

# THE ERWAN GROUP

## THAILAND / TOURISM & LEISURE

# ERW TB

# BUY

UNCHANGED

## Record high 2023 profit in the cards

- Strong earnings momentum to continue in 3Q23 via non-Hop Inn hotels, whose OCC rate improved to 86% in July (vs 74% in 3Q19).
- IBD/E came down to 1.6x as of 2Q23 (vs 2.5x covenant), indicating financial room for new projects, especially the midscale segment.
- Maintain BUY with a higher DCF-derived TP of THB6.0/shr.

TARGET PRICE	THB6.00
CLOSE	THB5.05
UP/DOWNSIDE	+18.8%
PRIOR TP	THB5.70
CHANGE IN TP	+5.3%
TP vs CONSENSUS	+5.4%

### KEY STOCK DATA

YE Dec (THB m)	2022	2023E	2024E	2025E
Revenue	4,629	6,963	7,474	7,956
Net profit	(224)	759	769	811
EPS (THB)	(0.05)	0.17	0.16	0.17
vs Consensus (%)	-	31.8	(0.6)	(4.5)
EBITDA	969	2,173	2,362	2,522
Recurring net profit	(278)	735	769	811
Core EPS (THB)	(0.06)	0.16	0.16	0.17
Chg. In EPS est. (%)	nm	18.2	18.0	9.4
EPS growth (%)	nm	nm	(3.1)	5.4
Core P/E (x)	(82.3)	31.1	32.1	30.5
Dividend yield (%)	-	1.3	1.2	1.3
EV/EBITDA (x)	36.8	16.0	14.8	13.7
Price/book (x)	4.0	3.5	3.1	2.9
Net debt/Equity (%)	222.0	183.7	128.4	114.2
ROE (%)	(4.7)	12.1	10.6	9.8

### Positive feedback from analyst meeting

Management guided for strong operations to continue in July and Aug. The non-Hop Inn OCC rate increased to 86% in July (vs 80% in 2Q23) with higher ADR by 8% m-m and an increase in RevPAR by 50% y-y. The strong OCC rate is likely to continue in Aug, but may soften in Sep due to seasonality. Management sees no impact from Intercontinental Hotel Bangkok, which recently opened due to a different customer market. In addition, Thai Hop Inn operations also remained strong in July with an OCC rate of 82% (vs 81% in 2Q23) and 14% RevPAR growth y-y.

### Demand likely to surpass supply over next few years

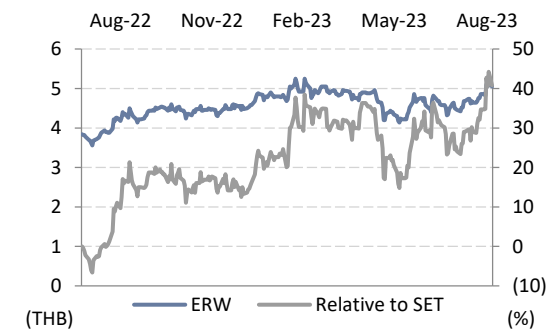
Management estimates hotel supply growth of 2% over the next few years, but demand should surpass supply. Most of the supply increase is from the upscale segment. Hence, ERW plans to have new investments in the economy and midscale segments, potentially in Bangkok, Pattaya and Phuket. ERW is also exploring opportunities to expand Hop Inn to APAC countries. Its IBD/E was 1.6x as of 2Q23, below the 2.5x covenant and 2.0x policy rate. Thus, there is room for new investments. ERW also plans to partially close Holiday Inn Pattaya for renovation during 4Q23-3Q24, impacting room inventory by around 30% during the period. Note that the hotel's revenue contribution is 10%. ERW expects a revenue impact of less than 3% as it plans to lift ADR during the renovation.

### Revising up core profit, mainly from EBITDA margin

We revise up our 2023-25 core profit assumptions by 9-18% to reflect the strong 2Q23 results and promising 2H23 outlook. We estimate a non-Hop Inn OCC rate of 82% (vs 78% in 2019) and ADR of THB3,060 (+19% vs 2019) in 2023. Overall, we expect revenue to grow by 50%, in line with management's guidance, and core profit to jump to a new record high of THB735m in 2023 (vs THB464m in 2019).

### Top beneficiary to capture strong recovery of Thai tourism

We lift our 2024 DCF-based TP to THB6.0/shr (from THB5.7/shr). ERW trades at 32x 2024E P/E vs its five-year average of 35.5x. It deserves a premium valuation, in our view, as it is a top beneficiary of Thailand's tourism recovery due to its asset-heavy model.



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	13.2	15.8	32.2
Relative to country (%)	13.5	15.0	40.9
Mkt cap (USD m)	651		
3m avg. daily turnover (USD m)	1.8		
Free float (%)	58		
Major shareholder	Chottanavat (17%)		
12m high/low (THB)	5.30/3.50		
Issued shares (m)	4,531.56		

Sources: Bloomberg consensus; FSSIA estimates


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### Investment thesis

ERW is an asset-heavy business, as all of its hotels are owned hotels and it has no asset-light model. Thus, it should be one of the stocks that benefits the most from the recovery of international tourist arrival numbers.

ERW raised capital through a rights offering leading to a lower D/E, which is currently lower than its debt covenant of 2.5x.

ERW plans to use the proceeds from the capital increase to expand its Thai Hop Inn portfolio to more than 100 hotels by 2025, up from 51 hotels currently. Hop Inn is ERW's flagship budget hotel brand focused on domestic travellers and has shown resilient performance.

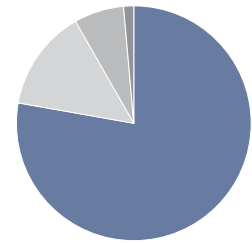
### Company profile

ERW is a hotel operator and developer with a focus on Thailand and ASEAN.

