

Thailand Company Update

Siam Wellness Group

Bloomberg: SPA TB | Reuters: SPA.BK

Refer to important disclosures at the end of this report

Government Savings BankDBS Group

11 Mar 2021

BUY

Last Traded Price (10 Mar 2021): Bt9.05 (SET : 1,573.05)

Price Target 12-mth: Bt10.00 (10% upside) (Prev Bt8.60)

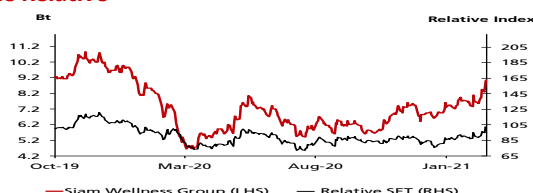
Analyst

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What's New

- Recap of weak 2020 results due to the COVID-19 pandemic
- 1Q21 outlook remains soft due to new wave of COVID-19; q-o-q improvement expected from 2Q21 onwards
- Balance sheet remains healthy with potential new businesses
- Maintain BUY with higher DCF-based TP of Bt10

Price Relative



Forecasts and Valuation

FY Dec (Btm)	2019A	2020A	2021F	2022F
Revenue	1,384	427	778	1,196
EBITDA	418	16.7	125	410
Pre-tax Profit	291	(217)	(108)	172
Net Profit	245	(202)	(86.7)	138
Net Pft (Pre Ex.)	244	(196)	(86.7)	138
Net Pft Gth (Pre-ex) (%)	18.6	nm	55.8	nm
EPS (Bt)	0.43	(0.4)	(0.1)	0.16
EPS Pre Ex. (Bt)	0.43	(0.3)	(0.1)	0.16
EPS Gth Pre Ex (%)	19	nm	71	nm
Diluted EPS (Bt)	0.43	(0.4)	(0.1)	0.16
Net DPS (Bt)	0.16	0.0	0.0	0.06
BV Per Share (Bt)	1.99	1.59	0.89	0.99
PE (X)	21.0	nm	nm	56.1
PE Pre Ex. (X)	21.2	nm	nm	56.1
P/Cash Flow (X)	15.4	67.3	111.5	27.7
EV/EBITDA (X)	12.4	325.3	66.2	20.1
Net Div Yield (%)	1.7	0.0	0.0	0.7
P/Book Value (X)	4.6	5.7	10.2	9.1
Net Debt/Equity (X)	0.0	0.3	0.7	0.6
ROAE (%)	23.4	(19.8)	(10.4)	17.2
Earnings Rev (%):		27	72	11
Consensus EPS (Bt):		(0.2)	(0.1)	0.16
Other Broker Recs:		B: 5	S: 3	H: 0

Source of all data on this page: Company, DBSVTH, Bloomberg Finance L.P.

On the path to recovery

Investment Thesis:

Leader in spa industry. SPA is the largest spa & wellness service provider in Thailand by revenue. Its brands are well recognised among foreign and Thai customers, especially Let's Relax – the key brand that SPA is focusing on for its future expansion. It is also a prime beneficiary of Thailand's tourism activities accounting for c.70% of its revenue. Growth of international tourist arrivals expected over the long term bodes well for SPA's growth prospects. However, due to the global COVID-19 pandemic since late 1Q20, SPA's performance has been adversely affected. The company posted losses for the first time in 2020.

Losses to persist in FY21F; expected to turn profitable from FY22F onwards. Once fears of the pandemic diminish, we expect international tourist arrivals to rebound in late FY21F. Over the long term, we expect SPA's profits to be driven by; i) store expansion, both domestically and globally (via its asset-light model), ii) higher same-store sales growth (SSSG), iii) diversification by rolling out new service stores, and iv) improving margins.

Long-term benefits from mega trends. We believe its services, including spa and wellness, will be one of the future mega consumer trends with rapid growth potential. Alongside Thailand's growing tourism sector, SPA should also benefit given that the bulk of its revenue is from foreign tourists.

Valuation:

Our target price (TP) is based on discounted cash flow (DCF) (weighted average cost of capital (WACC) 8.3%, terminal growth 2.5%).

