

December 19, 2018

NEUTRAL

# Siam Wellness Group

(SPA TB)

Share Price: Bt11.60

Target Price: Bt12.30 (6.0%)

## A very good deal indeed

- SPA has bought 76% stake in a nail spa and eyelash business for Bt125m; acquisition price is attractive and it would create positive synergies for SPA
- Raised FY19-20F profit by 2% after incorporating CHABA profit; SPA plans to take on Bt100m debt to finance this deal
- NEUTRAL, raised TP to Bt12.30/sh (from Bt12); key risk is a slowing China economy

### CHABA should create positive synergies for SPA

SPA has bought 76% stake in CHABA for Bt125m. CHABA operates a nail spa and eyelash business and has 7 branches. SPA is targeting to open 2 new CHABA branches per year and expects to take the network to 12 stores by 2021. We are positive on this deal because valuation is attractive at 16x PE vs SPA's 24x, and their different customer bases and potential to share their respective expertise would create positive synergies. SPA focuses on Chinese tourists, while CHABA focuses on Thai customers. SPA could share its operating system with CHABA to reduce operating costs and offer nail and eyelash services at its *Let's Relax* stores.

### Raise FY19-20F earnings by 2% after incorporating CHABA

CHABA charges each customer Bt350-600 for nail polish service and over Bt1,300 for a spa package. An independent advisor guided CHABA's annual revenue would average Bt9m/store, implying 2019 revenue and net profit would be Bt61m and Bt10m, respectively. This means SPA should book Bt8m profit from CHABA based on 76% stake. This values the acquisition at 16x P/E. SPA plans to take on Bt100m debt to finance this deal. We raised FY19-20F earnings by 2% after imputing CHABA's profit less interest expense.

### NEUTRAL, raised TP to Bt12.30; key risk is a China slowdown

Our TP is based on DCF valuation (9% WACC, 3% TG) and implies 25x FY19F P/E and 1x PEG (3-year CAGR over FY17-20F). SPA's share price has fallen 11% since we downgraded the stock to NEUTRAL rating on 24 October. The stock is trading at only 24x FY19F P/E (-2SD of mean) currently but the risk-reward profile is unattractive as earnings growth would slow down to 24% p.a. over FY17-20F from 60% p.a. in the previous five years. The share price should hover at this level until Chinese tourist arrivals recover, which is unlikely in the near-term due to China's slowing economy. According to TAT, Chinese tourist arrivals fell 13.9% yoy in November.

### Financial Summary (Btm)

Year to Dec	2016	2017	2018F	2019F	2020F
Sales (Btm)	725	948	1,126	1,552	1,875
Growth (%)	36.0	30.7	18.8	37.8	20.8
EBITDA (Btm)	276	367	456	570	675
Growth (%)	29.7	33.1	24.1	25.0	18.5
Recurring profit (Btm)	141	175	203	272	337
Growth (%)	32.4	24.3	15.6	34.2	24.1
Net profit (Btm)	141	175	203	272	337
Normalized EPS (Bt)	0.25	0.31	0.36	0.48	0.59
Growth (%)	32.4	24.3	15.6	34.2	24.1
Normalized PE (x)	55.4	66.4	32.7	24.3	19.6
DPS (Bt)	0.10	0.12	0.14	0.19	0.23
Yield (%)	0.7	0.6	1.2	1.6	2.0
BVPS (Bt)	1.1	1.3	1.5	1.8	2.2
P/BV (x)	12.2	15.4	7.5	6.3	5.3



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### Key Data

12-mth high/low (Bt)	22.4 / 11.1
Market capital (Btm/US\$m)	6,612 / 202
3m avg. turnover (Btm/US\$m)	11 / 0.3
Free float (%)	45.8
Issued shares (m shares)	570
Major shareholders:	
-JIRAVANSTIT PRASERT	11.1
-UTSAHAJIT WIBOON	11.1
-SUPHAWATANAKIAT PRAN	9.4