[www.theerawan.com](http://www.theerawan.com)

### Principal activities (revenue, 2022)

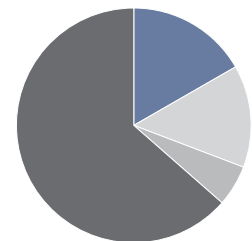
- Non-Hop Inn hotel - 77.8 %
- Hop Inn Thailand - 14.0 %
- Hop Inn Philippines - 6.9 %
- Others - 1.4 %



Source: The Erawan Group

### Major shareholders

- Chottanavat - 16.7 %
- Mitr Siam Capital Limited - 14.1 %
- Mitr Phol Sugar Corp - 5.7 %
- Others - 63.5 %



Source: The Erawan Group

### Catalysts

Key potential growth drivers include 1) a faster OCC ramp-up rate following the global tourism recovery; 2) strong pent-up demand from Chinese tourists; and 3) the recovery of domestic business activities.

### Risks to our call

Downside risks to our DCF-based target price include 1) extraordinary events such as political turmoil and natural disasters; 2) a higher hotel room supply, which may result in price competition; and 3) the slower-than-expected recovery of international tourist numbers.

### Event calendar

Date	Event
Nov 2023	3Q23 results announcement

### Key assumptions

	2023E	2024E	2025E
Number of hotels (no.)	78	84	93
Number of rooms (no.)	10,225	10,951	11,804
<b>All hotels excl. Hop Inn</b>			
Occupancy rate (OCC %)	82	83	84
RevPAR growth (y-y %)	74	1	3
<b>Thailand Hop Inn</b>			
Occupancy rate (OCC %)	81	82	82
RevPAR growth (y-y %)	18	2	3

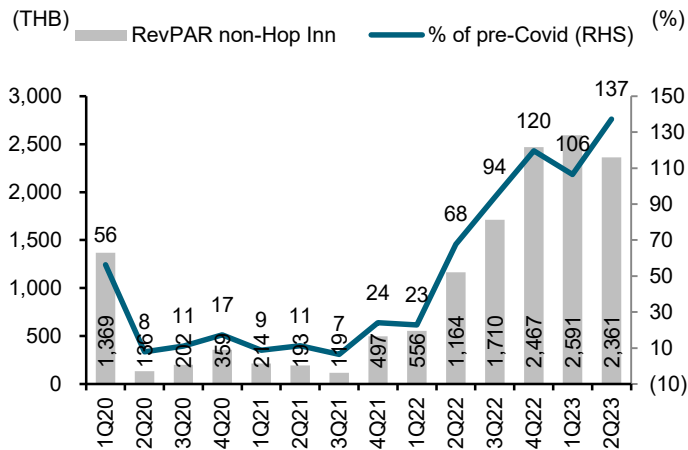
Source: FSSIA estimates

### Earnings sensitivity

- For every 1% increase in OCC, we project a 2023 profit increase of 7%, and vice versa, all else being equal.
- For every 1% increase in EBITDA margin, we project a 2023 profit increase of 9%, and vice versa, all else being equal.

