

SELL (From: BUY)**TP: Bt 6.50** (From: Bt 8.20)

Change in Recommendation

Downside : 13.9% **4 JUNE 2020**

Siam Wellness Group (SPA TB)

Priced ahead of turnaround

After the 34% recovery in SPA's share price from this year's low, we downgrade our call to SELL as we see the share price moving ahead of its business turnaround potential. The stock is trading on 70x 2021F PE and it still looks expensive to us at 36x in 2022F, when we forecast its business to normalize back to around 2019's level.

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Downgrading to SELL

We downgrade SPA to SELL (from Buy). *First*, after the 34% rise in its stock price from this year's low, SPA now looks expensive to us at 70x 2021F PE. We believe the stock is trading ahead of its business turnaround where we expect its earnings to return to 2019's level in 2023F. *Second*, we expect tourism to make a late comeback in 4Q20F. *Third*, we cut our earnings further to a steeper loss in 2020F and by 37% in 2021F to reflect longer shop closures ordered by the government than we'd earlier expected, a slow post-pandemic tourism recovery, and higher operating costs to ensure hygiene standards in shops. Due to our cuts and the 33% dilution from the stock dividend, our DCF-based 12-month TP (2020F base year) is lowered to Bt6.5/share (from Bt8.2). Note that we also change our risk-free rate assumption from 3.5% across our calculation to 2.5% in 2020-24F before rising to 3.0% in 2025-30F and to 3.5% at our terminal value calculation. This has around a Bt0.3/share impact on our new TP.

Slow tourism recovery

Massage and spa shops in Thailand have been allowed to reopen this month. However, we still expect a slow recovery in SPA's operations. We believe the reason that SPA has yet to fully resume operations at all branches is due to a lag in the recovery of foreign tourists, which made up 75% of its revenues in 2019. We assume weak spending from Thais with foreigners gradually coming back from 4Q20F, and expect another two bad quarters in 2Q-3Q20F with 80% and 50% y-y drops in revenue. We project SPA's revenue to normalize in 2022F, but in 2023F for earnings.

'New normal' operations

SPA has to operate under a "new normal" business practice of health standards post Covid-19. That means a higher-cost structure of investing more in sanitary equipment (i.e. masks and goggles for therapists, more frequent and better cleaning, etc.) and increasing space between clients during services (less serving capacity per branch). We estimate its EBIT margin to fall from 20% in 2019 to 13% in 2021F and 17% in 2022F, and its ROE to drop from 23% in 2019 to 8-17% in 2021-23F.

Priced ahead of turnaround in our view

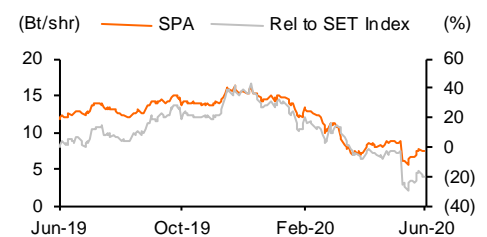
SPA looks expensive to us at 70x PE in 2021F and 36x in 2022F. The stock was trading in a range of 30-40x PE in 2018-19 when ROE was at a higher level. We thus believe its recent rally has overly priced in the turnaround momentum of the business. To play on the tourism turnaround, we prefer The Erawan Group Pcl (ERW TB, BUY, Bt3.90), whose hotels are more exposed to domestic tourism, which should turn around faster than foreign tourism (see *ERW – Ready for early birds*, dated 27 May 2020).

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COMPANY VALUATION

Y/E Dec (Bt m)	2019A	2020F	2021F	2022F
Sales	1,430	578	1,033	1,355
Net profit	245	(70)	92	181
Consensus NP	—	(40)	158	288
Diff frm cons (%)	—	na	(41.7)	(37.3)
Norm profit	245	(70)	92	181
Prev. Norm profit	—	(9)	147	182
Chg frm prev (%)	—	na	(37.3)	(0.7)
Norm EPS (Bt)	0.4	(0.1)	0.1	0.2
Norm EPS grw (%)	19.4	na	na	95.7
Norm PE (x)	17.5	na	70.0	35.8
EV/EBITDA (x)	10.8	22.9	14.9	11.9
P/BV (x)	3.8	5.9	5.4	4.9
Div yield (%)	2.1	0.0	0.6	1.1
ROE (%)	23.4	na	8.0	14.4
Net D/E (%)	0.0	5.9	(12.2)	(6.5)

