

Thailand Company Focus

Siam Wellness Group

Bloomberg: SPA TB | Reuters: SPA.BK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

20 Nov 2019

BUY

(Initiating Coverage)

Last Traded Price (19 Nov 2019): Bt16.00 (SET : 1,607.25)

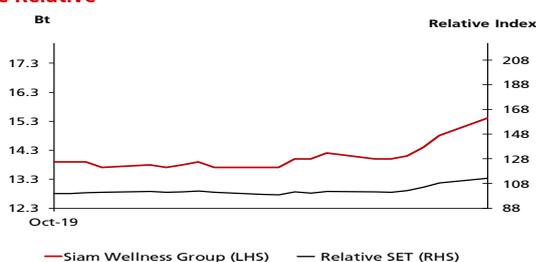
Price Target 12-mth: Bt19.50 (22% upside)

Potential Catalyst: Strong earnings growth

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (Btm)	2018A	2019F	2020F	2021F
Revenue	1,134	1,413	1,622	1,899
EBITDA	346	426	504	594
Pre-tax Profit	241	296	363	442
Net Profit	206	237	290	354
Net Pft (Pre Ex.)	206	236	290	354
EPS (Bt)	0.36	0.42	0.51	0.62
EPS Pre Ex. (Bt)	0.36	0.41	0.51	0.62
EPS Gth (%)	17	15	23	22
EPS Gth Pre Ex (%)	17	15	23	22
Diluted EPS (Bt)	0.36	0.42	0.51	0.62
Net DPS (Bt)	0.15	0.29	0.36	0.43
BV Per Share (Bt)	1.70	1.83	1.98	2.17
PE (X)	44.4	38.5	31.4	25.8
PE Pre Ex. (X)	44.4	38.6	31.4	25.8
P/Cash Flow (X)	28.7	23.7	20.9	17.7
EV/EBITDA (X)	26.7	21.5	18.0	15.1
Net Div Yield (%)	0.9	1.8	2.2	2.7
P/Book Value (X)	9.4	8.8	8.1	7.4
Net Debt/Equity (X)	0.1	0.0	CASH	CASH
ROAE (%)	23.8	23.5	26.8	29.9

Consensus EPS (Bt): 0.42 0.51 0.60
Other Broker Recs: B: 5 S: 0 H: 0

GIC Industry : Health Care

GIC Sector: Health Care Equipment & Services

Principal Business: SPA engages in the health spa business and a business secondary to the spa business in Thailand and oversea.

Source of all data on this page: Company, DBSVTH, Bloomberg Finance L.P.

Time to reap the harvest

- Thailand's leading provider of spa & wellness services that has gained popularity and momentum in recent years
- Prime beneficiary of Thailand's growing tourism activities
- Resuming its solid earnings growth after making immense investments in the past few years
- Initiate coverage with BUY and SOP-based TP of Bt19.50

Pole position in Thailand's spa and wellness business. SPA is the largest spa & wellness services provider in Thailand by revenue. Its brands are well recognised among foreign and Thai customers, especially Let's Relax, the key brand that SPA will focus for its future expansion. Also, as it is the prime beneficiary of Thailand's tourism activities that accounted for c.75% of its revenue, the growing international tourist arrivals over the long term bode well for its growth prospects.

Steady outlook with 2-year earnings CAGR of 23%. SPA's net earnings are expected to hit new highs in the coming years after its intensive expansion in the past few years. The robust growth profile will be driven by i) store expansion both domestically and internationally, ii) increase in SSSG, iii) diversification by rolling out new service stores, and iv) improving margins. As such, we expect SPA to deliver solid earnings growth of 23%/22% in FY20F/FY21F.

Initiating coverage: BUY with TP of Bt19.50. Our Bt19.50 TP is based on discounted cash flow (DCF) and offers potential upside of 22%. We believe that now is a good opportunity to start accumulating SPA shares given the potential upside of its earnings growth momentum in the upcoming years.

Valuation:

Our valuation is based on DCF (WACC 8.1%, terminal growth 2.5%).

Key Risks to Our View:

Sharp drop in the number of international tourist arrivals, economic slowdown and more intense competition.

At A Glance

Issued Capital (m shrs)	570
Mkt. Cap (Btm/US\$m)	9,120 / 302
Major Shareholders (%)	
Jiravanstitt's Family	17.5
Wiboon Utsahajit	11.1
Thanit Amorntirasan	9.5
Free Float (%)	54.7
3m Avg. Daily Val (US\$m)	0.55



Live more, Bank less

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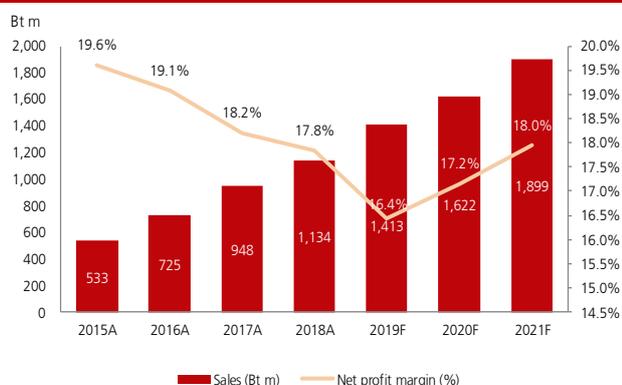
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Investment Summary

Initiate with BUY, TP of Bt19.50. SPA is a leading SPA services provider in Thailand with the highest market share. We like SPA for its potential steady earnings growth over the long term, which will be supported by: i) store expansion both domestically and internationally, ii) increase in SSSG, iii) diversification by rolling out new service stores, and iv) improving margins. We expect SPA's earnings growth to grow 23% and 22% in FY20F and FY21F, respectively.

Also, we believe its services including spa and wellness will be one of the future mega consumer trends that will grow rapidly in the future. Moreover, SPA is the major beneficiary of a strong recovery in Chinese tourist arrivals from 3Q19 after the hiccups in 1H19 (which Chinese customers contributed c.40% of total SPA's revenue). We initiate coverage on SPA with a BUY rating and TP of Bt19.50, based on DCF valuation (WACC 8.1%, terminal growth 2.5%). SPA is trading at an FY20F PE of 31x, which is equivalent to its peers.

SPA: Revenue and net margin

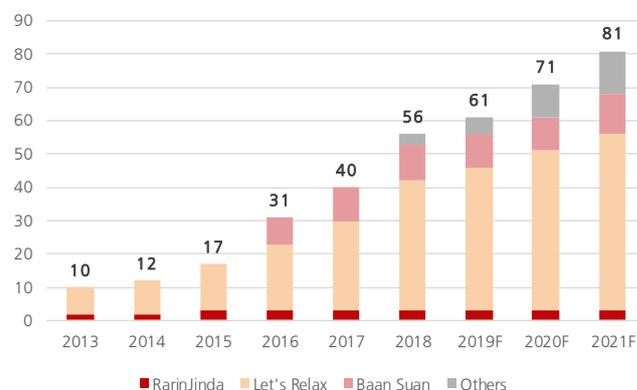


Source: Company, DBSVTH

Domestic and overseas branch expansion. SPA operates its spa business under the brands of RarinJinda (5-star spa), Let's Relax (4-star) and Baan Suan Massage (3-star). Thus, we believe the company can tap into a wide range of customers.