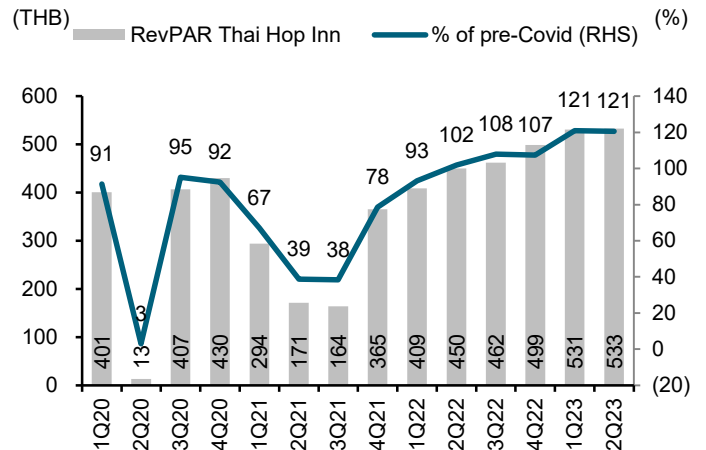
Source: FSSIA estimates

**Exhibit 1: RevPAR non-Hop Inn hotels, quarterly**



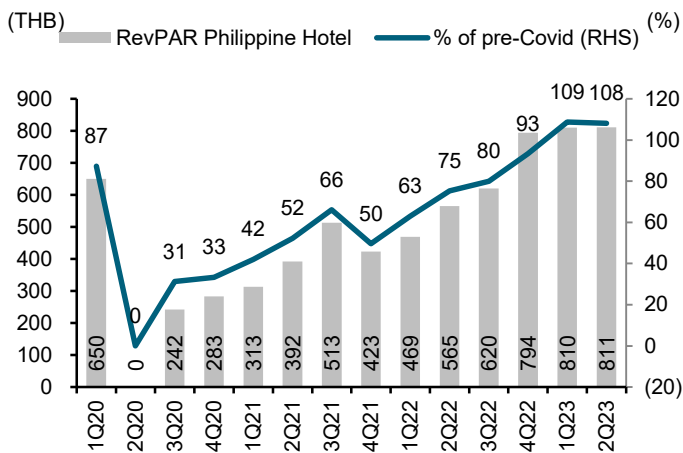
Sources: ERW; FSSIA estimates

**Exhibit 2: RevPAR Thai Hop Inn hotels, quarterly**



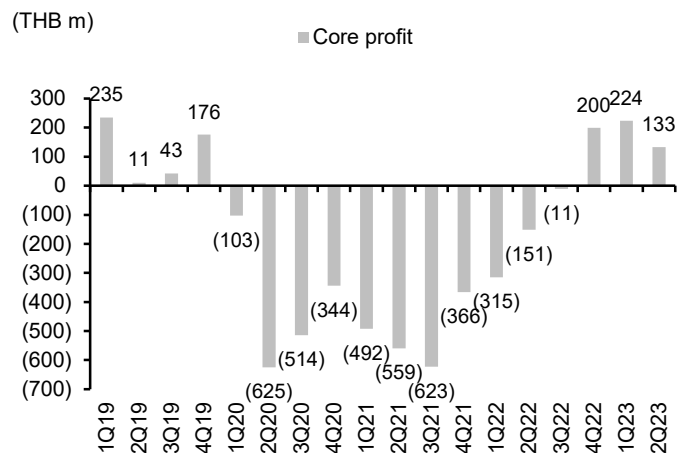
Sources: ERW; FSSIA estimates

**Exhibit 3: RevPAR Philippine Hop Inn hotels, quarterly**



Sources: ERW; FSSIA estimates

**Exhibit 4: Core profit, quarterly**



Sources: ERW; FSSIA estimates

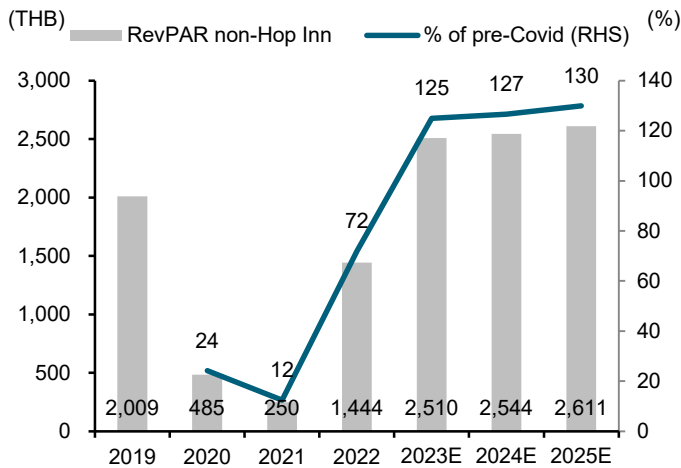
**Exhibit 5: Forecast revisions**

	Current			Previous			Change (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
All hotels excl. Hop Inn - OCC (%)	82.0	83.1	83.6	82.0	83.1	83.6	0.0	0.0	0.0
All hotels excl. Hop Inn - RevPAR (THB)	2,510	2,544	2,611	2,510	2,544	2,611	0.0	0.0	0.0
Thailand Hop Inn - OCC (%)	81.0	81.5	82.0	80.0	80.5	81.0	1.0	1.0	1.0
Thailand Hop Inn - RevPAR (THB)	539	548	562	532	541	555	1.3	1.2	1.2
Revenue (THB b)	6.96	7.47	7.96	6.95	7.46	7.94	0.2	0.1	0.2
EBITDA margin (%)	31.2	31.6	31.7	30.0	30.2	30.3	1.2	1.4	1.4
Core earnings (THB m)	735	769	811	622	652	741	18.2	18.0	9.4

Note: Change of items in percentage terms is represented in ppt change.

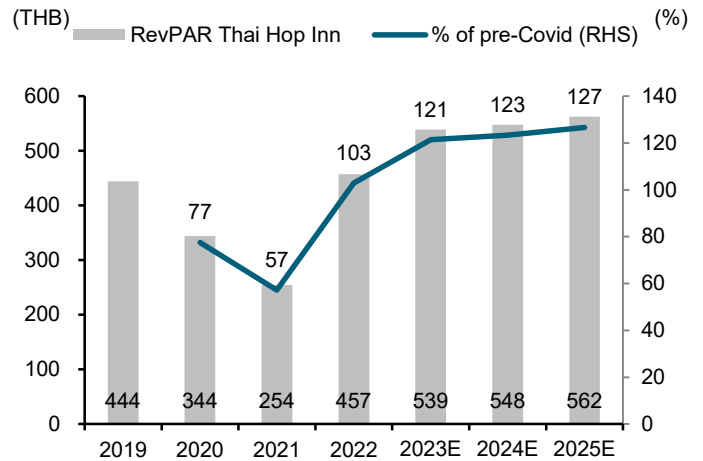
Source: FSSIA estimates

**Exhibit 6: RevPAR non-Hop Inn hotels, yearly**



Sources: ERW; FSSIA estimates

**Exhibit 7: RevPAR Thai Hop Inn hotels, yearly**



Sources: ERW; FSSIA estimates

**Exhibit 8: DCF valuation**

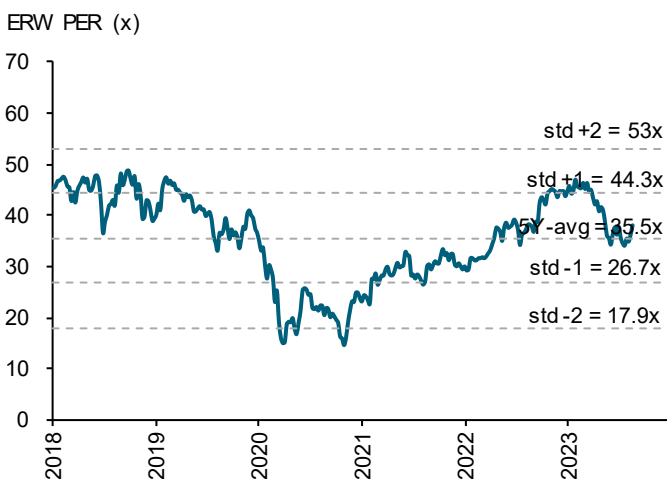
Cost of equity assumptions		(%)	Cost of debt assumptions		(%)
Risk-free rate		3.0	Pre-tax cost of debt		3.5
Market risk premium		8.0	Marginal tax rate		20.0
Stock beta		1.2	Net cost of debt, Kd		3.2
Cost of equity, Ke		12.6	Weight applied		45.0
Weight applied		55.0			
WACC		8.2			

