

ERW067/ACC009/2017

10<sup>th</sup> August 2017

**Subject: Management Discussion and Analysis for Period Ending 30<sup>th</sup> June 2017**

Attention: President, The Stock Exchange of Thailand

Dear Sir,

The Erawan Group Plc. would like to submit explanation and analysis of changes to our operations for the 6-month ("1H17") and 3-month ("2Q17") period ending 30<sup>th</sup> June 2017 as follows:

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

<b>THB Millions</b>	<b>1H16</b>	<b>1H17</b>	<b>% Ch.</b>	<b>2Q16</b>	<b>2Q17</b>	<b>% Ch.</b>
Hotels' Operating Income	2,668	2,856	+7%	1,183	1,291	+9%
Rental and Service Income	104	109	+4%	53	54	+2%
<b>Total Operating Income</b>	<b>2,772</b>	<b>2,965</b>	<b>+7%</b>	<b>1,236</b>	<b>1,345</b>	<b>+9%</b>
Other Income	23	31	+33%	14	15	+9%
<b>Total Income</b>	<b>2,795</b>	<b>2,996</b>	<b>+7%</b>	<b>1,250</b>	<b>1,360</b>	<b>+9%</b>
Operating Expenses	(2,004)	(2,081)	+4%	(963)	(1,002)	+4%
<b>EBITDA</b>	<b>791</b>	<b>915</b>	<b>+16%</b>	<b>287</b>	<b>358</b>	<b>+25%</b>
Depreciation & Amortization	(360)	(363)	+1%	(181)	(183)	+1%
<b>Operating Profit/(Loss)</b>	<b>431</b>	<b>552</b>	<b>+28%</b>	<b>106</b>	<b>175</b>	<b>+65%</b>
Finance Costs	(182)	(167)	-8%	(88)	(84)	-6%
<b>Pre-tax Profit / (Loss)</b>	<b>249</b>	<b>385</b>	<b>+55%</b>	<b>18</b>	<b>91</b>	<b>+426%</b>
Taxes	(59)	(86)	+44%	(16)	(26)	+65%
Minority Interest	(13)	(28)	+112%	(6)	(9)	+56%
<b>Normalized Net Profit / (Loss)</b>	<b>177</b>	<b>271</b>	<b>+54%</b>	<b>(4)</b>	<b>56</b>	<b>N.M.</b>
<b>Extraordinary Items</b>						
Share of Profit/ (Loss) from ERWPF	13	(6)	N.M.	5	1	-71%
Gain from sale of shop house	18	-	N.M.	16	-	N.M.
<b>Net Profit / (Loss)</b>	<b>208</b>	<b>265</b>	<b>+27%</b>	<b>17</b>	<b>57</b>	<b>+239%</b>
E.P.S. (Baht)	0.0833	0.1061		0.0068	0.0230	

## Industry Key Highlights

Thailand's tourism industry in 2Q17 continued growing from 1Q17. Tourist arrivals during April to June grew every month. June recorded the highest growth at 11 percent compared to the same period last year. Total international tourist arrivals in 2Q17 was at 8.1 million, which was the highest record for a second quarter, an 8 percent growth compared with the same period last year. Korean, Russian and Laos's tourists were the top 3 key source markets that posted the strongest growth in this quarter. In addition, Chinese tourists have shown improvement in 2Q17 after slowing down from the impact of government policy to crackdown the zero dollar tours since 4Q16. For 1H17, the number of tourists visiting Thailand was reported at 17.3 million, increased 4 percent compare to the same period last year. Domestic tourism also grew with the number of domestic trips recorded at 72.4 million in 1H17, a 7 percent increase from 1H16.

## Hotel Growth Strategy

We continued hotel development as set forth in our strategy. We plan to open 2 additional hotels in Thailand in 2017 under "HOP INN" brand, increasing from 8 hotels previously mentioned in the last quarter. As a result, total number of hotel openings in 2017 will be 11 hotels. They comprised of 10 HOP INN hotels in Thailand and 1 HOP INN hotel in Philippines.

