

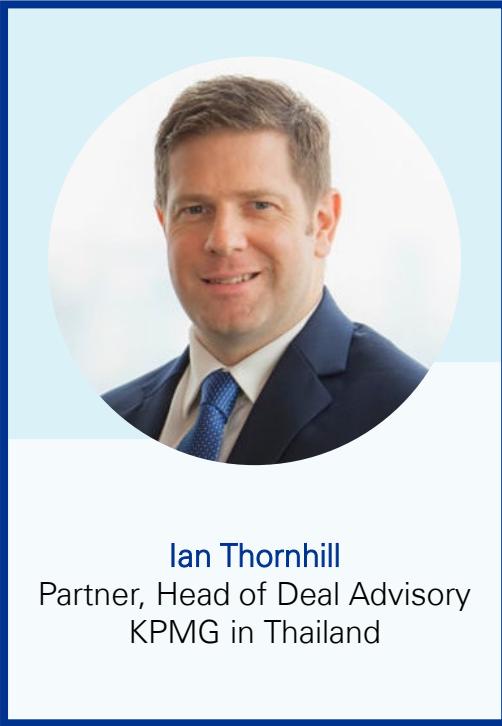


Thai hotel industry challenges, investment and M&A opportunities

Webinar | 25 November 2021 | 2.00pm to 3.00pm



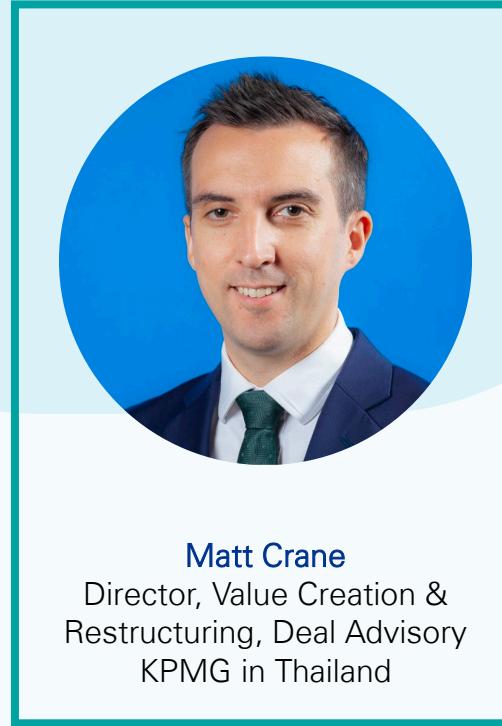
Speakers



Ian Thornhill
Partner, Head of Deal Advisory
KPMG in Thailand



Boonyaporn Donnapee
Partner, Legal
KPMG in Thailand



Matt Crane
Director, Value Creation &
Restructuring, Deal Advisory
KPMG in Thailand

Agenda

Introduction

The impact of COVID-19 on the Thai hotel sector

- Trends in demand and supply
- Impact on hotel operations, finance and cash flow
- Measures implemented to react and survive
- M&A trends

M&A for hotel businesses

- Incentives for foreign investors
- Due diligence on the assets
- Employees management