DCF valuation estimate	(THB b)	(THB/share)	Comments
NPV	13.2	2.7	WACC 8.2%, risk-free rate 3%, risk premium 8%
Terminal value	22.4	4.6	Terminal growth 2.5%
Cash & liquid assets	2.9	0.6	At end-2024E
Investments	0.1	0.0	At end-2024E
Debt	(9.1)	(1.9)	At end-2024E
Minorities	(0.0)	(0.0)	At end-2024E
<b>Residual ordinary equity</b>	<b>29.5</b>	<b>6.0</b>	

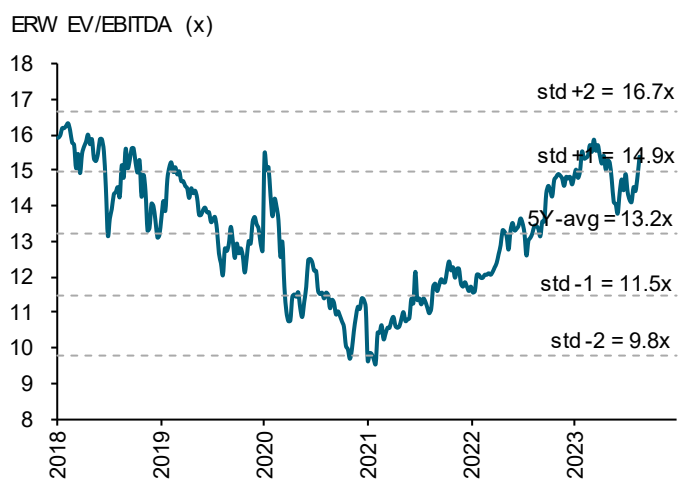
Source: FSSIA estimates

**Exhibit 9: Historical P/E band**



Sources: Bloomberg; FSSIA estimates

**Exhibit 10: Historical EV/EBITDA band**



Sources: Bloomberg; FSSIA estimates

## Exhibit 11: Peer comparisons as of 21 Aug 2023

Company	BBG	Rec	Share price			Market cap (USD m)	PE			ROE		PBV		EV/ EBITDA	
			Current (LCY)	Target (LCY)	Upside (%)		23E (x)	24E (x)	25E (x)	23E (%)	24E (%)	23E (x)	24E (x)	23E (x)	24E (x)
<b>Thailand</b>															
Asset World Corp	AWC TB	BUY	3.96	6.80	72	3,603	60.1	34.4	30.9	2.5	4.1	1.5	1.4	34.1	24.7
Minor International	MINT TB	BUY	32.75	43.00	31	5,210	29.1	25.6	23.0	8.2	9.5	2.1	2.8	10.3	10.4
Central Plaza Hotel	CENTEL TB	BUY	42.75	55.00	29	1,641	33.9	27.2	24.4	8.8	10.1	2.9	2.7	15.0	13.2
Erawan Group	ERW TB	BUY	5.05	6.00	19	651	31.1	32.1	30.5	12.1	10.6	3.5	3.1	16.0	14.8
S Hotels & Resorts	SHR TB	BUY	2.64	4.80	82	270	55.7	18.7	14.8	1.1	3.1	0.6	0.6	9.0	7.3
Dusit Thani	DUSIT TB	BUY	10.70	18.00	68	259	177.9	37.2	3.7	1.2	5.7	2.2	2.1	40.5	31.4
Bound and Beyond	BEYOND TB	BUY	13.00	24.00	85	107	162.0	17.1	13.4	0.4	3.6	0.6	0.6	12.3	8.8
<b>Thailand average</b>						<b>11,740</b>	<b>78.5</b>	<b>27.5</b>	<b>20.1</b>	<b>4.9</b>	<b>6.7</b>	<b>1.9</b>	<b>1.9</b>	<b>19.6</b>	<b>15.8</b>
<b>Regional</b>															
Btg Hotels Group	600258 CH	n/a	18.45	n/a	n/a	2,814	26.6	18.6	15.6	7.2	9.4	1.8	1.7	11.2	9.0
Sh Jinjiang Intl Hotels	900934 CH	n/a	1.84	n/a	n/a	5,697	9.9	6.7	5.5	8.3	11.1	0.8	0.7	13.7	10.7
Huangshan Tourism Dev.	900942 CH	n/a	0.75	n/a	n/a	1,050	12.7	9.7	8.7	7.2	9.0	0.9	0.8	10.2	8.5
Genting Bhd	GENT MK	n/a	4.39	n/a	n/a	3,677	18.1	11.7	10.0	3.7	4.6	0.5	0.5	6.3	5.6
Huazhu Group	HTHT US	n/a	43.11	n/a	n/a	13,739	30.6	25.8	21.4	28.5	24.9	9.5	7.5	17.3	14.9
Indian Hotels	IH IN	n/a	379.40	n/a	n/a	6,514	58.8	43.1	36.2	12.6	14.2	6.9	6.0	31.4	26.1
Lemon Tree Hotels	LEMONTRE IN	n/a	105.20	n/a	n/a	1,027	74.1	52.7	31.7	12.3	15.5	9.4	7.7	26.1	21.0
Lippo Karawaci	LPKR IJ	n/a	102.00	n/a	n/a	476	7.3	6.0	5.2	5.9	6.6	0.4	0.4	8.8	8.4
<b>Regional average</b>						<b>34,995</b>	<b>29.8</b>	<b>21.8</b>	<b>16.8</b>	<b>10.7</b>	<b>11.9</b>	<b>3.8</b>	<b>3.2</b>	<b>15.6</b>	<b>13.0</b>
<b>Overall average</b>						<b>46,735</b>	<b>52.5</b>	<b>24.4</b>	<b>18.3</b>	<b>8.0</b>	<b>9.5</b>	<b>2.9</b>	<b>2.6</b>	<b>17.5</b>	<b>14.3</b>