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 4-Jun-20 (Bt)	7.55
Market Cap (US\$ m)	204.2
Listed Shares (m shares)	855.0
Free Float (%)	55.8
Avg Daily Turnover (US\$ m)	0.5
12M Price H/L (Bt)	10.87/4.63
Sector	MAI
Major Shareholder	Jiravanstitt family 17.32%

Sources: Bloomberg, Company data, Thanachart estimates



Downgrading to SELL

Downgrading to SELL as we see market expectations as too optimistic

We downgrade Siam Wellness Group (SPA) to SELL from Buy, mainly because we believe its recent 34% share price rally from this year's low has overly reflected its business turnaround story.

- 1) We see its share price spike to trade on a 70x PE multiple in 2021F as overdone. The current share price implies a 36x PE in 2022F, the year we expect SPA's business to normalize fully, which is still not attractive to us.
- 2) We believe the market is being too optimistic on the turnaround pace of the tourism industry, especially in terms of foreign tourist arrivals. As 75% of SPA's revenues is contributed by foreign tourists, we expect SPA's business turnaround to be slow.
- 3) We cut our 2020-22F earnings further in this report to reflect a longer-than-expected shop lockdown by the government during the Covid-19 outbreak and our assumption of a longer time before foreign tourist numbers normalize.

Our DCF-based TP is cut down to Bt6.50/share

Due to our earnings cuts and the 33% dilution effect from its recent stock dividend in May, we revise down our DCF-based 12-month TP (2020F base year) to Bt6.5/share from Bt8.2. Note that we also revise our risk-free rate assumptions used in our DCF calculation to 2.5% in 2020-24F, 3.0% in 2025-30F and 3.5% from 2031F and our terminal value. Our previous assumption was a fixed risk-free rate of 3.5% throughout.

Ex 1: Key Assumption Changes

	2020F	2021F	2022F
Revenues (Bt m)			
- New	578	1,033	1,355
- Old	701	1,218	1,374
- Change (%)	(17.5)	(15.1)	(1.4)
Gross margin (%)			
- New	12.5	28.5	31.3
- Old	18.4	27.6	28.7
- Change (pp)	(5.9)	0.8	2.6
No. of branches			
- New	66	71	77
- Old	68	75	79
- Change (%)	(2.9)	(5.3)	(2.5)
Normalized profits (Bt m)			
- New	(70)	92	181
- Old	(9)	147	182
- Change (%)	na	(37.3)	(0.7)

Source: Thanachart estimates

Slow tourism recovery

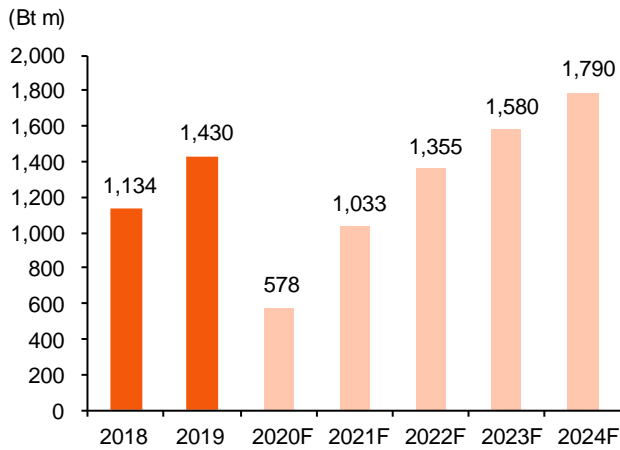
Yet to fully resume operations despite the end of the lockdown

Though massage and spa shops in Thailand were allowed to resume operations on 1 June, after being fully locked down since late March to prevent the spread of Covid-19, SPA has yet to reopen all of its shops. We believe this is because air travel to Thailand is still restricted, and over 70% of SPA's customers are foreign tourists. SPA's massage shops are considered as premium ones with Thai customers not able to make up for the missing revenue from foreign tourists, especially during the ongoing period of weak consumption. We therefore see its business decision of not reopening all its shops as reasonable but at the same time it implies a smaller revenue base during this difficult period.

