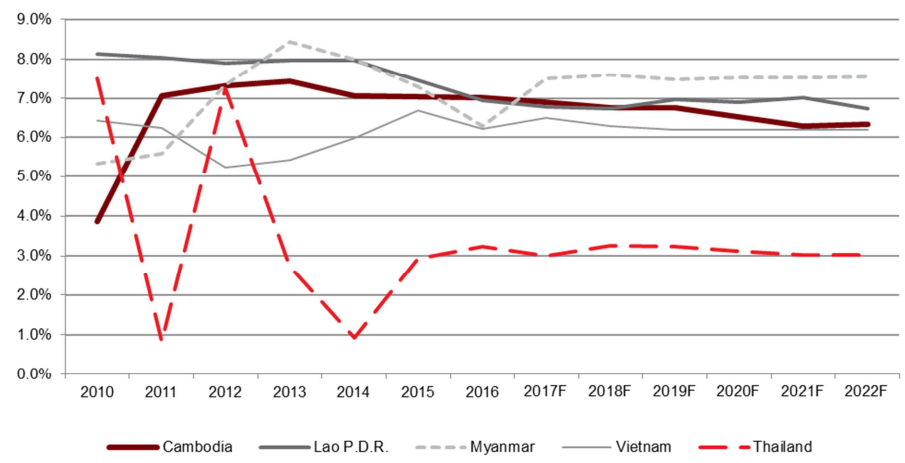
3.5 Growth opportunities in Cambodia, Laos, Myanmar and Vietnam (CLMV) market

SPA is currently in negotiations with its strategic partners to expand its footprint to the Cambodia, Laos, Myanmar and Vietnam (CLMV) market. We view CLMV as a market with high growth potential that offers significant business opportunities for SPA because of its geographical proximity, similar lifestyle with Thailand and growing tourism industry. SPA's expansion into this market could provide upside to our earnings forecasts.

According to the International Monetary Fund (IMF), the CLMV registered average GDP growth of 6% over the past five years (2012-16), double that of Thailand (3%). This trend is likely to continue in 2017-22F, according to the IMF. We think the spa and wellness industry in CLMV could be lucrative, given the recent influx of tourists and the low number of luxury spa operators in those countries.

SPA stated that it has three options for expansion into the CLMV market – joint venture, franchise or management contract. Management estimates investment cost of THB15m-20m/branch, similar to the cost of a branch expansion in Thailand.

Figure 41: GDP growth of Thailand and CLMV countries in 2010-22F



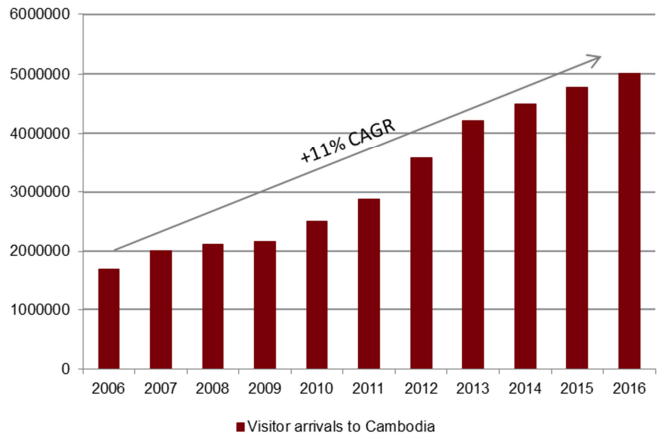
SOURCE: CIMB RESEARCH, IMF

Cambodia. This is the first of the CLMV countries that SPA will expand to, in our view. In Aug 2017, SPA established a new subsidiary in Cambodia for operation of the spa and massage business, as well as other related businesses and sale of spa products in the country. SPA plans to open the first Let's Relax Spa outlet in Cambodia by end-2017F in either Phnom Penh (highest population) or Siem Reap, with investment cost of THB20m.

We view Cambodia as a country with high growth potential, given its booming tourism industry. In 2016, the European Council on Tourism and Trade (EECT) chose Cambodia as "World's Best Tourism Destination" and awarded the country the "Favourite Cultural Destination" distinction. In 6M17, Cambodia's tourist arrivals growth was 12.8%, above Thailand's 4.4%. In 6M17, the highest number of tourist arrivals in Cambodia came from China (20%), followed by Vietnam (15%) and South Korea (7%). The number of Chinese tourist arrivals in Cambodia rose 15% from 461,761 in 6M16 to 529,967in 6M17.

The Cambodian government expects to attract around 7m (9% p.a. growth in 2017-20F) foreign tourists by 2020F, generating estimated revenue of around US$5bn that year. Given that the Let's Relax Spa brand is already well-recognised by Chinese and South Korean tourists, we believe SPA's entry into the growing Cambodian market presents a good opportunity to expand earnings.

Figure 42: International tourist arrivals in Cambodia (2006-16)



SOURCE: CIMB RESEARCH, MINISTRY OF TOURISM (MOT) CAMBODIA

Figure 43: Cambodia tourist arrivals and growth breakdown by country of residence in 6M17

