

ERW. 110/ACC012/2559

9<sup>th</sup> November 2016

**Subject: Management's Discussion and Analysis for Period Ending 30<sup>th</sup> September 2016**

Attention: President, The Stock Exchange of Thailand

Dear Sir,

The Erawan Group Plc. would like to submit explanations and analysis of changes to our operations for the 9-month ("9M16") and 3-month ("3Q16") periods ending 30<sup>th</sup> September 2016 as follows:

**Consolidated Profit & Loss Statement (period ending 30<sup>th</sup> September)**

THB Millions	9M15	9M16	% Ch.	3Q15	3Q16	% Ch.
Hotels' Operating Income	3,717	3,989	+7%	1,165	1,321	+13%
Rental and Service Income	152	158	+5%	51	54	+5%
<b>Total Operating Income</b>	<b>3,869</b>	<b>4,147</b>	<b>+7%</b>	<b>1,216</b>	<b>1,375</b>	<b>+13%</b>
Other Income	26	30	+17%	6	7	+17%
<b>Total Income</b>	<b>3,895</b>	<b>4,177</b>	<b>+7%</b>	<b>1,222</b>	<b>1,382</b>	<b>+13%</b>
Operating Expenses	(2,816)	(2,925)	+4%	(927)	(977)	+5%
<b>EBITDA</b>	<b>1,079</b>	<b>1,252</b>	<b>+16%</b>	<b>295</b>	<b>405</b>	<b>+37%</b>
Share of Profit/ (Loss) from ERWPF	17	9	-46%	5	(4)	N.M.
Rental Payment to ERWPF	(84)	(84)	-	(28)	(28)	-
Depreciation & Amortization	(537)	(545)	+1%	(181)	(185)	+2%
<b>Operating Profit/(Loss)</b>	<b>475</b>	<b>632</b>	<b>+33%</b>	<b>91</b>	<b>188</b>	<b>+106%</b>
Finance Costs	(292)	(271)	-7%	(96)	(89)	-7%
<b>Pre-tax Profit / (Loss)</b>	<b>183</b>	<b>361</b>	<b>+97%</b>	<b>(5)</b>	<b>99</b>	<b>N.M.</b>
Taxes	(66)	(90)	+37%	(13)	(30)	+128%
Minority Interest	(23)	(26)	+12%	(2)	(13)	+475%
<b>Normalized Net Profit / (Loss)</b>	<b>94</b>	<b>245</b>	<b>+158%</b>	<b>(20)</b>	<b>56</b>	<b>N.M.</b>
Non Recurring Items	-	19	N.M.	-	-	N.M.
<b>Net Profit / (Loss)</b>	<b>94</b>	<b>264</b>	<b>+178%</b>	<b>(20)</b>	<b>56</b>	<b>N.M.</b>
E.P.S.	0.0382	0.1056	+176%	(0.0080)	0.0223	N.M.