We project SPA's revenue base to normalize in 2022F, and in 2023F for earnings

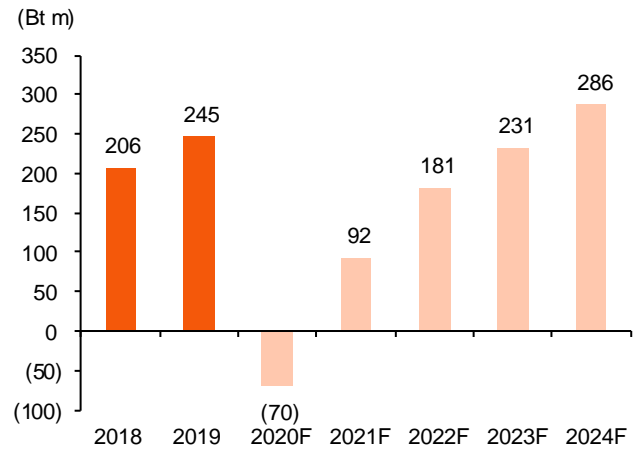
We estimate SPA's revenues to drop by 80% y-y in 2Q20F and 50% in 3Q20F. Even with our assumption of foreign tourists gradually coming back from 4Q20F, we don't project SPA's revenues to normalize back to the 2019 level until 2022F. For earnings, we estimate normalization in 2023F due to a higher cost base from continuing expansion.

Ex 2: We Expect Revenues To Normalize In 2022F ...



Sources: Company data; Thanachart estimates

Ex 3: ... But 2023F For Earnings



Sources: Company data; Thanachart estimates

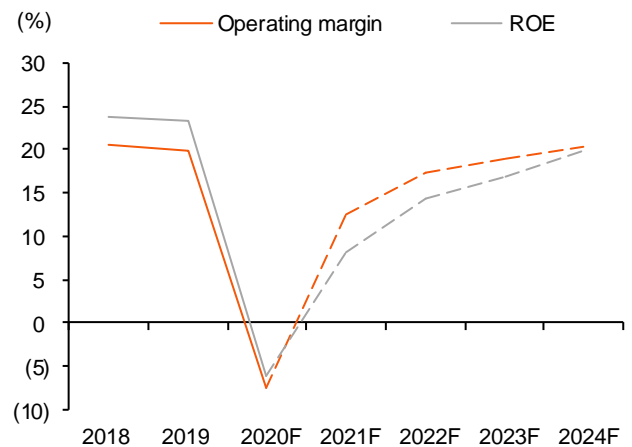
Ex 4: SPA Only Reopened Some Shops On 1 June

Let's Relax Spa
BRANCH OPENING
1 June 2020

- BANGKOK**
 - Terminal 21 Asoke
 - Siam Square One
 - Central Embassy
 - The Street Ratchada
 - The Market Bangkok
 - Suanplu
 - Ekkamai
 - Phayathai
 - Sukhumvit 31
 - Sukhumvit 39
 - The Allez Sukhumvit 13
 - Grande Centre Point Sukhumvit 55
- PATTAYA**
 - Pattaya Dolphin Circle
 - Pattaya Terminal 21
- HUA HIN**
 - Market Village
 - Hua Hin 100
- PHUKET**
 - Patong 3rd Street
 - Porto de Phuket (Laguna)
 - Boat Lagoon

Source: Company data

Ex 5: Margins Are Under Pressure



Sources: Company data; Thanachart estimates

'New normal' operations

Stricter health standards post Covid-19 is negative for SPA's business

We foresee some margin pressure for SPA from the "new normal" business practices for massage and spa shops. These are basically tightened health standards as a result of the Covid-19 pandemic. Higher direct costs are from 1) more equipment for therapists to wear during services (i.e. rubber gloves, goggles and face masks), and 2) related sanitary equipment for more frequent cleaning. Indirectly, SPA has to increase spacing between clients (and currently is not allowed to have two clients share the same treatment room) while it is mandated to thoroughly clean treatment rooms after every treatment course. This means less service area capacity for SPA, and also less efficiency during service hours.

Profitability looks set to come under pressure until 2023F

As a result of less efficient operations (pressured by the tighter health policy), and the adverse impact on operating leverage due to a significant fall in revenues, we estimate SPA's EBIT margin to fall from 20% in 2019 to 13% in 2021F and 17% in 2022F, and its ROE to decline from 23% in 2019 to 8-17% in 2021-23F.

