

BUY (Unchanged)**TP: Bt 16.00** (Unchanged)

Change in Numbers

Upside : 15.1%

25 APRIL 2019

Siam Wellness Group (SPA TB)

Adding new drivers

We like SPA's strong and growing core massage spa business and maintain our BUY call with a Bt16 TP, despite 10-12% earnings cuts in 2019-21F to reflect slower tourism growth, delayed product launches, and costs for its new businesses. However, continuing expansion of its services portfolio is a solid long-term growth driver in our view.

**NUTTAPOP PRASITSUKSANT**

662 – 617 4986

nuttapop.pra@thanachartsec.co.th

New services

SPA recently launched three new services, i.e. a stretching center "Stretch Me", facial spa "Face Care", and nail spa "Chaba", which we expect to become the company's new growth drivers. "Stretch Me" is gaining traction as an alternative treatment for the widespread so-called "office syndrome". We expect it to break even in early 2020F, making up 2% of SPA's total revenue. SPA acquired a 76% stake in "Chaba" in January. "Chaba" is already making a profit and is popular among Thai teens and young office workers. We expect it to contribute around 5% of revenue and 4% of profit this year. These two businesses should reduce SPA's dependency on Thai tourism since they target local people. New treatments offered at its Face Care center are aimed at tourists in seaside areas and enhance average ticket size.

Healthy core business

We project revenue growth at its core spa business of 23% in 2019F, 16% in 2020F, and 13% in 2021F (22% in 2018). Our same-store sales growth (SSSG) assumptions are 13%, 11% and 9%, respectively. Branch expansions are still at 10 p.a. SPA had a total of 49 domestic branches in 2018, with six franchised overseas branches. Eight out of 10 new branches this year are planned to be its flagship "Let's Relax" spa. We also expect gross margin expansion from a recovering utilization rate and the launch of higher-margin spa products from 2Q19F. Our forecasts are 33-35% in 2019-21, up from the 30.8% trough in 4Q18.

Some earnings revisions

We revise down our earnings for SPA by 10-12% in 2019-21F. *First*, the new businesses mentioned above will likely make losses in the first year of operations in 2019F. *Second*, given slower tourist arrival growth, we cut our SSSG assumptions to 9-13% in 2019-21F (from 12-15%). *Third*, the launch of its higher-margin spa products has been delayed into 2Q19F. At the same time, net profit contribution from the acquired "Chaba" nail spa does not look to be significant this year.

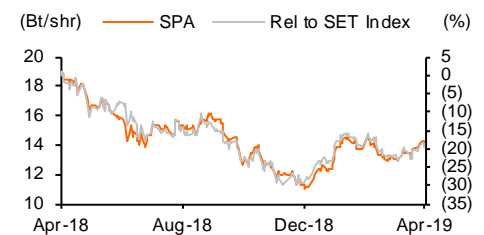
Valuation not too rich in our view

Given a decent 21% EPS CAGR over 2019-21F, a strong balance sheet, the fact that it's a cash business, and it being in the highly resilient tourism industry, we don't see SPA's 32x 2019F PE as overly demanding. Though SPA is in a net cash-cycle business, capex requirements don't look high. We project EBITDA of Bt400m-600m vs. capex of Bt150m-200m a year in 2019-21F. We estimate ROE at 24% this year, before rising to 27% in 2021F from scale benefits and increased contribution from new businesses. Gearing looks low at a 0.2x net D/E ratio and we estimate SPA to turn net cash in 2021F.

COMPANY VALUATION

Y/E Dec (Bt m)	2018A	2019F	2020F	2021F
Sales	1,134	1,439	1,683	1,938
Net profit	206	251	312	364
Consensus NP	—	268	330	386
Diff frm cons (%)	—	(6.6)	(5.2)	(5.9)
Norm profit	206	251	312	364
Prev. Norm profit	—	278	351	414
Chg frm prev (%)	—	(10.0)	(10.9)	(12.2)
Norm EPS (Bt)	0.4	0.4	0.5	0.6
Norm EPS grw (%)	17.4	21.9	24.7	16.4
Norm PE (x)	38.5	31.6	25.4	21.8
EV/EBITDA (x)	24.6	20.1	16.0	13.3
P/BV (x)	8.2	7.1	6.2	5.3
Div yield (%)	1.1	1.6	2.0	2.3
ROE (%)	23.8	24.0	26.0	26.3
Net D/E (%)	14.1	18.0	7.6	(3.9)