## Key Highlights

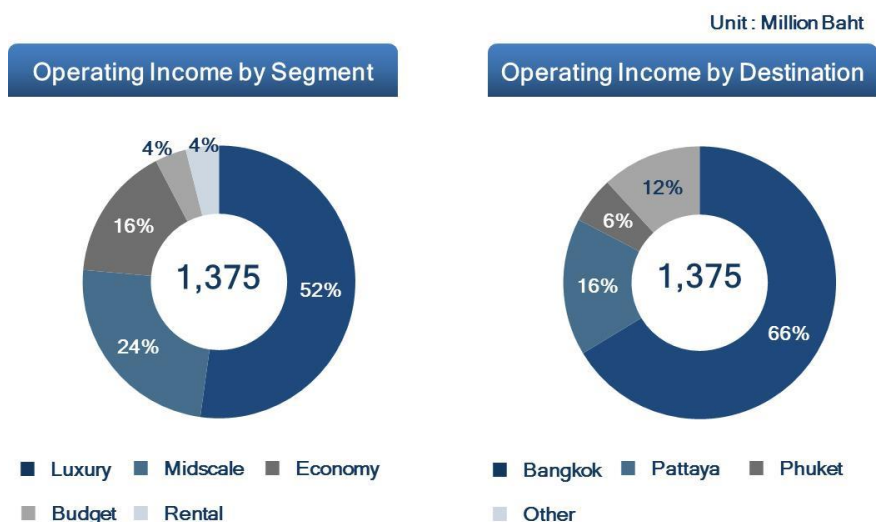
Thailand tourism industry continued growing in 3Q16 with number of tourist arrivals in 3Q16 recorded at 8.2 million, a 13 percent increase from 3Q15. Number of tourist in September posted the highest growth during the nine months period at 18 percent increase from the same period last year. Together with the strong growth of tourist arrival in 1H16, tourist arrivals for 9M16 recorded at 24.8 million, a 12 percent increase from 9M15. Growth witnessed in all key source markets which reaffirmed the strong fundamental of Thailand tourism industry.

## Hotel Growth Strategy

We continued to develop hotels as set forth in our strategy

- We opened 1 HOP INN hotel in Chiang Mai which is our 20th HOP INN in this quarter. As a result we have 38 hotels 6,059 rooms in our portfolio increased from 29 hotels 5,368 rooms as of 3Q15.
- 2 HOP INN hotels in Thailand; Hat Yai and Phuket are under development and scheduled to open in 4Q16.
- 1 HOP INN hotel in Manila, the capital of Philippines, our first hotel outside Thailand, is scheduled to open in 4Q16.

## Group Performance 3Q16



We recorded total operating income at THB 1,375 million in 3Q16, a 13 percent increase from 3Q15. Revenue from hotel operations which is the main contributor to our group grew 13 percent from 3Q15 while rental and service income increased 5 percent from the same period last year. The growth in revenue also led to the 37 percent growth in EBITDA to record at THB 405 million and EBITDA margin recorded at 29 percent, increased from 24 percent in 3Q15. We generated net profit at THB 56 million in this quarter compared to net loss at THB 20 million in 3Q15.

For 9M16 we recorded total operating income at THB 4,147 million, a 7 percent increase from 9M15. Revenue from hotel operations grew 7 percent and rental and service income grew 5 percent from the same period last year. We generated an EBITDA at THB 1,252 million, a 16 percent increase from 9M15 and EBITDA margin recorded at 30 percent, increased from 28 percent in 9M15. We generated net profit at THB 264 million in 9M16, a 178 percent increase from 9M15.

## Performance by Business Unit

### 1. Hotel

Our performance from hotel business continued growing in this quarter. Our average occupancy in 3Q16 recorded at 81 percent compared with 71 percent in 3Q15 despite additional 691 room inventories. Excluding budget hotel segment, which were at the beginning stage of operation, our average occupancy recorded at 84 percent compared with 74 percent in 3Q15. ReVPAR growth were witnessed in all segments which budget segment recorded the highest ReVPAR growth among group.

For 3Q16 our income from hotel operations posted the revenue growth in all segments. Room revenue posted a 15 percent and F&B revenue posted a 10 percent growth from 3Q15. We recorded income from hotel operations at THB 1,321 million, a 13 percent increase from the same period last year. Growth was driven from both existing 29 hotels, a 12 percent increase from 3Q15 and additional income from new hotels opened. Our Budget hotel segment generated the highest revenue growth among the group in this quarter at 140 percent increase from the same period last year. Destination wise, our hotels located in Phuket generated the highest revenue growth, a 25 percent increase from 3Q15. This mainly came from the recovery of Russian tourists which declined in 2015 and our strategy to diversify to new target customers.

We generated income from hotel operations at THB 3,989 million in 9M16, a 7 percent increase from 9M15. Room revenue recorded at 10 percent and F&B revenue recorded at 3 percent increase from the same period last year.

