

Siam Wellness Group

Attractive re-entry point; upgrade to BUY

Earnings should grow 22.4% YoY in 2Q18F to Bt49.4m

Due to the low season in the second quarter, coupled with domestic branch expansion, we expect SPA's 2Q18 net profit to decline 12.1% QoQ to Bt49.4m. However, we estimate impressive earnings growth of 22.4% YoY, aided by 8% YoY (23% YoY for Chinese) growth in tourist arrivals in April-May 18.

We anticipate impressive revenue of Bt267m (+19.5% YoY, -4.3% QoQ): Although SPA opened only 1 new branches in Thailand, it successfully established 4 new franchise branches abroad (two in Phnom Penh and one each in the Chinese cities of Qingdao and Tianjin) which envisions its path to become regional spa leader.

GPM estimated at 35.5%: this is down from 37.5% in 1Q18 due to the low season compare to the peak in 1Q18 from Chinese's New Year festival.

Expect a reduction in SG&A to sales by 100bps YoY: we estimate the ratio fell from 14.7% in 2Q17 to 13.7% in 2Q18 thanks to additional upfront fees from overseas branches.

Brighter 2H18 outlook due to ambitious expansion plan and low base: We expect earnings to accelerate in 2H18 due to i) the addition of 3-4 branches, mostly SPA's flagship brand Let's Relax ii) increasing revenue recognition from franchises and iii) low base effect from major renovation of branches in 4Q17.

Upgrade to BUY with unchanged TP of Bt18

We upgrade our rating to BUY from HOLD with an unchanged TP of Bt18 (DCF-based, WACC 8.4%, TG 5%). The stock has fallen 32% from its peak in Feb-18 and is now trading at PERs of 36-29x in 2018-19F and 0.9x PEG in 2018F. We view its current level as attractive given SPA's long-term growth potential in both the domestic market and its opportunities to expand overseas.

Rating

BUY

(upgraded)

12 month Target Price

Bt18.00

Current Price (03/07/2018)	Bt15.30
Upside/Downside	18%
CG Rating	3
Thai CAC	n/a

Sector	SERVICE (mai)
Sector PER (x)	n.a.

Financial Summary

Year	2017	2018F	2019F	2020F
Net Profit (Bt,m)	175	245	297	343
EPS (Bt)	0.31	0.43	0.52	0.60
EPS Growth (%)	24.3	39.9	21.0	15.7
PER (x)	47.1	35.6	29.4	25.4
PBV (x)	10.9	11.3	9.3	7.7
Div Yield (%)	0.7	1.1	1.4	1.6

Source : TISCO Research

Figure 1. Result Preview; 2Q18F should be the bottom

Bt, m	2Q18F	2Q17	YoY%	1Q18	QoQ%	1H18F	1H17
Sale revenue	267	223	19.5%	279	-4.3%	546	449
Cost of sales and services	172	148	16.7%	174	-1.3%	347	289
Gross Profit	95	76	25.1%	105	-9.5%	199	159
S&A Expenses	37	33	11.2%	37	-2.7%	74	63
EBIT	60	49	23.6%	69	-12.5%	129	104
Interest expense	2	1	66.5%	2	1.3%	4	2
Net Profit before Tax	58	47	22.4%	67	-13.0%	125	101
Net Profit Bef Extra	49.4	40.3	22.4%	56.2	-12.1%	105.5	85.5
Net Profit	49.4	40.3	22.4%	56.2	-12.1%	105.5	85.5
EPS (Bt)	0.09	0.07	22.4%	0.10	-12.1%	0.19	0.15
Gross margin	35.5%	33.9%		37.5%		36.5%	35.5%
SG&A to sales	13.7%	14.7%		13.4%		13.5%	14.1%
EBIT margin	22.6%	21.8%		24.7%		23.7%	23.1%
Net margin	18.5%	18.1%		20.1%		19.3%	19.1%

Source: TISCO Research estimates

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Corporate Governance Report
of Thai Listed Companies 2017

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 February 1, 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 February 1, 2018)

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