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 25-Apr-19 (Bt)	13.90
Market Cap (US\$ m)	247.7
Listed Shares (m shares)	570.0
Free Float (%)	55.2
Avg Daily Turnover (US\$ m)	0.2
12M Price H/L (Bt)	19.00/11.00
Sector	MAI
Major Shareholder	Jiravanstit family 15.96%

Sources: Bloomberg, Company data, Thanachart estimates

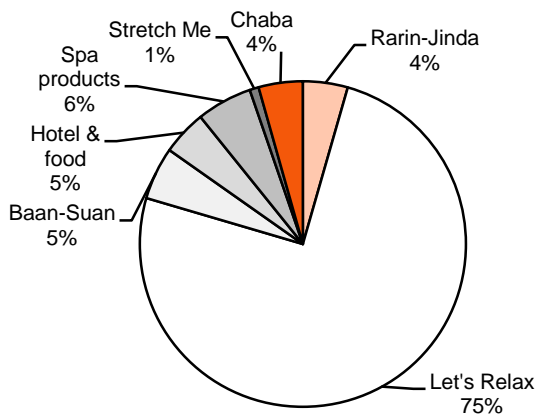


Ex 1: Key Assumption Changes

	2019F	2020F	2021F
Net sales (Bt m)			
- New	1,439	1,683	1,938
- Old	1,414	1,669	1,926
- Change (%)	1.8	0.9	0.6
Gross margin (%)			
- New	33.1	34.4	34.7
- Old	36.9	38.3	38.7
- Change (pp)	(3.8)	(4.0)	(4.0)
Normalized profits (Bt m)			
- New	251	312	364
- Old	278	351	414
- Change (%)	(10.0)	(10.9)	(12.2)

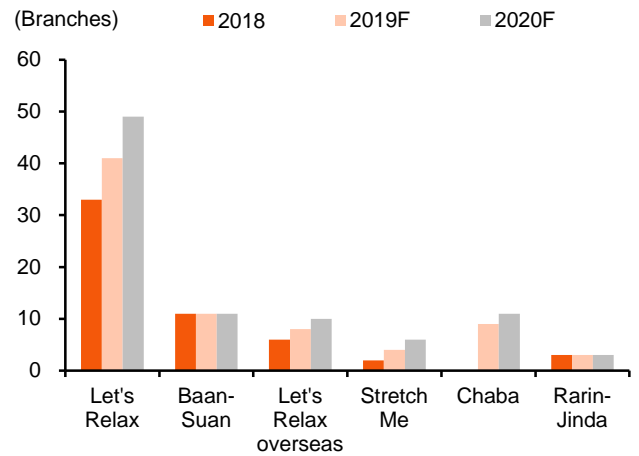
Source: Thanachart estimates

Ex 2: Let's Relax Contributes A Huge Portion Of Revenue



Sources: Company data; Thanachart estimates

Ex 3: Branch Expansion Plan



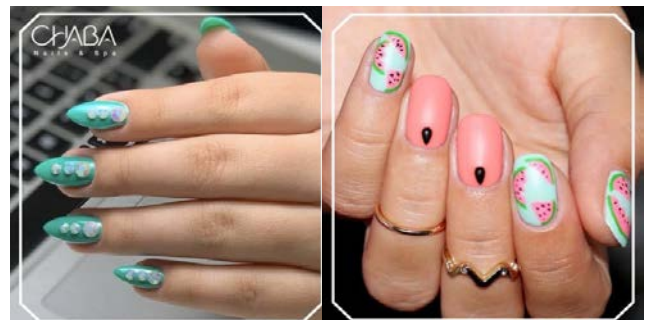
Sources: Company data; Thanachart estimates

Ex 4: Stretching Treatment Center "Stretch Me"



Source: Company data

Ex 5: Acquired Nail Spa Business "Chaba"



Source: Company data

Ex 6: 12-month DCF-based TP Calculation, Using A Base Year Of 2019F

(Bt m)	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	Terminal value
EBITDA	405	502	591	677	741	851	956	1,048	1,150	1,246	1,348	—
Free cash flow	209	289	371	468	510	609	725	805	891	973	1,060	15,588
PV of free cash flow	209	241	282	324	323	351	381	386	390	389	386	5,183
Risk-free rate (%)	4.5											
Market risk premium (%)	7.5											
Beta	0.8											
WACC (%)	9.6											
Terminal growth (%)	2.0											
Enterprise value - add investments	9,231											
Net debt (2018)	137											
Minority interest	—											
Equity value	9,094											
# of shares (m)	570											
Target price/share (Bt)	16.00											