Where we differ:

We have a more conservative view on SPA's SSSG in FY22 and profit margins. As a result, our FY21F forecasts are lower than the street's.

Key Risks to Our View:

A sharp drop in international tourist arrivals, economic slowdown and more intense competition are some of the key risks.

At A Glance

Issued Capital (m shrs)	855
Mkt. Cap (Btm/US\$m)	7,738 / 252
Major Shareholders (%)	
Jiravanstit's Family	17.3
Wiboon Utsahajit	11.1
Pranee Suphawatanakiat	9.3
Free Float (%)	55.8
3m Avg. Daily Val (US\$m)	1.1

GIC Industry: Consumer Discretionary / Travel & Leisure



Live more, Bank less

WHAT'S NEW

Bottoming out in 1Q21

First losses since initial public offering (IPO): SPA posted a loss of Bt215m (vs net profit of Bt246m) in 2020 mainly due to the COVID-19 pandemic which led to a plunge in inbound tourists in 2020, from 39.8m in 2019 to 6.7m in 2020. Given that c.70% of SPA's revenue is from foreign tourists, its SSSG dropped 67% y-o-y. SPA has continued with measures to control costs including pay cuts and rental negotiations. However, this has not been sufficient to cover its revenue drop. The company's earnings were understated by Bt20m compared to pre-Thai Financial Reporting Standard 16 (TFRS 16). At end-2020, the company operated a total of 70 stores including five overseas stores (vs 63 stores at end-2019).

Expected to bottom out in 1Q21 before improving q-o-q from 2Q21 onwards: After the emergence of new COVID-19 clusters in Thailand in late December 2020, the Centre for COVID-19 Situation Administration (CCSA) announced several measures to contain the outbreak. In January 2021, SPA had to temporarily shut down some of its branches but reopened some stores in February 2021. Currently, c.70% of SPA's branches have reopened. The branches that remain closed are mostly located in tourist areas or in hotels that have not been reopened.

With the new pandemic wave, we expect SPA's performance to remain weak in 1Q21 before improving q-o-q in terms of revenue from 2Q21 onwards. This is due to the resumption of local activities and stronger recovery expected in 2H21 due to the gradual recovery of inbound tourism. The Thai government is now planning to reduce the quarantine period from 14 to 7 days for vaccinated and COVID-19-free foreign tourists from 1 April 2021. It may lift quarantine measures completely from 1 October 2021 if Thailand achieves its vaccination target by then. The relaxation of entry restrictions is pending approval by CCSA.

Balance sheet remains strong: At end 2020, SPA's net gearing was still at very low levels of 0.3x (excluding finance lease under TFRS16). The company had cash on hand of Bt115m along with credit facility and additional soft loan credit from the Government Savings Bank (GSB) totaling c. Bt100m, while its current cash burn rate per month is less than Bt10m. We believe that the company will not face any financial difficulties over the short to medium term. It does not have any plans to raise capital at the moment.

Potential upsides from hemp and new businesses:

According to its management, SPA is interested in hemp and cannabis related businesses. It has been preparing to launch spa treatments and products related to hemp and cannabis. Roll outs are now pending the government's green light. The company believes that these products will excite the market and draw new customers.

The company is also planning to launch new wellness businesses, mainly focusing on local guests in 2H21. SPA believes that its new business will receive the good feedback from customers due to the rising popularity of the wellness segment. This will help boost the company's revenue from 2H21 onwards. However, further details on this new business will only be disclosed to the public at a later date. Currently, we have not factored SPA's hemp and cannabis products as well as the new business, all of which could provide potential upside.

Fine-tune FY21/22F earnings forecast, based on impact of new pandemic wave. We have reflected the softer-than-expected results in 2020 mainly on the higher-than-expected costs. In 2021, we assume a more conservative earnings before interest and taxes (EBIT) margin. We believe that the company's rental discount might drop from 2Q21 onwards after the COVID-19 pandemic eases. In 2021, we have assumed a more positive EBIT margin on better cost leverage as the company remains focused on cost controls. We are now pencilling in deeper negative SSSG numbers and EBIT margins (changes summarised in the table below) in our forecast models.