Statistics for hotel room operations for the 3Q and 9M periods are as follows:

No. of rooms	Total Group			Exclude budget segment		
	5,368	6,059		4,501	4,501	
3-month period (Jul-Sep)	Sep-15	Sep-16	% Ch.	Sep-15	Sep-16	+/-
Occupancy	71%	81%	+9.5%	74%	84%	+9.8%
ARR	2,138	1,916	-10.3%	2,354	2,323	-1.3%
RevPAR	1,525	1,550	+1.6%	1,750	1,954	+11.7%
9-month period (Jan-Sep)	Sep-15	Sep-16	% Ch.	Sep-15	Sep-16	+/-
Occupancy	74%	81%	+6.9%	78%	85%	+6.8%
ARR	2,269	2,038	-10.2%	2,473	2,418	-2.2%
RevPAR	1,672	1,642	-1.8%	1,923	2,045	+6.4%

**Details of each segment are as follows:**

### **1.1 Luxury Hotels**

- The Luxury segment comprised of 2 hotels in Bangkok; Grand Hyatt Erawan Bangkok and JW Marriott Bangkok, and 2 hotels in Samui and Phuket; Renaissance Koh Samui Resort and Spa and The Naka Island, a Luxury Collection Resort and Spa, Phuket. The average occupancy of this segment recorded at 83 percent in 3Q16, a 10 percent increase from 3Q15 as such the average RevPAR increased 14 percent from the same period last year. Grand Hyatt Erawan Bangkok recorded the highest RevPAR growth among the group, mainly from the growth in occupancy from the same period last year which we were impacted by Rajprasong bomb.
- The Luxury segment generated operating income at THB 718 million and EBITDA at THB 204 million in 3Q16, representing an 11 percent and a 43 percent increase respectively from the same period last year. This driven from the growth in both room revenue and F&B revenue which witnessed in all luxury hotels.
- For 9M16, the Luxury segment generated operating income at THB 2,111 million and EBITDA at THB 585 million representing a 4 percent and a 12 percent increase respectively from 9M15.

### **1.2 Midscale Hotels**

- The Midscale segment comprised of 2 hotels in Bangkok; Courtyard by Marriott Bangkok and Mercure Bangkok Siam, and 2 hotels in Pattaya; Holiday Inn Pattaya and Mercure Pattaya Ocean Resort. RevPAR of this segment increased 14 percent from the same period last year, driven from the growth of both occupancy rate and the average room rate in all hotels. Courtyard by Marriott Bangkok generated the highest RevPAR growth among the group which mainly came from the recovery from Rajprasong bomb in 3Q15.
- The Midscale segment generated operating income at THB 333 million and EBITDA at THB 124 million in 3Q16, representing a 14 percent and a 25 percent increase respectively from the same period last year.
- For 9M16, the Midscale segment generated operating income at THB 1,004 million and EBITDA at THB 384 million, representing a 9 percent and a 16 percent increase respectively from the same period last year.

### **1.3 Economy Hotels**

- We now have ten ibis hotels in six major tourist destinations in Thailand (Bangkok, Pattaya, Phuket, Samui, Hua Hin and Krabi). The average occupancy of this segment recorded at 84 percent in 3Q16, an 11 percent increase from 3Q15 and the average RevPAR increased 3 percent from the same period last year. Our economy hotels located in Phuket recorded the highest RevPAR growth among the group, a 45 percent increase from 3Q15, mainly from the recovery of Russian tourists and our marketing strategy to expand customer base to various source markets.

- Our economy hotels recorded operating income at THB 219 million in 3Q16, a 7 percent increase from 3Q15 and EBITDA recorded at THB 65 million, a 15 percent increase from the same period last year.
- For 9M16, the Economy segment generated operating income at THB 740 million and EBITDA at THB 259 million, representing a 6 percent and an 11 percent increase respectively from the same period last year.