At end-3Q19, SPA operated three RarinJinda outlets, 42 Let's Relax outlets (seven overseas outlets in Cambodia and China) and ten Baan Suan outlets. We expect SPA to launch 5-10 spa branches p.a. in the domestic and overseas markets, which could support management's revenue growth guidance of 20% p.a. in the next 3-5 years. New stores rollout will be one of the key revenue drivers for SPA going forward. We have conservatively forecast a revenue growth range of 6-17% p.a. from 2020.

SPA: Number of branches



Source: Company, DBSVTH

SPA: Branch details by region

Brands	Bangkok	Upcountry	Overseas
RarinJinda	2	1	-
Let's Relax	17	18	7
Baan Suan	7	3	-
Stretch Me	4	-	-
Face Care	-	1	-
Total	30	23	7

Source: Company, DBSVTH

Asset-light model with more spas operating in hotels and resorts. SPA is targeting 4-star and 5-star hotels with existing spa facilities to roll out spas under its Let's Relax brand. To operate outlets under this model, SPA will pay rent to the hotels either using fixed rents or a revenue-sharing scheme. Given that most of the facilities operate under such a scheme, the company will require a lower capex of Bt1-5m per branch vs. Bt15-20m per stand-alone branch. This model will provide a higher IRR and a shorter payback period of 1-2 months after completion of development (COD) compared to six months under the fixed rent model. Hence, this could be another key catalyst for boosting revenue without incurring hefty capex along with boosting its ROE. At end-3Q19, the company operated five spa outlets in hotels located in Bangkok and Phuket.

Low-risk format for overseas expansion. SPA is foraying into international markets, i.e. China, Cambodia and Myanmar, by using franchise agreements. Under this model, the company will receive upfront fees for contracts (which normally last five years) and monthly royalty fees. This franchise model entails very low risks for the company, as it does not need to spend any capex and only needs to incur small expenses related to spa training for overseas spa branches. Currently, sales from overseas branches account for only c.1% of total sales but the company expects a higher contribution in the future.

Offering more variety of services to expand its clientele base. Besides spa and massage services, SPA launched new services starting from 4Q18 – Stretch Me (stretching services) and Face Care (facial services) in Bangkok and Pattaya. Both services are still in the process of being ramped up to build brand awareness in the market.

Moreover, the company has also rolled out its stretching services in potential spa branches with idle capacity to optimise its existing store investments. We believe these services could offer another key potential growth avenue by targeting a new group of customers over the longer term.

SPA: Investment in each brand and model

Brands	Capex (Bt m)	Avg. Spend (Bt/pax)	Annual revenue per branch (c. Bt m)
RarinJinda	25	2,100	20
Let's Relax	15-20	1,050	25-30
Let's Relax - hotel	1-5	1,050	17-20
Let's Relax - franchise	-	n.a.	3-5
Baan Suan	10	500	6-8
Stretch Me	5-7	1,200	n.a.
Face Care	5-7	1,200	n.a.

Source: Company, DBSVTH

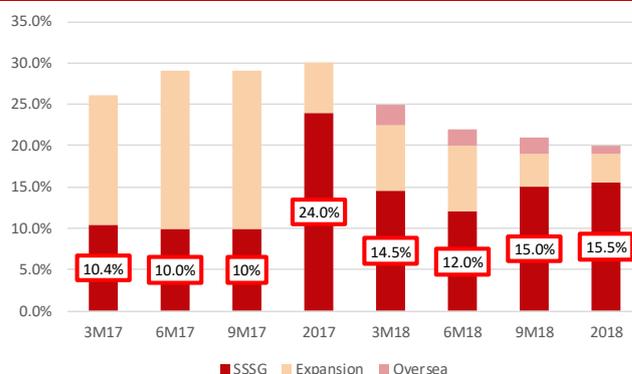
Increase in SSSG. We expect SPA's SSSG to be driven by two key factors, i.e. higher traffic volume and higher average spending per head. Currently, 75% of its spa revenue stems from its foreign customers (note that the strong baht has minimal impact as the company quoted the price in THB). Chinese tourists make up its key market, accounting for c.40% of its total revenues. The company believes Chinese tourists would remain its key market despite the slower growth of Chinese tourist arrivals this year.

Given that Thailand would remain the preferred destination for global tourists, its tourist arrivals should grow over the longer term. We expect SPA's customer traffic to grow faster than tourist arrivals as the company strives to gain higher market share by embarking on continuous marketing and promotion efforts – via both online and offline media to strengthen its brand recognition, especially for its key market of China (note that now less than 5% of the total number of Chinese tourists in Thailand have visited SPA's outlets). Hence, SPA also targets to gain more market share in Chinese tourists.

In the meantime, the company will also strive to increase spending per head by revising its service fees and adjusting its

list of services to get customers to spend more in its stores. Thanks to its growing customer traffic and higher spending per head, the company targets to increase its SSSG by 10% p.a. over the short and medium term.

SPA: Revenue growth breakdown by quarter



Source: Company, DBSVTH

Boosting product revenue to enhance overall margin.

Meanwhile, the company is targeting to increase its product sales which now account for c.5% of its total revenue to c.10% in the next three years. To achieve the targeted revenue, SPA is launching new products under the Let's Relax Lifestyle (LRL) brand, i.e. lifestyle products that can be used on a daily basis on top of the spa products that are consumed occasionally. As the gross margin for its spa products are significantly higher than that of the spa business (c.60% vs. c.30%), the higher proportion of product revenues should enhance the company's profitability over the long term.

Revenue breakdown by business



Source: Company, DBSVTH

Valuation & Peers Comparison

DCF valuation of Bt19.50 per share. Our DCF valuation arrives at a target price of Bt19.50 for SPA. The stock's potential upside of 21.9% to the current share price and expected yield of 2.3% in FY19F and FY20F offer a total potential return of 24.2%. Our DCF model is based on a WACC of 8.1%, assuming cost of debt of 2.6% and cost of equity of 9.9%. Given the potential upside and its strong earnings growth outlook, we initiate SPA with a BUY rating.

Premium valuation justified by strong growth outlook and healthy balance sheet. The stock is trading at 31.3x FY20F PE, which is above the peer average of 25x. The stock's premium valuation is supported by its strong earnings growth of 21% vs. its peers' earnings growth of 17% in 2020. Also, the ROE of SPA is the highest at 23% in this industry.

Sensitivity analysis. In the table below, we conducted a sensitivity analysis of TP to both discount rate and terminal growth.

