

Siam Wellness Group Pcl (SPA TB) - BUY

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News update

An investment into a nail care business

- A Bt125m investment for a 76% stakes in 'CHABA' nail spa
- Good synergies between beauty and spa services
- Small impacts on near-term earnings
- The price is not ideal, but a net-accretive

SPA reported to SET yesterday its purchase of 76% stakes in a nail spa business under the brand 'CHABA'. This adds seven branches of nail spa shops, to its portfolio. We see good synergies from bundling its well-known massage services with these beauty treatments to enhance value-added in both businesses. Immediate benefit is a 2% upside to our forecasted earnings in 2019-21F. Purchase price of Bt125m implies a reasonable 16x PE in 2019F, based on our estimates, but an equivalent of Bt23.5m cost per branch looks not so ideal. However, due to SPA's ability to raise debt and potential synergies ahead, the deal is net-accretive to our DCF-based TP by Bt0.5/share.

- SPA announced yesterday an investment of Bt125m to purchase a 76% stakes of Chaba Elegance Co., Ltd. ("CHABA") from its original founders, with an expected transaction date on 1 January 2019.
- CHABA owns a total of seven branches of nail spa shops located in the prime areas in Bangkok. The shops offer nail cares (painting, manicures, pedicures, etc.) and eyelash extension services with an average ticket size of Bt1,000 per visit. CHABA generates Bt60m revenues p.a. with a net margin of 18-20%, similar to SPA's profitability level.
- From its existing business, there is a 2% upside to our SPA's earnings forecasts in 2019-21F from this consolidation in early next year. Further benefit would be from its 1-2 branch expansion p.a. over the next three years and synergies created.
- We see a good synergy from bundling these nail care services to SPA's existing massage packages to increase facility utilization and ticket size. Conversely, head and foot massages can also be introduced into CHABA's shops as well.
- Purchase price looks not expensive at 16x PE in 2019F, on our estimates. However, the price, implied an average of Bt23.5m cost per branch, is not at a bargain given CHABA's low tangible asset values.
- Having said that, from our positive view on the synergies between these massage and beauty businesses while SPA's ability to increase gearing helps boosting ROIC, this is an accretive deal to us which creates a Bt0.5/share upside to our DCF-based TP (2019F's base year) of Bt16/share.
- We maintain BUY.

Key Valuations

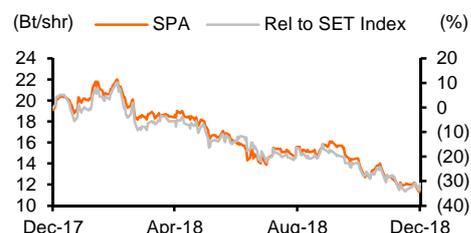
Y/E Dec (Bt m)	2017A	2018F	2019F	2020F
Revenue	948	1,146	1,414	1,669
Net profit	175	217	278	351
Norm net profit	175	217	278	351
Norm EPS (Bt)	0.3	0.4	0.5	0.6
Norm EPS gr (%)	24.3	23.6	28.6	25.9
Norm PE (x)	37.7	30.5	23.7	18.9
EV/EBITDA (x)	24.7	18.4	14.3	11.4
P/BV (x)	8.8	7.4	6.2	5.3
Div. yield (%)	1.0	1.3	2.1	2.7
ROE (%)	25.1	26.3	28.5	30.3
Net D/E (%)	25.9	7.9	(9.4)	(24.5)

Source: Thanachart estimates

Stock Data

Closing price (Bt)	11.60
Target price (Bt)	16.00
Market cap (US\$ m)	202.0
Avg daily turnover (US\$ m)	0.5
12M H/L price (Bt)	22.00/11.30

Price Performance



Source: Bloomberg

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