

25 August 2022

Company Note

Rating

BUY

(Unchanged)

Company

Siam Wellness Group

Bloomberg SET Exchange Sector
SPA TB SPA MAI Services

Sentiment still positive, new venture holds promise

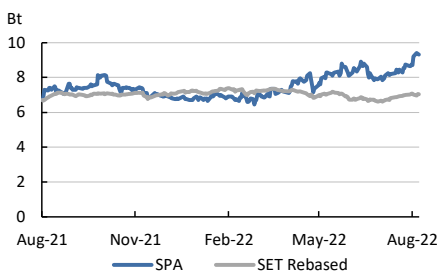
12mth price target (THB) 12.50
(from Bt12.1)

Current price (24/08/2022)	9.30
Upside/Downside	34%
CG rating	4
ESG rating	ESG100
Thai CAC	n/a

Share summary

Issue shares :	(m shrs)	855.0
Market capitalization:	(THB bn)	8.0
	(USD bn)	0.2
Avg. Daily Turnover:	(THBm)	17.4
	(USDm)	0.5
Foreign Limit/Actual	(%)	49/2
Free Float:	(%)	56.3
NVDR:	(%)	2.1

Share price / rel. to SET



Source: Bloomberg Finance LP

Performance (%)	1m	3m	12m
SPA	17.0	17.0	27.4
SET	5.5	0.3	5.0

Major Shareholders

Shareholder	%
Mr. Wiboon Utsahajit	11.11
Mr. Prasert Jiravanstitt	10.33
Mrs. Pranee Suphawanakiat	9.13

Source: SET

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Maintain Buy on recovery play

Optimism on Thailand's tourism industry is carrying into 2H22F and we think SPA will be able to turn a profit in 4Q22F, helped by onset of the high season. We also have a positive view of Siam Wellness Amara (SWA), expecting it to tap a new revenue stream from medical-grade cannabis treatment and services (launching flagship branch in 4Q22F). After making minor revisions, we reiterate our Buy rating with TP of Bt12.5. Key catalysts include i) resumption of foreign tourism, especially Chinese, ii) return of profitability in 4Q22F and iii) success of the Sleep Clinic JV.

Tourism momentum still gaining traction

According to the TAT, tourist arrivals in August numbered roughly 42k/day. Using that rate, arrivals would exceed 1.2m in Aug only compared to only 3.3m for all of 1H22A. Hence, we believe our 10.2m arrivals assumption for 2022F is attainable, though challenging. Moreover, CAAC is seeking to increase the frequency of scheduled flights between China and Thailand from currently 3/week to 15/week in Sept. This would add support to SPA's recovery given that Chinese tourists were the major portion of the company's customer base (60-70% revenue contribution) in the pre-Covid19 era.

Exploring opportunities in the medical cannabis market through SWA

We have a positive view of the recent JV between SPA (51%) and fully integrated cannabis player Amara Asia (49%) to open a 'sleep clinic' with Capex of Bt50m in 4Q22F. This venture should be able to create another revenue stream given the current customer profile (mid-upper income customers; small tele-med corner to be installed in the current 20 Let's Relax branches). Amara Asia's medical-grade cannabis product is also endorsed by the Institute of Dermatology Thailand (Government Agency). SPA targets revenue of Bt50m in 2023F from the entity while we assume Bt25-40m revenue pa for 2023-25F.

Our TP is based on DCF

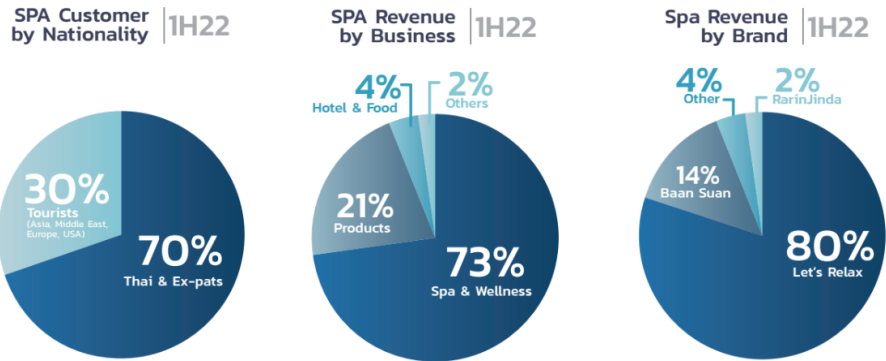
We reiterate Buy rating with a revised TP of Bt12.5 (from Bt12.1 previously) after accounting for the SWA biz. We base our TP on the DCF method (WACC of 7.8% from 8.4% previously with terminal growth of 2.5%). Key risk is lower-than-expected tourist arrivals.

