

Siam Wellness Group

Domestic leader looks to widen regional reach

Second to none in domestic Spa industry; now looking at regional opportunities

SPA enjoys a dominant industry position with 24 branches nationwide (plus 1 in China) which are well-known to both domestic and international tourists. Though we expect 2Q16 earnings to be soft QoQ on low Chiang Mai hotel occupancy and lack of new branch openings (only 2, in late June), we still see a healthy 2H16 outlook. This is underpinned by onset of the high season and the company's aggressive expansion plan (debut in CLMV expected). We still like SPA and maintain our BUY rating with 2017F target price of Bt13.10/share, justified by 30% CAGR growth in 2016-18F and a strong industry position.

2Q16 - Expect big YoY revenue growth on branch expansion

We expect SPA to report a 2Q net profit of Bt32m, +37% YoY but -8% QoQ (after 7 straight quarters of strong QoQ growth). We expect revenue to come in at Bt165m, up 35% YoY on branch expansion (18 to 24), but down 3.7% QoQ due to low season in the hotel business (contributes 10% to SPA's total revenue). SPA's operations remained steady during the quarter with the company reporting an 85% staff utilization rate (vs. from 88% in 1Q16 and 82% in 2Q15). Impact from the two new branches added during the quarter (Let's Relax Holiday Inn Krabi and the first overseas branch in Kunming, China) should be minimal as they opened in late May-June. Gross profit margin should stay at 36% while SG&A should increase 4.9% QoQ on salary adjustment and special bonuses.

2H16 - High season plus help from new expansion model and SCB partnership

Spa management maintains its target of 10 new branches this year (7 branches to be added in 2H16). We believe the company's new expansion model (management + rebranding contract with hotels that have existing facilities) should materially enhance operating margin at new branches, helping SPA achieve its yearly targets. We see a positive 2H16 outlook as we move towards the high-season, and highlight that the company's strategic move to partner with SCB First in 2Q16 (Late March) has already expanded SPA's customer base both in Bangkok and upcountry (by +2,000 users in total). Note that 1H16F accounts for 44% of our full year forecast; we maintain our forecast and expect earnings to pick up on the back of branch expansion and onset of the tourism high-season in 2H16.

Maintain Buy Rating with TP of Bt13.10

We reiterate our "BUY" recommendation and upgrade TP from Bt11.3 to Bt13.10 after rolling-over our TP to FY2017 and adjusting both RF and RP in our DCF model (WACC 8.1%, TG 5%). Valuations are rich with PER at 44x and 35x for 2016-17F respectively, but SPA offers 30% 2016-17F CAGR earnings growth and we see upside risk from further branch expansion in China and CLMV this year. Risks include staffing shortages, political disruptions, and expansion delay.

FINANCIAL SUMMARY

Year End Dec 31	2013	2014	2015	2016F	2017F	2018F
Total Revenue (Bt, m)	320	338	533	723	879	1,071
EBITDA (Bt, m)	101	73	174	241	294	359
Net profit (Bt, m)	60	33	106	151	187	233
Net profit growth (%)	229.9%	-44.8%	220.3%	41.6%	23.7%	24.9%
EPS (Bt)	66.9	0.06	0.19	0.26	0.33	0.41
EPS growth (%)	n.a.	-61.3%	220.3%	41.6%	23.7%	24.9%
PER (X)	n.a.	135.44	38.04	44.22	35.76	28.63
PBV (X)	n.a.	13.61	7.30	6.24	5.33	4.50
Yield (%)	n.a.	0.3%	1.4%	1.1%	1.4%	1.7%
ROE (%)	40.3%	9.7%	20.5%	25.1%	26.5%	28.1%

Source: Company data, TISCO Research

Rating

BUY

(unchanged)

12 month Target Price

Bt13.10

Current Price (15/07/2016)	Bt11.70
Upside/Downside	12%
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:	Bt6.7bn
Avg. Daily Turnover:	Bt19.9m
Foreign Limit/Actual (%)	49/0
Free Float:	32.2%
NVDR:	1.2%
Beta (3 years)	0.5x

TISCO's forecast vs. consensus

EPS (Bt)	TISCO	Consensus	% Diff.
2016F	0.26	0.25	4.6%
2017F	0.33	0.33	-0.8%

PRICE / PRICE RELATIVE



Source: Bloomberg Finance LP

Performance (%)	-1m	-3m	-12m
SPA	22.51	35.26	47.17
SET	3.98	6.67	0.35

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Figure 1. 2Q16F earnings; big YoY growth, small QoQ pull-back

Bt, m	2Q16F	2Q15	YoY	1Q16	QoQ
Sale revenue	165	122	35.8%	171	-3.7%
Cost of sales and services	106	75	40.2%	109	-3.4%
Gross Profit	59	46	28.6%	62	-4.2%
S&A Expenses	24	20	22.0%	23	4.9%
EBIT	40	30	34.2%	44	-7.8%
Interest expense	0	0	-83.1%	0	34.6%
Net Profit before Tax	40	30	35.8%	44	-7.9%
Net Profit Bef Extra	32	24	37.0%	35	-8.2%
Net Profit	32	24	37.0%	35	-8.2%
EPS (Bt)	0.06	0.04	36.6%	0.06	-8.2%
Gross margin	35.9%	37.9%		36.1%	
SG&A to sales	14.5%	16.2%		13.4%	
EBIT margin	24.4%	24.7%		25.5%	
Net margin	19.6%	19.4%		20.6%	

Source: SET, TISCO Research

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Corporate Governance Report of Thai Listed Companies 2015

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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