

## Siam Wellness Group (SPA TB) - BUY, Price Bt13.30, TP Bt16.0

## Results Comment

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## Slow earnings growth in 1Q19, in-line

- SPA reported net profit at Bt59m in 1Q19, grew 5% y-y and 20% q-q, in line with our expectations. Total revenue made new record-high again this quarter, backed by positive impacts from branch expansion and consolidation of nail spa business.
- Total revenue was Bt341m in 1Q19, up 22% y-y and 12% q-q. The growth was from both Same-Store-Sales Growth (SSSG) and branch expansion. Major contribution was still from spa business, making 89% of total revenue. Product sales remains flat both y-y and q-q.
- We estimate around Bt15-20m revenue contribution from the consolidated 76% stakes in 'Chaba' nail spa business this quarter.
- Gross margin was still low at 32.3% in 1Q19, improved from 30.8% in 4Q18 but much softer than 37.5% on 1Q18. This is likely due to a continuing drag from its aggressive branch expansion and start of its business in 2H18 which has yet reached an optimized level.
- However, total SG&A-to-sales ratio went down to 12.3% in 1Q19, from 13.7% in 4Q18 and 13.4% in 1Q18. We believe this was due to a strong revenue growth and good cost control.
- 1Q19's profit was in-line with our expectations, made up 24% of our full-year forecast. We expect SPA's earnings to continue its strong q-q momentum throughout the year on rising utilization in its new branches. We maintain BUY.

Income Statement					
(consolidated)					
Yr-end Dec (Bt m)	1Q18	2Q18	3Q18	4Q18	1Q19
Revenue	279	265	288	303	341
<b>Gross profit</b>	<b>105</b>	<b>89</b>	<b>97</b>	<b>93</b>	<b>110</b>
SG&A	37	37	37	41	42
Operating profit	67	52	60	52	68
<b>EBITDA</b>	<b>89</b>	<b>75</b>	<b>84</b>	<b>79</b>	<b>99</b>
Other income	2	7	3	7	4
Other expense					
Interest expense	2	2	2	2	2
<b>Profit before tax</b>	<b>67</b>	<b>57</b>	<b>61</b>	<b>56</b>	<b>70</b>
Income tax	11	8	9	7	11
Equity & invest. income					
Minority interests			(0)	(0)	(0)
Extraordinary items					
<b>Net profit</b>	<b>56</b>	<b>48</b>	<b>52</b>	<b>49</b>	<b>59</b>
<b>Normalized profit</b>	<b>56</b>	<b>48</b>	<b>52</b>	<b>49</b>	<b>59</b>
EPS (Bt)	0.10	0.08	0.09	0.09	0.10
Normalized EPS (Bt)	0.10	0.08	0.09	0.09	0.10

Balance Sheet					
(consolidated)					
Yr-end Dec (Bt m)	1Q18	2Q18	3Q18	4Q18	1Q19
Cash & equivalent	185	110	94	111	138
A/C receivable	16	21	17	24	26
Inventory	30	28	29	31	50
Other current assets	18	13	12	10	16
Investment					
Fixed assets	880	920	973	1,067	1,095
Other assets	101	113	119	126	236
<b>Total assets</b>	<b>1,230</b>	<b>1,206</b>	<b>1,245</b>	<b>1,369</b>	<b>1,560</b>
S-T debt	79	77	77	90	91
A/C payable	75	74	88	83	154
Other current liabilities	104	50	41	51	168
L-T debt	169	152	134	126	150
Other liabilities	32	33	35	49	48
Minority interest	0	0	0	0	11
<b>Shareholders' equity</b>	<b>771</b>	<b>819</b>	<b>871</b>	<b>970</b>	<b>937</b>
Working capital	(30)	(25)	(41)	(29)	(79)
Total debt	247	229	211	216	241
<b>Net debt</b>	<b>62</b>	<b>119</b>	<b>117</b>	<b>105</b>	<b>103</b>

Sources: Company data, Thanachart estimates

Income Statement				3M as		
(Bt m)	q-q%	y-y%	% 2019F	2019F	2020F	
Revenue	12	22	24	1,439	1,683	
<b>Gross profit</b>	<b>18</b>	<b>5</b>	<b>23</b>	<b>477</b>	<b>578</b>	
SG&A	1	12	22	189	213	
Operating profit	31	1	24	288	365	
<b>EBITDA</b>	<b>26</b>	<b>11</b>	<b>24</b>	<b>405</b>	<b>502</b>	
Other income	(32)	161	21	22	25	
Other expense			na			
Interest expense	11	10	25	9	11	
<b>Profit before tax</b>	<b>25</b>	<b>5</b>	<b>23</b>	<b>300</b>	<b>379</b>	
Income tax	52	3	24	46	63	
Equity & invest. income			na			
Minority interests	na		5	(3)	(4)	
Extraordinary items			na			
<b>Net profit</b>	<b>20</b>	<b>5</b>	<b>24</b>	<b>251</b>	<b>312</b>	
<b>Normalized profit</b>	<b>20</b>	<b>5</b>	<b>24</b>	<b>251</b>	<b>312</b>	
EPS (Bt)	20	5	24	0.44	0.55	
Normalized EPS (Bt)	20	5	24	0.44	0.55	

Financial Ratios					
(%)	1Q18	2Q18	3Q18	4Q18	1Q19
Sales growth	23.9	18.5	18.2	18.5	22.0
Operating profit growth	26.9	21.9	18.4	1.8	1.3
EBITDA growth	26.5	22.3	18.7	9.2	11.0
Norm profit growth	24.4	20.0	17.9	7.7	5.2
Norm EPS growth	24.4	20.0	17.9	7.7	5.2
Gross margin	37.5	33.6	33.7	30.8	32.3
Operating margin	24.1	19.8	20.9	17.1	20.0
EBITDA margin	32.0	28.5	29.3	26.0	29.1
Norm net margin	20.1	18.3	18.1	16.2	17.3
D/E (x)	0.3	0.3	0.2	0.2	0.3
Net D/E (x)	0.1	0.1	0.1	0.1	0.1
Interest coverage (x)	41	33	38	36	41
Interest rate	3.4	3.8	4.0	4.0	4.2
Effective tax rate	15.9	14.6	15.2	12.8	15.6
ROA	18.7	15.9	17.0	15.0	16.1
ROE	29.4	24.3	24.6	21.3	24.8

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