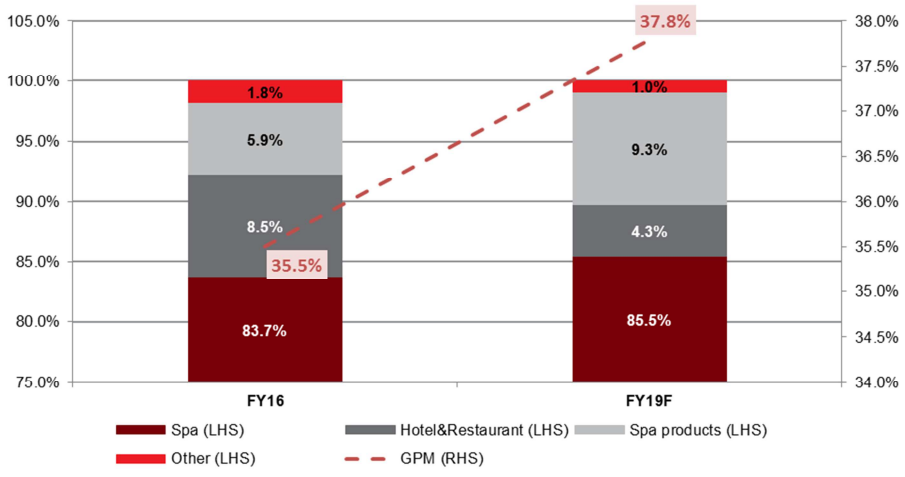
	6M17	6M17 % of total	6M16	%yoy
China	529,967	20%	461,761	14.8%
Vietnam	392,388	15%	378,737	3.6%
South Korea	190,310	7%	140,072	35.9%
Thailand	168,244	6%	152,296	10.5%
US	135,338	5%	103,387	30.9%
UK	89,350	3%	80,170	11.5%
Malaysia	78,482	3%	86,436	-9.2%
France	66,365	2%	67,033	-1.0%
Australia	45,727	2%	77,574	-41.1%
Other	966,508	36%	14,413	18.8%
Total	2,662,679	100%	2,360,932	12.8%

SOURCE: CIMB RESEARCH, MOT CAMBODIA

3.6 Potential margin expansion from increasing sales of spa products

The company aims to pay more attention to the spa products segment moving forward because it earns higher gross margins (GPM) of 50-60% in FY16 vs. SPA's average of 36%. As part of this process, SPA plans to upgrade the Blooming brand image to raise its brand value and pricing power. The company targets to expand spa products contribution from 5.9% of total revenue in FY16 to 10% by FY19F (our forecast is 9.3%).

Figure 44: SPA's segmented revenue vs. gross margin (GPM) in FY16 and FY19F, based on our estimates



SOURCE: CIMB RESEARCH, COMPANY

3.7 Potential value accretion from acquisitions

While our earnings forecasts do not include contribution from potential acquisitions, SPA's healthy balance sheet and strong cash flow support our view that SPA could enter into earnings-accretive M&A deals that have potential to create synergies. Management said it is currently in negotiations with an external party to acquire a number of spa-related businesses.

SPA's acquisition track record (including Tiger Eyes group and Baan Suan Massage) demonstrates its commitment to carrying out high-value M&A deals in order to gain market share and create synergies.

SPA's latest acquisitions were Tiger Eyes Trading Co Ltd and Tiger Eyes Education Co Ltd for total investment cost of THB1m in Jan 2017. Management thinks the deal enhances its spa product operations by allowing for vertical integration and value creation. Tiger Eyes Trading imports spa and beauty products from France, the UK, the US and Canada for distribution to spa operators and beauty centres in Thailand. The acquisition enables SPA to offer a wider range of products for sale and for use at its outlets, benefiting both the spa product and spa operation business segments. SPA's resulting larger product portfolio also lowers brand concentration risk for the spa products segment. Tiger Eyes Education operates a massage, spa and beauty training academy for Thai and foreign therapists. We see potential synergies between this business and SPA's traditional Thai massage school, supporting its branch network expansion and helping to control spa service quality.

3.8 Expanding customer base with additional services

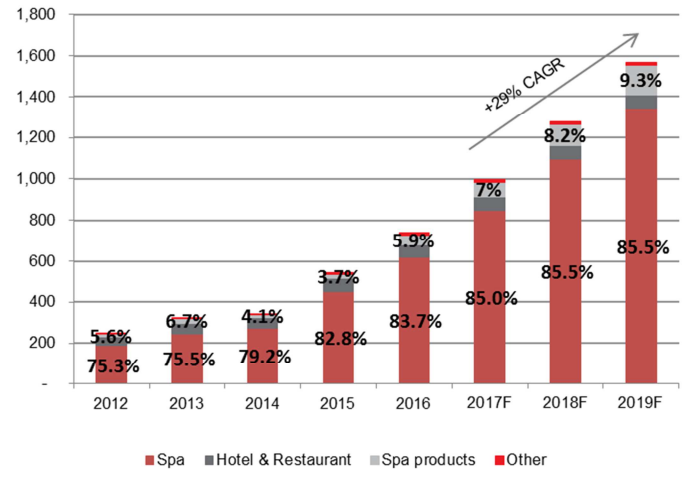
The company plans to offer more treatments moving forward, including nail spa services, in order to expand its customer base. With the nail services, the company's aims to give its customers, especially couples, more treatment choices. SPA aims to start offering nail services at two of its spa outlets in central Bangkok by 4Q17F.

4. Financials

4.1 Revenue and earnings forecasts

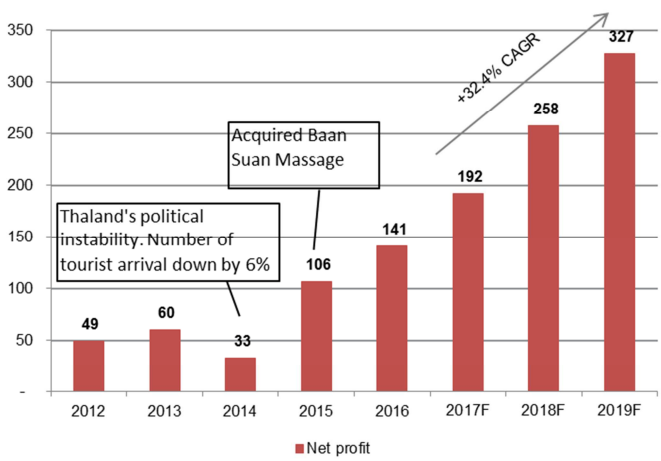
We forecast revenue and net profit CAGRs of 29% and 32.4%, respectively, for FY16-19F. Our FY17F revenue growth forecast of 36% is higher than the company's target of 30% because we expect solid SSSG of 12% this year. We believe SPA's revenue and earnings growth in FY17-19F would be supported by solid SSSG (8-12%), increasing number of branches, higher percentage of revenue from spa products and strong cost control. Hence, we expect gross and net margin improvement over FY17-19F.

