Siam Wellness Group (SPA TB) - BUY, Price Bt14.0, TP Bt16.0

Results Comment

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Lower-than-expected 4Q18's profit

- SPA reported a net profit of Bt49m in 4Q18, up 8% y-y but down 5% q-q, lower than our and the market's expectations. The miss was from a ramp-up of utilization rate in its new branches could not offset additional overhead costs. Full-year 2018's profit made up 95% of our forecast. We thus see a slight downside to our numbers.
- Total revenues of Bt303m in 4Q18 increased 18% y-y and 5% q-q, resulted as a 20% y-y revenues growth in 2018. The y-y growth was from continuing branch expansion, which more than offset pressures from Thai tourism slowdown during the period. The q-q growth was from a high tourism season.
- Gross margin was weaker-than-expected at 30.8% in 4Q18, vs 33.7% both in 3Q18 and 4Q17, mainly due to a heavy branch expansion this quarter (5 of 9 new branches in 2018). Ramp up of these new branches was also slower than the usual rate, since there is a pressure from hiccup of Thai tourism.
- SG&A increased 18% y-y, corresponding to its continuous business expansion (both in number of branches and type of services). A rise 12% q-q was due to a bonus payment quarter. SG&A-to-sales ratio maintained at 13.7% compared to the same quarter last year, but increased from 12.8% in 3Q18.
- SPA announces an annual dividend of Bt0.15/share (42% payout ratio) with an XD date on 4 April 2019, and a payment date on 26 April 2019.
- Looking forward, we maintain our positive view on the growth of SPA's businesses and earnings. Ramping up utilization of new branches opened in 2H18 is contributing leverage benefits. Consolidation of nail spa business 'Chaba' (already profit making) is a top up to its earnings base this year. With recovering of Thai tourism in 1Q19, we reaffirm BUY.

Income Statement					(consolidated)
Yr-end Dec (Bt m)	4Q17	1Q18	2Q18	3Q18	4Q18
Revenue	256	279	265	288	303
Gross profit	**86**	**105**	**89**	**97**	**93**
SG&A	35	37	37	37	41
Operating profit	51	67	52	60	52
EBITDA	**72**	**89**	**75**	**84**	**79**
Other income	3	2	7	3	7
Other expense					
Interest expense	3	2	2	2	2
Profit before tax	**52**	**67**	**57**	**61**	**56**
Income tax	6	11	8	9	7
Equity & invest. income					
Minority interests	(0)			(0)	(0)
Extraordinary items					
Net profit	**46**	**56**	**48**	**52**	**49**
Normalized profit	**46**	**56**	**48**	**52**	**49**
EPS (Bt)	0.08	0.10	0.08	0.09	0.09
Normalized EPS (Bt)	0.08	0.10	0.08	0.09	0.09

Income Statement			12M as		
(Bt m)	q-q%	y-y%	% 2018F	2018A	2019F
Revenue	5	18	99	1,134	1,414
Gross profit	**(4)**	**8**	**93**	**384**	**522**
SG&A	12	18	99	152	187
Operating profit	(14)	2	90	232	335
EBITDA	**(6)**	**9**	**90**	**328**	**454**
Other income	100	91	106	18	20
Other expense			na		
Interest expense	(3)	(14)	111	9	7
Profit before tax	**(8)**	**8**	**90**	**241**	**348**
Income tax	(22)	14	70	35	70
Equity & invest. income			na		
Minority interests	na	na	na	(0)	(0)
Extraordinary items			na		
Net profit	**(5)**	**8**	**95**	**206**	**278**
Normalized profit	**(5)**	**8**	**95**	**206**	**278**
EPS (Bt)	(5)	8	95	0.36	0.49
Normalized EPS (Bt)	(5)	8	95	0.36	0.49

Balance Sheet					(consolidated)
Yr-end Dec (Bt m)	4Q17	1Q18	2Q18	3Q18	4Q18
Cash & equivalent	143	185	110	94	111
A/C receivable	12	16	21	17	24
Inventory	28	30	28	29	31
Other current assets	8	18	13	12	10
Investment					
Fixed assets	889	880	920	973	1,067
Other assets	95	101	113	119	126
Total assets	**1,176**	**1,230**	**1,206**	**1,245**	**1,369**
S-T debt	77	79	77	77	90
A/C payable	86	75	74	88	83
Other current liabilities	44	104	50	41	51
L-T debt	185	169	152	134	126
Other liabilities	29	32	33	35	49
Minority interest	0	0	0	0	0
Shareholders' equity	**755**	**771**	**819**	**871**	**970**
Working capital	(46)	(30)	(25)	(41)	(29)
Total debt	263	247	229	211	216
Net debt	**120**	**62**	**119**	**117**	**105**

Financial Ratios					
(%)	4Q17	1Q18	2Q18	3Q18	4Q18
Sales growth	34.3	23.9	18.5	18.2	18.5
Operating profit growth	58.8	26.9	21.9	18.4	1.8
EBITDA growth	50.8	26.5	22.3	18.7	9.2
Norm profit growth	31.5	24.4	20.0	17.9	7.7
Norm EPS growth	31.5	24.4	20.0	17.9	7.7
Gross margin	33.7	37.5	33.6	33.7	30.8
Operating margin	20.0	24.1	19.8	20.9	17.1
EBITDA margin	28.2	32.0	28.5	29.3	26.0
Norm net margin	17.8	20.1	18.3	18.1	16.2
D/E (x)	0.3	0.3	0.3	0.2	0.2
Net D/E (x)	0.2	0.1	0.1	0.1	0.1
Interest coverage (x)	29	41.1	32.9	37.9	36.5
Interest rate	3.6	3.4	3.8	4.0	4.0
Effective tax rate	12.2	15.9	14.6	15.2	12.8
ROA	15.8	18.7	15.9	17.0	15.0
ROE	24.9	29.4	24.3	24.6	21.3

Sources: Company data, Thanachart estimates

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