



18 June 2020

Company Note

Rating

HOLD

(Unchanged)

Company

Siam Wellness Group

Bloomberg

SPA TB

SET

SPA

Exchange

mai

Sector

Services

'Travel bubble' would be boon for 4Q20F

12mth price target (THB)

Bt7.10

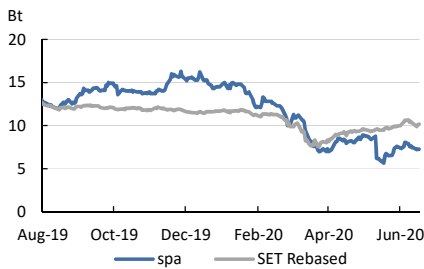
(From Bt5.10)

Current price (17/06/2020)	Bt7.25
Upside/Downside	-2%
CG rating	4
ESG rating	ESG100
Thai CAC	n/a

Share summary

Issue shares:	855.0m
Par value:	Bt0.25
Market capitalization:	Bt6.2bn
	US\$0.2bn
Avg. Daily Turnover:	Bt17.7m
	US\$0.6m
Foreign Limit/Actual (%)	49/3
Free Float:	55.8%
NVDR:	3.6%

Share price / Rel. to SET



Source: Bloomberg Finance LP

Performance (%)	1m	3m	12m
SPA	12.40	-11.04	-42.46
SET	5.06	32.94	-19.33

Major Shareholders

	%
Mr.Wiboon Utsahajit	11.08
Mr.Prasert Jiravanstitt	11.08
Mrs.Thanit Amorntirasan	9.49

Source: Company data

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Tourism remains pillar of strength post-Covid-19

We remain cautious on the initial re-opening of SPA's business as we believe local customers will not be sufficient alone to generate the traffic and margin level seen before the pandemic lockdown, particularly considering the lack of price discounts being rolled out. However, with Thailand's entrenched position as a top tourist destination and the country's relative success in containing Covid-19, we believe recovery will come fairly quick once the travel bans are fully lifted, perhaps starting with establishment of a 'travel bubble' in 4Q20F. Note that our earnings forecast of Bt112m for 2021F is based on roughly 1m customer visits (close to the 2018 level).

Traffic gradually improving, now at 25-30% of pre Covid-19 level

SPA started re-opening select LL and BS branches on 1 June, in line with the government's easing of the lockdown, while RR and Let's Relax Onsen just re-opened on 15 June. While the company has not made significant price reductions to attract customers, it has managed to already open 34 out of a total of 60 branches, catering almost entirely to domestic customers. This customer segment is sufficient for SPA to generate only 25-30% of revenue compared to the pre-Covid-19 level, in our estimate. Meanwhile, BS branch traffic is close to the normal level while LL is still struggling to reach break-even (somewhere around 60% of normal traffic).

International tourists necessary to sustain profit

The potential for a second wave of Covid-19 has risen in locations around the globe, especially in China. Thus, the ability to create a 'travel bubble' among Asian countries remains somewhat uncertain. Most beneficial to SPA's revenue would be a Mainland China/Taiwan/HK bubble given that this customer segment accounted for 55% of revenue before Covid-19. We believe SPA will see only minimal benefits from Rao Pai Tier Gun since there is greater propensity to use such funds to consume F&B.

Maintain HOLD with revised TP of Bt7.1

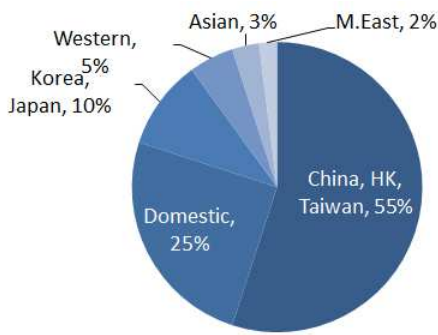
We roll our DCF-based TP forward to 2021F (WACC of 7.6% with terminal growth of 2%). We expect SPA to report a net loss in 2Q20F and possibly in 3Q20F from combination of higher operating cost and lower service capacity (should no travel bubble is established). However, we believe share price has already absorbed most of the negative news while Thailand still has strong fundamentals for tourism post-Covid-19. Key catalyst the share price is i) travel bubble/lifting of international travel bans, and ii) Covid-19 vaccine.

