

Siam Wellness Group (SPA TB) - BUY, Price Bt12.00, TP Bt16.00**Results Comment**

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Seasonally soft 2Q19 profit, in-line

- SPA reported a net profit of Bt47m in 2Q19, down 2% y-y and 20% q-q. However, a drop from last year was from a change in accounting treatments and an environmental problem in Chiangmai. Lower profit q-q was on seasonal of a weak tourism quarter in Thailand. The result was largely in-line with our and the market's expectations.
- Total revenues were at Bt337m in 2Q19, grew 28% y-y but dropped 1% q-q. A strong growth y-y was driven by a 6.5% SSSG, branch expansion in Thailand and overseas, and consolidation of 'Chaba' nail spa business. A slight revenue decline q-q was from a low tourism season, especially in Chiangmai which also faced a pollution issue.
- There were two changes in accounting treatments which significantly impact SPA's 2Q19 profit. 1) we estimate a Bt5m impact from a stretched out franchise upfront fee recognition and 2) a Bt2m extra employee benefit provisions.
- Gross margin went down to 29.0% in 2Q19, from 32.3% in 1Q19 and 33.6% in 2Q18. The drop was mainly from a low utilization rate from a seasonally weak demand and a gradual ramp-up in its new branches. There were also impacts from a renovation of its major branch in Pattaya, and an asset write-off in one expired hotel spa operating branch.
- Excluding an extra employee benefit provisions, total SG&A was well under control at Bt44m in 2Q19. A 19% rise y-y was from an annual staff's salary adjustment and consolidated 'Chaba' business, while the expenses were largely flat q-q.
- We maintain our full-year forecast and BUY recommendation on SPA. We expect a stronger earnings growth in 2H19F from a continuing ramp-up in its new branches and new business services.

Income Statement						Income Statement					
(consolidated)						6M as					
Yr-end Dec (Bt m)	2Q18	3Q18	4Q18	1Q19	2Q19	(Bt m)	q-q%	y-y%	% 2019F	2019F	2020F
Revenue	265	288	303	341	337	Revenue	(1)	28	48	1,408	1,634
Gross profit	89	97	93	110	98	Gross profit	(11)	10	46	448	538
SG&A	37	37	41	42	46	SG&A	8	24	49	178	201
Operating profit	52	60	52	68	52	Operating profit	(23)	(0)	45	270	337
EBITDA	75	84	79	99	80	EBITDA	(19)	6	46	387	475
Other income	7	3	7	4	5	Other income	18	(21)	50	20	20
Other expense						Other expense			na		
Interest expense	2	2	2	2	3	Interest expense	17	23	54	10	10
Profit before tax	57	61	56	70	55	Profit before tax	(22)	(3)	45	280	346
Income tax	8	9	7	11	7	Income tax	(33)	(11)	42	43	57
Equity & invest. income						Equity & invest. income			na		
Minority interests		(0)	(0)	(0)	(0)	Minority interests	na		36	(1)	(3)
Extraordinary items						Extraordinary items			na		
Net profit	48	52	49	59	47	Net profit	(20)	(2)	45	236	286
Normalized profit	48	52	49	59	47	Normalized profit	(20)	(2)	45	236	286
EPS (Bt)	0.08	0.09	0.09	0.10	0.08	EPS (Bt)	(20)	(2)	45	0.41	0.50
Normalized EPS (Bt)	0.08	0.09	0.09	0.10	0.08	Normalized EPS (Bt)	(20)	(2)	45	0.41	0.50

Balance Sheet						Financial Ratios					
(consolidated)						6M as					
Yr-end Dec (Bt m)	2Q18	3Q18	4Q18	1Q19	2Q19	(%)	2Q18	3Q18	4Q18	1Q19	2Q19
Cash & equivalent	110	94	111	138	148	Sales growth	18.5	18.2	18.5	22.0	27.5
A/C receivable	21	17	24	26	31	Operating profit growth	21.9	18.4	1.8	1.3	(0.1)
Inventory	28	29	31	50	50	EBITDA growth	22.3	18.7	9.2	11.0	6.1
Other current assets	13	12	10	16	15	Norm profit growth	20.0	17.9	7.7	5.2	(2.4)
Investment						Norm EPS growth	20.0	17.9	7.7	5.2	(2.4)
Fixed assets	920	973	1,067	1,095	1,108	Gross margin	33.6	33.7	30.8	32.3	29.0
Other assets	113	119	126	236	235	Operating margin	19.8	20.9	17.1	20.0	15.5
Total assets	1,206	1,245	1,369	1,560	1,587	EBITDA margin	28.5	29.3	26.0	29.1	23.7
S-T debt	77	77	90	91	117	Norm net margin	18.3	18.1	16.2	17.3	14.0
A/C payable	74	88	83	154	116	D/E (x)	0.3	0.2	0.2	0.3	0.3
Other current liabilities	50	41	51	168	69	Net D/E (x)	0.1	0.1	0.1	0.1	0.2
L-T debt	152	134	126	150	226	Interest coverage (x)	33	38	36	41	29
Other liabilities	33	35	49	48	63	Interest rate	3.8	4.0	4.0	4.2	3.8
Minority interest	0	0	0	11	11	Effective tax rate	14.6	15.2	12.8	15.6	13.5
Shareholders' equity	819	871	970	937	984	ROA	15.9	17.0	15.0	16.1	12.0
Working capital	(25)	(41)	(29)	(79)	(35)	ROE	24.3	24.6	21.3	24.8	19.7
Total debt	229	211	216	241	342						
Net debt	119	117	105	103	195						

Sources: Company data, Thanachart estimates

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