Sources: Bloomberg; FSSIA estimates

## Financial Statements

### The Erawan Group

Profit and Loss (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Revenue	1,485	4,629	6,963	7,474	7,956
Cost of goods sold	(2,220)	(3,154)	(3,932)	(4,214)	(4,457)
<b>Gross profit</b>	<b>(734)</b>	<b>1,475</b>	<b>3,031</b>	<b>3,260</b>	<b>3,499</b>
Other operating income	-	-	-	-	-
Operating costs	(915)	(1,377)	(1,741)	(1,868)	(1,989)
<b>Operating EBITDA</b>	<b>(713)</b>	<b>969</b>	<b>2,173</b>	<b>2,362</b>	<b>2,522</b>
Depreciation	(936)	(872)	(882)	(970)	(1,012)
Goodwill amortisation	-	-	-	-	-
<b>Operating EBIT</b>	<b>(1,649)</b>	<b>97</b>	<b>1,290</b>	<b>1,392</b>	<b>1,510</b>
Net financing costs	(518)	(455)	(559)	(538)	(504)
Associates	9	29	0	0	0
Recurring non-operating income	67	66	41	41	41
Non-recurring items	(10)	54	24	0	0
<b>Profit before tax</b>	<b>(2,109)</b>	<b>(239)</b>	<b>796</b>	<b>895</b>	<b>1,047</b>
Tax	(46)	26	20	(63)	(168)
<b>Profit after tax</b>	<b>(2,155)</b>	<b>(213)</b>	<b>816</b>	<b>832</b>	<b>880</b>
Minority interests	105	(11)	(57)	(63)	(69)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
<b>Reported net profit</b>	<b>(2,050)</b>	<b>(224)</b>	<b>759</b>	<b>769</b>	<b>811</b>
<b>Non-recurring items &amp; goodwill (net)</b>	<b>10</b>	<b>(54)</b>	<b>(24)</b>	<b>0</b>	<b>0</b>
<b>Recurring net profit</b>	<b>(2,040)</b>	<b>(278)</b>	<b>735</b>	<b>769</b>	<b>811</b>
<b>Per share (THB)</b>					
Recurring EPS *	(0.45)	(0.06)	0.16	0.16	0.17
Reported EPS	(0.45)	(0.05)	0.17	0.16	0.17
DPS	0.00	0.00	0.06	0.06	0.07
Diluted shares (used to calculate per share data)	4,532	4,532	4,532	4,891	4,891
<b>Growth</b>					
Revenue (%)	(35.6)	211.6	50.4	7.3	6.5
Operating EBITDA (%)	nm	nm	124.2	8.7	6.8
Operating EBIT (%)	nm	nm	1,228.8	7.8	8.5
Recurring EPS (%)	nm	nm	nm	(3.1)	5.4
Reported EPS (%)	nm	nm	nm	(6.1)	5.4
<b>Operating performance</b>					
Gross margin inc. depreciation (%)	(49.4)	31.9	43.5	43.6	44.0
Gross margin exc. depreciation (%)	13.6	50.7	56.2	56.6	56.7
Operating EBITDA margin (%)	(48.0)	20.9	31.2	31.6	31.7
Operating EBIT margin (%)	(111.0)	2.1	18.5	18.6	19.0
Net margin (%)	(137.4)	(6.0)	10.6	10.3	10.2
Effective tax rate (%)	(2.2)	8.0	0.0	7.0	16.0
Dividend payout on recurring profit (%)	-	-	40.0	40.0	40.0
Interest cover (X)	(3.1)	0.4	2.4	2.7	3.1
Inventory days	12.2	6.6	6.1	6.7	6.7
Debtor days	21.7	10.2	8.4	7.8	7.3
Creditor days	40.8	30.2	32.8	36.4	36.4
Operating ROIC (%)	(8.7)	0.5	6.8	6.9	6.8
ROIC (%)	(8.2)	0.8	6.9	6.9	6.8
ROE (%)	(41.5)	(4.7)	12.1	10.6	9.8
ROA (%)	(7.4)	0.7	6.1	5.8	5.6
* Pre-exceptional, pre-goodwill and fully diluted					
<b>Revenue by Division (THB m)</b>					
Non-Hop Inn hotel	921	3,600	5,512	5,873	6,069
Hop Inn Thailand	339	646	851	889	993
Hop Inn Philippines	154	318	438	526	662
Others	71	65	163	186	233

Sources: The Erawan Group; FSSIA estimates

## Financial Statements

### The Erawan Group

Cash Flow (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Recurring net profit	(2,040)	(278)	735	769	811
Depreciation	936	872	882	970	1,012
Associates & minorities	-	-	-	-	-
Other non-cash items	701	193	70	52	58
Change in working capital	(1,056)	1,207	258	58	57
<b>Cash flow from operations</b>	<b>(1,460)</b>	<b>1,994</b>	<b>1,945</b>	<b>1,849</b>	<b>1,937</b>
Capex - maintenance	(1,588)	(722)	(1,089)	(989)	(989)
Capex - new investment	-	-	-	-	-
Net acquisitions & disposals	0	(15)	0	0	0
Other investments (net)	-	-	-	-	-
<b>Cash flow from investing</b>	<b>(1,588)</b>	<b>(737)</b>	<b>(1,089)</b>	<b>(989)</b>	<b>(989)</b>
Dividends paid	0	0	0	(294)	(308)
Equity finance	2,014	0	0	1,079	0
Debt finance	(1,538)	(692)	(500)	(500)	(1,000)
Other financing cash flows	2,192	(274)	(57)	(63)	(69)
<b>Cash flow from financing</b>	<b>2,667</b>	<b>(967)</b>	<b>(557)</b>	<b>222</b>	<b>(1,377)</b>
Non-recurring cash flows	-	-	-	-	-
Other adjustments	0	0	0	0	0
<b>Net other adjustments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Movement in cash</b>	<b>(380)</b>	<b>290</b>	<b>299</b>	<b>1,083</b>	<b>(428)</b>
Free cash flow to firm (FCFF)	(2,526.87)	1,714.43	1,418.20	1,402.17	1,459.02
Free cash flow to equity (FCFE)	(2,394.52)	289.75	299.28	298.03	(120.66)