Q&A session

The impact of COVID-19 on the hotel sector



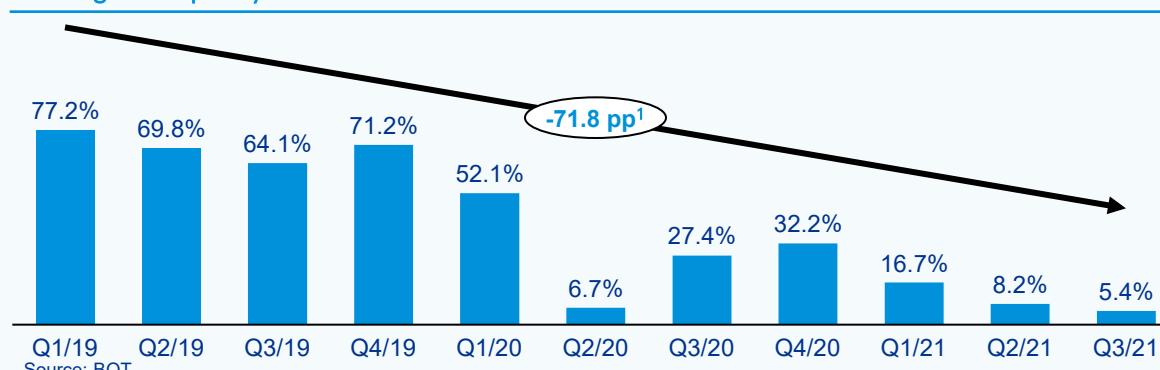
COVID-19 impact on tourism and hotels

The COVID-19 outbreak has provoked mass disruption and an unprecedented crisis for the Thai tourism industry. However, it is expected to slowly recover following the reopening of the country this month.

Number of foreign tourists visiting Thailand (thousands)



Average occupancy rate in Thailand



Source: BOT, Statista

BKK hotel Average Daily Rate



BKK hotel Revenue per Available Room



Source: Statista, Horwath HTL

Impact of COVID-19 on different hotel businesses



Impact by location

Domestic

- Affected by relaxation measures and subjected to local regulations
- National tourism affected by economic slowdown and boosted by government stimulus



Impact by hotel typology



Holiday

- Price war and less use of additional services
- Decreasing offer of touristic apartments



Business

- Economic factor reduces the market (events, meetings, etc.)
- Structural impact of teleworking



Impact by hotel business model

Ownership

- High leverage needed to be refinanced
- CAPEX investments will be required to comply with new regulations

Lease agreement

- Short-term finance to cover WC and minor CAPEX
- Deferment of rent payments (not getting large deductions)

Management

- Limitation on pricing policies
- Short-term finance to cover WC and minor CAPEX

Franchise

- Potential unpaid franchisees due to the reduction of revenue
- Conflict with other hotels in the same location of the chain

Note: (1) Adjustment of rent accounting principles under IFRS.

Source: KPMG analysis.

Government policies and support measures for the Thai hospitality industry in 2021