Figure 45: Revenue by business segment (THB m)



SOURCE: CIMB RESEARCH, COMPANY

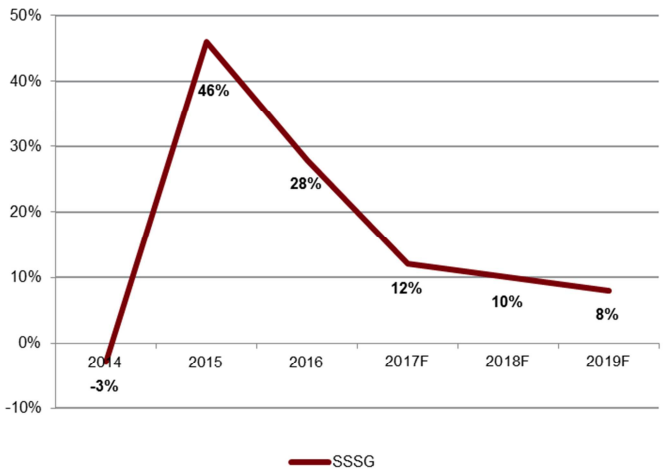
Figure 46: Net profit, based on our estimates (THB m)



SOURCE: CIMB RESEARCH, COMPANY

We project that SPA will open 2-3 Let's Relax Spa outlets in hotels over FY17-19F, as the company focuses on expansion in this model due to its lower investment cost vs. standalone outlets. We estimate this would increase the proportion of hotel spas as a percentage of SPA's total number of outlets from 6% in 2016 to 16% in FY19F. This, coupled with the rising proportion of revenue from spa products would raise SPA's GPM in FY17-19F, in our view.

Figure 47: SPA's SSSG, based on our estimates (FY14-19F)



SOURCE: CIMB RESEARCH, COMPANY

Figure 48: Number of branches, based on our estimates

Number of branches	2016	2017F	2018F	2019F
Let's Relax	18	23	28	33
RarinJinda	3	3	3	3
Baan Suan	8	11	13	15
Let's Relax Spa in hotels	2	4	7	10
Total	31	41	51	61
% of total branches				
Let's Relax	58%	56%	55%	54%
RarinJinda	10%	7%	6%	5%
Baan Suan	26%	27%	25%	25%
Let's Relax Spa in hotels	6%	10%	14%	16%

SOURCE: CIMB RESEARCH, COMPANY

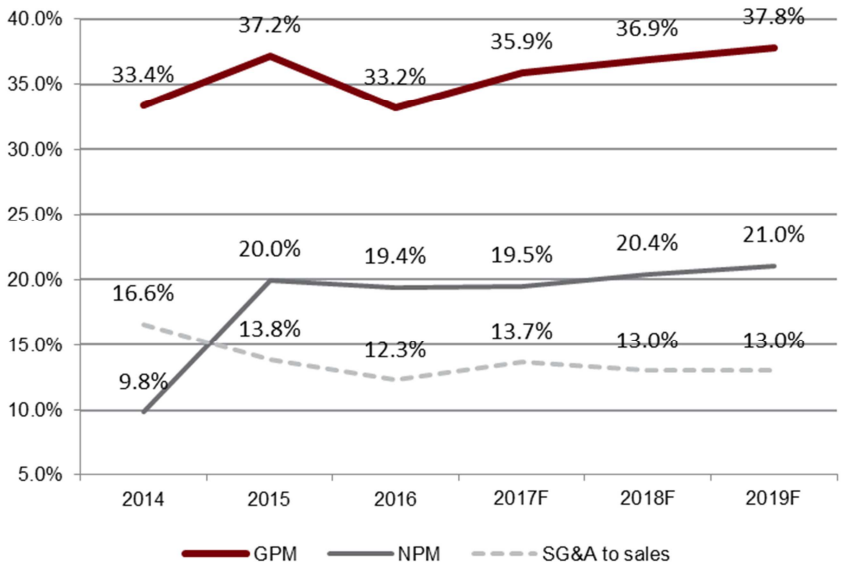
4.2 Rising profitability

We project that SPA's profit margins will increase gradually over the next three years supported by: 1) higher revenue contribution from spa products and hotel spas, which generated FY16 GPM of 50-60% and 45-50%, respectively, above the company historical 5-year average of 36% (FY12-16); and 2) rising payment per visit from increasing number of services and products.

We estimate that SPA will register a higher SG&A-to-sales ratio of 13.7% in FY17F (vs. 12.3% in FY16) due to the increase in the number of staff and salary expenses due to network expansion. However, we expect this ratio to moderate in FY18-19F, as we expect higher marketing and advertising expenses to be spread over an increasing number of stores.

As such, we project SPA's net margin (NPM) to gradually improve from 19.4% in FY16 to 21% in FY19F.

Figure 49: SPA's profit margins and SG&A-to-sales ratio, based on our estimates, in FY14-19F

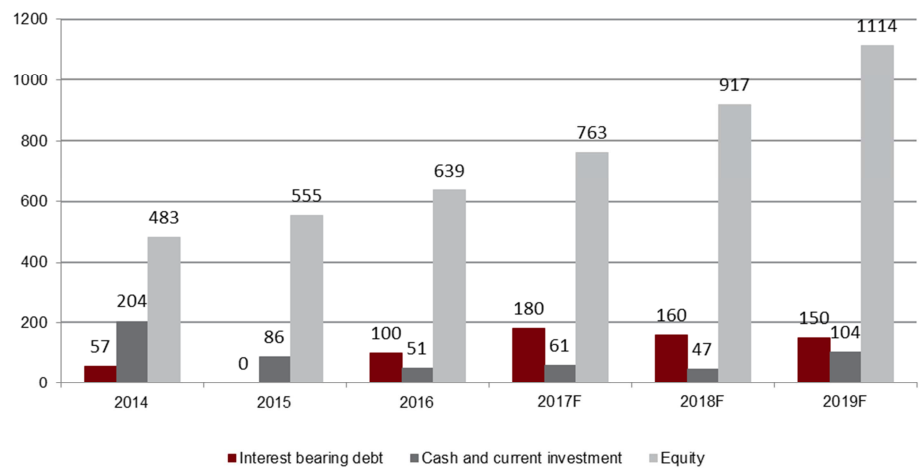


SOURCE: CIMB RESEARCH, COMPANY

4.3 Strong cash flow generation with healthy balance sheet

SPA is in a strong financial position, with minimal debt (net debt-to-equity ratio of 0.08x, cash of THB51m and operating cash flow of THB206m at end-FY16. The company guided that its cash in hand would be used for overseas expansion and future acquisitions.