Ex 6: 12-month DCF-based TP Calculation, Using A Base Year Of 2020F

(Bt m)	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	Terminal value
EBITDA	238	423	537	610	687	752	808	853	890	929	978	1,031	—
Free cash flow	(12)	166	264	326	397	458	515	567	603	642	689	739	9,253
PV of free cash flow	(12)	140	204	232	259	264	272	273	265	257	252	232	2,898
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	0.9												
WACC (%)	8.9												
Terminal growth (%)	2.0												
Enterprise value - add investments	5,535												
Net debt (2019)	—												
Minority interest	—												
Equity value	5,535												
# of shares (m)	855												
Target price/share (Bt)	6.50												

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 7: Valuation Comparison With Regional Peers

Name	BBG Code	Country	EPS growth		— PE —		— P/BV —		EV/EBITDA		Div Yield	
			20F (%)	21F (%)	20F (x)	21F (x)	20F (x)	21F (x)	20F (x)	21F (x)	20F (%)	21F (%)
Emei Shan Tourism	000888 CH	China	na	138.8	34.6	14.5	1.2	1.1	9.4	5.3	0.6	1.5
Shanghai Jin Jiang Int'l	2006 HK	China	na	146.9	30.4	12.3	0.9	0.8	10.0	6.4	2.5	4.0
Hongkong & Shanghai	45 HK	Hong Kong	na	na	22.7	na	na	na	na	na	na	na
Shangri-La Asia	69 HK	Hong Kong	na	na	na	31.5	na	na	na	17.7	0.0	1.4
IGB Corp Bhd	IGB MK	Malaysia	na	na	na	na	na	na	na	7.8	na	na
Genting Malaysia Bhd	GENM MK	Malaysia	na	na	na	16.3	0.8	0.8	15.8	7.8	4.2	5.7
Mirvac Group	MGR AU	Australia	(42.4)	(11.3)	15.6	17.6	0.9	0.9	15.9	17.6	4.7	4.4
Indian Hotels	IH IN	India	17.4	na	29.5	95.8	2.2	2.1	13.7	22.7	0.7	0.7
Mandarin Oriental Int'l	MAND SP	Singapore	na	31.0	49.7	37.9	na	na	na	na	2.1	2.1
Hotel Shilla	008770 KS	South Korea	na	na	na	na	na	na	na	7.8	na	0.0
Resorttrust Inc	4681 JP	Japan	28.9	26.0	16.5	13.1	1.1	1.1	9.3	7.5	3.0	3.2
Central Plaza Hotel	CENDEL TB*	Thailand	na	na	na	81.7	3.0	2.9	28.2	11.8	0.0	0.4
Erawan Group	ERW TB*	Thailand	na	na	na	122.0	2.4	2.3	139.6	14.2	0.0	0.2
Minor International	MINT TB*	Thailand	na	na	na	95.1	1.4	1.3	43.9	11.7	0.0	0.2
Siam Wellness Group	SPA TB*	Thailand	na	na	na	70.0	5.9	5.4	22.9	14.9	0.0	0.6
Average			1.3	186.6	43.1	48.0	2.0	1.9	29.6	11.5	1.4	1.8

Sources: Company data, Thanachart estimates

Note: * Thanachart estimates, using normalized EPS

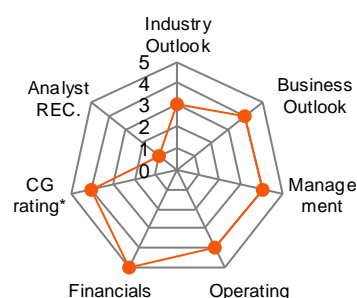
Based on 4 Jun 2020 closing prices

COMPANY DESCRIPTION

Siam Wellness Group Pcl operates wellness spas and other related businesses, with four main operations: 1) Spas under the brands "Let's Relax", "Rarin-Jinda Wellness Spa" & "Baan-Suan Massage". 2) Hotel & Restaurants: A boutique resort hotel in Chiang Mai under the name "Rarin-Jinda Wellness Spa Resort" and the "Deck 1" and "D Bistro" restaurants. 3) Spa products: Distributes and sells spa-related products under the "Blooming" brand. 4) Traditional Thai massage school "Blooming Thai Massage School" to train therapists in massage and spa services to support its business expansion.