Source: BOT, NNT, MEA, KPMG Analysis

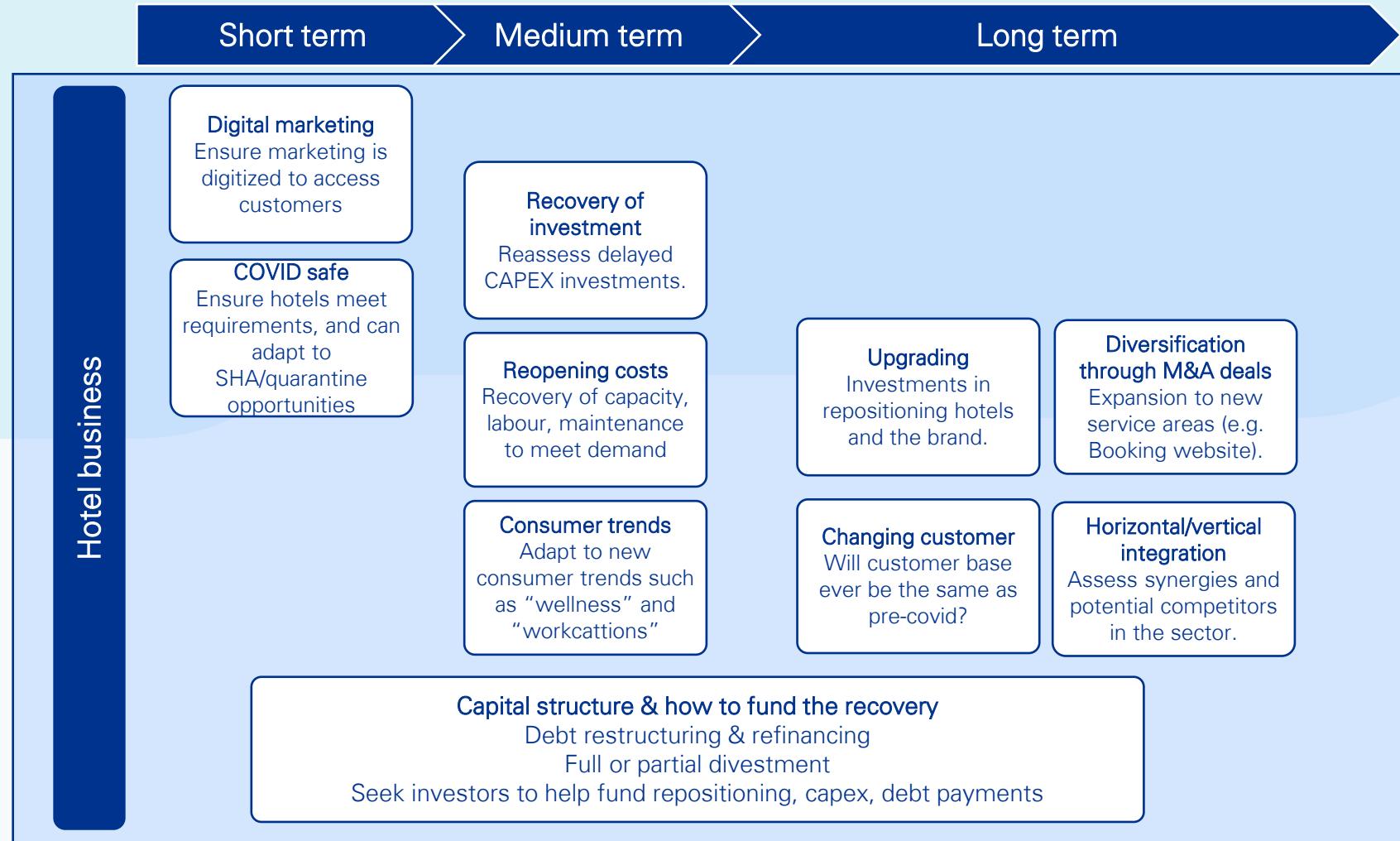
Measures implemented by hotel groups

	Description of the measures	Impact on short term	Impact on medium and long term
 Hotel closure	Full or partial closure? Restaurants / F&B Pivot to ASQ / hospital	Reduction of cash out flows	Uncertainty about future opening Fixed costs remain How to rehire and reopen?
 Workforce reduction	Reduction of personnel via redundancies, reduced hours, pay cuts	Reduction of cash outflows, but also loss of experienced staff	When and how rehire, retrain Longer lead time and less flexibility for partial opening
 Cost cutting and saving measures	Renegotiation of rents, reduction of structural costs, revision of energy powers, marketing etc.	Reduction of cash outflows leveraging suppliers and creditors, who are also in a critical situation.	Only temporary measures (need to return rent deferrals)
 Suspension of investments	Cease all non-strategic investments or investments in early stages. Defer maintenance.	Reduction of cash outflows, although partially offset by new costs of regulatory compliance	Catch-up CAPEX, maintenance needed Impact on brand positioning

Measures have been focused on maintaining the cash position in the short term. However, the slow recovery pace of recovery has required an increase in financial leverage to fund operating deficits

Source: Publicly available information. KPMG analysis.