Sensitivity analysis: Discount rate X Terminal growth

		WACC					
		7.5%	7.8%	8.1%	8.4%	8.7%	9.0%
Terminal growth rate	0.0%	16.8	16.1	15.4	14.7	14.1	13.6
	0.5%	17.6	16.7	16.0	15.3	14.6	14.0
	1.0%	18.4	17.5	16.7	15.9	15.2	14.5
	1.5%	19.5	18.4	17.5	16.6	15.8	15.1
	2.0%	20.7	19.5	18.4	17.5	16.6	15.8
	2.5%	22.1	20.8	19.5	18.4	17.5	16.6
	3.0%	23.9	22.3	20.9	19.6	18.5	17.5
	3.5%	26.1	24.2	22.5	21.0	19.7	18.5

Peers comparison

BB Ticker	Name	Market Cap US\$m	PE (x)		P/BV (x)		EV/EBITDA (x)		Div Yield (%)		ROE (%)		EPS Growth (%)	
			19F	20F	19F	20F	19F	20F	19F	20F	19F	20F	19F	20F
SPA TB	Siam Wellness Group Pcl	263	38.5	31.4	7.3	6.3	20.8	17.5	1.3	22.8	17.3	21.4		
ERW TB	Erawan Group Pcl/The	493	29.2	25.0	2.5	2.4	12.4	11.1	1.4	8.9	(4.7)	16.7		
CEN TEL TB	Central Plaza Hotel Pcl	1,322	20.9	19.4	2.9	2.6	9.5	8.7	2.0	14.1	N/A	7.7		
MINT TB	Minor International Pcl	5,700	25.4	22.8	2.2	2.1	13.9	13.0	1.3	9.6	31.5	11.4		
GYM LN	Gym Group Plc/The	436	23.7	19.4	235.4	209.8	12.2	9.7	0.0	N/A	52.9	22.1		
PLNT US	Planet Fitness Inc - CI A	5,807	39.9	32.1	(36.2)	56.0	24.8	21.1	-	N/A	28.8	24.2		
Average (simple)			28.7	25.0	35.7	46.5	15.6	13.5	1.0	1.3	18.5	17.2		

Source: Company, DBSVTH

SPA: PE Band



Source: Company, DBSVTH

SPA: PB Band



Source: Company, DBSVTH

Key Risks

Fluctuating tourist arrivals. As SPA's core spa business rides on the hotel business, foreign tourists that account for c.75% of its total customers are its main customers. The number of tourist arrivals may be affected by adverse events like terrorist attacks, outbreak of epidemic diseases, natural disasters, civil commotions within the country, a global economic recession, etc. The lower number of tourist arrivals is bound to hurt SPA's traffic volume and revenue.

Nevertheless, we note that SPA has a risk management strategy of increasing the proportion of domestic customers as well as diversifying its outlets to key tourist destinations and nationwide attractions to reduce concentration risks, e.g. a major negative event that may hit a specific area particularly hard.

Competition from new supply. As the company operates both spa and hotel businesses which are open to competition, a sudden surge in supply for both businesses may affect the company's performance in terms of traffic and pricing power. Hence, to mitigate such risks, the company strives to continue improving its services to create a unique experience for each of its brands to strengthen its brand among customers.

Risk of non-renewal of lease agreements. Most of its outlets operate under a lease agreement. Thus, if that the company is unable to renew a large proportion of these agreements, its operations will surely be jeopardised. To reduce such risks, the company would enter into an agreement before the commencement of the lease agreement to enable it to renew the lease agreement for at least about 9-12 years (three years' lease to renew for another three years then another three years and/or to renew for three years) to reduce the risk of losing all its sunken investments in the leased premises of an outlet.

Shortage of therapist staff. As the company operates a health spa business that requires a lot of therapists, the shortage of such therapists may impact its business. Thus, SPA has a solid management personnel system that looks after staff welfare benefit as well as allocates the right number of therapists to cater to the volume and customer needs of each of its outlets.

Also, SPA has opened a massage training school parked under a subsidiary company to develop the skills of its staff in accordance with its prescribed standards, support its business expansion and train staff replacements for those who have resigned. This is to ensure that SPA would not face the issue of therapist shortages in the future.

Slowdown of the economy. Since SPA's services are considered complimentary services, they can be dispensed with in difficult times, especially during an economic slowdown. Therefore, a broad economic downturn may affect the company in terms of customer traffic and downward price revisions due to lower purchasing power. Nonetheless, as SPA mostly targets the upper middle-income group, it may be more resilient to any downturns in the economy.

Exchange rate volatility. The strong baht may cause the company to lose its pricing competitiveness when it comes to foreign customers. However, as the company enjoys a rather strong brand recognition and is well-known for its high-quality services among foreigners, its customers could be less sensitive to price changes arising from forex movements.

SWOT Analysis

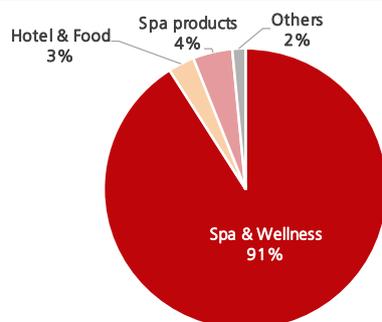
Strengths	Weaknesses
<ul style="list-style-type: none"> • Leading spa service provider in Thailand with well-recognised brand among international tourists and locals • Prime location in Bangkok and big cities with easy-to-access transportation facilities • Offer a wide range of spa position services (3-star to 5-star service brands) to tap into all customer segments • Full range of spa service options from experienced therapists • The majority of its foreign customers are Foreign Independent Travellers (FIT) which are growing rapidly and less price sensitive 	<ul style="list-style-type: none"> • Shortage of experienced therapists • High concentration of Chinese tourist customers (accounting for c.40% of its total spa revenue)
Opportunities	Threats
<ul style="list-style-type: none"> • Rollout of more spa branches in Thailand via both standalone outlets and a hotel-based model that entails lower capex • Partnerships in international markets to open new spa branches under low-risk franchise format • Higher traffic for outlets from growing tourist arrivals • Increase in spending per head arising from price revisions and development of new spa options • Diversification beyond spa services to stretching services and facial services in new store formats • Improving profitability from higher economies of scale and higher contribution from product sales • Benefiting from the upcycle for spa and wellness services which are growing rapidly and fast becoming a mega trend 	<ul style="list-style-type: none"> • Volatile number of international tourist arrivals could hurt its store traffic • Slowdown of the economy may affect the purchasing power of its customers • More intense competition arising from new suppliers and price wars • Rivals copying its franchise model in the international market

Source: DBSVTH

Business overview

SPA engages in the health spa business and a business secondary to the spa business, which can be categorised into the four main segments of i) spa and wellness business (c.91% of total sales), ii) hotel and restaurant business (c. 3% of total sales), iii) spa product business (c.5% of total sales), and iv) others (c.2% of total sales).

SPA: Revenue breakdown by business as of 2Q19



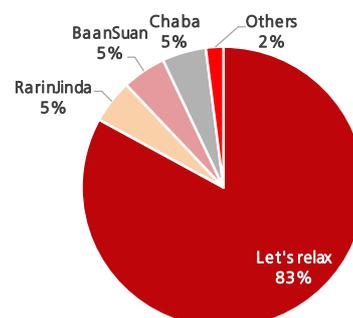
Source: Company, DBSVTH

i) Spa business. SPA provides spa services to both local Thais and foreign customers under its brands of "RarinJinda Wellness Spa", "Let's Relax" and "Baan Suan Massage". In late 2018, the company also added new services under the brands of "Stretch Me by Let's Relax" (stretching services) and "Face Care by Let's Relax" (facial services).

