



# Siam Wellness Group

## Earnings and TP revised down

### Despite bright L/T prospects, stock appears fully valued

SPA achieved impressive 2017 earnings growth of 24% to Bt175m, with 10 new branches opened in Thailand and expansion of its franchise business in Cambodia and China. Despite its aggressive expansion plan, we expect organic growth to slow given its current high staff utilization rate and lower revenue per store due to the SPA operating format. The stock is currently trading at a 43x PER and PEG of 1.1x for 2018 and is fully valued, in our opinion. Hence, we maintain our **HOLD** rating with a reduced TP of Bt18.0.

### Ambitious expansion plan in China

After renovation of major branches last year which dampened results in 2H17, there will be just minor renovation for SPA's Let's Relax Pattaya branch in 2018. Although the company faces higher fixed costs from 1Q18 onwards after significant renovation and rebranding at two branches of its 5-star brand Rarinjinda brand, we expect GPM to improve QoQ to 34-35%. This is due to the high season and upfront fee recognition from its franchises in Cambodia and China (Qingdao and Tianjin). SPA aims to expanding its footprint in China by opening 2-3 new franchise branches in each major city and plans to invest in a new branch in Shanghai by itself this year.

### 2018-19 earnings forecasts trimmed by 6% and 3%

Although we remain upbeat on SPA's long term outlook due to robust tourist arrivals, we cut our 2018-19F earnings by 6% and 3% respectively after lowering our GPM assumption and factoring in higher OPEX. We also trimmed revenue by 2% in 2018F because most new branches in Thailand will open in 2H18 and our expectation of lower revenue per branch based on the new operating format. Nonetheless, we still expect earnings to grow by 40% and 21% in 2018-19 to Bt245m and Bt297m respectively driven by SPA's ambitious plan to open more domestic and overseas branches. Note that SPA currently owns one branch in Cambodia, with two more scheduled to open in 2Q18-3Q18. It also owns one branch in China, with two more (Qingdao and Tianjin) set to open in 2Q18.

### Maintain HOLD with revised target price of Bt18.0

We maintain our **HOLD** rating with a new TP of Bt18.0 (vs. Bt18.9 previously). Our DCF-based target price assumes WACC of 8.4% (from 8.1% previously) as we revised our beta assumption although TG remains at 5%. The stock is currently trading at a 43x PER and PEG of 1.1x for 2018F and is fully valued, in our opinion. Key risks include political turmoil, terrorism, expansion delays and disease outbreaks.

### Financial Summary

Year End Dec 31	2014	2015	2016	2017	2018F	2019F
Total Revenue (Bt, m)	338	533	744	948	1,265	1,508
EBITDA (Bt, m)	73	174	222	290	394	459
Net profit (Bt, m)	33	106	141	175	245	297
Net profit growth (%)	-44.8%	220.3%	32.4%	24.3%	39.9%	21.0%
EPS (Bt)	0.06	0.19	0.25	0.31	0.43	0.52
EPS growth (%)	-61.3%	220.3%	32.4%	24.3%	39.9%	21.0%
PER (X)	135.44	38.04	42.98	47.06	42.79	35.37
PBV (X)	13.61	7.30	6.34	10.92	11.26	9.28
Yield (%)	0.3%	1.4%	1.0%	0.6%	0.9%	1.1%
ROE (%)	9.7%	20.5%	23.6%	25.1%	29.1%	28.8%

Source: TISCO Research, Company data

## Rating

**HOLD**

(unchanged)

### 12 month Target Price

**Bt18.00**

Current Price (15/03/2018)

Bt18.40

CG Rating

3

Thai CAC

n.a.

Sector

SERVICE (mai)

Sector PER (x)

n.a.