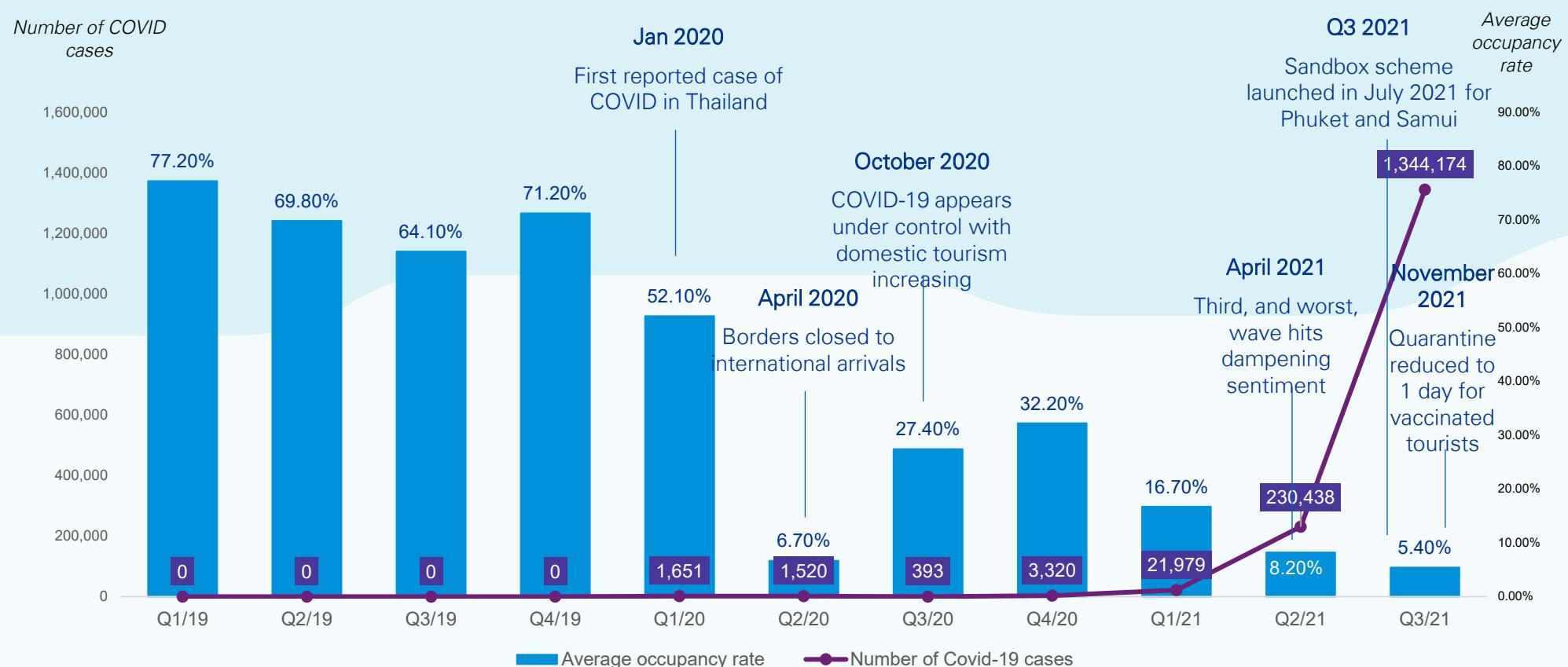
Longer term challenges for hotel business



Source: KPMG analysis.