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 7: Valuation Comparison With Regional Peers

Name	BBG Code	Country	EPS growth		PE		P/BV		EV/EBITDA		Div Yield	
			19F (%)	20F (%)	19F (x)	20F (x)	19F (x)	20F (x)	19F (x)	20F (x)	19F (%)	20F (%)
Emei Shan Tourism	000888 CH	China	7.3	4.7	16.2	15.5	1.4	1.3	7.7	7.3	1.4	1.5
Shanghai Jin Jiang Int'l	2006 HK	China	7.5	17.7	13.3	11.3	1.1	1.0	5.9	5.6	4.3	4.7
Hongkong & Shanghai	45 HK	Hong Kong	(37.8)	16.1	34.8	30.0	na	na	na	na	na	na
Shangri-La Asia	69 HK	Hong Kong	33.3	3.1	24.4	23.7	na	na	16.2	15.6	1.9	2.0
IGB Corp Bhd	IGB MK	Malaysia	13.6	3.4	na	na	na	na	na	na	na	na
Genting Malaysia Bhd	GENM MK	Malaysia	na	10.7	15.0	13.5	0.9	0.9	8.0	7.2	3.1	3.3
Mirvac Group	MGR AU	Australia	(42.5)	3.6	16.9	16.3	1.1	1.1	16.7	15.5	4.1	4.3
Indian Hotels	IH IN	India	141.1	35.1	69.2	51.3	4.0	3.8	24.8	20.9	0.4	0.5
Mandarin Oriental Int'l	MAND SP	Singapore	21.4	(4.8)	45.7	48.0	na	na	na	na	1.6	1.6
Hotel Shilla	008770 KS	South Korea	na	na	na	na	na	na	na	na	na	na
Resorttrust Inc	4681 JP	Japan	12.8	(15.6)	12.8	15.1	1.3	1.2	8.1	8.2	3.0	3.0
Central Plaza Hotel	CENDEL TB*	Thailand	0.2	7.0	26.7	25.0	4.1	3.7	13.3	12.3	1.5	1.6
Erawan Group	ERW TB*	Thailand	14.2	17.7	28.0	23.8	2.9	2.7	13.5	12.3	1.4	1.7
Minor International	MINT TB*	Thailand	16.0	20.6	26.2	21.7	2.4	2.2	15.2	13.4	0.9	1.1
Siam Wellness Group	SPA TB*	Thailand	21.9	24.7	31.6	25.4	7.1	6.2	20.1	16.0	1.6	2.0
Average			16.0	11.0	27.3	24.1	2.6	2.4	13.2	11.9	2.0	2.1

Sources: Company data, Thanachart estimates

Note: * Thanachart estimates, using normalized EPS

Based on 25 Apr 2019 closing prices

COMPANY DESCRIPTION

Siam Wellness Group Pcl operates wellness spas and other related businesses, with four main operations: 1. Spas under the brands "Let's Relax", "Rarin-Jinda Wellness Spa", and "BaanSuan Massage". 2. Hotel & Restaurants: A boutique resort hotel in Chiang Mai under the name "RarinJinda Wellness Spa Resort" and the "Deck 1" and "D Bistro" restaurants. 3. Spa products: Distributes and sells spa-related products under the "Blooming" brand. 4. Traditional Thai massage school "Blooming Thai Massage School" to train therapists in massage and spa services to support business expansion.

Source: Thanachart

COMPANY RATING



Rating Scale

Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Strong brand recognition, especially among Chinese tourists
- Its own upstream business helps provide sufficient therapists and products for rapid expansion
- Strong balance sheet with net-cash status

O — Opportunity

- Gaining market share from smaller local players via both organic and inorganic expansion
- Expansion of its business overseas
- Adding more services at its spas to increase revenues per branch

W — Weakness

- Relies heavily on expansion to grow, due to limited capacity of service hours per branch
- Highly dependent on Chinese tourist traffic

T — Threat

- Extraordinary and uncontrollable events, i.e. geopolitical disturbances, natural disasters, etc. could disrupt its operations and decrease tourist traffic
- Large network but only a small management team

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	15.32	16.00	4%
Net profit 19F (Bt m)	268	251	-7%
Net profit 20F (Bt m)	330	312	-5%
Consensus REC	BUY: 5	HOLD: 2	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings forecasts are 5-7% below the Bloomberg consensus numbers in 2019-20F, which we believe is due to us factoring in higher costs from its new businesses.
- However, our TP is higher, likely due to our more bullish view on the long-term growth outlook for those businesses.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- A slower pace of expansion, both for domestic and overseas branches, would represent the key downside risk to our earnings forecasts.
- Any events causing a downturn in Thailand's tourism industry, i.e. involving politics, the global economy or natural disasters, would be negative for our numbers.
- Success rates of new services added to its portfolio is another risk to our projections.