In late 2018, SPA invested in a stake of 76% in CHABA for the provision of nail care services. However, the company has recently transferred all of its shares in CHABA back to Chaba Nail Wellness Spa at the East Co., Ltd (its previous shareholder) in early 4Q19 as CHABA requires specialised personal skills that make the business difficult to expand. The following summarises SPA's current brands and market segments:

- **RarinJinda Wellness Spa**, a 5-star premium spa located in 5-star hotels and resorts that targets high-income customers. Such outlets are fully equipped with comprehensive spa facilities that meet international standards
- **Let's Relax**, a 4-star boutique day spa located in shopping malls and hotels with standalone outlets in tourist areas. This brand targets upper middle-income customers
- **Baan Suan Massage**, a 3-star neighbourhood massage standalone outlet located in highly populated areas that targets middle-income customers
- **Stretch Me by Let's Relax**, a stretching studio that provides stretching and trigger point pressure services for various lifestyle guests such as office workers, sport aficionados and travellers
- **Face Care by Let's Relax**, a sophisticated facial spa and treatment provider that is located in shopping malls

SPA: Spa revenue breakdown by brand as of 1H19



Source: Company, DBSVTH

Given its highly-diversified brands and services, the company aims to attract even more customers from different segments. As at end-2Q19, SPA operated three RarinJinda branches, 42 Let's Relax branches (seven overseas branches in Cambodia and China) and ten Baan Suan branches.

SPA: Branch details by region

Brands	Bangkok	Upcountry	Overseas
RarinJinda	2	1	-
Let's Relax	17	18	7
Baan Suan	7	3	-
Stretch Me	4	-	-
Face Care	-	1	-
Total	30	23	7

Source: Company, DBSVTH

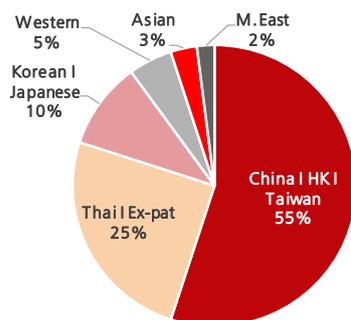
SPA: Target group by income

Target group	Income per month (Bt)	Brand
A- to A+	> 75,000	RarinJinda Wellness Spa
B to A-	30,000 - 75,000	Let's Relax, Stretch Me / Face Care
C+ to B+	15,000 - 50,000	Baan Suan Massage

Source: Company, DBSVTH

Currently, the majority of its customers are foreign customers, accounting for c.75% of its spa customers while Thais and expats make up only c.25%. Chinese tourists, which account for c.40% of its spa customers, are SPA's main market segment.

SPA: Spa revenue breakdown by nationality as of 1H19



Source: Company, DBSVTH

SPA: Location of spa outlets



Source: Company, DBSVTH

ii) **Hotel and restaurant businesses.** SPA via its 100%-owned subsidiary, Siam Wellness Resort Co., Ltd. (SWR) operates the boutique hotel resort business (5-star hotel) in Chiangmai province under the name of "RarinJinda Wellness Spa Resort" as well as the "Deck 1" restaurant. The average occupancy rate of the resort is c.80%, which is considered quite high as it targets customers who need a completely relaxing time-out.

SPA: Hotel room details

Room type	No. of rooms	Room rate* (Bt/night)
Deluxe	22	6,500
Deluxe pool access	7	10,000
Wellness suite	5	16,000
RarinJinda Villa	1	27,000
Total	35	

*Room rate as of 31 December 2018

Source: Company, DBSVTH

iii) **Distribution of spa products business.** SPA via its 100%-owned subsidiary, Siam Wellness Lab Co., Ltd. (SWL) operates the business of distributing both domestically and abroad spa-related and health products, and crispy snacks under the brand of "Blooming". As its products are manufactured by OEM supplier, SWL does not need to invest in a factory.

SWL also holds a 100% stake in Tiger Eyes Trading (Thailand) Co., Ltd. (TGT). TGT engages in the business of importing and distributing facial, body, slimming, wax, nail products as well as spa equipment such as electric blankets, massage bed sheets, facial and slimming devices from France, Canada, the UK and US. TGT distributes to hair salons, beauty clinics, hospitals and spas throughout Thailand. It also acts as a sole agent for many brands in Thailand and CLMV.

iii) **Thai massage school business.** SPA via its 100%-owned subsidiary, Siam Wellness Education Co., Ltd. (SWE) operates the Thai massage school business under the name of "Blooming Thai Massage School," to provide training on Thai massage and spa treatments to therapists as well as to accommodate the human resources needs of the group – especially when it embarks on expanding its own spas.

SWE also holds a 100% stake in Tiger Eyes Educations Co., Ltd (TGE) which operates the spa and beauty school business under the name of "Tiger Eyes Academy Beauty & Spa" to provide training on massage and spa treatments to therapists as well as to accommodate the human resources needs of the group.

SPA: Spa outlets

  5-STARS SPA INNOVATIVE WELLNESS SPA Avg. Spend = 2,100 THB/pax CAPEX 25 million THB/branch 3 BRANCHES THAILAND	  4-STARS SPA BOUTIQUE DAY SPA Avg. Spend = 1,050 THB/pax CAPEX 15-20 million THB/branch 35 BRANCHES THAILAND 7 BRANCHES OVERSEAS	  3-STARS SPA NEIGHBORHOOD MASSAGE & SF Avg. Spend = 500 THB/pax CAPEX 10million THB/branch 10 BRANCHES THAILAND	  STRETCHING STUDIO BY PHYSICAL THERAPISTS Avg. Spend = 1,200 THB/pax CAPEX 5-7 million THB/branch 4 BRANCHES THAILAND	  SOPHISTICATED FACIAL SPA Avg. Spend = 1,200 THB/pax CAPEX 5-7 million THB/branch 1 BRANCH THAILAND	  MANICURE PEDICURE & EYELAS Avg. Spend = 1,000 THE CAPEX 5-7 million THB/t 9 BRANCHES THAILA
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SPA: RarinJinda Wellness Spa Resort



Source: Company, DBSVTH

SPA: DECK 1 restaurant



SPA: Spa products

RETAIL



LET'S RELAX

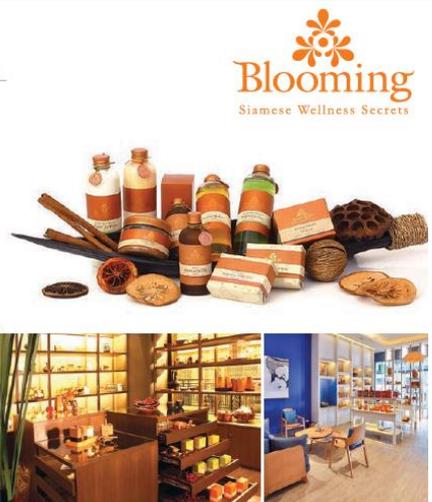
Hand Cream



Thai Coconut roll



RARINJINDA SIGNATURA



SPA: Spa school



Source: Company, DBSVTH

Industry outlook

Spa business outlook

Growing industry. We are positive about the short and medium-term outlook for the health and wellness sector in view of the fact that spa and wellness services are gaining popularity at a rapid pace and fast becoming a mainstream lifestyle trend for many. The spa market in Thailand was valued at c.Bt35bn in 2018, which represents a y-o-y growth of 5% from 2017. In 2019, this market's worth is expected to increase 8% y-o-y.