### Share Price Performance



	YTD	1Mth	3Mth	12Mth
Absolute (%)	(43.1)	(8.7)	(26.6)	(39.3)
Relative to index (%)	(33.4)	(5.5)	(17.3)	(31.1)

### Krungsri Securities vs Market

	Positive	Neutral	Negative
Market Recommend	6	1	0
	<b>Krungsri</b>	<b>Market</b>	<b>% +/-</b>
Target Price (Bt)	12.3	15.3	(19.5)
'18 Net Profit (Btm)	203	211	(3.8)
'19 Net Profit (Btm)	271	270	0.2

### Krungsri's earnings revision

	2018F	2019F
Earnings revision (%)	0.0	2.1

Source: Bloomberg, Krungsri Securities

## Valuation

### NEUTRAL, raised TP to Bt12.30/sh (from Bt12)

We raised FY19-20F profit by 2% after incorporating CHABA's profit (less interest expense). We are positive on this deal because of the attractive acquisition price tag (16x FY19F PE vs SPA's 30x) and positive synergies for both companies given different customer bases and potential to share expertise.

Our new TP is based on DCF valuation (9% WACC, 3% TG) and implies 25x FY19F P/E and 1x PEG (3-year CAGR over FY17-20F).

#### SPA: Discounted cash flow

	2019F	2020F	2021F	2022F	2023F
Effective tax rate	19%	20%	21%	20%	20%
Operating EBIT	343	426	512	607	708
Less: Tax on EBIT	-63	-83	-105	-121	-142
Operating EBIT after tax	280	343	407	485	566
Add: Depreciation	114	125	135	144	152
Less: Changes in Operating Working Capital	34	26	24	7	30
Less: Capex	-250	-250	-250	-250	-250
Operating FCF	177	243	316	386	499
Discounted factor	1.0	0.9	0.8	0.8	0.7
<b>Discounted Value</b>	<b>177</b>	<b>224</b>	<b>267</b>	<b>299</b>	<b>356</b>

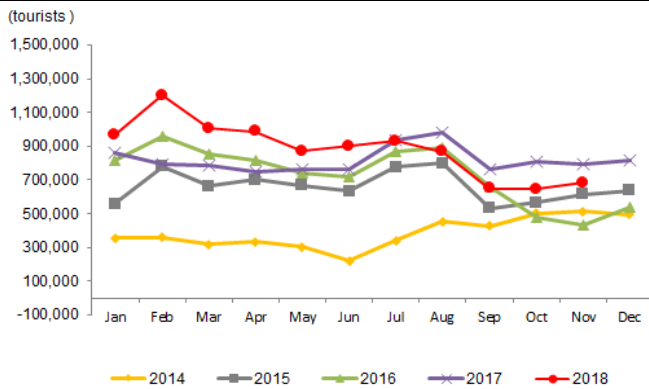
#### SPA: DCF Valuation

Risk-free rate	3.5%
Equity risk premium	8.5%
Beta	0.8
Interest rate	4.0%
CAPM Required Return	10.4%
Debt financing (%)	22%
<b>WACC</b>	<b>8.8%</b>
Debt financing	271
Equity	961
Firm value	966
Present value of terminal value	6,281
Total project value	7,247
Net cash	39
shares outstanding	570
<b>SPA value (Bt)</b>	<b>12.3</b>

Revised Assumptions

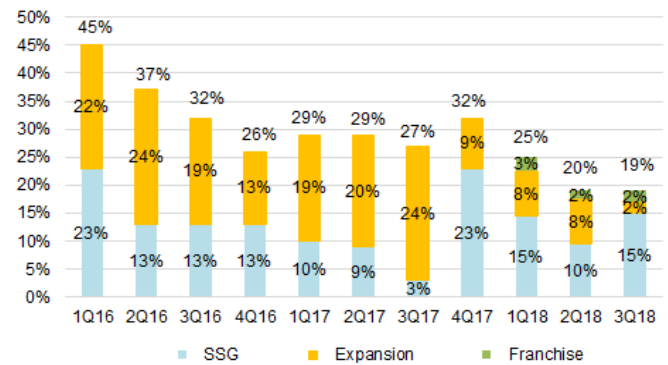
	Sales growth		Gross margin		SG&A/Sales	
	FY18F	FY19F	FY18F	FY19F	FY18F	FY19F
New assumption	18.8%	37.2%	34.3%	34.9%	13.2%	12.6%
Previous assumption	18.8%	33.1%	34.3%	34.9%	13.2%	12.6%