Forecasts and ratios

Year ended Dec 31	2020	2021	2022F	2023F	2024F
Sales (THBm)	427	168	568	1,452	1,659
EBITDA (THBm)	17	75	287	633	638
Net profit (THBm)	(209)	(287)	(88)	219	261
Net Profit (% chg from prev)			n.a.	n.a.	n.a.
EPS (THB)	(0.24)	(0.34)	0.10	0.26	0.31
EPS (% YoY)	n.a.	n.a.	n.a.	n.a.	19.2
EPS vs Cons (%)			34.9	44.0	5.9
PER (X)	n.a.	n.a.	n.a.	36.2	30.4
Yield (%)	n.a.	n.a.	n.a.	1.4	1.6
P/BV (X)	6.2	10.4	15.0	10.6	8.6
ROE (%)	(20.5)	(37.6)	(15.2)	34.2	31.2

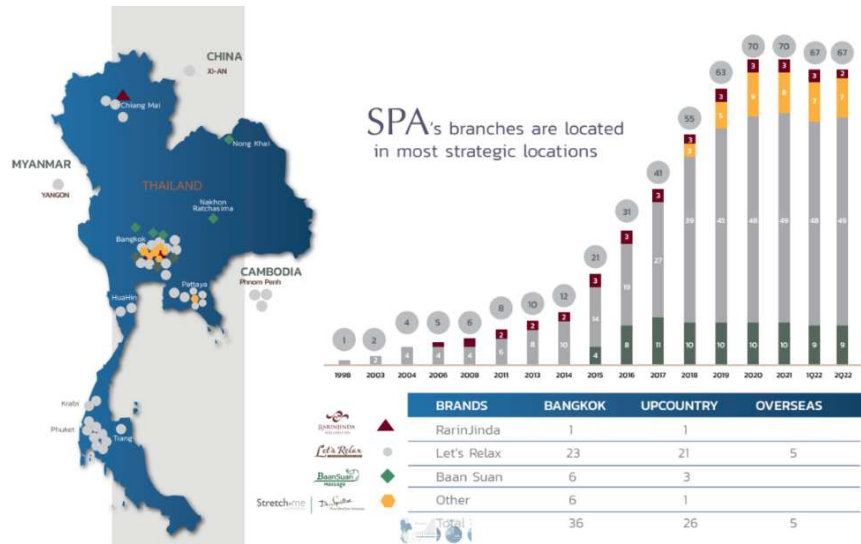
Source: Company data, TISCO Research estimates

Figure 1. Revenue breakdown



Source: Company data

Figure 2. Branch location breakdown



Source: Company data

Figure 3. Changes to key assumptions

Bt,m	2022F			2023F		
	Old	New	% Chg	Old	New	% Chg
Sale Revenue	528	568	7.6	1,420	1,427	0.5
Gross margin (%)	1.8	15.0	727.1	33.1	33.1	-0.2
SG&A	24.0	24.0	0.0	12.6	12.4	-1.7
Net profit	(147)	(88)	n.a.	214	219	2.6
EPS (Bt)	(0.17)	(0.10)	n.a.	0.25	0.26	2.6
SSGG (%)	367%	433%	n.a.	257%	213%	-17.4

Source: TISCO Research estimates

Siam Wellness Group (SPA)

Rating : Buy

Bloomberg: SPA TB	Target price (THB)	12.50	Market Capitalization	
	Current Price (THB)	9.30	THBm	7,952
	52-week Range	6.45 - 9.4	USDm	221