Currently, Thailand's wellness tourism market value was ranked 13th globally in 2017. The Global Wellness Institute (GWI) estimates projects that global wellness tourism will grow at an average annual rate of 7.5% through 2022, which outpaces the 6.4% annual growth forecasted for overall global tourism. Global wellness tourism expenditures are expected to reach more than US\$919bn in 2022, representing 18% of the global tourism market. Being one of the fastest-growing regions, Asia can expect its wellness tourism market to grow 13% p.a. until 2020.

Wellness tourism growth projection, 2017-2022

	Projected Expenditures (US\$ bn)		Average Annual Growth
	2017	2022	
North America	241.7	311.3	5.2%
Europe	210.8	275	5.5%
Asia-Pacific	136.7	251.6	13.0%
Latin America-Caribbean	34.8	54.7	9.5%
Middle East-North Africa	10.7	18.7	11.8%
Africa	4.8	8.1	11.1%
Total	639.4	919.4	7.5%

Source: GWI

Wellness tourism spending in top ten Asia-Pacific markets

	Inbound trip		Domestic trip	
	Wellness	Normal	Wellness	Normal
China	2,226	1,417	232	146
Japan	2,192	1,436	488	307
India	2,937	1,941	58	36
Thailand	1,885	1,206	191	120
Australia	2,992	2,490	866	487
South Korea	2,054	1,307	205	126
Indonesia	1,184	793	251	115
Malaysia	1,109	717	267	102
Vietnam	959	634	152	97
New Zealand	2,758	2,115	766	478

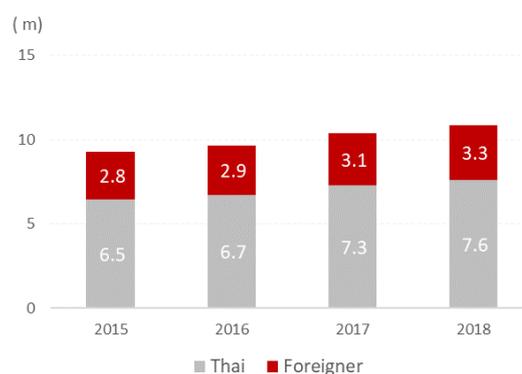
Source: Company, DBSVTH

Hotel business outlook

Chiang Mai: It is a popular tourist destination for both Thai and foreign tourists, based on the annual growth figures of tourist arrivals, spending and occupancy rates. Its popularity is expected to continue in 2019. Total tourism revenue of Bt108bn (+9% y-o-y) in Chiang Mai was contributed by Thai tourists (Bt66bn) and foreign tourists (Bt42bn).

- **Demand.** In 2018, tourist arrivals rose to 10.8m (+4.3% y-o-y), with 7.6m Thai tourists (+4.5% y-o-y) and 3.2m foreign tourists (+3.8% y-o-y).

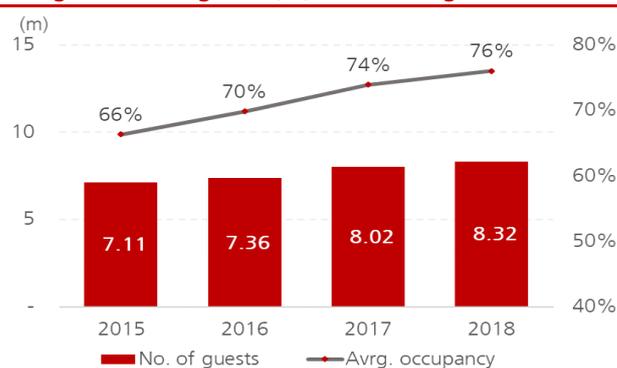
Chiang Mai: Tourist arrivals in 2015-2018



Source: Ministry of Tourism and Sport, Thailand, DBSVTH

- **Supply.** The total number of key rooms grew 0.9% to 38,096 rooms, with the total number of accommodations rising 1.4% to 855 premises. Hotel rooms accounted for 48% of the total accommodations and 68% of total key rooms.
- **Occupancy.** The average occupancy rate (OR) in Chiang Mai rose 2.1% to 76% in 2018 from 73.9% in 2017, with the total number of guests rising to 8.3m in 2018 from 8m in 2017.

Chiang Mai: Average OR (%) and no. of guests



Source: Ministry of Tourism and Sport, Thailand, DBSVTH

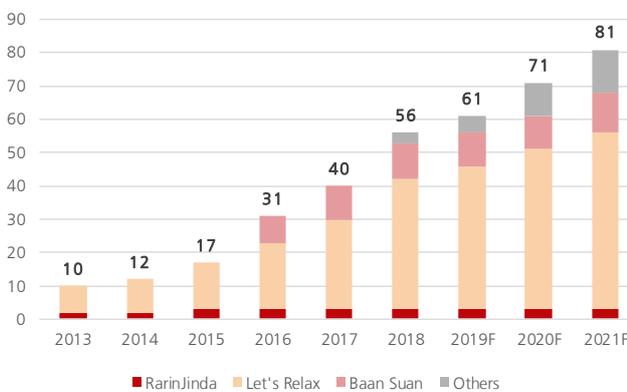
Critical Factors

Continuous outlet expansion to boost revenue growth. SPA targets to ramp up its revenue growth to 20% p.a. in the next 3-5 years. One of the key drivers would be outlet expansion. As at end-3Q19, SPA operated three RarinJinda branches, 42 Let's Relax branches (seven overseas branches in Cambodia and China) and ten Baan Suan branches.

Going forward, we expect the company to roll out ten new branches over the next four years (2020-2023) and subsequently around five branches per year over the longer term. However, we conservatively assume SPA's revenue growth to be at 11%-17% p.a. over the next five years.

The majority of its outlet expansion would continue to revolve around Let's Relax which has the highest sales per store, which implies the highest growth potential. Also, Let's Relax will also be the brand that the company will use for rolling out hotel-based spas and spas in overseas markets.

SPA: Number of branches



Source: Company, DBSVTH

Increase in SSSG. We expect SPA's SSSG to be driven by two key factors, which are higher traffic volume and higher average spending per head. To increase its traffic volume, the company will continue to carry out marketing activities that target its key customer group, i.e. foreigners. Towards this end, SPA uses mainly online marketing which is effective and inexpensive.

Plus, store traffic should also be boosted by growing tourist arrivals, as the majority of its customers are foreign customers. Also, as SPA revises its prices upwards in line with an improving mix of service options, we should also see higher spending per head. Hence, we believe SPA's SSSG will remain positive over the long term. Thanks to both store expansion and higher SSSG, we expect SPA's revenue to grow by 6-17% p.a. throughout our forecast period.