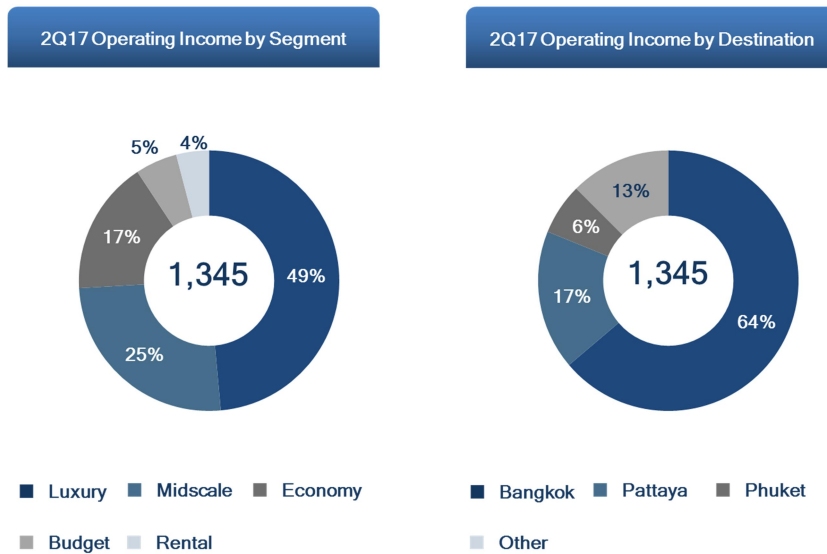
- In 2Q17, we opened 3 HOP INN hotels in Rayong, Chiang Rai and Lumpang (the 2<sup>nd</sup> branch). Lumpang is the first province where we have more than one HOP INN in the same destination. As a result, we have 26 HOP INN hotels in Thailand and a total of 45 hotels with 6,697 rooms in our portfolio at the end of 2Q17.

## Group Performance 2Q17

We recorded total operating income at THB 1,345 million in 2Q17, a 9 percent increase from 2Q16. Revenue growth was seen in both hotel operations, which is the main contributor to our group and rental and service income. We recorded EBITDA at THB 358 million in 2Q17, a 25 percent growth from 2Q16 which was higher than growth in operating income as a result of cost control measures. In 2Q17, we generated normalized net profit at THB 56 million compared to net loss at THB 4 million in 2Q16 and net profit at THB 57 million, a 239 percent increase from THB 17 million in 2Q16.

For 1H17, we recorded total operating income at THB 2,965 million, a 7 percent increase from 1H16. Revenue from hotel operations grew 7 percent and rental and service income grew 4 percent from the same period last year. We generated EBITDA at THB 915 million, a 16 percent increase from 1H16. For 1H17, we generated normalized net profit at THB 271 million and net profit at THB 265 million, a 54 percent and 27 percent increase from the same period last year respectively.

Unit : Million Baht



## Performance by Business Unit

### 1. Hotel

Our hotel business continued growing in 2Q17. Average occupancy (excluding budget hotel segment) in 2Q17 was 83 percent compared with 82 percent in 2Q16 while ARR increased 5 percent from the same period last year and growth witnessed across all hotel segments. As such, RevPAR (excluding budget hotel segment) increased 6 percent from 2Q16 with midscale segment recorded the highest RevPAR growth at 10 percent driven by growth from both occupancy and ARR.

In 2Q17, we recorded income from hotel operations at THB 1,291 million, a 9 percent increase from the same period last year. Growth was driven by both existing 37 hotels, with a 7 percent increase from 2Q16 and additional income from 8 new hotels. All hotel segments recorded growth from both room and F&B revenue at 10 percent and 6 percent from 2Q16 respectively. Budget hotel segment generated the highest revenue growth in this quarter, a 57 percent increase from the same period last year. Growth was driven by both existing 19 HOP INN hotels, an 18 percent increase from 2Q16 and additional income from new HOP INN hotels opened. Destination wise, hotels located in Bangkok generated revenue growth at 6 percent from both room and F&B revenue. For non-Bangkok, hotels located in Phuket generated the highest revenue growth, a 17 percent increase from 2Q16. This mainly came from the recovery of Russian tourists and expansion of customer base to cover more source markets.

We generated income from hotel operations at THB 2,856 million in 1H17, a 7 percent increase from 1H16. Room revenue recorded at 8 percent increase from 1H16 while F&B revenue recorded at 4 percent increase from the same period last year.

Statistics for hotel room operations for the 2Q17 and 1H17 periods are as follows:

3-month period (Apr-Jun)	No. of rooms		Occupancy			ARR (THB/Night)			RevPAR(THB/Night)		
	2Q16	2Q17	2Q16	2Q17	+/-	2Q16	2Q17	+/-	2Q16	2Q17	+/-
Luxury Hotels	966	966	76%	77%	+0%	4,978	5,148	+3%	3,804	3,960	+4%
Midscale Hotels	1,282	1,282	82%	87%	+5%	2,507	2,598	+4%	2,057	2,265	+10%
Economy Hotels	2,253	2,253	83%	83%	-1%	983	1,034	+5%	820	856	+4%
<b>Total Group (ex. Budget)</b>	<b>4,501</b>	<b>4,501</b>	<b>82%</b>	<b>83%</b>	<b>+1%</b>	<b>2,223</b>	<b>2,324</b>	<b>+5%</b>	<b>1,813</b>	<b>1,923</b>	<b>+6%</b>
Budget Hotels	1,483	2,028	67%	74%	+6%	512	540	+5%	345	398	+15%