Per share (THB)	2021	2022	2023E	2024E	2025E
FCFF per share	(0.56)	0.38	0.31	0.31	0.32
FCFE per share	(0.53)	0.06	0.07	0.07	(0.03)
Recurring cash flow per share	(0.09)	0.17	0.37	0.37	0.38

Balance Sheet (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Tangible fixed assets (gross)	25,682	26,373	27,473	28,473	29,473
Less: Accumulated depreciation	(6,274)	(7,089)	(7,971)	(8,941)	(9,952)
<b>Tangible fixed assets (net)</b>	<b>19,409</b>	<b>19,285</b>	<b>19,503</b>	<b>19,533</b>	<b>19,521</b>
<b>Intangible fixed assets (net)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Long-term financial assets	-	-	-	-	-
Invest. in associates & subsidiaries	48	63	63	63	63
Cash & equivalents	1,242	1,532	1,831	2,914	2,486
A/C receivable	100	160	160	160	160
Inventories	39	43	58	62	66
Other current assets	1,274	291	438	470	501
<b>Current assets</b>	<b>2,655</b>	<b>2,026</b>	<b>2,487</b>	<b>3,606</b>	<b>3,212</b>
Other assets	338	338	338	338	338
<b>Total assets</b>	<b>22,450</b>	<b>21,712</b>	<b>22,390</b>	<b>23,539</b>	<b>23,133</b>
Common equity	6,012	5,698	6,458	8,012	8,515
Minorities etc.	11	23	23	24	24
<b>Total shareholders' equity</b>	<b>6,023</b>	<b>5,722</b>	<b>6,481</b>	<b>8,035</b>	<b>8,539</b>
Long term debt	14,237	13,935	13,435	12,935	11,935
Other long-term liabilities	880	846	846	846	846
<b>Long-term liabilities</b>	<b>15,117</b>	<b>14,781</b>	<b>14,281</b>	<b>13,781</b>	<b>12,781</b>
A/C payable	143	235	313	333	354
Short term debt	690	300	300	300	300
Other current liabilities	478	675	1,015	1,089	1,159
<b>Current liabilities</b>	<b>1,311</b>	<b>1,209</b>	<b>1,628</b>	<b>1,723</b>	<b>1,813</b>
<b>Total liabilities and shareholders' equity</b>	<b>22,450</b>	<b>21,712</b>	<b>22,390</b>	<b>23,539</b>	<b>23,133</b>
Net working capital	793	(415)	(672)	(731)	(788)
Invested capital	20,587	19,271	19,231	19,203	19,134

\* Includes convertibles and preferred stock which is being treated as debt

Per share (THB)	2021	2022	2023E	2024E	2025E
Book value per share	1.33	1.26	1.43	1.64	1.74
Tangible book value per share	1.33	1.26	1.43	1.64	1.74

Financial strength	2021	2022	2023E	2024E	2025E
Net debt/equity (%)	227.2	222.0	183.7	128.4	114.2
Net debt/total assets (%)	61.0	58.5	53.2	43.8	42.1
Current ratio (x)	2.0	1.7	1.5	2.1	1.8
CF interest cover (x)	(3.6)	1.6	1.5	1.6	0.8

Valuation	2021	2022	2023E	2024E	2025E
<b>Recurring P/E (x) *</b>	<b>(11.2)</b>	<b>(82.3)</b>	<b>31.1</b>	<b>32.1</b>	<b>30.5</b>
<b>Recurring P/E @ target price (x) *</b>	<b>(13.3)</b>	<b>(97.8)</b>	<b>37.0</b>	<b>38.1</b>	<b>36.2</b>
Reported P/E (x)	(11.2)	(102.1)	30.1	32.1	30.5
Dividend yield (%)	-	-	1.3	1.2	1.3
Price/book (x)	3.8	4.0	3.5	3.1	2.9
Price/tangible book (x)	3.8	4.0	3.5	3.1	2.9
EV/EBITDA (x) **	(51.3)	36.8	16.0	14.8	13.7
EV/EBITDA @ target price (x) **	(57.3)	41.2	18.0	16.8	15.5
EV/invested capital (x)	1.8	1.8	1.8	1.8	1.8

\* Pre-exceptional, pre-goodwill and fully diluted \*\* EBITDA includes associate income and recurring non-operating income

Sources: The Erawan Group; FSSIA estimates

## Public disclosures related to sustainable development evaluation of Thai listed companies

**Rating** regarding the sustainable development of Thai listed companies, both on the SET and MAI, are publicly available on the website of the Securities and Exchange Commission of Thailand (SEC). Currently, ratings available are 1) "**CG Score**" by the Thai Institute of Directors Association (Thai IOD); 2) "**AGM Checklist**" by the Thai Investors Association (TIA), a "**CAC certified member**" of the Thai Private Sector Collective Action Against Corruption (CAC); and 3) "**Sustainability Investment List (THSI)**" by the Stock Exchange of Thailand. The ratings are updated on an annual basis. FSS International Investment Advisory Company Limited does not confirm nor certify the accuracy of such ratings.