Source: Thanachart

INCOME STATEMENT

Strong sales growth momentum on continuing branch expansion

FY ending Dec (Bt m)	2017A	2018A	2019F	2020F	2021F
Sales	948	1,134	1,439	1,683	1,938
Cost of sales	620	750	963	1,105	1,265
Gross profit	328	384	477	578	673
% gross margin	34.6%	33.9%	33.1%	34.4%	34.7%
Selling & administration expenses	130	152	189	213	238
Operating profit	198	232	288	365	435
% operating margin	20.9%	20.4%	20.0%	21.7%	22.4%
Depreciation & amortization	77	96	117	137	156
EBITDA	275	328	405	502	591
% EBITDA margin	29.0%	28.9%	28.1%	29.8%	30.5%
Non-operating income	15	18	22	25	29
Non-operating expenses	0	0	0	0	0
Interest expense	(7)	(9)	(9)	(11)	(10)
Pre-tax profit	206	241	300	379	454
Income tax	31	35	46	63	84
After-tax profit	175	206	253	317	370
% net margin	18.5%	18.1%	17.6%	18.8%	19.1%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	(0)	(0)	(3)	(4)	(6)
Extraordinary items	0	0	0	0	0
NET PROFIT	175	206	251	312	364
Normalized profit	175	206	251	312	364
EPS (Bt)	0.3	0.4	0.4	0.5	0.6
Normalized EPS (Bt)	0.3	0.4	0.4	0.5	0.6

BALANCE SHEET

Healthy balance sheet on an asset-light model

FY ending Dec (Bt m)	2017A	2018A	2019F	2020F	2021F
ASSETS:					
Current assets:	191	176	266	388	582
Cash & cash equivalent	67	79	124	204	354
Account receivables	12	24	28	32	37
Inventories	28	31	40	45	52
Others	84	42	74	106	139
Investments & loans	0	0	125	125	125
Net fixed assets	889	1,067	1,121	1,155	1,167
Other assets	95	126	160	188	216
Total assets	1,176	1,369	1,672	1,856	2,090
LIABILITIES:					
Current liabilities:	207	224	257	286	322
Account payables	86	83	105	121	139
Bank overdraft & ST loans	8	6	7	6	6
Current LT debt	69	84	80	83	90
Others current liabilities	44	51	65	76	87
Total LT debt	185	126	239	213	200
Others LT liabilities	18	34	43	51	58
Total liabilities	421	399	554	566	599
Minority interest	0	0	3	3	9
Preferreds shares	0	0	0	0	0
Paid-up capital	143	143	143	143	143
Share premium	279	279	279	279	279
Warrants	0	0	0	0	0
Surplus	(6)	44	44	44	44
Retained earnings	339	505	650	821	1,016
Shareholders' equity	755	970	1,116	1,287	1,482
Liabilities & equity	1,176	1,369	1,672	1,856	2,090

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2017A	2018A	2019F	2020F	2021F
Earnings before tax	206	241	300	379	454
Tax paid	(26)	(33)	(42)	(59)	(80)
Depreciation & amortization	77	96	117	137	156
Chg In working capital	4	(17)	9	5	6
Chg In other CA & CL / minorities	10	3	7	1	6
Cash flow from operations	272	291	392	463	541
Capex	(268)	(274)	(171)	(171)	(168)
ST loans & investments	(58)	44	(30)	(30)	(30)
LT loans & investments	0	0	(125)	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(15)	(12)	(25)	(17)	(18)
Cash flow from investments	(340)	(242)	(351)	(218)	(216)
Debt financing	162	(46)	109	(24)	(6)
Capital increase	0	0	0	0	0
Dividends paid	(57)	(40)	(105)	(141)	(169)
Warrants & other surplus	(2)	50	0	0	0
Cash flow from financing	103	(36)	4	(164)	(175)
Free cash flow	4	17	221	292	373