Inbound Chinese tourists



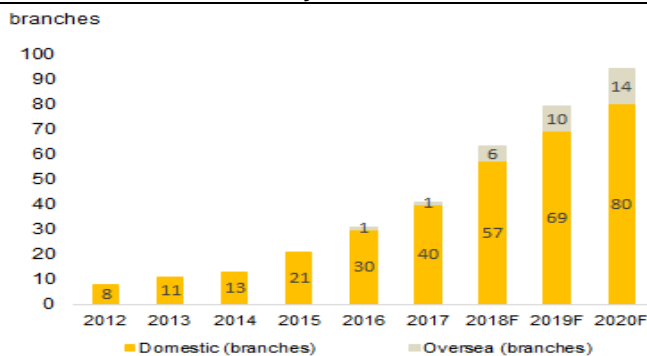
Source: TAT

SPA: Revenue growth for spa business



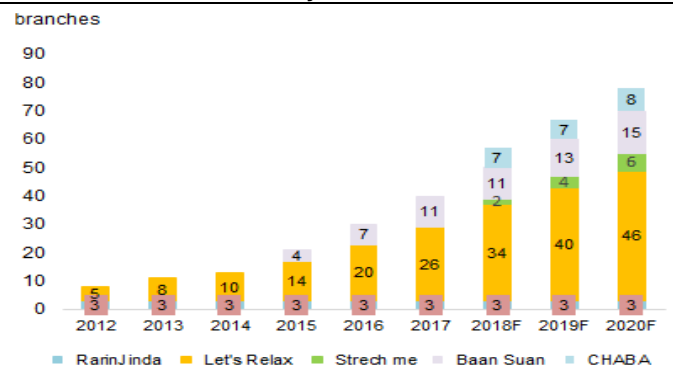
Source: Company data and Krungsri Securities

SPA: Number of branches by location



Source: Company data and Krungsri Securities

SPA: Number of branches by brand in Thailand



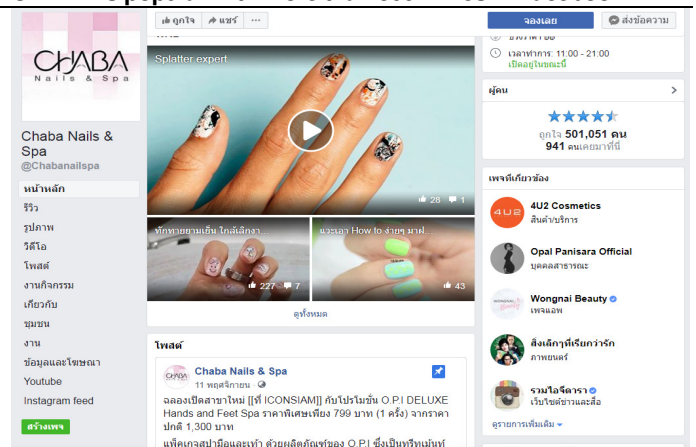
Source: Company data and Krungsri Securities