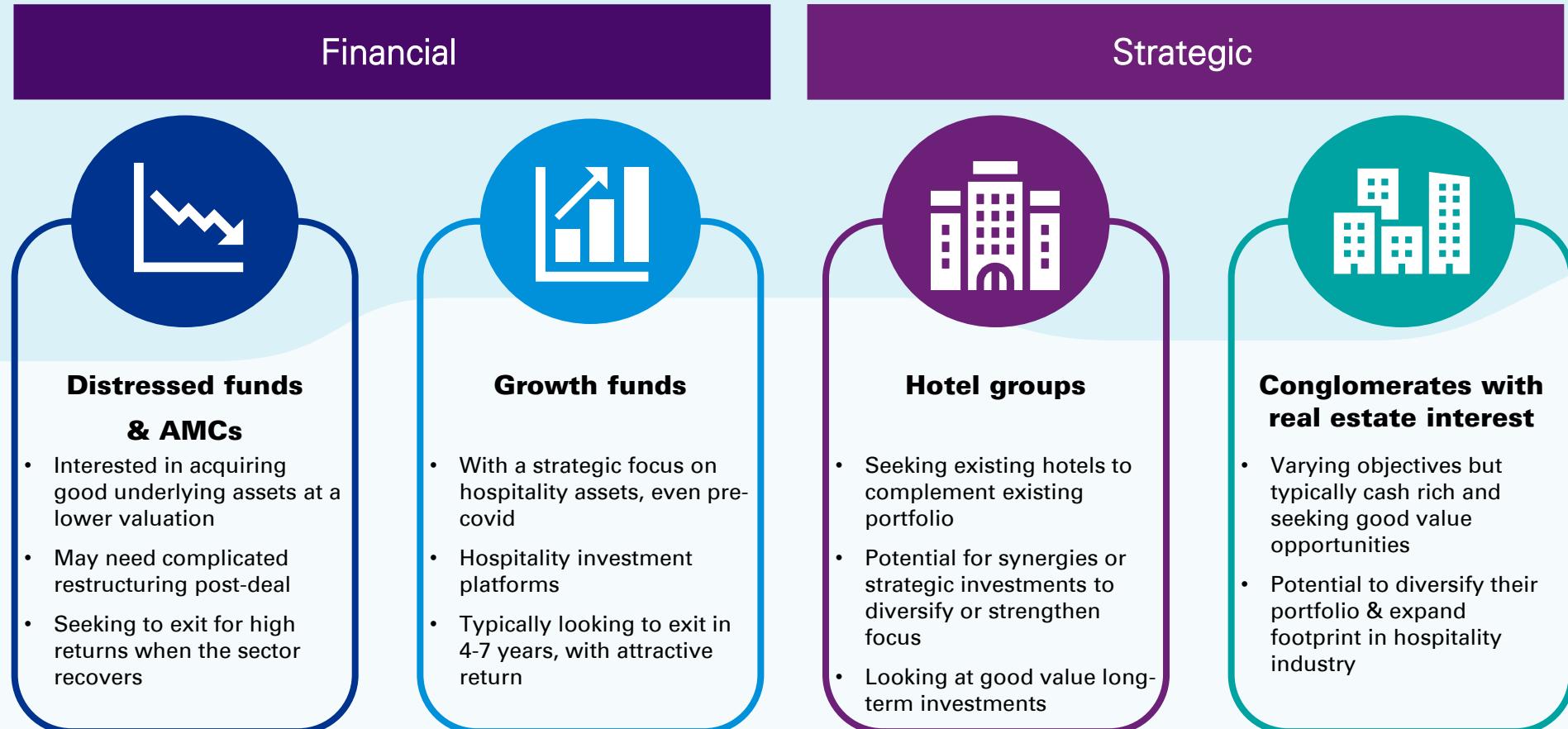
Why have we not seen significant deal activity...?