Forecasts and ratios

Year ended Dec 31	2018	2019	2020F	2021F	2022F
Sales (Bt,m)	1,134	1,384	654	1,102	1,612
EBITDA (Bt,m)	346	416	122	282	454
Net profit (Bt, m)	206	245	(32)	112	265
NP (% from prev)	n.a.	n.a.	n.a.	n.a.	n.a.
EPS (Bt)	0.36	0.43	-0.07	0.13	0.31
EPS (%YoY)	17.4	19.4	n.a.	n.a.	n.a.
EPS vs Cons (%)	n.a.	n.a.	n.a.	9.1	23.9
PER (x)	21.8	18.2	n.a.	55.4	23.4
Yield (%)	1.0	1.1%	n.a.	0.7	1.7
P/BV (x)	9.6	6.8	5.7	5.2	4.4
ROE (%)	25.1	23.8	-2.9	9.8	20.3

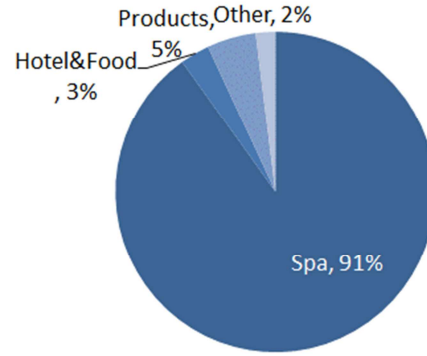
Source: Company data, TISCO Research estimates

Figure 1. Customer breakdown by nationality



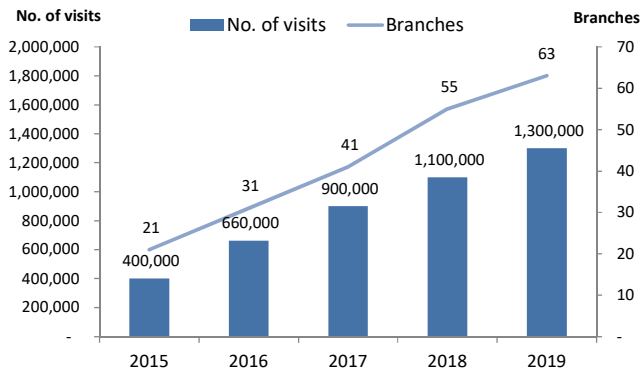
Source: Company data

Figure 2. Revenue breakdown by business



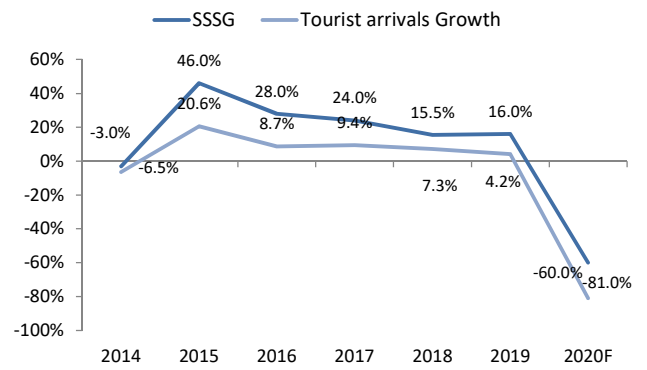
Source: Company data

Figure 3. No. of visit and branches



Source: Company data

Figure 4. SSSG and tourist arrival growth



Source: Company data, TISCO Research estimates

Figure 5. Stimulus plan overview

	Total State Budget (Bt, bn)	Estimated tourism gain (Bt, bn)	Indirect economic impact (Bt, bn)	Estimate employment increase in system
Kamlangjai (Support)	2.4	3.1	1.8	3,873
Rao Pai Tiew Kan (Lets travel)	18	29.9	17.3	37,252
Tiew Pan Sukh (Travel and happiness)	2	10.1	5.9	12,595

Source: Tourism Authority of Thailand, TISCO Research

Siam Wellness Group (SPA)

Rating : Hold

Bloomberg: SPA TB	Target price (THB)	7.10	Market Capitalization	THBm	6,199
	Current Price (THB)	7.25		USDm	200
	52-week Range	5.65 - 16.3			

Fiscal year end 31-Dec

	2018	2019	2020F	2021F	2022F
Income Statement (THBm)					
Sales and Service Incomes	1,134	1,384	654	1,102	1,612
Cost of Sales and Services	750	943	573	804	1,078
Gross Profit	384	441	82	298	534
S&A Expenses	152	163	85	139	203
Interest Expense	9	10	44	42	41
Net Result of Inv. in Asso.	0	0	0	0	0
Interest Income	0	0	0	0	0
Income Tax from Operations	35	45	-6	20	47
Net (Profit) Loss of M.I.	0	3	0	0	0
Net Profit before Extra. Items	206	245	-32	112	265
Extra items	0	0	0	0	0
Net Profit	206	245	-32	112	265

Cash Flow (THBm)