Source: Thanachart

COMPANY RATING



Rating Scale

Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Strong brand recognition, especially among Chinese and other Asian tourists
- Its own upstream business helps provide sufficient therapists and products for rapid expansion
- Asset-light business model

O — Opportunity

- Gaining market share from smaller local players via both organic and inorganic expansion
- Expansion of its business overseas
- Adding more services as bundled packages to increase ticket size

W — Weakness

- Relies heavily on expansion to grow, due to limited capacity of service hours per branch
- Highly dependent on tourist traffic

T — Threat

- Extraordinary and uncontrollable events, i.e. geopolitical disturbances, natural disasters, etc. could disrupt its operations and decrease tourist traffic
- Large network but only a small management team

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	6.39	6.50	2%
Net profit 20F (Bt m)	(40)	(70)	na
Net profit 21F (Bt m)	158	92	-42%
Consensus REC	BUY: 3	HOLD: 1	SELL: 1

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2020-21F earnings forecasts are lower than the Bloomberg consensus numbers, which we believe is due to our assumption of a slower tourism industry recovery.
- Our TP is in-line with the street, likely since the impact from weak tourism is short-term.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- A faster pace of expansion, both for domestic and overseas branches, would represent the key upside risk to our earnings forecasts.
- Any events causing an upturn in Thailand's tourism industry, e.g. involving politics, the global economy or natural disasters, would be positive for our numbers.
- The success rates of new services added to its portfolio represent another swing factor to our projections.

Source: Thanachart

INCOME STATEMENT

*We expect SPA's
business to normalize in
2022-23F*

FY ending Dec (Bt m)	2018A	2019A	2020F	2021F	2022F
Sales	1,134	1,430	578	1,033	1,355
Cost of sales	750	976	506	739	931
Gross profit	384	453	73	294	424
% gross margin	33.9%	31.7%	12.5%	28.5%	31.3%
Selling & administration expenses	152	171	116	164	190
Operating profit	232	282	(44)	130	234
% operating margin	20.4%	19.7%	-7.5%	12.6%	17.3%
Depreciation & amortization	96	118	281	293	303
EBITDA	328	400	238	423	537
% EBITDA margin	28.9%	28.0%	41.1%	40.9%	39.6%
Non-operating income	18	20	8	14	19
Non-operating expenses	0	0	0	0	0
Interest expense	(9)	(10)	(33)	(34)	(31)
Pre-tax profit	241	292	(69)	111	222
Income tax	35	46	0	18	41
After-tax profit	206	246	(69)	93	181
% net margin	18.1%	17.2%	-12.0%	9.0%	13.4%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	(0)	(1)	(1)	(1)	(1)
Extraordinary items	0	0	0	0	0
NET PROFIT	206	245	(70)	92	181
Normalized profit	206	245	(70)	92	181
EPS (Bt)	0.4	0.4	(0.1)	0.1	0.2
Normalized EPS (Bt)	0.4	0.4	(0.1)	0.1	0.2

BALANCE SHEET

*No concerns over its
balance sheet during
this difficult period*

FY ending Dec (Bt m)	2018A	2019A	2020F	2021F	2022F
ASSETS:					
Current assets:	176	289	281	364	589
Cash & cash equivalent	79	53	100	150	350
Account receivables	24	37	11	20	26
Inventories	31	40	21	30	38
Others	42	159	149	164	175
Investments & loans	0	0	0	0	0
Net fixed assets	1,067	1,083	1,076	1,045	1,000
Other assets	126	144	1,175	1,137	1,104
Total assets	1,369	1,516	2,533	2,546	2,693
LIABILITIES:					
Current liabilities:	224	245	389	408	431
Account payables	83	97	62	91	115
Bank overdraft & ST loans	6	5	23	10	5
Current LT debt	84	80	113	100	98
Others current liabilities	51	63	191	207	213
Total LT debt	126	80	1,014	900	883
Others LT liabilities	34	50	20	36	48
Total liabilities	399	384	1,429	1,354	1,375
Minority interest	0	0	1	1	1
Preferred shares	0	0	0	0	0
Paid-up capital	143	143	214	214	214
Share premium	279	279	279	279	279
Warrants	0	0	0	0	0
Surplus	44	44	44	44	44
Retained earnings	505	666	566	654	780
Shareholders' equity	970	1,132	1,103	1,191	1,317
Liabilities & equity	1,369	1,516	2,533	2,546	2,693