Figure 50: SPA's capital structure (THB m)



SOURCE: CIMB RESEARCH, COMPANY

4.4 3Q17F results preview

We expect SPA to post record-high quarterly net profit of THB49m (US$1.5m) in 3Q17F (+22% yoy, +23% qoq). On a yoy basis, we expect 3Q17F net profit growth to be driven by solid SSSG of 10% and branch network expansion (12 new outlets opened in 4Q16-3Q17F). On a qoq basis, we expect 3Q17F net profit to surge by 23% due to favourable seasonal effects, as 2Q is typically low season and earnings are negatively affected by employee bonus payments.

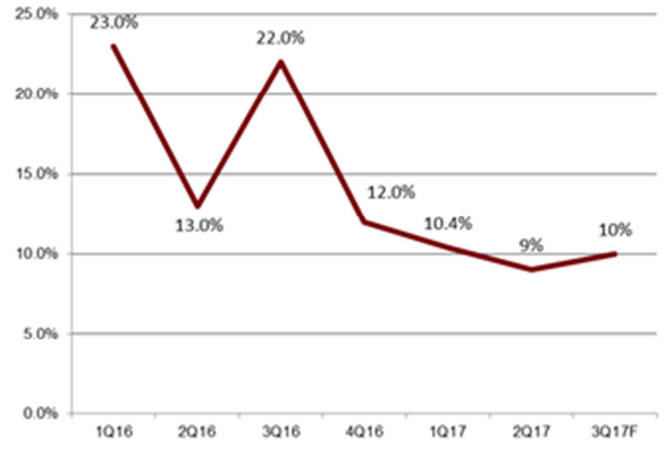
We expect 4Q17F net profit growth momentum to be stronger yoy and for SPA to register a new high for quarterly net profit due to the low base in 4Q16 from the mourning period for the late-King and government's crackdown on zero-dollar tours (cheap tour packages for Chinese tourists).

Figure 51: 3Q17F results preview

FYE Dec (THB m)	3Q17F	3Q16	%yoy	2Q17	%qoq	3Q17F	3Q16	FY17F	%yoy	
			chg		chg	cum	cum		chg	Comment
Revenue	254	195	*30%*	229	*11%*	710	546	1,000	*35%*	Increase due to positive SSSG and expanded branches
Operating costs	175	132	*33%*	162	*8%*	491	376	631	*30%*	
EBITDA	79	64	*24%*	67	*17%*	219	170	369	*45%*	
EBITDA margin (%)	*31%*	*33%*		*29%*		*31%*	*31%*	*37%*		Decreasing EBITDA margin effected from higher SG&A to sales
Depn & amort.	19	14	*38%*	19	*2%*	55	40	210	*45%*	due to the increase in number and salary of staff
EBIT	60	50	*20%*	49	*23%*	164	130	234	*41%*	
Interest expense	1	1	*179%*	1	*8%*	4	1	6	*257%*	
Interest & invt inc	0	0	*0%*	0	*0%*	0	0	0	*0%*	
Exceptionals	0	0	*0%*	0	*0%*	0	0	0	*0%*	
Pretax profit	62	50	*22%*	50	*23%*	168	131	228	*39%*	
Tax	-10	-9	*7%*	-7	*35%*	-26	-23	37	*61%*	
Tax rate (%)	*16%*	*18%*		*14%*		*15%*	*18%*	*16%*		
Minority interests	0	0	*0%*	0	*0%*	0	0	0	*0%*	
Net profit	49	40	*21%*	40	*22%*	135	106	192	*36%*	
Core net profit	49	40	*21%*	40	*22%*	135	106	192	*36%*	
EPS (THB)	0.09	0.07	*21%*	0.07	*22%*	0.24	0.19	0.34	*36%*	
Core EPS (THB)	0.09	0.07	*21%*	0.07	*22%*	0.24	0.19	0.34	*36%*	Increase due to positive SSSG and expanded branches

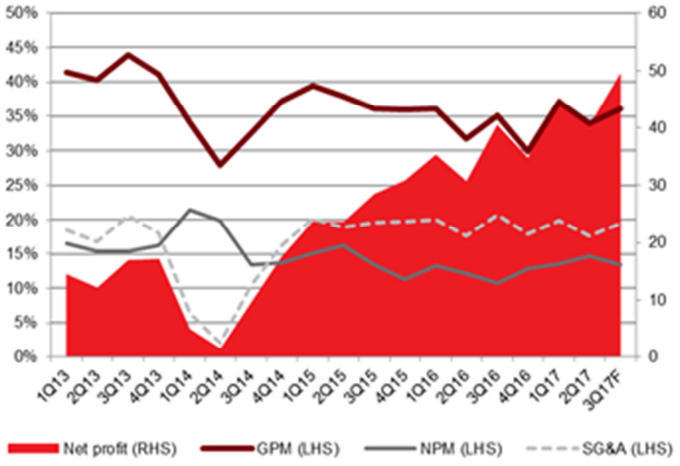
SOURCE: CIMB RESEARCH, COMPANY

Figure 52: Quarterly SSSG (% yoy)



SOURCE: CIMB RESEARCH, COMPANY

Figure 53: SPA's quarterly net profit (THB m) and profitability (%)



SOURCE: CIMB RESEARCH, COMPANY

5. Key risks

Fluctuations in the tourism industry

Given that the majority of SPA's customers are tourists, fluctuations in the number of tourist arrivals in Thailand would have significant impact on its operational performance. There are many factors beyond the company's control that could negatively affect travel to Thailand, including political instability, terrorism, disease epidemics, natural disasters and global economic recessions.