6-month period (Jan-Jun)	No. of rooms		Occupancy			ARR (THB/Night)			RevPAR(THB/Night)		
	1H16	1H17	1H16	1H17	+/-	1H16	1H17	+/-	1H16	1H17	+/-
Luxury Hotels	966	966	81%	81%	+0%	5,394	5,552	+3%	4,363	4,505	+3%
Midscale Hotels	1,282	1,282	85%	89%	+4%	2,651	2,730	+3%	2,258	2,430	+8%
Economy Hotels	2,253	2,253	86%	85%	-1%	1,185	1,257	+6%	1,023	1,070	+5%
<b>Total Group (ex. Budget)</b>	<b>4,501</b>	<b>4,501</b>	<b>85%</b>	<b>85%</b>	<b>+1%</b>	<b>2,466</b>	<b>2,569</b>	<b>+4%</b>	<b>2,092</b>	<b>2,194</b>	<b>+5%</b>
Budget Hotels	1,483	2,028	65%	74%	+8%	517	547	+6%	339	403	+19%

Note: Exclude HOP INN Philippines

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 in this segment recorded at 77 percent in line with 2Q16 while ARR increased 3 percent from the same period last year. This led to a 4 percent increase in RevPAR from 2Q16. The Naka Island, a Luxury Collection Resort and Spa, Phuket generated the highest occupancy and RevPAR growth among the group, mainly from our marketing strategy to expand customer base to new source markets.
- The Luxury segment generated income at THB 648 million in 2Q17, a 5 percent increase from 2Q16. Room revenue recorded a 4 percent increase and F&B revenue recorded a 5 percent increase from the same period last year. EBITDA recorded at THB 164 million, a 22 percent increase from the same period last year which is higher than the growth in revenue as a result of cost control measures For 1H17, the Luxury Bangkok segment generated operating income at THB 1,443 million and EBITDA at THB 431 million, a 4 percent and 13 percent increase from the same period last year respectively.

## **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. The average occupancy of this segment recorded at 87 percent increased from 82 percent in 2Q16 and ARR increased 4 percent from the same period last year. This led to a 10 percent increase in RevPAR from 2Q16, which is the highest RevPAR growth among the group. Mercure Bangkok Siam generated the highest average occupancy and RevPAR growth among the group.
- The Midscale segment generated operating income at THB 340 million and EBITDA at THB 132 million in 2Q17, an 11 percent and 18 percent increase from 2Q16 respectively.
- For 1H17, the Midscale segment generated operating income at THB 718 million and EBITDA at THB 288 million, a 7 percent and 11 percent increase from the same period last year respectively.

## **1.3 Economy Hotels**

- The Economy segment comprised of 10 ibis hotels in 6 major tourist destinations in Thailand (Bangkok, Pattaya, Phuket, Samui, Hua Hin and Krabi). The Economy hotels recorded a 4 percent increase in RevPAR from 2Q16 mainly from a 5 percent increase in ARR from the same period last year. Our Economy hotels located in Phuket has recorded the highest RevPAR growth among the group, a 16 percent increase from 2Q16, mainly from a continued recovery of Russian tourists and our marketing strategy to expand customer base to cover more source markets.
- For 2Q17, Economy hotels recorded operating income at THB 222 million and EBITDA at THB 63 million, both representing a 4 percent increase from the same period last year.
- For 1H17, the Economy segment generated operating income at THB 541 million and EBITDA at THB 204 million, a 4 percent and 5 percent increase from the same period last year respectively.

## **1.4 Budget Hotels**

- We opened 3 HOP INN hotels in Rayong, Chiang Rai and Lumpang (the 2<sup>nd</sup> branch) in 2Q17. We now have 26 hotels in this segment which cover major Thailand's business destinations. The average occupancy of this segment recorded at 74 percent in 2Q17, a 6 percent increase from 2Q16. RevPAR increased 15 percent from the same period last year.
- For 2Q17, the Budget segment generated operating income at THB 69 million, a 57 percent increase from the same period last year. Growth was driven by both existing 19 hotels, an 18 percent increase from 2Q16 and additional income from new hotels opened. EBITDA recorded at THB 28 million, representing a 32 percent increase from the same period last year.

- For 1H17, the Budget segment generated operating income at THB 133 million and EBITDA at THB 57 million, a 61 percent and 48 percent increase from the same period last year respectively.

Note: EBITDA by segment is calculated without taking non-property-specific expenses into account and exclude HOP INN Philippines

## 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 2 percent to record at THB 54 million in 2Q17 mainly from the increase of average occupancy rate compare to the same period last year.