Key assumption revisions

Growth	FY21F		FY22F	
	Old	New	Old	New
SSSG – overall	34%	34%	45%	42%
EBIT margin	(8.1%)	(12.6%)	13.7%	14.8%

Source: Company, DBS Vickers

Reiterate BUY call with higher TP of Bt10.0. After revising our earnings forecasts, our DCF-based TP inches up to Bt10.0. We believe that the market has priced in SPA's soft performance, as its share price is still a laggard compared to pre-COVID levels. In the long term, we believe the company should be able to resume its steady earnings growth alongside the expected recovery of tourism activities. Given the potential upside, we maintain our BUY call on SPA.

Company Background

SPA provides spa services to both local Thais and foreign customers under its brands "Rarinjinda Wellness Spa", "Let's Relax" and "Baan Suan Massage". In late 2018, the company added new services under the brands "Stretch Me by Let's Relax" (stretching services) and "Face Care by Let's Relax" (facial services).

Historical PE and PB bands



Source: Bloomberg Finance L.P., DBSVTH estimates

Quarterly / Interim Income Statement (Btm)

FY Dec	4Q2019	3Q2020	4Q2020	% chg yoy	% chg qoq
Revenue	338	76.2	81.4	(75.9)	6.7
Cost of Goods Sold	(227)	(97.8)	(127)	(44.2)	29.3
Gross Profit	111	(21.6)	(45.1)	nm	(109.3)
Other Oper. (Exp)/Inc	(32.8)	(30.4)	(37.5)	14.2	23.4
Operating Profit	78.2	(51.9)	(82.6)	(205.7)	59.1
Other Non Opg (Exp)/Inc	5.47	0.53	1.86	(66.0)	252.5
Associates & JV Inc	0.0	0.0	0.0	nm	nm
Net Interest (Exp)/Inc	(2.2)	(2.7)	(4.6)	(105.6)	(68.3)
Exceptional Gain/(Loss)	1.32	0.0	0.0	nm	nm
Pre-tax Profit	82.7	(54.1)	(85.3)	nm	(57.6)
Tax	(13.7)	(0.8)	14.4	(205.3)	(1,870.7)
Minority Interest	0.12	0.0	0.0	(99.7)	nm
Net Profit	69.2	(55.0)	(71.0)	nm	29.1
Net Profit bef Except.	67.8	(55.0)	(71.0)	nm	29.1
EBITDA	229	142	208	(8.9)	46.8
Margins (%)					
Gross Margins	32.9	(28.3)	(55.5)		
Opg Profit Margins	23.1	(68.1)	(101.5)		
Net Profit Margins	20.5	(72.1)	(87.2)		

Source: Company, DBS Vickers

Key Assumptions

FY Dec	2018A	2019A	2020A	2021F	2022F
Sales (Bt m)	1,134	1,384	427	778	1,196
Gross margin (%)	33.9	31.9	-18.7	4.4	25.6
SGA/Sales (%)	13.4	11.6	27.8	17.0	10.8
Effective tax rate	15%	16%	1%	20%	20%
Net profit margin (%)	17.8	17.5	-48.0	-10.9	11.3

Segmental Breakdown

FY Dec	2018A	2019A	2020A	2021F	2022F
Revenues (Btm)					
Spa&wellness	987	1,263	349	691	1,100
Hotel&Food	68	51	17	17	19
Others	70	70	61	70	77
Total	1,134	1,384	427	778	1,196
(%)					
Spa&wellness	87.0%	91.3%	81.7%	88.8%	92.0%
Hotel&Food	6.0%	3.7%	4.0%	2.2%	1.6%
Others	7.0%	5.1%	14.3%	9.0%	6.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Income Statement (Btm)