Average occupancy rate & number of COVID cases in Thailand



Source: BOT

Varying types of investors interested in hotels



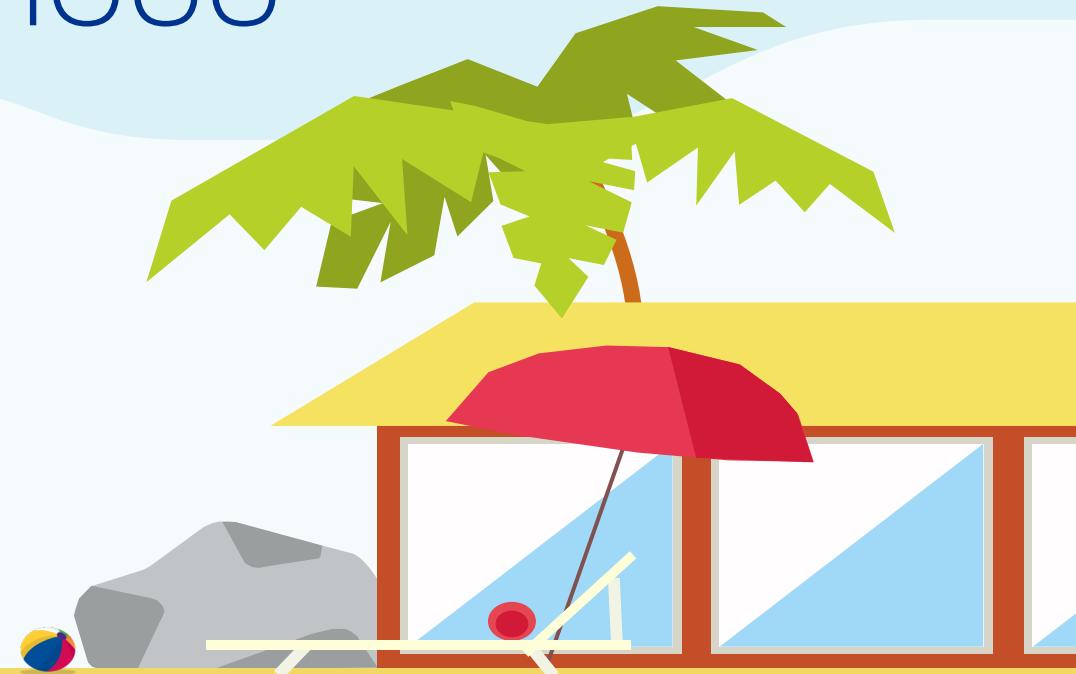
M&A outlook for the hotel industry

We expect activity to increase next year but uncertainty remains...

- More M&A activity is expected next year – both Growth and Distressed
- Banks will seek repayment for restructured loans
- Increasing number of tourists will encourage investors waiting for recovery
- The **valuation gap** currently dampening M&A activity will shrink
- Outlook varies based on hotel type and positioning – luxury segment will likely perform better, attracting high-end tourists with cash to spend
- Mid- and low-range hotels likely to struggle more in a highly competitive market where supply will continue to exceed demand