CHABA's shop front



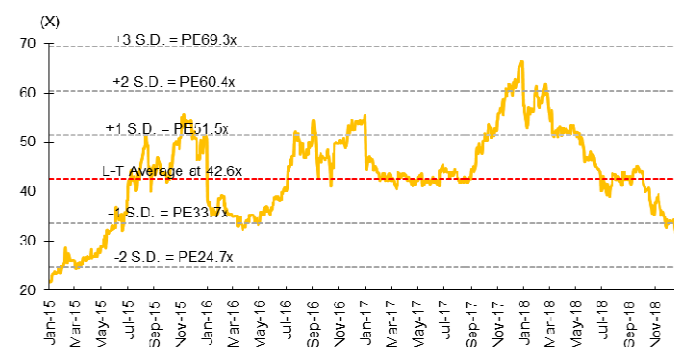
Source: Company data

CHABA is popular with more than 500K likes in Facebook



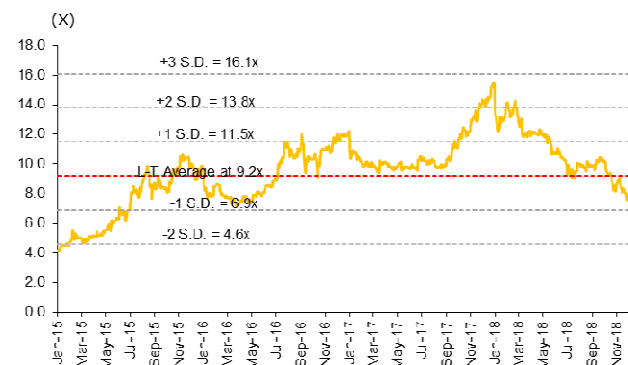
Source: Company data

**P/E Band**



Source: Bloomberg, Krungsri Securities

**P/BV Band**



Source: Bloomberg, Krungsri Securities

**Peer Comparison**

BB Ticker	Name	Market	PE		P/BV		EPS		Div Yield	ROE	Share Price Performance			
		Cap	(x)	19F	18F	(x)	19F	18F	(%)	(%)	1M	3M	6M	YTD
SPA TB	SIAM WELLNESS GROUP PCL	202	32.7	24.4	7.5	6.3	15.6	33.7	1.2	23.1	(8.7)	(26.6)	(27.5)	(43.1)
ERW TB	ERAWAN GROUP PCL/THE	475	26.5	22.5	2.8	1.1	15.5	17.7	1.1	10.8	(3.1)	(23.0)	(22.0)	(28.7)
CENTEL TB	CENTRAL PLAZA HOTEL PCL	1,649	25.1	23.4	4.2	1.6	8.2	7.06	1.6	18.2	0.0	0.6	(12.1)	(31.3)
MINT TB	MINOR INTERNATIONAL PCL	4,867	27.7	23.1	3.1	1.1	6.1	20	1.1	11.6	(3.5)	(13.8)	1.5	(21.1)
GYM LN	GYM GROUP PLC/THE	441	27.4	19.8	N/A	N/A	37.9	N/A	0.6	N/A	(22.3)	(18.2)	(11.0)	14.5
PLNT US	PLANET FITNESS INC - CL A	5,205	44.3	37.3	(33.5)	(11.4)	N/A	18.8	N/A	N/A	(0.2)	6.6	16.9	53.9
MED US	MEDIFAST INC	1,515	28.1	21.6	N/A	N/A	96.5	30.1	N/A	50.0	(20.0)	(44.0)	(25.3)	81.4
<b>Average (Simple)</b>			<b>30.3</b>	<b>24.6</b>	<b>(3.2)</b>	<b>(0.3)</b>	<b>30.0</b>	<b>21.2</b>	<b>1.1</b>	<b>22.7</b>				

Source: Bloomberg, Krungsri Securities

**SPA: Quarterly Earnings**

Unit: (Btm)	3Q17	4Q17	1Q18	2Q18	3Q18
Sales	243	256	279	265	288
COGS (incl. depreciation)	161	170	174	176	191
Gross Profit	83	86	105	89	97
SG&A	32	35	37	37	37
<b>Operating Profit</b>	<b>51</b>	<b>51</b>	<b>67</b>	<b>52</b>	<b>60</b>
Equity income	3	3	2	7	3
<b>EBIT</b>	<b>54</b>	<b>54</b>	<b>69</b>	<b>59</b>	<b>63</b>
Interest expense	2	3	2	2	2
<b>EBT</b>	<b>53</b>	<b>52</b>	<b>67</b>	<b>57</b>	<b>61</b>
Income tax	8	6	11	8	9
Minority interests	0	0	0	0	0
<b>Core profit</b>	<b>44</b>	<b>46</b>	<b>56</b>	<b>48</b>	<b>52</b>
Extra items	0	0	0	0	0
<b>Net income</b>	<b>44</b>	<b>46</b>	<b>56</b>	<b>48</b>	<b>52</b>
<b>EPS</b>	<b>0.08</b>	<b>0.08</b>	<b>0.10</b>	<b>0.08</b>	<b>0.09</b>