To manage this risk, the company plans to increase the proportion of domestic customers and reduce its reliance on the tourist group of customers. SPA intends to achieve this by the expansion of its Baan Suan Massage outlets.

Shortage of therapists

In our view, therapist staff are the most critical resource for the spa business. Therefore, a shortage of therapists could have negative impact on the company's operations and future plans.

SPA attempts to reduce this risk by ensuring therapists are not allocated an excessive number of customers and by providing adequate staff welfare benefits. In addition, the company operates its own massage training school to train therapists to accommodate its network expansion and replace personnel who resign. As such, we estimate the company's therapist staff turnover rate of 8-10% is significantly lower than the industry of 15-20%.

6. SWOT analysis

In our view, a key strength that would help to sustain SPA's earnings growth momentum over the next three years is its fully-integrated spa value chain, which allows the company to control spa service quality and improve operating efficiency. In addition, SPA has the highest number of outlets in Thailand among local spa operators, enabling it to enjoy superior profit margins due to economies ofs scale.

We think SPA's key weakness is its heavy dependence on the tourist industry. SPA plans to diversify its customer portfolio through the expansion of Baan Suan Massage stores, which target domestic customers.

Given that spa treatments are discretionary services, global/Thailand economic slowdown is the key threat to SPA's earnings, in our view. Furthermore, there is intense competition in the spa industry because of the low barriers to entry.

However, we think the threats would be mitigated by SPA's diversified branding and pricing strategies. The company has three brands of spa services that target different customer groups, which we believe would allow SPA to gain access to a wider range of customers than its competitors. In terms of pricing, SPA's pricing is lower than its competitors at each level but offer comparable quality to rivals in order to attract price-sensitive consumers at each level.

Figure 54: SWOT analysis

Strengths	Weaknesses
1. Fully-integrated business, with high operational efficiency	1. Low barriers to entry.
2. Highest number of branches in Thailand – lower cost from economies of scale and high-traffic locations.	2. Highly dependent on tourism industry.
Opportunities	**Threats**
1. Booming tourism industry in Thailand.	1. Highly-competitive market.
2. Rising wellness tourism trend globally.	2. Weak economy
3. Fast-growing spa industry due to the changes in consumer lifestyle.	
4. Fragmented spa market in CLMV countries.	

SOURCE: CIMB RESEARCH, COMPANY

7. Valuation and recommendation

Initiate coverage with Add

We initiate coverage on SPA with an Add rating and target price of THB19.40 based on DCF valuation (WACC of 6.5% and terminal growth rate of 2.5%).

Our target price implies 33.8x FY19F P/E, slightly above the historical 5-year average of 32x. We believe the above-historical average target P/E is justified by our strong EPS CAGR projection of 32.4% for FY16-19F (above the the 22.4% average of local peers in the tourism sector) and FY17-19F ROE of 27.3-32.2% (vs. the 13.8-15.6% average of its local peers).

Figure 55: DCF calculation and target price

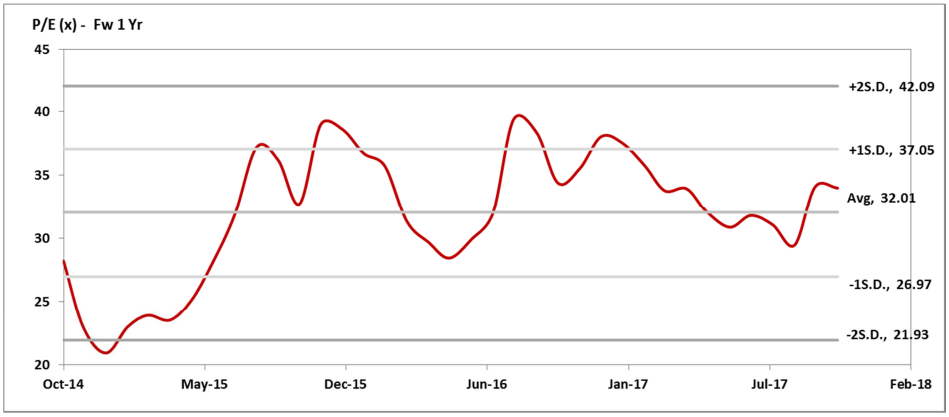
Year (THB m)	2018F	2019F	2020F	2021F	2022F	2023F
Operating profit	318	401	450	503	539	589
Depreciation and Amortisation	91	105	114	116	116	114
EBITDA	409	505	563	619	654	703
Provision for income tax (P&L)	-52.8	-67.0	-75.5	-84.5	-90.8	-99.3
Notional cash taxes on ungeared operations	-1.4	-1.2	-1.2	-1.1	-1.0	-0.9
Changes in working capital	12	12	2	9	8	9
Operating cash flow	366	449	489	542	571	611
CAPEX	-230	-230	-150	-120	-100	-100
Operating Free Cash Flow (OpFCF)	136	219	339	422	471	511
Terminal Value						13,092
PV of Free Cash Flow	1,624					
PV of Terminal Value	9,553					
Enterprise value	11,177					
Add: Cash&Cash equivalent	47					
Less: Debt	-160					
Minorities	-					
Equity value	11,064					
DCF-based target price (THB)	**19.40**					
WACC (%)	**6.5%**					
Risk-free rate	3.0%					
Risk premium	5.0%					
Beta	0.9					
Cost of equity	7.6%					
Weigth of equity	0.7					
Pre-tax cost of debt	4.0%					
Cost of debt	3.2%					
Weigth of debt	0.3					
Terminal growth (%)	2.5%					
Number of years	5					

SOURCE: CIMB RESEARCH

SPA is now trading at 35.6x FY18F P/E, above its historical 5-year average of 32x and local tourism peers average of 27.8x. However, we believe SPA deserves to trade at premium over local peers, given its strong FY17-19F EPS growth of 27-36% and superior profitability (based on our estimates). We note that SPA traded at 39.4x forward P/E in FY16 when it delivered EPS growth of 32.4%.