Fiscal year end 31-Dec	2020	2021	2022F	2023F	2024F
Income Statement (THBm)					
Sales and Service Incomes	427	168	568	1,452	1,659
Cost of Sales and Services	507	319	483	972	1,110
Gross Profit	-80	-151	85	480	549
S&A Expenses	119	108	136	180	204
Interest Expense	21	44	55	61	58
Net Result of Inv. in Asso.	0	0	0	0	0
Interest Income	2	2	1	1	1
Income Tax from Operations	-2	-9	-10	39	47
Net (Profit) Loss of M.I.	0	0	0	-2	-2
Net Profit before Extra. Items	-209	-287	-88	219	261
Extra items	0	0	0	0	0
Net Profit	-209	-287	-88	219	261
Cash Flow (THBm)					
Net Profit	-211	-295	-97	260	310
Depreciation and Amortization	206	327	329	312	270
Change in working capital	52	8	10	93	9
Cash flow from operations (CFO)	33	-81	252	626	543
Investment	0	5	0	0	0
Capex	-141	-30	-197	-169	-162
Cash Flows from Investing (CFI)	-132	-25	-197	-169	-162
Debt financing	178	101	4	120	-64
Dividend paid	-17	0	0	0	-88
Share capital and premium	0	0	0	0	0
Cash Flows from Financing (CFF)	161	101	4	120	-152
Net cash increase/Decrease	62	-5	59	577	229

Balance Sheet (THBm)					
Current Assets	231	203	324	854	1,088
Current Liabilities	361	374	405	450	455
Total Assets	2,632	2,258	2,214	2,601	2,728
Total Liabilities	1,727	1,639	1,683	1,850	1,804
Minority Interest	0	0	0	0	0
Total Equity	905	618	531	750	924
Paid-up Capital	214	214	214	214	214
Share Premium	279	279	279	279	279
Warrant	0	0	0	0	0
Retained Earnings	368	81	-6	213	387
Equity Adjustment	0	0	0	0	0

Key Company Metrics							
Sales growth (%)	-	69.1	-	60.7	238.8	155.7	14.2
Net Profit growth (%)	-	n.a.	-	n.a.	n.a.	n.a.	n.a.
Gross Margin (%)	-	18.7	-	90.0	15.0	33.1	33.1
SG&A to sale (%)	-	27.8	-	64.3	24.0	12.4	12.3
EBITDA Margin (%)	-	3.9	-	45.0	50.5	43.6	38.5
Net Margin (%)	-	49.0	-	171.1	-	15.4	15.1
ROE (%)	-	20.5	-	37.6	-	15.2	34.2
ROA (%)	-	10.1	-	11.7	-	3.9	9.1
Net debt/equity (x)	-	1.8	-	2.5	-	2.9	1.5
Net interest cover (x)	-	8.8	-	5.7	-	0.8	5.3

Key Assumptions					
SPA	349	127	444	1,271	1,447
Spa products	61	29	84	95	111
SSSG (%)	-75.6	-80.0	433.3	212.5	10.0
GPM - SPA (%)	-32.4	-123.6	8.0	32.0	32.0
GPM - Spa products (%)	59.0	44.8	45.0	50.0	50.0

Quarterly Results (THBm)					
	2Q21	3Q21	4Q21	1Q22	2Q22
Sales and Service Incomes	22	13	77	110	132
Cost of Sales and Services	75	56	90	129	121
Gross Profit	-	53	-	43	-
S&A Expenses	27	28	27	29	32
Interest Expense	11	11	11	10	11
Net Result of Inv. in Asso.	-	-	-	-	-
Interest Income	1	0	0	0	0
Income Tax from Operations	-	3	-	2	-
Net (Profit) Loss of M.I.	-	-	-	-	-
Net Profit before Extra. Items	-	87	-	78	-
Extra items	-	-	-	-	-
Net Profit	-	87	-	78	-

Source: Company data, TISCO Research estimates

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

We based our target price on a DCF approach (WACC 7.8%, Terminal growth 2.5%) with the underlying assumption of Risk-free 3.2%, Risk premium 6.4%.

Risk

Key downside risks: i) Lower no. of tourist arrival ii) Political disruptions iii) tourism-impacting events.

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	Score Range	Level	Description
 National CG Committee Corporate Governance Report of Thai Listed Companies 2021	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 October 26, 2021) 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 October 26, 2021)

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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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