

# S HOTELS AND RESORTS PLC

No. 66/2024  
25 April 2024

## CORPORATES

Company Rating:	BBB+
Issue Rating:	
Senior unsecured	BBB
Outlook:	Stable

Last Review Date: 09/08/23

### Company Rating History:

Date	Rating	Outlook/Alert
09/05/23	BBB+	Stable

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## RATIONALE

TRIS Rating affirms the company rating on S Hotels and Resorts PLC (SHR) at “BBB+” and affirms the rating on its existing senior unsecured debentures at “BBB” with a “stable” rating outlook. The ratings reflect our assessment of SHR’s status as a “core subsidiary” of Singha Estate PLC (S, rated “BBB+/Stable”), according to our “Group Rating Methodology”.

The issue rating is one notch below the company rating due to the subordination of the company’s senior unsecured debentures to its priority debt, in terms of priority of claims against the company’s assets.

## KEY RATING CONSIDERATIONS

### Core subsidiary of S

We view SHR as a core subsidiary of S as we consider the company to be the core integral part of S’s strategy. S has control over SHR’s business strategies and financial policy through the company’s board of directors and top management. We expect SHR to continue playing a critical role in the S’s strategy to expand its hospitality business. Also, SHR contributes around 69% of S’s earnings before interest, taxes, depreciation, and amortization (EBITDA) in 2023.

### Revenue expected to gradually increase

We anticipate continued revenue growth for SHR in 2024-2026. This projection is fueled by the return to normal operations of hotels that underwent renovations in 2023. The overall hotel occupancy rate (OR) is expected to climb to roughly 68% in 2024 and stabilize at 71% throughout 2025-2026. Additionally, the average daily room rate (ADR) is forecast to rise by 1%-3% annually during the same period. Furthermore, we expect the company to pursue additional hotel acquisitions in 2024-2026, contributing to a rise in hotel revenue. SHR’s revenue is projected to reach THB10.2 billion in 2024 and THB11.5-THB12.3 billion per year during 2025-2026.

SHR’s hotel business performance improved in 2023 following the end of the COVID-19 pandemic. However, renovations at SAii Laguna Phuket Hotel, SAii Phi Phi Island Village Hotel, and Outrigger Fiji Beach Resort resulted in lagged recovery in operating results. Legionella in the water system also forced the closure for renovation of Outrigger Mauritius Beach Resort. By the end of 2023, all these hotels had resumed full operation. SHR’s revenue increased to THB9.7 billion in 2023 from THB8.7 billion in 2022. The overall OR climbed to approximately 66% in 2023 from 61% in 2022, and ADR experienced significant growth of around 10% year-on-year (y-o-y). Consequently, the average revenue per available room (RevPAR) in 2023 already surpassed pre-pandemic levels.

### Geographically diversified hotel portfolio

SHR’s hotel portfolio is geographically diversified, with hotels in Thailand, the Maldives, Fiji, Mauritius, and the UK. Its hotel portfolio consists of 37 hotels with 4,393 keys. The company’s hotels in Thailand are located in key tourist destinations such as Phuket, Phi Phi Island, and Samui Island. In the Maldives, the company developed the CROSSROADS Project, which consists of three operating hotels and a retail area. The CROSSROADS Project is well located and easily accessible from Male International Airport. SHR’s hotels in the UK are upper-midscale city hotels located in tourist destinations and economically

significant cities. The company also has two resorts in Fiji and one in Mauritius. In 2023, hotels in the UK accounted for around 40% of total revenue, those in the Maldives for around 30%, while hotels in Thailand, Fiji, and Mauritius made up the balance.

The company uses various hotel management models to suit hotels in a specific geography. The company has both self-managed own-brand hotels, which have the advantage of higher margins and greater management flexibility, and self-managed hotels under franchise agreements, which benefit from the distribution channels of world-class brands that help newly opened hotels gain market exposure quickly. The company also has hotels managed by hotel chains or third-party operators that use fewer of the company's resources and are suitable for properties located far from Thailand.

#### **Plans to enhance and expand hotel portfolio**

The company is constantly seeking ways to enhance the quality of its hotel assets and increase the efficiency of its hotel portfolio. In 2024, the company plans to renovate the remaining two-thirds of rooms at SAii Laguna Phuket. Also, renovations are planned for selected UK hotels with high potential for ADR increases. The company is also considering selling off underperforming hotels and exploring brand changes or repositioning to attract a higher customer segment for hotels with such potential.

The company's hotel expansion strategy prioritizes acquisitions of existing hotels, focusing on upper midscale to luxury properties in leisure destinations. Geographic diversification, market segment, and customer base are also key considerations. To achieve these goals, TRIS Rating expects SHR to allocate a budget of THB1 billion for hotel renovations during 2024-2026 and approximately THB2 billion per annum for hotel acquisitions during the same period.

SHR currently operates its business as a hotel owner, which is capital intensive. Going forward, the company plans to gear its hotel business more towards an asset-light model, possibly by leveraging its own brand, SAii, to provide hotel management services or by seeking joint-venture partners to invest in hotel assets and acting as the hotel operator for those assets. In our view, successfully solidifying and leveraging an asset-light model would be a positive factor for the company's business profile.

#### **Adequate liquidity**

We assess the company as having an adequate liquidity profile. The company's sources of funds as of December 2023 included cash and cash equivalents of THB2.5 billion and undrawn credit facilities of THB670 million, with expected cash flow from operations of THB1.5 billion in 2024. Uses of funds include loans of THB1.4 billion coming due in the next 12 months and expected capital expenditures of THB2.4 billion in 2024.