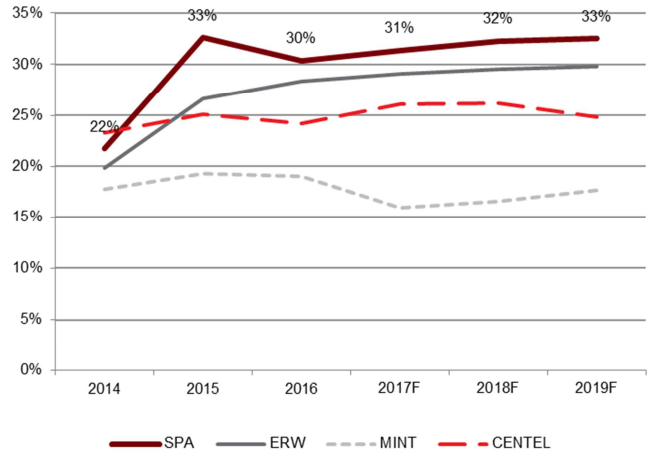
In our view, SPA's current share price is attractive in the long run, as its FY19F P/E of 28x is lower than the historical 5-year average of 32x. We believe SPA deserves to trade at more than 1 s.d. above its historical 5-year average P/E due to its superior EPS CAGR of 32.4% during FY16-19F (vs. the 22.4% average of its domestic tourism peers) and bright sales outlook.

Figure 56: SPA's 1-year forward P/E



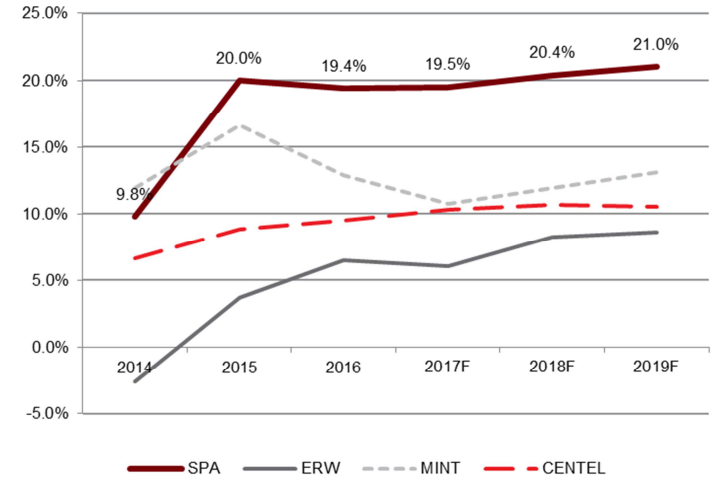
SOURCE: CIMB RESEARCH, COMPANY

Figure 57: EBITDA margin comparison – tourism sector



SOURCE: CIMB RESEARCH, COMPANY

Figure 58: Net margin comparison – tourism sector



SOURCE: CIMB RESEARCH, COMPANY

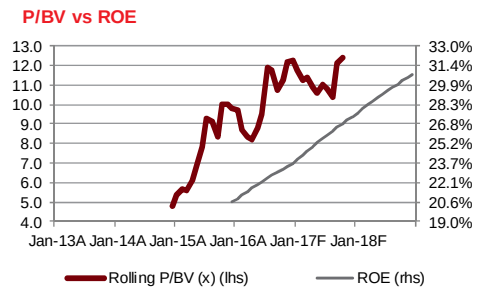
Figure 59: Sector comparison

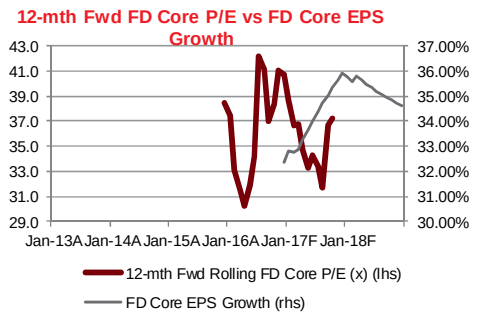
Company	Bloomberg Ticker	Recom.	Price (local curr)	Target price (local curr)	Market Cap (US$ m)	P/E (x) FY17F	P/E (x) FY18F	P/E (x) FY19F	3-year EPS CAGR (%)	P/BV (x) FY17F	P/BV (x) FY18F	P/BV (x) FY19F	Recurring ROE (%) FY17F	Recurring ROE (%) FY18F	Recurring ROE (%) FY19F	Div. Yield FY17F	Div. Yield FY18F
Thailand - Tourism																	
Siam Wellness Group	SPA TB	Add	16.10	19.40	276.1	47.9	35.6	28.0	32.4%	12.0	10.0	8.2	27.3%	30.7%	32.2%	0.8%	1.1%
Central Plaza Hotel	CENTEL TB	Add	45.50	52.00	1,845	29.5	25.9	22.3	16.7%	5.3	4.8	4.2	18.2%	19.4%	20.2%	1.5%	1.7%
Minor International	MINT TB	Add	42.75	52.50	5,670	32.8	27.9	23.6	24.1%	4.0	3.6	3.3	13.0%	13.7%	14.7%	1.0%	1.2%
The Erawan Group	ERW TB	Not Rated	7.10	NA	534.2	37.5	32.2	28.2	22.1%	3.3	3.1	2.9	9.2%	10.1%	10.7%	1.1%	1.3%
Tourism average					**8,325**	**32.6**	**27.8**	**23.7**	**22.4%**	**4.0**	**3.9**	**3.5**	**13.8%**	**14.6%**	**15.6%**	**1.2%**	**1.3%**
Thailand- Consumer discretionary																	
Beauty Community	BEAUTY TB	Add	18.40	15.60	1,659	52.0	42.4	35.9	33.2%	38.7	35.5	32.3	76.5%	87.3%	94.2%	1.7%	2.1%
Mc Group	MC TB	Reduce	15.70	12.30	377.2	20.4	16.7	16.0	-1.9%	3.1	3.1	3.0	14.8%	18.5%	19.1%	5.7%	5.7%
Consumer Discretionary average					**2,036**	**40.4**	**32.9**	**29.1**	**16.1%**	**12.2**	**12.0**	**11.5**	**30.2%**	**36.9%**	**40.3%**	**2.5%**	**2.8%**
Global – Wellness																	
Planet Fitness	PLNT US	Not Rated	25.90	NA	2,547	33.1	27.1	24.2	69.8%	na	na	30.8	-64.8%	-145.0%	350.7%	na	na
Basic-Fit NV	BFIT NA	Not Rated	19.50	NA	1,237	42.8	26.8	18.3	na	3.4	3.1	2.7	8.0%	12.0%	15.9%	na	na
ClubCorp Holdings	MYCC US	Not Rated	17.10	NA	1,121	58.5	26.4	33.8	110.0%	6.1	5.4	3.7	11.7%	21.6%	13.0%	3.1%	3.0%
Ardent Leisure Group	AAD AU	Hold	764.00	1.70	684.1	56.6	33.8	22.0	-27.9%	1.7	1.6	1.6	3.5%	5.7%	7.8%	2.1%	2.3%
Gokurakuyu Holdings	2340 JP	Not Rated	764.00	NA	119.6	59.7	54.5	59.5	-8.9%	na	na	na	na	na	na	0.8%	0.8%
Gym Group	GYM LN	Not Rated	2.17	NA	365.5	29.0	23.5	18.7	36.2%	na	na	na	na	na	na	0.6%	0.7%
Gesundheitswelt Chiemgau AG	JTH GR	Not Rated	280.00	NA	24.36	na	na	na	na	na	na	na	na	na	na	na	na
Talwalkars Better Value Fitness	TALW IN	Not Rated	283.45	NA	129.7	13.9	10.2	8.9	14.2%	1.7	1.5	1.3	12.3%	15.4%	15.1%	0.7%	0.6%
Groupe Partouche SA	PARP FP	Not Rated	31.50	NA	353.8	16.4	13.8	12.1	33.4%	0.9	0.9	0.8	5.8%	6.5%	6.9%	na	na
International average					**6,582**	**35.4**	**24.9**	**21.6**	**68.1%**	**5.2**	**4.6**	**3.7**	**15.3%**	**20.0%**	**19.1%**	**1.3%**	**1.4%**
Average (all)					**16,943**	**34.4**	**27.2**	**23.4**	**33.4%**	**4.8**	**4.5**	**3.9**	**15.2%**	**17.5%**	**17.9%**	**1.4%**	**1.5%**