For 1H17, income from rental and service increased 4 percent from 1H16 to record at THB 109 million.

### Other Items in P&L

- **Depreciation & Amortization:** This non-cash item recorded at THB 183 million in 2Q17 increased THB 2 million from 2Q16 and recorded at THB 363 million in 1H17, increased THB 3 million from 1H16. This mainly came from the additional depreciation of new hotels opened.
- **Finance Costs:** We recorded finance costs at THB 84 million in this quarter, decreased THB 4 million from 2Q16 and recorded at THB 167 million in 1H17, decreased THB 15 million from 1H16 mainly from the decrease in average cost of fund and the conversion of floated rate to fixed rate for 3 years period.
- **Corporate Income Tax:** We recorded corporate income tax at THB 26 million in 2Q17 and THB 86 million in 1H17 which increased from the same period last year due to better performance.
- **Extraordinary Items:**
  - **Investment in ERWPF:** We recorded share of profit from 20 percent investment in ERWPF at THB 1 million in 2Q17 while we recorded share of profit at THB 5 million in 2Q16.
  - **Gain from sale of shop house:** We recorded gain from sale of shop house at THB 16 million in 2Q16 while this transaction did not incur in 2Q17.

## Financial Status

Financial Ratio (times)	End of 2016	End of 2Q17
Interest Coverage Ratio	4.1	4.5
Interest Bearing Debt to Equity	1.7	1.7

We generated THB 925 million of operating cash flow before change in operating asset and liabilities, representing a 14 percent increase from the same period last year from a better performance. We utilized the cash flow generated, together with bank loans to fund the development of new hotels. Cash on hand was recorded at THB 962 million at the end of this quarter. Interest coverage ratio recorded at 4.5 times as a result of increasing operating cash flow compare to last year.

At the end of 2Q17, we recorded total assets at THB 15,250 million compare with THB 14,911 million at the end of 2016. Our total liabilities recorded at THB 10,108 million increased slightly from THB 9,839 million at the end of 2016.

Shareholder's equity recorded at THB 5,143 million at the end of 2Q17 increased from THB 5,073 million at the end of 2016 on the back of additional net profit generated in 1H17. Our interest bearing debt-to-equity ratio recorded at 1.7 times in line to the end of 2016.

## Outlook for 2017

Ministry of Tourism and Sports forecast that the number of international tourist arrivals will be approximately 34.4 million in 2017, a 6 percent increase and the international tourism receipt will increase 10 percent from last year. The tourism receipt from domestic tourists also forecast to increase 10 percent from 2016 which reaffirmed the strong fundamental of Thailand tourism industry. For 1H17, Thailand's Ministry of Tourism and Sports reported the number of tourists visiting Thailand at 17.3 million, increased 4 percent compare to the same period last year. For the second half of 2017, the growth of tourist arrivals will continue on the back of the recovery of the global economy, the expansion of low cost carriers and the recovery of Chinese tourist arrivals.

For the first half of 2017, our hotel business which is the main contributor to our group continued growing with the support from growth in the Thai tourism industry. We achieved occupancy rate and RevPAR growth as we expected. Growth in the hotel business was seen in both room revenue and F&B revenue. Top 5 source markets to our room revenue were Chinese, Thai, American, Singaporean and Indian while Top 3 source markets that shown the highest growth were Russian, Indian and Thai.

We continued to develop hotels as set forth in our long term strategy (2016-2020). During January to June 2017, we opened 4 HOP INN hotels in Thailand. In the second half of this year, we plan to open 7 HOP INN hotels; 6 hotels in Thailand and 1 hotel in Makati, Philippines. As a result, by the end of 2017, we will have 52 hotels and 7,315 rooms in our portfolio. Meanwhile, JW Marriott Bangkok will

undergo room renovation to make the hotel remain competitive and is part of our return enhancing strategy. The renovation will take place during the 3 years period (2017-2019) and we will only conduct renovation work in low season to reduce the impact to hotel operation. The first batch of room renovation will start in the second half of this year and the new renovated room will be ready by 4Q17.

We forecasted our revenue from hotel operation in 2017 to increase 10 percent from 2016. Growth will be driven by both room revenue and F&B revenue and additional room inventory from 11 new hotels with 930 rooms to be opened. We expected RevPAR (ex. Budget segment) to increase by 7 percent mainly from the increase of ARR. This will be supported by the growth of existing hotels and additional hotel in this year including the continuing growth of Thailand tourism. This estimate already takes into account the impact of the room renovation of JW Marriott Bangkok. If there is any change in the forecast and guidance of our performance due to the change of situation, we will inform accordingly.

Sincerely yours

Kanyarat Krisnathevin  
Executive Vice President and Chief Financial Officer