Source: S&P Global Market Intelligence

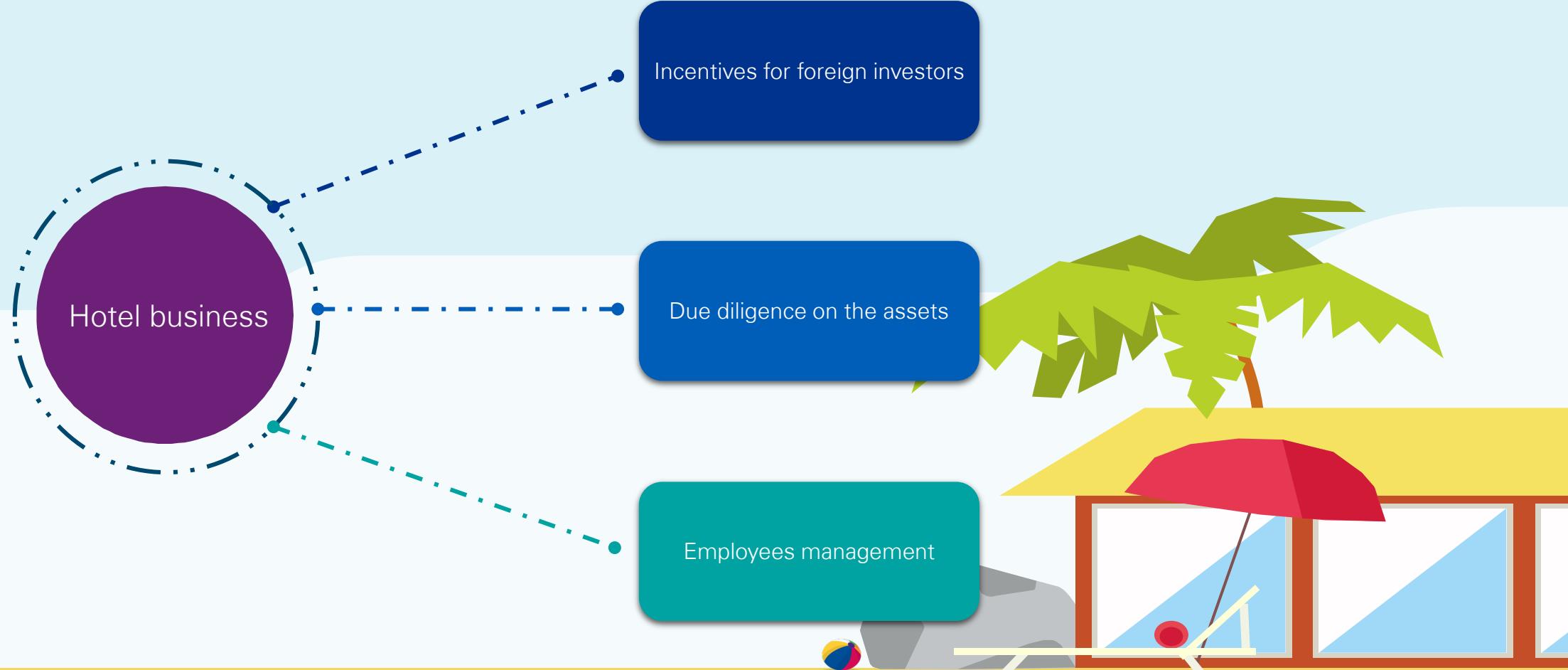
M&A for hotels business



M&A for hotels business

Concerning points

Subject to
Partner's review



M&A for hotels business

Incentives for foreign investors

Subject to
Partner's review



Category 7.23.1: Hotels

Incentives for hotels located in specified provinces*

- Non-tax incentives**

Incentives for hotels located in provinces other than specified provinces*

- 3 years of exemption of corporate income tax
- Exemption of import duties on machinery
- Non-tax incentives**

*For project located in Bangkok, Krabi, Kanchanaburi, Chachoengsao, Khon Kaen, Chon Buri, Chiang Mai, Nakhon Pathom, Nakhon Ratchasima, Nonthaburi, Pathum Thani, Prachuab Khiri Khan, Phra Nakhon Si Ayutthaya, Phang-nga, Phetchaburi, Phuket, Rayong, Songkhla, Samut Prakan, Samut Sakhon, Saraburi and Surat Thani (22 provinces)

**Non-tax incentives: Permit to own land, Permit to bring into the Kingdom skilled workers and experts to work in investment promoted activities, Permit for foreign nationals to enter the Kingdom for the purpose of studying investment opportunities, Permit to take out or remit money abroad in foreign currency.

M&A for hotels business

Incentives for foreign investors (Cont.)

Subject to
Partner's review

Conditions:



In case the hotel has 100 guest rooms or more, a minimum investment per room (excluding land cost and working capital) must not be less than 2 million baht.



In case the hotel has less than 100 guest rooms, a minimum investment (excluding land cost and working capital) must not be less than 500 million baht.



The operator is required to obtain the hotel business operating license from the Ministry of Interior at the time of commencement of business operation examination conducted by the BOI.



In case the operator wishes to **use an existing hotel** to apply for a BOI promotion, the new investment investing in the project must be comparable to establishing a new hotel and the operator is required to suspend the existing business operation and stop using the building. In case of using an existing building structure, a minimum investment per room must not less than 2 million baht.*

* In case using of existing building structure, the operator is required to submit relevant document and information in detail. The promotion decision, requirement on documents and information are at the discretion of the BOI officer.



M&A for hotels business

Due diligence on the assets

Subject to
Partner's review

Prior to acquisition of the hotel business, the acquirer is highly recommended to conduct the legal due diligence on the business including its operating assets in order to identify legal risks for the purpose of transaction structuring including material legal issues to be included in transaction documents.

Key issues to be reviewed in the due diligence:

- Title to the land where the hotel is located in
 - Chanote (Title Deed) (Nor.Sor.4);
 - Nor.Sor. 3 Kor;
 - Nor.Sor. 3; and
 - Others
- Registered encumbrances attached to the hotel
- Whether the hotel is located in forestry area and national park area



M&A for hotels business

Due diligence on the assets (con't)

Subject to
Partner's review

Key issues to be reviewed in the due diligence:

- Licenses / permits / approvals required for the operation
 - Hotel business operating license;
 - Foreign business license;
 - Construction permit / certificate;
 - o Form Or. 1
 - o Form Or. 6
 - Environmental Impact Assessment ("EIA")
 - Health hazardous business license;
 - Food distribution or storage license;
 - Health business establishment license;
 - License to sell liquor (Liquor Selling License);
 - License to sell tobacco (Tobacco Selling License);
 - Authorised money changer license; and
 - Travel agency business license.
- Other issues e.g. financing agreements, other material contracts, insurance, litigations, etc.