FY Dec	2018A	2019A	2020A	2021F	2022F
Revenue	1,134	1,384	427	778	1,196
Cost of Goods Sold	(750)	(943)	(507)	(744)	(890)
Gross Profit	384	441	(79.7)	34.6	306
Other Opng (Exp)/Inc	(152)	(161)	(119)	(132)	(129)
Operating Profit	232	281	(198)	(97.7)	177
Other Non Opg (Exp)/Inc	18.2	19.5	8.71	15.9	24.4
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(8.8)	(10.5)	(21.5)	(26.6)	(29.0)
Exceptional Gain/(Loss)	0.0	1.64	(6.0)	0.0	0.0
Pre-tax Profit	241	291	(217)	(108)	172
Tax	(35.4)	(45.2)	15.0	21.7	(34.5)
Minority Interest	0.0	(0.5)	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	206	245	(202)	(86.7)	138
Net Profit before Except.	206	244	(196)	(86.7)	138
EBITDA	346	418	16.7	125	410
Growth					
Revenue Gth (%)	19.7	22.0	(69.1)	82.3	53.7
EBITDA Gth (%)	19.3	20.8	(96.0)	647.3	228.1
Opg Profit Gth (%)	17.1	21.1	(170.7)	(50.8)	(281.1)
Net Profit Gth (Pre-ex) (%)	17.4	18.6	nm	55.8	nm
Margins & Ratio					
Gross Margins (%)	33.9	31.9	(18.7)	4.4	25.6
Opg Profit Margin (%)	20.4	20.3	(46.5)	(12.6)	14.8
Net Profit Margin (%)	18.1	17.7	(47.4)	(11.1)	11.5
ROAE (%)	23.8	23.4	(19.8)	(10.4)	17.2
ROA (%)	16.2	17.0	(9.7)	(3.3)	5.0
ROCE (%)	17.3	18.3	(10.6)	(4.1)	5.9
Div Payout Ratio (%)	41.6	36.0	N/A	N/A	40.0
Net Interest Cover (x)	26.2	26.8	(9.2)	(3.7)	6.1

Source: Company, DBSVTH

Quarterly Income Statement (Btm)

FY Dec	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020
Revenue	338	238	31.5	76.2	81.4
Cost of Goods Sold	(227)	(201)	(81.6)	(97.8)	(127)
Gross Profit	111	37.1	(50.1)	(21.6)	(45.1)
Other Oper. (Exp)/Inc	(32.8)	(30.3)	(20.5)	(30.4)	(37.5)
Operating Profit	78.2	6.83	(70.7)	(51.9)	(82.6)
Other Non Opg (Exp)/Inc	5.47	5.74	0.59	0.53	1.86
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(2.2)	(8.6)	(5.6)	(2.7)	(4.6)
Exceptional Gain/(Loss)	1.32	0.0	(6.0)	0.0	0.0
Pre-tax Profit	82.7	3.99	(81.7)	(54.1)	(85.3)
Tax	(13.7)	0.36	1.06	(0.8)	14.4
Minority Interest	0.12	0.0	0.0	0.0	0.0
Net Profit	69.2	4.35	(80.6)	(55.0)	(71.0)
Net Profit bef Except.	67.8	4.35	(74.6)	(55.0)	(71.0)
EBITDA	229	152	106	142	208

Growth

Revenue Gth (%)	(8.2)	(29.6)	(86.8)	142.1	6.7
EBITDA Gth (%)	11.1	(33.4)	(30.5)	34.2	46.8
Opg Profit Gth (%)	(2.4)	(91.3)	(1,134.7)	(26.5)	59.1
Net Profit Gth (Pre-ex) (%)	0.2	(93.6)	(1,815.4)	(26.4)	29.1

Margins

Gross Margins (%)	32.9	15.6	(159.3)	(28.3)	(55.5)
Opg Profit Margins (%)	23.1	2.9	(224.5)	(68.1)	(101.5)
Net Profit Margins (%)	20.5	1.8	(256.1)	(72.1)	(87.2)

Balance Sheet (Btm)