Note: As of 27 Oct 2017

SOURCE: CIMB RESEARCH, BLOOMBERG

BY THE NUMBERS





Profit & Loss

(THBm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Net Revenues	**533.2**	**725.2**	**984.6**	**1,264.7**	**1,554.9**
Gross Profit	**237.3**	**295.8**	**428.6**	**558.1**	**692.6**
Operating EBITDA	**163.5**	**206.8**	**293.7**	**393.7**	**490.5**
Depreciation And Amortisation	(39.0)	(55.3)	(74.7)	(91.1)	(104.9)
Operating EBIT	**124.5**	**151.5**	**219.0**	**302.5**	**385.6**
Financial Income/(Expense)	(1.2)	(1.6)	(5.6)	(6.8)	(6.2)
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	10.3	13.9	15.0	15.0	15.0
Profit Before Tax (pre-EI)	**133.6**	**163.8**	**228.4**	**310.7**	**394.4**
Exceptional Items					
Pre-tax Profit	**133.6**	**163.8**	**228.4**	**310.7**	**394.4**
Taxation	(27.1)	(22.9)	(36.8)	(52.8)	(67.0)
Exceptional Income - post-tax					
Profit After Tax	**106.5**	**141.0**	**191.6**	**257.9**	**327.3**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**106.5**	**141.0**	**191.6**	**257.9**	**327.3**
Recurring Net Profit	106.5	141.0	191.6	257.9	327.3
Fully Diluted Recurring Net Profit	**106.5**	**141.0**	**191.6**	**257.9**	**327.3**

Cash Flow

(THBm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
EBITDA	163.5	206.8	293.7	393.7	490.5
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3.8)	20.4	0.9	11.5	11.9
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	116.6	3.2	0.0	0.0	0.0
Net Interest (Paid)/Received	(1.2)	(1.6)	(5.6)	(6.8)	(6.2)
Tax Paid	(27.1)	(22.9)	(36.8)	(52.8)	(67.0)
Cashflow From Operations	**248.0**	**206.0**	**252.3**	**345.6**	**429.2**
Capex	(159.5)	(274.2)	(250.0)	(230.0)	(230.0)
Disposals Of FAs/subsidiaries	(41.0)	(16.7)	(18.6)	(16.8)	(13.6)
Acq. Of Subsidiaries/investments	73.8	8.2	(4.1)	2.0	(1.0)
Other Investing Cashflow	(56.5)	6.8	1.7	(0.9)	0.4
Cash Flow From Investing	**(183.3)**	**(275.9)**	**(271.0)**	**(245.6)**	**(244.2)**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(42.8)	(57.0)	(76.6)	(103.2)	(130.9)
Preferred Dividends					
Other Financing Cashflow	(65.7)	99.5	80.2	(20.1)	(10.0)
Cash Flow From Financing	**(108.5)**	**42.5**	**3.5**	**(123.3)**	**(140.9)**
Total Cash Generated	(43.8)	(27.4)	(15.2)	(23.3)	44.1
Free Cashflow To Equity	**64.7**	**(69.9)**	**(18.7)**	**99.9**	**185.0**
Free Cashflow To Firm	**65.9**	**(68.3)**	**(13.1)**	**106.7**	**191.2**