#### 1.4 **Budget Hotels**

- We opened additional 1 HOP INN hotel at Chiang Mai in this quarter. As such, we now have 20 hotels in this segment which cover across Thailand's business destinations. The average occupancy of this segment recorded at 71 percent in 3Q16, a 17 percent increase from 3Q15. The average RevPAR increased 28 percent from the same period last year which is the highest RevPAR growth among the total group.
- The Budget segment generated operating income at THB 51 million and EBITDA at THB 24 million, representing a 140 percent and a 158 percent increase from the same period last year.
- For 9M16, the Budget segment generated operating income at THB 134 million and EBITDA at THB 64 million, representing a 138 percent and a 173 percent increase from the same period last year.

Note: EBITDA by segment is calculated without taking non-property-specific expenses into account

## 2. **Rental Properties**

We own and operate Erawan Bangkok, a luxury retail property adjacent to Grand Hyatt Erawan Hotel, and manage Ploenchit Center as a property manager. Income from rental and service increased 5 percent to record at THB 54 million in 3Q16 mainly from the average rental rate increased 8 percent from the same period last year.

For 9M16, income from rental and service increased 5 percent from 9M15 to record at THB 158 million.

### **Other Items in P&L**

- **Asset Monetization Program:** We sold and transferred ibis Phuket Patong and ibis Pattaya to ERWPF at THB 1,828 million in 2Q13. The sale included a guarantee of the minimum rental income to ERWPF over a period of 4 years and rental payment as set out in the lease agreement with ERWPF. As such, we recorded income and expenses related to this transaction as summarized below
  - We recorded share of loss from 20 percent investment in ERWPF at THB 4 million in 3Q16 from the decrease from revaluation of asset at THB 9 million and share of profit at 5 million while recorded share of profit at 5 million in 3Q15.

- We recorded rental payment as set out in the lease agreement with ERWPF at THB 28 million in 3Q16 and 3Q15.
- **Non Recurring items:** We recorded gain from sale of shop house in Mukdahan at THB 19 million in 9M16.
- **Depreciation & Amortization:** This non-cash item recorded at THB 185 million in 3Q16, increased by THB 4 million from 3Q15 and recorded at THB 545 million in 9M16, increased by THB 7 million from the same period last year, mainly from the additional depreciation of new hotels opened.
- **Finance Costs:** We recorded finance costs at THB 89 million in this quarter decreased from THB 96 million in 3Q15 mainly from the decrease of total outstanding loan during 3Q16 and the decrease in our average cost of fund. For 9M16, we recorded finance costs at THB 271 million, decreased by THB 21 million from the same period last year.
- **Corporate Income Tax:** We recorded corporate income tax at THB 30 million in 3Q16 and THB 90 million in 9M16 which increased from the same period last year due to better performance in this quarter.

## Financial Status

We generated THB 1,191 million of operating cash flow before change in operating asset and liabilities, representing a 19 percent increase from the same period last year mainly from a better performance. We utilized the cash flow generated, together with bank loans to fund the development of new hotels. Our cash on hand was recorded at THB 934 million at the end of this quarter.

At the end of 3Q16, we recorded total assets at THB 14,814 million compare with THB 14,820 million at the end of 2015. Our total liabilities recorded at THB 9,826 million at the end of this quarter decreased from THB 9,903 million at the end of 2015, mainly due to scheduled principal repayment of long term loans during the first 9-months of this year.

Shareholder's equity recorded at THB 4,988 million at the end of 3Q16 increased from THB 4,917 million at the end of 2015 on the back of additional net profit generated in 9M16. With the decrease of liabilities and increase of equities as aforementioned, our interest bearing debt-to-equity ratio recorded at 1.7 times at the end of this quarter decreased from 1.8 times at the end of 2015.

Sincerely yours

Kanyarat Krisnathevin  
Executive Vice President and Chief Financial Officer