Higher portion of rental and in-hotel shops reduces capex

VALUATION

FY ending Dec	2017A	2018A	2019F	2020F	2021F
Normalized PE (x)	45.2	38.5	31.6	25.4	21.8
Normalized PE - at target price (x)	52.1	44.4	36.4	29.2	25.1
PE (x)	45.2	38.5	31.6	25.4	21.8
PE - at target price (x)	52.1	44.4	36.4	29.2	25.1
EV/EBITDA (x)	29.5	24.6	20.1	16.0	13.3
EV/EBITDA - at target price (x)	33.9	28.3	23.0	18.4	15.3
P/BV (x)	10.5	8.2	7.1	6.2	5.3
P/BV - at target price (x)	12.1	9.4	8.2	7.1	6.2
P/CFO (x)	29.2	27.3	20.2	17.1	14.6
Price/sales (x)	8.4	7.0	5.5	4.7	4.1
Dividend yield (%)	0.9	1.1	1.6	2.0	2.3
FCF Yield (%)	0.0	0.2	2.8	3.7	4.7
(Bt)					
Normalized EPS	0.3	0.4	0.4	0.5	0.6
EPS	0.3	0.4	0.4	0.5	0.6
DPS	0.1	0.2	0.2	0.3	0.3
BV/share	1.3	1.7	2.0	2.3	2.6
CFO/share	0.5	0.5	0.7	0.8	0.9
FCF/share	0.0	0.0	0.4	0.5	0.7

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2017A	2018A	2019F	2020F	2021F
Growth Rate					
Sales (%)	30.7	19.7	26.9	16.9	15.2
Net profit (%)	24.3	17.4	21.9	24.7	16.4
EPS (%)	24.3	17.4	21.9	24.7	16.4
Normalized profit (%)	24.3	17.4	21.9	24.7	16.4
Normalized EPS (%)	24.3	17.4	21.9	24.7	16.4
Dividend payout ratio (%)	39.0	41.6	50.0	50.0	50.0
Operating performance					
Gross margin (%)	34.6	33.9	33.1	34.4	34.7
Operating margin (%)	20.9	20.4	20.0	21.7	22.4
EBITDA margin (%)	29.0	28.9	28.1	29.8	30.5
Net margin (%)	18.5	18.1	17.6	18.8	19.1
D/E (incl. minor) (x)	0.3	0.2	0.3	0.2	0.2
Net D/E (incl. minor) (x)	0.3	0.1	0.2	0.1	(0.0)
Interest coverage - EBIT (x)	30.1	26.2	30.3	33.2	41.6
Interest coverage - EBITDA (x)	41.9	37.0	42.7	45.7	56.5
ROA - using norm profit (%)	17.2	16.2	16.5	17.7	18.4
ROE - using norm profit (%)	25.1	23.8	24.0	26.0	26.3
DuPont					
ROE - using after tax profit (%)	25.1	23.8	24.3	26.4	26.7
- asset turnover (x)	0.9	0.9	0.9	1.0	1.0
- operating margin (%)	22.4	22.0	21.5	23.2	23.9
- leverage (x)	1.5	1.5	1.5	1.5	1.4
- interest burden (%)	96.9	96.5	96.9	97.2	97.7
- tax burden (%)	85.1	85.3	84.5	83.5	81.5
WACC (%)	9.6	9.6	9.6	9.6	9.6
ROIC (%)	23.8	20.8	21.9	23.1	25.6
NOPAT (Bt m)	168	198	243	305	355

Sources: Company data, Thanachart estimates

*Turning net cash in 2021F
despite still in a growth
phase*

General Disclaimers And Disclosures:

This report is prepared and issued by Thanachart Securities Public Company Limited (TNS) as a resource only for clients of TNS, Thanachart Capital Public Company Limited (TCAP) and its group companies. Copyright © Thanachart Securities Public Company Limited. All rights reserved. The report may not be reproduced in whole or in part or delivered to other persons without our written consent.

This report is prepared by analysts who are employed by the research department of TNS. While the information is from sources believed to be reliable, neither the information nor the forecasts shall be taken as a representation or warranty for which TNS or TCAP or its group companies or any of their employees incur any responsibility. This report is provided to you for informational purposes only and it is not, and is not to be construed as, an offer or an invitation to make an offer to sell or buy any securities. Neither TNS, TCAP nor its group companies accept any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable. However, TNS, TCAP and its group companies make no representation or warranty, express or implied, as to their accuracy or completeness. Expressions of opinion herein are subject to change without notice. The use of any information, forecasts and opinions contained in this report shall be at the sole discretion and risk of the user.