M&A for hotels business

Employees Management

Subject to
Partner's review

- **Laying-off the employees**

- Issuing a termination notices;
 - Paying severance pay in amount required by the law; and
 - Paying other compensations.

- **Temporarily cease the business operation**

- **Case 1:** Temporarily cease the business operation according to the government's order, shall be considered force majeure, the operator is not required to pay wages to employees. In this case, the insured employee is entitled to unemployment benefits in accordance with the Ministerial Regulation for compensation of 50% of the daily wages* for not more than 90 days by submitting an application to the Social Security Office.
 - **Case 2:** Temporarily cease the business operation due to the business being affected by COVID-19 situation and received the permission to temporarily cease the business from the labor inspector due to reasonable ground such as a decrease of customers or temporarily closing the business to prevent the spread of COVID-19, the operator may exercise the right to temporarily cease the business under Section 75 of Labor Protection Act B.E. 2541 (1998). The operator shall pay wages to an employee in the amount of not less than 75% of wages for a working day that the employee was receiving before the cessation of business operation.
 - **Case 3:** Temporarily cease the business operation without the order to cessation, the operator cease the business on its own and without the permission to temporarily cease the business from the labor inspector due to no reasonable ground, the operator must pay full wages to the employee.

Note: In the event of a temporary cessation of all or part of the business in case 1 - 3, the operator shall notify to the employee and labor inspector for a period of not less than 3 working days through website of the Department of Labor Protection and Welfare or in a written form.

M&A for hotels business

Employees Management (Cont.)

Subject to
Partner's review

- **Case 4:** The employee is unable to work or is not allowed to work for the operator due to being quarantined according to the order of the officer of Department of Disease Control, shall be considered force majeure, the operator is not required to pay wages to employees. In this case, the insured employee is entitled to unemployment benefits in accordance with the Ministerial Regulation for compensation of 50% of the daily wages* for not more than 90 days by submitting an application to the Social Security Office.
- **Reduction of Salaries**
 - A written consent from the employee is required
- **Reduction of working hour**
 - Reducing only working hour with the same salaries
 - Issuing an announcement to employees for their acknowledgement
 - Reducing working hour and salaries
 - A written consent from the employee is required
- **Reduction of welfare**
 - A written consent from the employee is required

*The daily wage shall be calculated based on the actual salary not exceeding 15,000 Baht per month.



Q&A



Feedback





Thank you

Contact



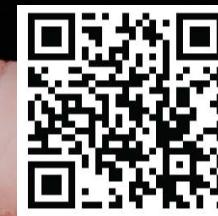
Ian Thornhill
Partner, Head of Deal Advisory
Email: ithornhill@kpmg.co.th



Boonyaporn Donnapee
Partner, Legal
Email: boonyapornd@kpmg.co.th



Matt Crane
Director, Value Creation &
Restructuring, Deal Advisory
Email: mcrane1@kpmg.co.th



Twitter : [@KPMG_TH](https://twitter.com/@KPMG_TH)
LinkedIn : [linkedin.com/company/kpmg-thailand](https://www.linkedin.com/company/kpmg-thailand)
Facebook : [facebook.com/KPMGinThailand](https://www.facebook.com/KPMGinThailand)
YouTube : [youtube.com/kpmginthailand](https://www.youtube.com/kpmginthailand)
Instagram : [instagram.com/kpmgthailand/](https://www.instagram.com/kpmgthailand/)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2021 KPMG Phoomchai Business Advisory., Ltd, a Thai limited liability company and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.