#### **Debt structure**

As of December 2023, SHR had consolidated debt of THB14 billion, of which around THB12 billion was considered priority debt. SHR's priority debt consisted of secured and unsecured loans at subsidiaries. As its priority debt ratio was 87%, far exceeding the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", we view that SHR's senior unsecured creditors could be significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

#### **BASE-CASE ASSUMPTIONS**

For the three-year period from 2024-2026, TRIS Rating's assumptions for SHR's operations are as follows:

- Revenue to increase to THB10.2 billion in 2024, THB11.5 billion in 2025, and THB12.3 billion in 2026.
- EBITDA margin to gradually improve from 25%-27% over the forecast period.
- Capital expenditure of THB2.3-THB2.4 billion per annum in 2024-2026.

#### **RATING OUTLOOK**

The "stable" outlook on SHR reflects the rating outlook on S and our expectation that SHR will maintain its "core" group status in the S Group despite S's expansion in areas unrelated to the hotel business.

#### **RATING SENSITIVITIES**

Any material changes in S's credit profile or our assessment of SHR's group status in the S Group could affect the company rating on SHR.

## COMPANY OVERVIEW

SHR was established in 2015 as the flagship hospitality business of S. The company was listed on the Stock Exchange of Thailand (SET) in 2019 with the ticker symbol "SHR". SHR engages in hotel development and management. As of December 2023, Singha Property Management Co., Ltd., a wholly owned subsidiary of Boon Rawd Brewery Group, was the major shareholder of the company holding 66% of the total shares. SHR has 37 hotels with a total of 4,393 keys in five countries, namely Thailand, Republic of Maldives, Republic of the Fiji Islands, Republic of Mauritius, and the UK.

## KEY OPERATING PERFORMANCE

**Table 1: SHR's Revenue Breakdown**

Unit: %

Revenue Breakdown	Unit	2019	2020	2021	2022	2023
<b>Total revenue</b>	<b>Bt million</b>	<b>3,818</b>	<b>1,563</b>	<b>4,513</b>	<b>8,693</b>	<b>9,701</b>
Self-managed hotels	%	26	21	5	13	18
Outrigger hotels	%	64	39	5	17	15
CROSSROADS Project phase 1 hotels*	%	10	40	36	28	26
UK portfolio hotels**	%	0	0	54	42	41
<b>Total revenue</b>	<b>%</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: SHR

\* Hotels in the CROSSROADS Project opened in September 2019.

\*\* The method of revenue recognition has been changed to consolidation from share of profit or loss from joint ventures since March 2021.

**Table 2: SHR's Hotel Portfolio**

	Hotel	Country	Segment	Number of Keys
<b>Self-managed hotels under owned brands</b>				
1	SAii Phi Phi Island Village	Thailand	Upscale	201
2	SAii Laguna Phuket	Thailand	Upper Upscale	255
3	SAii Koh Samui Choengmon	Thailand	Upper Upscale	52
4	Santiburi Koh Samui	Thailand	Luxury	96
5	Konotta Maldives	Republic of Maldives	Upper Upscale	53
<b>Hotels under hotel management agreement with Outrigger Group</b>				
6	Outrigger Fiji Beach Resort	Republic of the Fiji Islands	Upper Upscale	253
7	Castaway Island, Fiji	Republic of the Fiji Islands	Upper Upscale	65
8	Outrigger Mauritius Beach Resort	Republic of Mauritius	Upper Upscale	181
<b>Hotels under CROSSROADS Project</b>				
9	SAii Lagoon Maldives, Curio Collection by Hilton	Republic of Maldives	Upper Upscale	198
10	Hard Rock Hotel Maldives	Republic of Maldives	Upper Upscale	178
11	SO/ Maldives	Republic of Maldives	Luxury	80
<b>SHR's hotels in the United Kingdom portfolio</b>				
12-34	23 hotels under Mercure brand	United Kingdom	Upper Mid-Scale	2,552
<b>Hotels operating under joint venture</b>				
35-37	2 hotels under Holiday Inn brand and 1 hotel under Mercure brand	United Kingdom	Upper Mid-Scale	229
<b>Total</b>				<b>4,393</b>

Source: SHR

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Total operating revenues	9,755	8,747	4,575	1,642	3,896
Earnings before interest and taxes (EBIT)	1,079	832	(751)	(2,427)	163
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,446	1,981	451	(1,269)	870
Funds from operations (FFO)	1,271	1,128	(251)	(1,695)	285
Adjusted interest expense	1,125	842	694	377	492
Capital expenditures	1,552	537	382	572	3,849
Total assets	37,723	36,450	37,214	27,117	29,162
Adjusted debt	15,813	14,239	16,144	7,075	5,087
Adjusted equity	16,091	16,019	15,882	15,676	17,923
<b>Adjusted Ratios</b>					
EBITDA margin (%)	25.1	22.6	9.9	(77.3)	22.3
Pretax return on permanent capital (%)	3.2	2.5	(2.5)	(9.3)	0.7
EBITDA interest coverage (times)	2.2	2.4	0.7	(3.4)	1.8
Debt to EBITDA (times)	6.5	7.2	35.8	(5.6)	5.8
FFO to debt (%)	8.0	7.9	(1.6)	(24.0)	5.6
Debt to capitalization (%)	49.6	47.1	50.4	31.1	22.1

## RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

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**S Hotels and Resorts PLC (SHR)**

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<b>Company Rating:</b>	BBB+
<b>Issue Rating:</b>	
SHR260A: THB1,300 million senior unsecured debentures due 2026	BBB
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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