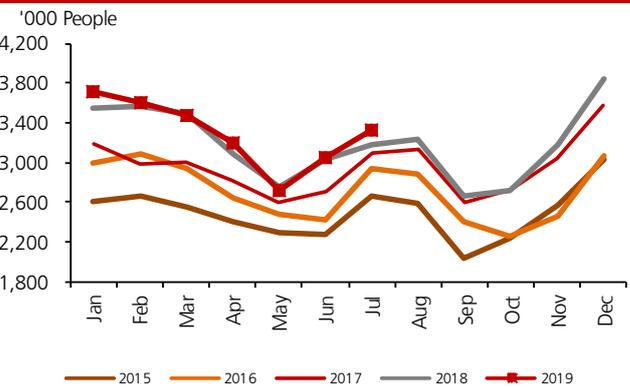
SPA: Revenue forecast



Source: Company, DBSVTH

Growing tourist arrivals to Thailand. SPA is one of the key beneficiaries of the growing number of tourist arrivals, as c.75% of its revenue come from foreign customers. Chinese tourists are its major customers, accounting for c.40% of its total revenue. Although there were some hiccups in Chinese tourist arrivals arising from various incidents since August 2018, we are seeing strong signs of a rapid recovery in such arrivals from August 2019 till now. Furthermore, given that Thailand will remain the preferred tourism destination globally, its tourist arrivals are expected to grow over the long term.

SPA: Thailand tourist arrivals



Source: Company, DBSVTH

Improving margins over the long term. We expect SPA's rising SSSG to help improve its net margins over time. Meanwhile, the company is pursuing efforts to increase the contribution of its product sales, which now account for c.5%, to c.10% of its total revenue over the next three years. This is owing to fact that the gross margin of product sales is significantly higher than that of the spa business (c.60% vs. c.30%). Hence, this strategy should enhance the company's profitability in the long term and we assume its net margin will to increase from 16.7% in 2019E to 17.4% to 20.7% over the long term.

Financials

Recap of 9M19 results. SPA posted 9M19 core earnings of Bt176m, representing a y-o-y increase of 12%. The moderate normalised profit growth in 9M19 was due to a lower gross margin of 31.6% vs. 35% in the previous year. The narrower margin can be attributed to i) the change in revenue recognition related to upfront fees for its overseas business, ii) contribution from SPA's nail business that comes with a lower margin, iii) renovation of its Let's Relax outlet in Pattaya, and iv) higher costs arising from the roll-out of new stores from 4Q18.

However, we note that SPA has continued to deliver and impressive topline growth of 26%, which was mainly supported by the strong revenue growth of its spa business – largely thanks to store expansion and higher SSSG.

Steady earnings growth to resume from 2020F. Looking forward, we expect SPA to deliver solid earnings growth over the long term which, will be supported by: i) store expansion both domestically and internationally, ii) increase in SSSG, iii) diversification by rolling out new service stores, and iv) improving margins. We expect SPA's earnings growth to grow 20% and 22% in FY20F and FY21F, respectively.

SPA: Earnings forecast



Source: SPA, DBSVTH

Cancellation of joint investment in Chaba Elegance Co., Ltd. (CHABA). On 1 January 2019, SPA invested in a stake of 76% in CHABA (provider of nail care services) with an investment cost of Bt125m. However, the company has recently transferred all of its shares in CHABA back to Chaba Nail Wellness Spa at the East Co., Ltd (its previous shareholder) at the same price of its purchase. SPA will recognise revenue from this investment until 30 September 2019 (accounting for c.5% of total sales).

The rationale for the cancellation was that CHABA requires specialised personal skills that make it difficult to scale up the business, thus making it incompatible with the group's objectives. However, as the contribution of CHABA to SPA's bottomline is very minimal, this should not affect SPA's fundamentals and long-term earnings outlook.

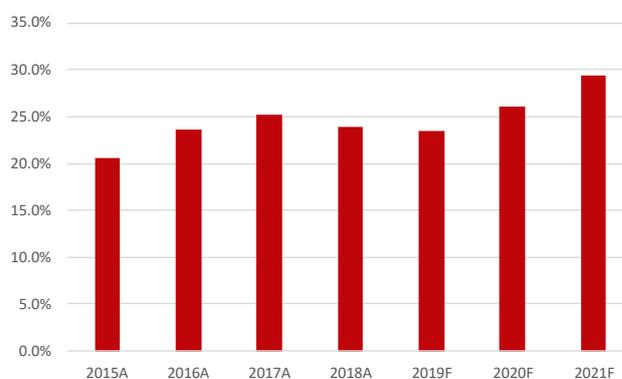
Balance sheet

Strong balance sheet in 2019. At end-3Q19, SPA's net gearing ratio stood at 0.2x. Looking forward, as the company can generate more operating cashflow from its existing outlets (thanks to its aggressive outlet expansion during 2015-2018) to support its operations and expansion, we expect its net gearing to head down to zero. Moreover, the company is also widely expected to swing into a net cash position next year.

Past its peak capex cycle: SPA incurred a total investing cash outflow of Bt880m during 2015-2018 (c.Bt220m per year), as the company expanded its number of outlets from 12 to 57. We believe that the high capex incurred for opening new outlets will not persist as we expect its annual branch openings to decelerate going forward, coupled with the adoption of the asset-light model for operating spas in hotels (i.e. hotel operating model). Going forward, SPA should see a lower annual capex of c.Bt100-144m. Meanwhile, we expect its operating cash flow to remain positive going forward.

High and growing ROE. We anticipate that SPA's high ROE will continue to improve from 2020 onwards on the back of improving profitability and lower capex. The following chart shows that SPA's ROE will increase from 23.8% in FY18 to about 29.4% in FY21F.

SPA: High ROE to stay and further improve from 2020 onwards



Source: DBSVTH

Key Assumptions

FY Dec	2016A	2017A	2018A	2019F	2020F	2021F
Sales (Bt m)	725	948	1,134	1,413	1,622	1,899
Gross margin (%)	33.2	34.6	33.9	32.0	33.1	33.8
SGA/Sales (%)	12.3	13.8	13.4	12.3	12.0	11.9
Effective tax rate	14%	15%	15%	20%	20%	20%
Net profit margin (%)	19.1	18.2	17.8	16.4	17.6	18.3

Segmental Breakdown

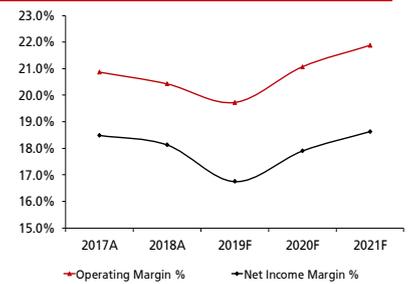
FY Dec	2016A	2017A	2018A	2019F	2020F	2021F
Revenues (Btm)						
Spa & wellness	624	815	987	1,258	1,450	1,705
Hotel & food	62	57	68	69	71	72
Products	40	57	57	62	78	97
Others	-	19	23	23	24	24
Total	725	948	1,134	1,413	1,622	1,899
(Btm)						