Source: Company data, Bloomberg, Krungsri Securities

<b>INCOME STATEMENT (Btm)</b>	<b>2016</b>	<b>2017</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
Sales	739	962	1,143	1,571	1,896
Cost of sales (COGS)	(429)	(542)	(624)	(899)	(1,092)
Depreciation & amortization	(55)	(77)	(116)	(131)	(142)
Gross profit	254	343	404	541	662
S&A expenses	(89)	(130)	(151)	(198)	(235)
<b>Operating profit</b>	<b>165</b>	<b>212</b>	<b>253</b>	<b>343</b>	<b>426</b>
Other operating income	0	0	0	0	0
<b>EBIT</b>	<b>165</b>	<b>212</b>	<b>253</b>	<b>343</b>	<b>426</b>
Interest expense	(2)	(7)	(7)	(9)	(7)
Interest income	0	0	0	0	0
Goodwill amortization	0	0	0	0	0
<b>Pre-tax profit</b>	<b>164</b>	<b>206</b>	<b>245</b>	<b>333</b>	<b>419</b>
Income tax on company & subsidiaries	(23)	(31)	(43)	(62)	(82)
<b>Profit after tax</b>	<b>141</b>	<b>175</b>	<b>203</b>	<b>272</b>	<b>337</b>
Minority interests	0	0	0	0	0
Share of associate net income	0	0	0	0	0
Preferred dividends	0	0	0	0	0
<b>Recurring attributable net profit</b>	<b>141</b>	<b>175</b>	<b>203</b>	<b>272</b>	<b>337</b>
Extraordinary items	0	0	0	0	0
<b>Reported net profit</b>	<b>141</b>	<b>175</b>	<b>203</b>	<b>272</b>	<b>337</b>
Shares in issue (Y/E, m)	570	570	570	570	570
Shares in issue (weighted avg, m)	570	570	570	570	570
EPS (before extraordinary items, Bt)	0.25	0.31	0.36	0.48	0.59
DPS (Bt)	0.10	0.12	0.14	0.19	0.23
DPS/EPS (%)	40	39	39	39	39

<b>CASH FLOW (Btm)</b>	<b>2016</b>	<b>2017</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
Profits before tax	165	212	253	343	426
Depreciation & amortization	55	77	116	131	142
<b>EBITDA</b>	<b>221</b>	<b>290</b>	<b>369</b>	<b>473</b>	<b>568</b>
Notional cash taxes on ungeared operations	(23)	(31)	(43)	(62)	(82)
Interest payment	(2)	(7)	(7)	(9)	(7)
Net change in working capital	17	21	21	34	26
<b>Cash flow from Operations</b>	<b>213</b>	<b>274</b>	<b>339</b>	<b>436</b>	<b>505</b>
Capex	(274)	(265)	(550)	(300)	(275)
Other	(8)	(75)	68	(22)	(16)
<b>Cash flow from Investment</b>	<b>(283)</b>	<b>(339)</b>	<b>(482)</b>	<b>(322)</b>	<b>(291)</b>
Net borrowings	99	162	34	(50)	(70)
Equity capital raised	0	0	0	0	0
Dividends paid	(57)	(68)	(79)	(106)	(132)
Others	0	9	0	0	0
<b>Cash flow from financing</b>	<b>42</b>	<b>103</b>	<b>(45)</b>	<b>(156)</b>	<b>(202)</b>
<b>Net change in cash</b>	<b>(27)</b>	<b>37</b>	<b>(189)</b>	<b>(42)</b>	<b>12</b>