### CG Score by the Thai Institute of Directors Association (Thai IOD)<sup>1</sup>

The **CG Score** indicates corporate governance (CG) strength in the sustainable development of Thai listed companies. Annually, the Thai IOD, with support from the Stock Exchange of Thailand (SET), surveys and assesses the CG practices of companies and publishes the results on the [Thai IOD website](#) in a bid to promote and enhance the CG of Thai listed companies in order to promote compliance with international standards for better investment decisions. The results are from the perspective of a third party, not an evaluation of operations, as of the date appearing in the report, and may be changed after that date.

The **five underlying categories and weighting** used for the CG scoring in 2022 include the rights of shareholders and equitable treatment of shareholders (weight 25% combined), the role of stakeholders (25%), disclosure and transparency (15%), and board responsibilities (35%).

The CGR report rates CG in six categories: 5 for Excellent (score range 90-100), 4 for Very Good (score range 80-89), 3 for Good (Score range 70-79), 2 for Fair (score range 60-69), 1 for Pass (score range 60-69), and not rated (score below 50).

### Corporate Governance Report Disclaimer

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of companies listed on the Stock Exchange of Thailand and the Market of Alternative Investment disclosed to the public and able to be accessed by a general public investor at [Thai IOD website](#). The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the data appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. **FSSIA** does not confirm nor certify the accuracy of such survey result.

### AGM Checklist by the Thai Investors Association (TIA)<sup>2</sup>

The "**AGM Checklist**" quantifies the extent to which shareholders' rights and equitable treatment are incorporated into business operations and the extent to which information is sufficiently disclosed and the level of its transparency. All the considered factors form important elements of two out of five the CG components. Annually, the TIA, with support from the SEC, leads the project to evaluate the quality of Annual General Meetings of Shareholders (AGMs) and to rate quality of the meetings.

The **Checklist** contains the minimum requirements under law that companies must comply with, or best practices according to international CG guidance. Representatives of the TIA will attend the meetings and perform the evaluation. The assessment criteria cover AGM procedures before the meeting (45%), at the meeting date (45%), and after the meeting (10%). The first assesses 1) advance circulation of sufficient information for voting; and 2) facilitating of how voting rights can be exercised. The second assesses 1) the ease of attending meetings; 2) transparency and verifiability; and 3) openness for Q&A. The third involves the meeting minutes that should contain discussion issues, resolutions and voting results.

The results are classified into four categories: 5 for Excellent (score 100), 4 for Very Good (score 90-99), 3 for Fair (score 80-89), and not rated (score below 79).

### CAC certified member by the Thai Private Sector Collective Action Against Corruption (CAC)<sup>3</sup>

A **CAC certified member** is a listed company whose Checklist satisfies the CAC Certification's criteria and is approved by the CAC Council. The core elements of the Checklist include corruption risk assessment, establishment of key controls, and the monitoring and developing of policies. Note that the CAC does not certify the behaviour of the employees nor whether the companies have engaged in bribery, and Certification is good for three years.

Companies deciding to become a CAC certified member **start with** by submitting a Declaration of Intent signed by the Chairman of the Board to kick off the 18-month deadline for companies to submit the CAC Checklist for Certification. The 18-month provision is for risk assessment, in place of policy and control, training of managers and employees, establishment of whistleblowing channels, and communication of policies to all stakeholders.

The checklist document will be reviewed by the CAC Certification Committee for adequate information and evidence. It is worth noting that the committee consists of nine professionals in business law, corporate governance, internal audit, financial audit and experienced representatives from certified members.

A passed Checklist will move on to the **CAC Council** for granting certification approvals. The CAC Council consists of twelve prominent individuals who are highly respected in professionalism and ethical achievements. Among them are former ministers, a former central bank governor, the former head of the Thai Listed Companies Association, Chairman of Anti-Corruption Organizations (Thailand), Chairman of Thai Institute of Directors, and reputable academic scholars.

### Sustainability Investment (THSI)<sup>4</sup> by the Stock Exchange of Thailand (SET)

Thailand Sustainability Investment (**THSI**) quantifies responsibility in **E**nvironmental, and **S**ocial issues, by managing business with transparency in **G**overnance. The THSI serves as another choice for investors who desire to adopt a responsible investment approach, according to the SET.

Annually, the SET will announce the voluntary participation of the company candidates which pass the preemptive criteria, and whose two key crucial conditions are met, i.e. no irregular trading of the board members and executives and a free float of >150 by the number of shareholders, and combined holding must >15% of paid-up capital. Some key disqualifying criteria include a CG score of below 70%; independent directors and free float violation; executives' wrongdoing related to CG, social and environmental impacts, equity in negative territory, and earnings in the red for more than three years in the last five years. To become eligible for THSI, the candidate must pass three indicators in data declaration: **E**conomic (CG, risk management, customer relation management, supply chain management, and innovation); **E**nvironmental (environmental management, eco-efficiency, and climate risk); **S**ocial (human rights, talent attraction, operational health & safety, community development, and stakeholder engagement); and the incorporation of ESG in business operations.

To be approved for THSI inclusion, verified data must be scored at a 50% minimum for each indicator, unless the company is a part of the Dow Jones Sustainability Indices<sup>5</sup> (DJSI) during the assessment year. The scoring will be fairly weighted against the nature of the relevant industry and materiality.

Note that, from the **THSI list**, the SET further developed a sustainability **SETTHSI Index** in June 2018 from selected THSI companies whose 1) market capitalisation > THB5b (~USD150b); 2) free float >20%; and 3) liquidity >0.5% of paid-up capital for at least 9 out of 12 months. The SETTHSI Index is a market capitalisation-weighted index, cap 5% quarterly weight at maximum, and no cap for number of stocks.