Source: Company,

Income Statement (Btm)

FY Dec	2016A	2017A	2018A	2019F	2020F	2021F
Revenue	725	948	1,134	1,413	1,622	1,899
Cost of Goods Sold	(485)	(620)	(750)	(960)	(1,086)	(1,258)
Gross Profit	241	328	384	452	536	641
Other Opng (Exp)/Inc	(89.0)	(130)	(152)	(174)	(194)	(226)
Operating Profit	151	198	232	279	342	415
Other Non Opg (Exp)/Inc	13.9	14.8	18.2	22.0	25.2	29.6
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(1.6)	(6.6)	(8.8)	(5.3)	(4.1)	(2.9)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.33	0.0	0.0
Pre-tax Profit	164	206	241	296	363	442
Tax	(22.9)	(30.8)	(35.4)	(59.0)	(72.6)	(88.4)
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	141	175	206	237	290	354
Net Profit before Except.	141	175	206	236	290	354
EBITDA	221	290	346	426	504	594
Growth						
Revenue Gth (%)	36.0	30.7	19.7	24.5	14.8	17.1
EBITDA Gth (%)	27.0	31.4	19.3	23.2	18.3	17.8
Opg Profit Gth (%)	21.7	30.6	17.1	20.3	22.7	21.6
Net Profit Gth (Pre-ex) (%)	32.4	24.3	17.4	14.9	22.9	21.8
Margins & Ratio						
Gross Margins (%)	33.2	34.6	33.9	32.0	33.1	33.8
Opg Profit Margin (%)	20.9	20.9	20.4	19.7	21.1	21.9
Net Profit Margin (%)	19.4	18.5	18.1	16.7	17.9	18.6
ROAE (%)	23.6	25.1	23.8	23.5	26.8	29.9
ROA (%)	18.5	17.2	16.2	16.9	19.8	22.9
ROCE (%)	19.4	18.6	17.3	17.8	21.2	24.6
Div Payout Ratio (%)	198.1	22.8	41.6	69.8	70.0	70.0
Net Interest Cover (x)	96.7	30.1	26.2	52.7	83.7	144.2

Source: Company,

Margins Trend

Quarterly / Interim Income Statement (Btm)

FY Dec	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019	2Q2019
Revenue	279	265	288	303	341	337
Cost of Goods Sold	(174)	(176)	(191)	(209)	(231)	(240)
Gross Profit	105	89.0	97.1	93.3	110	97.8
Other Oper. (Exp)/Inc	(37.5)	(36.7)	(36.9)	(41.4)	(42.0)	(43.5)
Operating Profit	67.2	52.3	60.2	51.9	68.1	54.2
Other Non Opg (Exp)/Inc	1.72	6.66	3.28	6.58	4.49	5.29
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(2.2)	(2.3)	(2.2)	(2.2)	(2.4)	(2.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0	(2.0)
Pre-tax Profit	66.8	56.7	61.3	56.3	70.2	54.7
Tax	(10.6)	(8.3)	(9.3)	(7.2)	(11.0)	(7.4)
Minority Interest	0.0	0.0	0.0	0.0	(0.1)	(0.1)
Net Profit	56.2	48.4	52.0	49.1	59.1	47.2
Net profit bef Except.	56.2	48.4	52.0	49.1	59.1	49.2
EBITDA	113	127	157	181	134	146

Growth

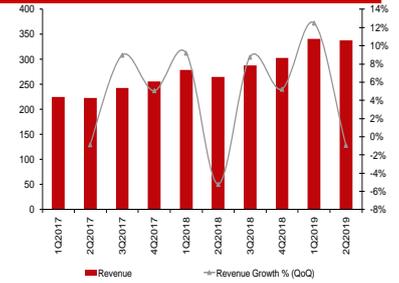
Revenue Gth (%)	9.2	(5.2)	8.8	5.2	12.5	(0.9)
EBITDA Gth (%)	(26.2)	12.5	23.3	15.8	(25.9)	8.5
Opg Profit Gth (%)	31.8	(22.2)	15.1	(13.8)	31.1	(20.3)
Net Profit Gth (Pre-ex) (%)	23.1	(13.8)	7.4	(5.5)	20.3	(16.7)

Margins

Gross Margins (%)	37.5	33.6	33.7	30.8	32.3	29.0
Opg Profit Margins (%)	24.1	19.8	20.9	17.1	20.0	16.1
Net Profit Margins (%)	20.1	18.3	18.1	16.2	17.3	14.0

Source: Company,

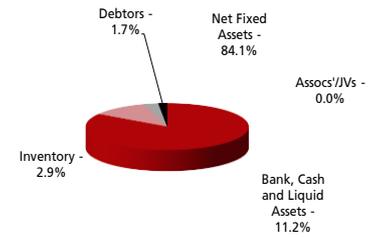
Revenue Trend



Balance Sheet (Btm)

FY Dec	2016A	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	699	889	1,067	1,075	1,071	1,064
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0	0.0
Other LT Assets	78.1	95.0	126	140	156	177
Cash & ST Invt	50.9	143	111	144	190	257
Inventory	20.2	27.8	31.0	37.7	42.6	49.4
Debtors	8.61	12.4	23.5	22.4	25.7	30.1
Other Current Assets	8.35	8.30	9.65	12.0	13.8	16.2
Total Assets	865	1,176	1,369	1,430	1,499	1,594
ST Debt	20.0	76.8	90.0	42.0	42.0	42.0
Creditor	70.4	85.9	83.4	109	123	142
Other Current Liab	30.0	43.8	50.7	56.5	61.4	67.4
LT Debt	80.2	185	126	134	94.0	54.0
Other LT Liabilities	25.5	29.1	48.8	48.1	50.5	53.5
Shareholder's	639	755	970	1,041	1,128	1,234
Minority Interests	0.0	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	865	1,176	1,369	1,430	1,499	1,593
Non-Cash Wkg. Capital	(63.3)	(81.2)	(69.9)	(93.1)	(102)	(114)
Net Cash/(Debt)	(49.3)	(119)	(105)	(32.4)	54.1	161
Debtors Turn (avg days)	3.2	4.0	5.8	5.9	5.4	5.4
Creditors Turn (avg days)	46.5	52.6	47.2	42.0	44.5	43.5
Inventory Turn (avg days)	14.5	16.2	16.4	15.0	15.4	15.1
Asset Turnover (x)	1.0	0.9	0.9	1.0	1.1	1.2
Current Ratio (x)	0.7	0.9	0.8	1.0	1.2	1.4
Quick Ratio (x)	0.5	0.8	0.6	0.8	1.0	1.1
Net Debt/ (X)	0.1	0.2	0.1	0.0	CASH	CASH
Net Debt/ ex MI (X)	0.1	0.2	0.1	0.0	CASH	CASH
Capex to Debt (%)	273.5	93.9	101.9	78.4	100.0	150.0

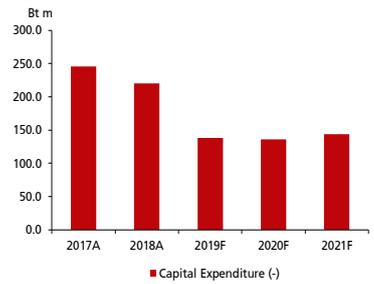
Source: Company,

Asset Breakdown

Cash Flow Statement (Btm)