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS… cont'd

Balance Sheet

(THBm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Cash And Equivalents	86.5	50.9	60.6	47.0	103.8
Total Debtors	4.1	8.6	8.6	11.1	13.6
Inventories	13.8	20.2	19.8	25.2	30.7
Total Other Current Assets	9.2	8.4	11.3	14.6	17.9
Total Current Assets	**113.6**	**88.1**	**100.4**	**97.8**	**166.0**
Fixed Assets	480.0	698.9	893.6	1,048.9	1,187.8
Total Investments	0.0	0.0	0.0	0.0	0.0
Intangible Assets	25.4	28.1	26.7	27.4	27.1
Total Other Non-Current Assets	36.0	50.0	50.5	50.2	50.4
Total Non-current Assets	**541.4**	**777.0**	**970.8**	**1,126.5**	**1,265.2**
Short-term Debt	0.0	0.0	0.0	0.0	0.0
Current Portion of Long-Term Debt	0.0	20.0	20.0	10.0	10.0
Total Creditors	39.1	70.4	70.9	90.1	110.0
Other Current Liabilities	36.3	30.0	31.7	31.0	31.6
Total Current Liabilities	**75.4**	**120.4**	**122.7**	**131.2**	**151.6**
Total Long-term Debt	0.0	80.0	160.0	150.0	140.0
Hybrid Debt - Debt Component	0.0	0.0	0.0	0.0	0.0
Total Other Non-Current Liabilities	10.9	11.4	10.9	11.1	11.0
Total Non-current Liabilities	**10.9**	**91.4**	**170.9**	**161.1**	**151.0**
Total Provisions	13.8	14.4	15.0	14.7	14.9
Total Liabilities	**100.1**	**226.2**	**308.6**	**307.0**	**317.4**
Shareholders' Equity	554.9	638.9	762.7	917.4	1,113.8
Minority Interests					
Total Equity	**554.9**	**638.9**	**762.7**	**917.4**	**1,113.8**

Key Ratios

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue Growth	57.6%	36.0%	35.8%	28.4%	22.9%
Operating EBITDA Growth	139%	26%	42%	34%	25%
Operating EBITDA Margin	30.7%	28.5%	29.8%	31.1%	31.5%
Net Cash Per Share (THB)	0.15	-0.09	-0.21	-0.20	-0.08
BVPS (THB)	0.97	1.12	1.34	1.61	1.95
Gross Interest Cover	106.2	96.7	39.1	44.5	62.2
Effective Tax Rate	20.3%	14.0%	16.1%	17.0%	17.0%
Net Dividend Payout Ratio	40.1%	40.4%	40.0%	40.0%	40.0%
Accounts Receivables Days	4.29	3.20	3.19	2.84	2.90
Inventory Days	13.14	14.51	13.13	11.61	11.83
Accounts Payables Days	49.40	46.68	46.38	41.59	42.35
ROIC (%)	28.1%	26.4%	25.7%	27.7%	30.3%
ROCE (%)	22.3%	22.9%	25.6%	29.5%	32.5%
Return On Average Assets	17.1%	18.7%	20.3%	23.0%	25.0%

Key Drivers

(THBm)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
No. of stores (Thailand)	21	31	40	50	60
No. of stores (Overseas)	-	1	1	1	1
SSSG (%)	46.0%	28.0%	12.0%	10.0%	8.0%
GPM (%)	37.2%	33.2%	35.9%	36.9%	37.8%
NPM (%)	20.0%	19.4%	19.5%	20.4%	21.0%

SOURCE: CIMB RESEARCH, COMPANY DATA

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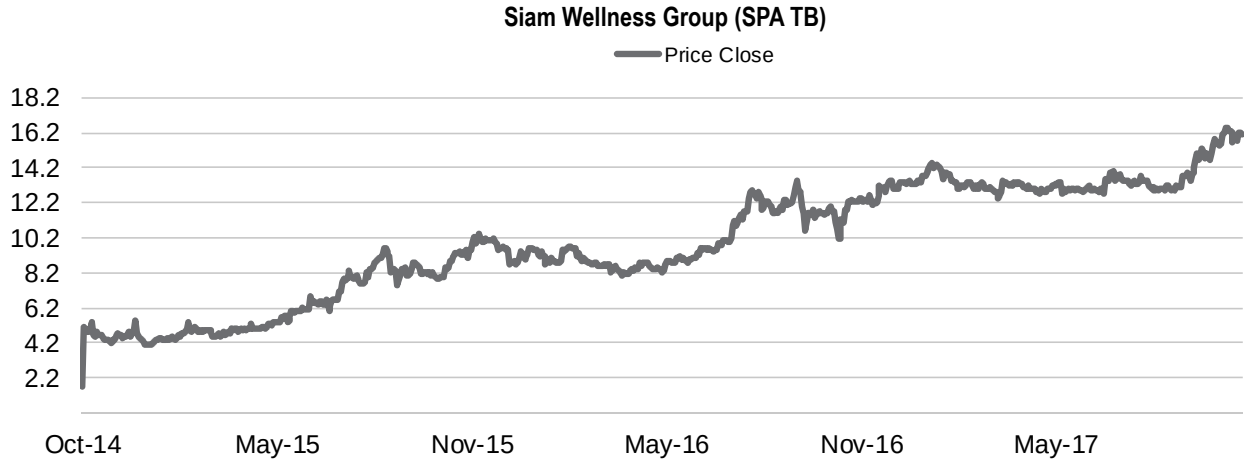

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017

AAV – Very Good, n/a, **ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AMATA** – Very Good, n/a, **ANAN** – Excellent, n/a, **AOT** – Excellent, Declared, **AP** – Excellent, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Declared, **BCP** - Excellent, Certified, **BCPG** – Very Good, n/a, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, , **BGRIM** – not available, n/a, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Declared, **BLA** – Very Good, Certified, **BPP** – Good, n/a, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **GFPT** - Excellent, Declared, **GGC** – not available, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Excellent, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **ICHI** – Excellent, n/a, **III** – not available, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Very Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, n/a, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Very Good, Declared, **MALEE** – Very Good, n/a, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Very Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** – Very Good, Declared, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, n/a, **TCAP** – Excellent, Certified, **THAI** – Very Good, n/a, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Excellent, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Good, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – not available, n/a, **TRUE** – Excellent, Declared, **TTW** – Very Good, n/a, **TU** – Excellent, Declared, **TVO** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of October 28, 2016) are categorized into:

- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

CIMB Recommendation Framework

Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.