Net Profit	241	288	-38	132	311
Depreciation and Amortization	96	118	116	109	101
Change in working capital	8	-51	19	-10	20
Cash flow from operations (CFO)	318	325	103	210	387
Investment	0	0	0	0	0
Capex	-220	-161	-40	-40	-40
Cash Flows from Investing (CFI)	-219	-215	-40	-40	-40
Debt financing	-46	-51	268	-27	-24
Dividend paid	-40	-86	-88	0	-45
Share capital and premium	0	-1	71	0	0
Cash Flows from Financing (CFF)	-86	-137	251	-27	-69
Net cash increase/Decrease	13	-27	313	143	278

Balance Sheet (THBm)

Current Assets	176	289	419	582	883
Current Liabilities	224	245	353	354	390
Total Assets	1,369	1,516	2,693	2,788	3,027
Total Liabilities	399	384	1,611	1,593	1,613
Minority Interest	0	0	0	0	0
Total Equity	970	1,132	1,083	1,194	1,414
Paid-up Capital	143	143	214	214	214
Share Premium	279	279	279	279	279
Warrant	0	0	0	0	0
Retained Earnings	505	666	546	657	877
Equity Adjustment	0	0	0	0	0

Key Company Metrics

Sales growth (%)	19.7	22.0	-52.7	68.3	46.3
Net Profit growth (%)	17.4	19.4	n.a.	n.a.	136.6
Gross Margin (%)	33.9	31.9	12.5	27.0	33.1
SG&A to sale (%)	13.4	11.7	13.0	12.6	12.6
EBITDA Margin (%)	30.5	30.0	18.7	25.6	28.2
Net Margin (%)	18.1	17.7	-4.9	10.2	16.4
ROE (%)	23.8	23.4	-2.9	9.8	20.3
ROA (%)	16.2	17.0	-1.5	4.1	9.1
Net debt/equity (x)	0.3	0.2	1.2	1.0	0.6
Net interest cover (x)	28.3	28.4	0.1	4.1	8.6

Key Assumptions

SPA	1,009	1,263	572	993	1,607
Spa products	63	70	57	73	95
SSSG (%)	15.5	16.0	-60.0	70.0	2.0
GPM - SPA (%)	31.7	30.2	9.0	25.0	32.0
GPM - Spa products (%)	61.9	60.0	58.0	58.0	58.0

Quarterly Results (THBm)

	1Q19	2Q19	3Q19	4Q19	1Q20
Sales and Service Incomes	341	337	368	338	238
Cost of Sales and Services	231	240	245	227	201
Gross Profit	110	98	122	111	37
S&A Expenses	42	46	42	33	30
Interest Expense	2	3	3	2	9
Net Result of Inv. in Asso.	0	0	0	0	0
Interest Income	0	0	0	0	1
Income Tax from Operations	11	7	13	14	-0
Net (Profit) Loss of M.I.	-0	-0	2	1	0
Net Profit before Extra. Items	59	47	70	69	3
Extra items	0	0	0	0	0
Net Profit	59	47	70	69	3

Company profile

SPA operates the business of wellness spa and other related businesses. There are four main business operations: 1.Spa: The spa business under the brands "Let's Relax" "RarinJinda Wellness Spa" and "Baansuan Massage". 2.Hotel and Restaurant: A boutique hotel resort in Chiang Mai under the name "RarinJinda Wellness Spa Resort" and a restaurant under the name "Deck 1" and "D Bistro". 3.Sale of Spa Products: Distributes and sells spa related products under the brand "Blooming". 4.School of Traditional Thai Massage: Operates a school of traditional Thai massage under the name "Blooming Thai Massage School" to train therapist staff in massage and spa services to support SPA's business expansion.

Valuation

Our 2021F TP is Bt7.1, we based our target price on a DCF approach (WACC 7.6%, Terminal growth 2%) with the underlying assumption of Risk-free 1.1%, Risk premium 8.4%.

Risk

Key downside risks: i) Prolonging of Covid-19 (second wave) ii) Political disruptions iii) tourism-impacting events iv) price-war and v) lifting of travel ban delay from 4Q20

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Source: Company data, TISCO Research estimates

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	Score Range	Level	Description
 <p>Corporate Governance Report of Thai Listed Companies 2019</p>	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 November 30, 2018) 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 November 30, 2018)

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ESG Rating

The Thaipat ESG Index is designed to represent the performance of the selected Thai listed companies that are constituents of the ESG100 Universe, the 100 outstanding performers in terms of Environmental, Social and Governance (ESG) listed in Thai stock market (Both SET and mai), assessed by ESG Rating company, a whole subsidiary of Thaipat Institute.

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