FY Dec	2016A	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	164	206	241	296	363	442
Dep. & Amort.	55.3	77.5	96.0	126	137	149
Tax Paid	(22.9)	(30.8)	(35.4)	(59.0)	(72.6)	(88.4)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(10.7)	(66.7)	33.6	22.6	8.78	12.0
Other Operating CF	20.4	4.08	(16.8)	0.0	0.0	0.0
Net Operating CF	206	190	318	385	436	514
Capital Exp.(net)	(274)	(246)	(220)	(138)	(136)	(144)
Other Invts.(net)	8.19	(57.9)	43.9	32.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(9.9)	50.7	(43.2)	(9.6)	(10.3)	(15.6)
Net Investing CF	(276)	(253)	(219)	(116)	(146)	(160)
Div Paid	(57.0)	(57.0)	(39.9)	(165)	(203)	(248)
Chg in Gross Debt	80.0	113	(61.5)	8.00	(40.0)	(40.0)
Capital Issues	0.0	0.0	0.0	0.0	0.0	0.0
Other Financing CF	19.5	41.1	15.1	(48.0)	0.0	0.0
Net Financing CF	42.5	96.9	(86.3)	(205)	(243)	(288)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(27.4)	33.9	12.7	64.1	46.6	67.3
Opg CFPS (Bt)	0.38	0.45	0.50	0.64	0.75	0.88
Free CFPS (Bt)	(0.1)	(0.1)	0.17	0.43	0.53	0.65

Source: Company,

Capital Expenditure

Company Background

Corporate history. Siam Wellness Group Public Company Limited, formerly known as Blooming Spa Co., Ltd., was registered as a limited company on 28 November 2001 with a registered capital of Bt3m (which was increased to Bt40m and subsequently to Bt100m). The company provides spa services under the brands of Let's Relax and RarinJinda Wellness Spa.

SPA also provides management and consultancy services. It was listed on the Market for Alternative Investment (MAI) in May 2014 under the ticker "SPA". In August 2015, SPA acquired Baan Suan Massage, a neighbourhood massage chain, in August 2015. The company also holds a 100% stake each in three subsidiary companies.

SPA's key subsidiaries. The company also holds a 100% stake each in three direct subsidiary companies:

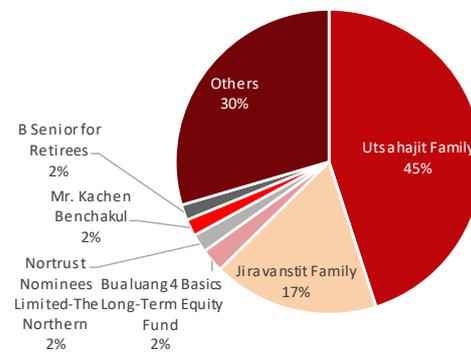
- **Siam Wellness Resort Co. Ltd** has a registered capital of Bt60m. The company operates boutique resorts under the RarinJinda Wellness Spa Resort brand and restaurants under Deck1 Exotic Scene & Cuisine
- **Siam Wellness Lab Co., Ltd** has a registered capital of Bt1m. The company distributes natural spa products such as massage oils, essential oils and body scrubs under the brands of Blooming and Siamese Wellness Secrets for the domestic and international markets
- **Siam Wellness Education Co., Ltd** has a registered capital of Bt1m. The company operates massage schools under the Siam Wellness Thai Massage School brand with the objective of training its new and existing staff to support the group's expansion.

Major shareholders. SPA has the Utsahajit family and Jiravanstitt family as its major shareholders with shareholdings of 45.0% and 17.5%, respectively, as at end-December 2018. The company's current free-float shares stand at c.54.8% of the total shares outstanding.

Management composition. The key management and directors of the company are also the major shareholders who have vast experience (some have been in the business for more than 15 years) and rich expertise in the spa and wellness industry. As the management team is also well versed with the group's business operations, the company is definitely in very safe hands.

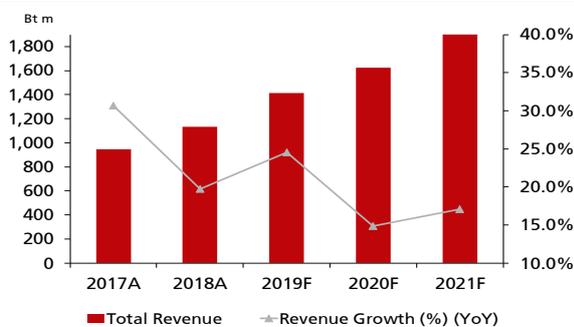
Dividend payment policy. The company has a dividend payout policy of not less than 40% of net profit after tax.

SPA: Major shareholders



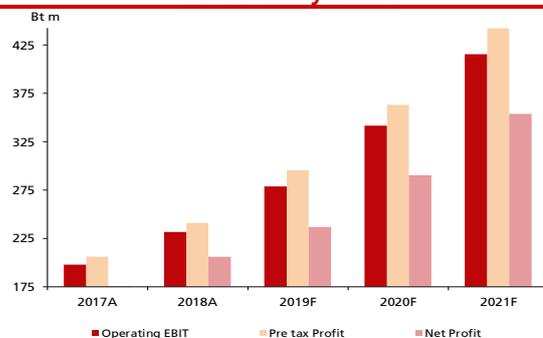
Source: Bloomberg Finance L.P., RPH, DBSVTH

Sales Trend



Source: Company, DBSVTH

Profitability Trend



THAI-CAC (as of Nov 2018)

Corporate Governance CG Rating (as of Oct 2018)

N/A



THAI-CAC is Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of May 2018) are categorised into:

Corporate Governance CG Rating is based on Thai Institute of Directors (IOD)'s annual assessment of corporate governance practices of listed companies. The assessment covers 235 criteria in five categories including board responsibilities (35% weighting), disclosure and transparency (20%), role of stakeholders (20%), equitable treatment of shareholders (10%) and rights of shareholders (15%). The IOD then assigns numbers of logos to each company based on their scoring as follows:

Score	Description
Declared	Companies that have declared their intention to join CAC
Certified	Companies certified by CAC.

Score	Range Number of Logo	Description
90-100		Excellent
80-89		Very Good
70-79		Good
60-69		Satisfactory
50-59		Pass
<50	No logo given	N/A

^ Bloomberg ESG Disclosure Scores rate companies annually based on their disclosure of quantitative and policy-related ESG data. It is based on a scoring scale of 0-100, and calculated using a subset of more than 100 raw data points it collects on ESG. It is designed to measure the robustness of companies' disclosure of ESG information in their reporting/the public domain. Based on Bloomberg disclosures, as of 25 Jan 2019, the global ESG disclosure average score is 24.92 and 22.14, 28.26, 49.97 for Environmental, Social and Governance, respectively.

DBSVTH recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 15 Nov 2019 14:55:13 (THA)

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Sources for all charts and tables are DBSVTH unless otherwise specified.

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