FY Dec	2018A	2019A	2020A	2021F	2022F
Net Fixed Assets	1,067	1,083	1,075	1,088	1,014
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	126	144	1,326	1,337	1,364
Cash & ST Invts	111	126	115	26.7	126
Inventory	31.0	39.9	40.3	58.9	70.5
Debtors	23.5	37.2	21.8	53.8	82.7
Other Current Assets	9.65	86.3	54.8	99.9	154
Total Assets	1,369	1,516	2,632	2,664	2,811
ST Debt	90.0	84.9	103	103	103
Creditor	83.4	96.7	44.7	106	126
Other Current Liab	50.7	63.5	213	218	223
LT Debt	126	80.2	288	448	528
Other LT Liabilities	48.8	59.0	1,078	1,030	983
Shareholder's Equity	970	1,132	905	759	847
Minority Interests	0.0	0.01	0.0	0.0	0.0
Total Cap. & Liab.	1,369	1,516	2,632	2,664	2,811
Non-Cash Wkg. Capital	(69.9)	3.21	(141)	(112)	(42.2)
Net Cash/(Debt)	(105)	(39.4)	(277)	(525)	(506)
Debtors Turn (avg days)	5.8	8.0	25.2	17.7	20.8
Creditors Turn (avg days)	47.2	39.8	85.9	51.3	62.1
Inventory Turn (avg days)	16.4	15.7	48.7	33.7	34.6
Asset Turnover (x)	0.9	1.0	0.2	0.3	0.4
Current Ratio (x)	0.8	1.2	0.6	0.6	1.0
Quick Ratio (x)	0.6	0.7	0.4	0.2	0.5
Net Debt/Equity (X)	0.1	0.0	0.3	0.7	0.6
Net Debt/Equity ex MI (X)	0.1	0.0	0.3	0.7	0.6
Capex to Debt (%)	101.9	95.7	36.1	40.6	21.9
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBSVTH

Cash Flow Statement (Btm)

FY Dec	2018A	2019A	2020A	2021F	2022F
Pre-Tax Profit	241	291	(217)	(108)	172
Dep. & Amort.	96.0	118	206	207	208
Tax Paid	(35.4)	(45.2)	15.0	21.7	(34.5)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	33.6	(29.6)	72.5	(50.5)	(66.5)
Other Operating CF	(16.8)	0.0	0.0	0.0	0.0
Net Operating CF	318	334	76.7	69.4	280
Capital Exp.(net)	(220)	(158)	(141)	(224)	(138)
Other Invt.(net)	43.9	(41.1)	73.1	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(43.2)	(16.1)	(63.5)	(93.3)	(67.7)
Net Investing CF	(219)	(215)	(132)	(317)	(206)
Div Paid	(39.9)	(85.5)	(17.1)	0.0	(55.2)
Chg in Gross Debt	(61.5)	(46.9)	372	160	80.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	15.1	(4.0)	23.2	0.0	0.0
Net Financing CF	(86.3)	(136)	378	160	24.9
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	12.7	(17.5)	323	(87.9)	98.9
Opg CFPS (Bt)	0.50	0.64	0.01	0.14	0.40
Free CFPS (Bt)	0.17	0.31	(0.1)	(0.2)	0.17

Source: Company, DBSVTH

Target Price & Ratings History



Note : Share price and target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 May 20	7.45	8.80	BUY
2:	27 Aug 20	6.70	8.80	BUY
3:	14 Dec 20	7.55	8.80	BUY
4:	07 Jan 21	6.70	8.60	BUY

Source: DBSVTH

Analyst: Nantika WIANGPHOEM, CFA

THAI-CAC (as of Jun 2019)

Corporate Governance CG Rating (as of Oct 2019)

THAI-CAC is Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of May 2018) are categorised into:

Corporate Governance CG Rating is based on Thai Institute of Directors (IOD)'s annual assessment of corporate governance practices of listed companies. The assessment covers 235 criteria in five categories including board responsibilities (35% weighting), disclosure and transparency (20%), role of stakeholders (20%), equitable treatment of shareholders (10%) and rights of shareholders (15%). The IOD then assigns numbers of logos to each company based on their scoring as follows:

n/a



Score	Description
Declared	Companies that have declared their intention to join CAC
Certified	Companies certified by CAC.

Score	Range Number of Logo	Description
90-100		Excellent
80-89		Very Good
70-79		Good
60-69		Satisfactory
50-59		Pass
<50	No logo given	N/A

DBSVTH recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Sources for all charts and tables are DBSVTH unless otherwise specified.

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