Sources: [SEC](#); [Thai IOD](#); [Thai CAC](#); [SET](#); FSSIA's compilation

#### Disclaimer:

<sup>1</sup> Thai Institute of Directors Association ([Thai IOD](#)) was established in December 1999 and is a membership organisation that strives to promote professionalism in directorship. The Thai IOD offers directors certification and professional development courses, provides a variety of seminars, forums and networking events, and conducts research on board governance issues and practices. Membership comprises board members from companies ranging from large publicly listed companies to small private firms.

<sup>2</sup> Thai Investors Association ([TIA](#)) was established in 1983 with a mission to promote investment knowledge and to protect the investment rights of Thai investors. In 2002, the association was appointed by the Securities and Exchange Commission (SEC) to represent individual shareholders. To obtain information for evaluation, the association recruits volunteer investors to join AGMs and score the meetings. Weightings for each meeting are at a 45:45:10 ratio. They have been applied since 2017 and subject to change.

<sup>3</sup> Thai Private Sector Collective Action against Corruption ([CAC](#)) was founded in 2010 and is 100% privately funded. It is an initiative by the Thai private sector to take part in tackling corruption problems via collective action. The CAC promotes the implementation of effective anti-corruption policies in order to create a transparent business ecosystem by developing a unique certification program for large/medium/small companies to apply for and to control corruption risk systematically and efficiently. The CAC's operations are sponsored by the US-based Center for Private Enterprise (CIPE) and the UK Prosperity Fund.

<sup>4</sup> Sustainability Investment List ([THSI](#)), created by the Stock Exchange of Thailand in 2015, comprises the listed companies that conduct sustainable business operations.

<sup>5</sup> Dow Jones Sustainability Indices – [Wikipedia](#) – Launched in 1999, DJSI evaluates the sustainability performance of companies based on corporate economic, environmental, and social performance.



## GENERAL DISCLAIMER

### ANALYST(S) CERTIFICATION

Teerapol Udomvej, CFA FSS International Investment Advisory Securities Co., Ltd

The individual(s) identified above certify(ies) that (i) all views expressed in this report accurately reflect the personal view of the analyst(s) with regard to any and all of the subject securities, companies or issuers mentioned in this report; and (ii) no part of the compensation of the analyst(s) was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed herein.

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Company	Ticker	Price	Rating	Valuation & Risks
The Erawan Group	ERW TB	THB 5.05	BUY	Downside risks to our DCF-based target price include 1) extraordinary events such as political turmoil and natural disasters; 2) a higher hotel room supply, which may result in price competition; and 3) the slower-than-expected recovery of international tourist numbers.
Asset World Corp	AWC TB	THB 3.96	BUY	Downside risks to our DCF-based target price include 1) extraordinary events such as political turmoil and natural disasters; 2) a higher hotel room supply, which may result in price competition; and 3) the slower-than-expected recovery of international tourist numbers.
Minor International	MINT TB	THB 32.75	BUY	Downside risks to our DCF-based target price include 1) extraordinary events such as political turmoil and natural disasters; 2) a higher hotel room supply and higher competition in the F&B business, which may result in price competition; and 3) the slower-than-expected recovery of international tourist numbers.
Central Plaza Hotel	CEN TEL TB	THB 42.75	BUY	Downside risks to our DCF-based target price include 1) extraordinary events such as political turmoil and natural disasters; 2) a higher hotel room supply and higher competition in the F&B business, which may result in price competition; and 3) the slower-than-expected recovery of international tourist numbers.
S Hotels and Resorts	SHR TB	THB 2.64	BUY	Downside risks to our DCF-based target price include 1) extraordinary events such as political turmoil and natural disasters; 2) a higher hotel room supply, which may result in price competition; and 3) the slower-than-expected recovery of international tourist numbers.
Dusit Thani	DUSIT TB	THB 10.70	BUY	Downside risks to our DCF-based target price include 1) extraordinary events such as political turmoil and natural disasters; 2) a higher hotel room supply, which may result in price competition; and 3) the slower-than-expected recovery of international tourist numbers.
Bound and Beyond	BEYOND TB	THB 13.00	BUY	Downside risks to our DCF-based target price include 1) extraordinary events such as political turmoil and natural disasters; 2) a higher hotel room supply, which may result in price competition; and 3) the slower-than-expected recovery of international tourist numbers.

Source: FSSIA estimates

### Additional Disclosures

Target price history, stock price charts, valuation and risk details, and equity rating histories applicable to each company rated in this report is available in our most recently published reports. You can contact the analyst named on the front of this note or your representative at Finasia Syrus Securities Public Company Limited

FSSIA may incorporate the recommendations and target prices of companies currently covered by FSS Research into equity research reports, denoted by an 'FSS' before the recommendation. FSS Research is part of Finasia Syrus Securities Public Company Limited, which is the parent company of FSSIA.

All share prices are as at market close on 21-Aug-2023 unless otherwise stated.

## RECOMMENDATION STRUCTURE

### Stock ratings

Stock ratings are based on absolute upside or downside, which we define as  $(\text{target price}^* - \text{current price}) / \text{current price}$ .

**BUY (B).** The upside is 10% or more.

**HOLD (H).** The upside or downside is less than 10%.

**REDUCE (R).** The downside is 10% or more.

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 market price and the formal recommendation.

\* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

### Industry Recommendations

**Overweight.** The analyst expects the fundamental conditions of the sector to be positive over the next 12 months.

**Neutral.** The analyst expects the fundamental conditions of the sector to be maintained over the next 12 months.

**Underweight.** The analyst expects the fundamental conditions of the sector to be negative over the next 12 months.

### Country (Strategy) Recommendations

**Overweight (O).** Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Neutral (N).** Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Underweight (U).** Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.