TNS, TCAP and its group companies perform and seek to perform business with companies covered in this report. TNS, TCAP, its group companies, their employees and directors may have positions and financial interest in securities mentioned in this report. TNS, TCAP or its group companies may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any entity mentioned in this report. Therefore, investors should be aware of conflict of interest that may affect the objectivity of this report.

Note: Thanachart Securities Public Company Limited act as a Market Maker and Derivative Warrants Issuer. At present, TNS has issued 19 Derivative Warrants which are ADVA16C1911A, ADVA16C1912A, AMAT16C1911A, AOT16C1912A, BANP16C1912A, BDMS16C1912A, CBG16C1912A, CK16C1912A, CPAL16C1912A, EA16C1911A, KTC16C1911A, MTC16C1911A, PTTE16C1911A, PTT16C1912A, STEC16C1911A, STEC16C1911B, TOP16C1911A, TRUE16C1912A, WHA16C1911A (underlying securities are ADVANC, AMATA, AOT, BANPU, BDMS, CBG, CK, CPALL, EA, KTC, MTC, PTTEP, PTT, STEC, TOP, TRUE, WHA). Since TNS covers those underlying securities in research report, consequently TNS incurs conflicts of interest. Moreover, Investors are advised to carefully review the details and information in the prospectus before making investment decisions.

Note: Our major shareholder **TCAP (Thanachart Capital Pcl)** which holding 100% of Thanachart Securities, TCAP has stake in THANI for more than 65% and being the major shareholder of THANI.

Thanachart Capital Public Company Limited (**TCAP**), Ratchthani Leasing Public Company Limited (**THANI**), MBK PUBLIC COMPANY LIMITED (**MBK**) and PATUM RICE MILL AND GRANARY PUBLIC COMPANY LIMITED (**PRG**) are related companies to Thanachart Securities Public Company Limited (TNS) . Since TNS covers those securities in research report, consequently TNS incurs conflicts of interest.

Recommendation Structure:

Recommendations are based on absolute upside or downside, which is the difference between the target price and the current market price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is SELL. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on the market price and the formal recommendation.

For sectors, an "Overweight" sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. "Underweight" is used when we have SELLs on majority of the stocks we cover by market cap. "Neutral" is used when there are relatively equal weightings of BUYs and SELLs.

Thanachart Securities Pcl.

Research Team

19 Floor, MBK Tower

444 Phayathai Road, Pathumwan Road, Bangkok 10330

Tel: 662 - 617 4900

Email: thanachart.res@thanachartsec.co.th

Pimpaka Nichgaroon, CFA

Head of Research

pimpaka.nic@thanachartsec.co.th

Kalvatee Thongsomaung

Food, Hotel, Media

kalvatee.tho@thanachartsec.co.th

Phannarai Tiyapittayarut

Property, Retail

phannarai.von@thanachartsec.co.th

Siriporn Arunothai

Small Cap Research, Healthcare

siriporn.aru@thanachartsec.co.th

Pattadol Bunnak

Auto, Food & Beverage

pattadol.bun@thanachartsec.co.th

Thaloengsak Kucharoenpaisan , AFPT™

Analyst, Retail Market

thaloengsak.kuc@thanachartsec.co.th

Adisak Phupiphathirungul, CFA

Retail Market Strategy

adisak.phu@thanachartsec.co.th

Pattarawan Wangmingmat

Senior Technical Analyst

pattarawan.wan@thanachartsec.co.th

Saksid Phadthanarak

Construction, Transportation

saksid.pha@thanachartsec.co.th

Supanna Suwankird

Energy, Utilities

supanna.suw@thanachartsec.co.th

Wichaya Wongpanuwich, CFA, FRM

Analyst, Retail Market

wichaya.won@thanachartsec.co.th

Sittichet Rungrassameephat

Assistant Analyst, Quantitative

sittichet.run@thanachartsec.co.th

Chak Reungsinpinya

Energy, Petrochemical

chak.reu@thanachartsec.co.th

Nuttapop Prasitsuksant

Electronics, Telecom

nuttapop.pra@thanachartsec.co.th

Sarachada Sornsong

Bank, Financial

sarachada.sor@thanachartsec.co.th

Rata Limsuthiwanpoom

Industrial Estate, Property Fund, REITs

rata.lim@thanachartsec.co.th

Witchanan Tambamroong

Technical Analyst

witchanan.tam@thanachartsec.co.th