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2018A	2019A	2020F	2021F	2022F
Earnings before tax	241	292	(69)	111	222
Tax paid	(33)	(38)	(15)	(10)	(36)
Depreciation & amortization	96	118	131	148	163
Chg In working capital	(17)	(9)	11	10	10
Chg In other CA & CL / minorities	4	(30)	171	(8)	(9)
Cash flow from operations	292	333	254	277	374
Capex	(274)	(133)	(125)	(116)	(119)
ST loans & investments	44	(80)	(18)	0	0
LT loans & investments	0	0	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(13)	(11)	(1,089)	33	23
Cash flow from investments	(243)	(225)	(1,232)	(83)	(96)
Debt financing	(46)	(51)	985	(140)	(24)
Capital increase	0	0	71	0	0
Dividends paid	(40)	(86)	(30)	(4)	(55)
Warrants & other surplus	50	2	0	0	0
Cash flow from financing	(36)	(135)	1,026	(144)	(78)
Free cash flow	18	199	129	161	255

We expect a capex delay this year and thus slower growth potential thereafter

VALUATION

FY ending Dec	2018A	2019A	2020F	2021F	2022F
Normalized PE (x)	20.9	17.5	na	70.0	35.8
Normalized PE - at target price (x)	18.0	15.1	na	60.3	30.8
PE (x)	20.9	17.5	na	70.0	35.8
PE - at target price (x)	18.0	15.1	na	60.3	30.8
EV/EBITDA (x)	13.1	10.8	22.9	14.9	11.9
EV/EBITDA - at target price (x)	11.3	9.3	19.8	12.8	10.2
P/BV (x)	4.4	3.8	5.9	5.4	4.9
P/BV - at target price (x)	3.8	3.3	5.0	4.7	4.2
P/CFO (x)	14.7	12.9	21.2	23.3	17.2
Price/sales (x)	5.7	4.5	11.2	6.2	4.8
Dividend yield (%)	2.0	2.1	0.0	0.6	1.1
FCF Yield (%)	0.4	4.6	2.4	2.5	4.0
(Bt)					
Normalized EPS	0.4	0.4	(0.1)	0.1	0.2
EPS	0.4	0.4	(0.1)	0.1	0.2
DPS	0.2	0.2	0.0	0.0	0.1
BV/share	1.7	2.0	1.3	1.4	1.5
CFO/share	0.5	0.6	0.4	0.3	0.4
FCF/share	0.0	0.3	0.2	0.2	0.3

Valuations have run ahead of its core business turnaround, in our view

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2018A	2019A	2020F	2021F	2022F
Growth Rate					
Sales (%)	19.7	26.1	(59.6)	78.7	31.1
Net profit (%)	17.4	19.4	na	na	95.7
EPS (%)	17.4	19.4	na	na	95.7
Normalized profit (%)	17.4	19.4	na	na	95.7
Normalized EPS (%)	17.4	19.4	na	na	95.7
Dividend payout ratio (%)	41.6	36.0	40.0	40.0	40.0
Operating performance					
Gross margin (%)	33.9	31.7	12.5	28.5	31.3
Operating margin (%)	20.4	19.7	(7.5)	12.6	17.3
EBITDA margin (%)	28.9	28.0	41.1	40.9	39.6
Net margin (%)	18.1	17.2	(12.0)	9.0	13.4
D/E (incl. minor) (x)	0.2	0.1	1.0	0.8	0.7
Net D/E (incl. minor) (x)	0.0	0.0	0.1	(0.1)	(0.1)
Interest coverage - EBIT (x)	26.2	26.9	na	3.9	7.6
Interest coverage - EBITDA (x)	37.0	38.1	7.2	12.6	17.4
ROA - using norm profit (%)	16.2	17.0	na	3.6	6.9
ROE - using norm profit (%)	23.8	23.4	na	8.0	14.4
DuPont					
ROE - using after tax profit (%)	23.8	23.4	na	8.1	14.4
- asset turnover (x)	0.9	1.0	0.3	0.4	0.5
- operating margin (%)	22.0	21.1	na	14.0	18.7
- leverage (x)	1.5	1.4	1.8	2.2	2.1
- interest burden (%)	96.5	96.5	191.7	76.8	87.8
- tax burden (%)	85.3	84.3	na	83.5	81.5
WACC (%)	8.9	8.9	8.9	8.9	8.9
ROIC (%)	26.2	24.5	(3.3)	9.3	18.2
NOPAT (Bt m)	198	238	(37)	109	191

Sources: Company data, Thanachart estimates

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