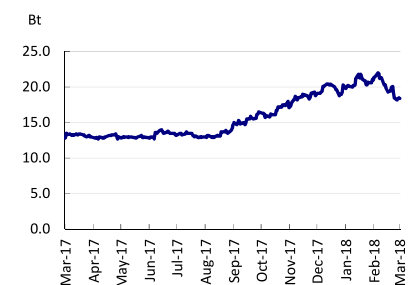
## SHARE SUMMARY

Issued shares:	570.0m
Par value:	Bt0.3
Market capitalization:	Bt10.5bn
Avg. Daily Turnover:	Bt34.3m
Foreign Limit/Actual (%)	49/6
Free Float:	31.3%
NVDR:	1.6%
Beta (3 years)	1.2x

### TISCO's forecast vs. consensus

EPS (Bt)	TISCO	Consensus	% Diff.
2018F	0.43	0.46	-6.5%
2019F	0.52	0.61	-14.8%

## PRICE / PRICE RELATIVE



Source: Bloomberg Finance LP

Performance (%)	-1m	-3m	-12m
SPA	(14.02)	(3.66)	43.75
SET	0.85	5.73	17.87

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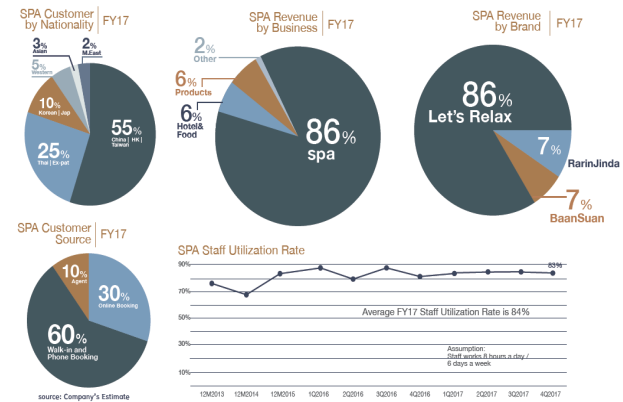
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Figure 1. SPA branches as of 2017



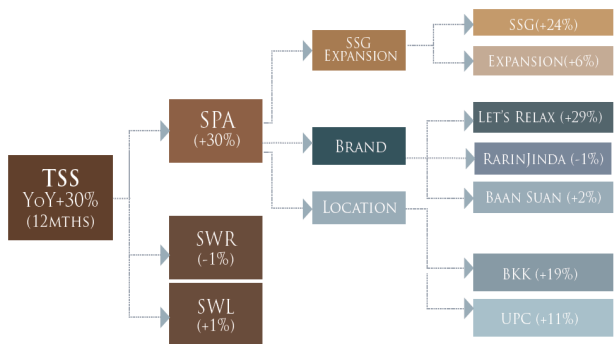
Source : SPA

Figure 2. Operation statistics



Source : SPA

Figure 3. Sales growth contribution



Source : SPA

Figure 4. SPA operating format



Source : SPA

Figure 5. Change in key assumptions

Bt,m	2018F			2019F		
	Old	New	% Chg	Old	New	% Chg
Sale Revenue	1,292	1,265	-2.1	1,528	1,508	-1.3
Gross margin (%)	36.0	35.3	-1.8	35.6	35.5	-0.4
SG&A	12.8	13.4	4.3	12.7	13.4	5.1
Net profit	261	245	-6.1	306	297	-3.1
EPS (Bt)	0.46	0.43	-6.1	0.54	0.52	-3.1
<b>Change in key assumptions</b>						
Branches Year End(Domestic)	50	50	0.0	60	60	0.0
Branches Year End(Overseas)	5	6	20.0	7	9	28.6

Sources : TISCO Research estimates

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 คณะกรรมการกำกับหลักทรัพย์และตลาดหลักทรัพย์ National CG Committee  <b>Corporate Governance Report of Thai Listed Companies 2017</b>	Score Range	Level	Description
	90 - 100	5	Excellent
	80 - 89	4	Very Good
	70 - 79	3	Good
	60 - 69	2	Satisfactory
	50 - 59	1	Pass
< 50	n.a.	n.a.	
	N/R		Does not appear in the CGR report

### Anti-Corruption Progress Indicator :

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of June 6, 2016) are categorised into :

Certified :	Companies certified by CAC.
Declared :	Companies that have declared their intention to join CAC.
Ensure its compliance by parent company	Ensure its compliance by parent company The company declares that its parent company is under the Bribery Act or other similar laws that required parent company to be responsible for bribery act of its overseas subsidiaries. Such responsibilities shall include the establishment of policy, practices and investigation and ensure that its subsidiaries regularly comply with the policy and practices.
n.a.	Not intention to join CAC. / no policy

### Disclaimer

The disclosure of the Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of June 6, 2016)

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