<b>BALANCE SHEET (Btm)</b>	<b>2016</b>	<b>2017</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
Cash & equivalents	33	67	(122)	(164)	(152)
A/C receivable	9	12	15	20	25
Inventory	20	28	33	46	55
Others	26	84	0	0	0
<b>Total Current Assets</b>	<b>88</b>	<b>191</b>	<b>(74)</b>	<b>(98)</b>	<b>(72)</b>
Property and equipment	699	889	1,324	1,493	1,626
Investments & associates	13	10	11	11	12
Other assets	37	51	60	83	100
Goodwill	28	34	32	31	29
<b>Total Assets</b>	<b>865</b>	<b>1,175</b>	<b>1,353</b>	<b>1,520</b>	<b>1,695</b>
Short-term debt	20	77	54	54	34
A/C payable	70	86	102	141	170
Other current liabilities	30	44	42	43	43
<b>Total Current Liabilities</b>	<b>120</b>	<b>207</b>	<b>198</b>	<b>237</b>	<b>246</b>
Long-term debt	80	185	242	192	142
Other liabilities	26	29	34	47	57
<b>Total Liabilities</b>	<b>226</b>	<b>421</b>	<b>474</b>	<b>476</b>	<b>446</b>
Share capital	143	143	143	143	143
Share premium	279	279	279	279	279
Revaluation/Warrants/Treasury	0	0	0	0	0
Translation adjustment	(6)	(6)	(6)	(6)	(6)
Retained earnings	223	339	462	628	834
<b>Total ordinary equity</b>	<b>639</b>	<b>755</b>	<b>878</b>	<b>1,044</b>	<b>1,249</b>
Preferred equity	0	0	0	0	0
Minorities	0	0	0	0	0
<b>Total equity &amp; minorities</b>	<b>639</b>	<b>755</b>	<b>878</b>	<b>1,044</b>	<b>1,249</b>
BV per ordinary share (Y/E, Bt)	1.12	1.32	1.54	1.83	2.19
Adjusted book value ps (Y/E, Bt)	1.12	1.32	1.54	1.83	2.19
<b>RATIOS (%)</b>	<b>2016</b>	<b>2017</b>	<b>2018F</b>	<b>2019F</b>	<b>2020F</b>
<b>Growth</b>					
Turnover	36.0	30.7	18.8	37.8	20.8
EBITDA	27.0	31.4	27.1	28.5	20.1
EBIT	22.7	28.5	19.0	35.7	24.3
Net profit	32.4	24.3	15.6	34.2	24.1
EPS pre extraordinary items	32.4	24.3	15.6	34.2	24.1
EPS (diluted)	32.4	24.3	15.6	34.2	24.1
DPS	0.0	20.0	15.6	34.2	24.1
<b>Accounting ratios</b>					
Gross profit margin	33.2	34.6	34.3	33.6	34.2
Operating profit margin	22.8	22.4	22.4	22.1	22.7
EBITDA margin	38.1	38.8	43.0	38.9	37.9
EBIT margin	22.8	22.4	22.4	22.1	22.7
Net profit margin	19.4	18.5	18.0	17.5	18.0
ROA	16.3	14.9	15.0	17.9	19.9
ROE	22.1	23.2	23.1	26.0	27.0
<b>Stability</b>					
D/E (x)	0.4	0.6	0.5	0.5	0.4
Net D/E (x)	0.2	0.3	0.3	0.2	0.1
Interest Coverage Ratio	105.6	n.a.	n.a.	n.a.	n.a.
Current ratio (x)	0.7	0.9	(0.4)	(0.4)	(0.3)
Quick ratio (x)	0.6	0.8	(0.5)	(0.6)	(0.5)
<b>Valuation (x)</b>					
PER	55.4	66.4	32.7	24.3	19.6
Normalized PER	55.4	66.4	32.7	24.3	19.6
P/BV	12.2	15.4	7.5	6.3	5.3
EV/EBTDA	28.6	31.6	13.6	11.2	9.6
Dividend yield (%)	0.7	0.6	1.2	1.6	2.0