The Erawan Group (ERW TB)

Improving Outlook In 3Q26 On Strong Booking Demand

Analyst(s)

Benjaphol Suthwanish
+662 659 8301
Benjaphol@uobkh.co.th

Assistant Analyst(s)

Nonpawit Vathanadachakul

Highlights

- We attended ERW's analyst meeting to review its 2Q26 results and the tone was positive.
- We see an improving outlook in 3Q26, mainly driven by strong booking demand of economy to luxury portfolio which drives up the ADR.
- We remain optimistic about ERW, and it remains one of our top picks in the hotel sector. We see more supporting factors in 2H26 such as strong booking demand, the declining interest cost, the reopening of Naka Phuket and the large events in 2H26. Maintain BUY with a target price of Bt4.40.

Analysis

- **Positive tone from the analyst meeting.** We attended The Erawan Group's (ERW) analyst meeting to review its 2Q26 results and the tone was positive.
- **Strong outlook in 3Q26.** The management provided ERW's 3Q26 guidance, expecting 3Q26 room revenue to show a strong growth yoy of 7%. Meanwhile, RevPar for the whole portfolio is expected to show 2% yoy growth, with main contribution coming from economy to luxury hotel portfolio. The key drive in 3Q26 is expected to be from the rising average daily rate (ADR), driven by strong booking demand. Middle East guests who come for medical treatment are the notable contributors in 3Q26, which is the traditional high season of Middle East arrivals. The demand from Middle East guests in Aug 26 was very strong and exceeded ERW's expectations. Hence, we expect 3Q26 to be a gradually improving quarter for ERW as we have seen that the impact from Grand Hyatt renovation is manageable.
- **Declining interest costs to support earnings.** Following management's plan to refinance part of its loans to further reduce interest costs, the prepayment fee incurred in 2Q26 should be the last significant expense under the current refinancing plan. Going forward, ERW should fully benefit from lower interest costs, which are currently at a low level of 2.9% by end-2Q26. Its average cost of funds has declined each quarter, partly due to floating-rate loans tracking the downward trend in market rates. ERW also plans to increase the fixed-rate portion of its debt, given the attractive current rates. The IBD/E ratio remained at 1.2x in 2Q26, as additional borrowings will be required to support planned expansions in 2026. We view declining interest costs as a key earnings catalyst for ERW in 2H26.

Key Financials

Year to 31 Dec (Btm)	2024	2025	2026F	2027F	2028F
Net turnover	7,917.3	7,930.5	8,782.0	9,447.1	10,096.9
EBITDA	2,644.3	2,613.5	2,906.9	3,133.6	3,258.6
Operating profit	1,649.5	1,565.3	1,654.9	1,797.8	1,837.7
Net profit (rep./act.)	1,280.7	838.1	903.2	971.5	1,017.4
Net profit (adj.)	939.7	836.4	873.2	940.6	985.5
EPS (Bt)	0.2	0.2	0.2	0.2	0.2
PE (x)	19.2	21.6	20.7	19.2	18.4
P/B (x)	2.1	2.0	2.0	1.9	1.8
EV/EBITDA (x)	12.4	12.5	11.2	10.4	10.0
Dividend yield (%)	2.4	1.9	2.2	2.4	2.5
Net margin (%)	16.2	10.6	10.3	10.3	10.1
Net debt/(cash) to equity (%)	149.8	141.6	160.8	155.8	150.0
Interest cover (x)	3.8	4.3	5.0	5.5	5.9
ROE (%)	17.0	9.5	10.1	10.5	10.3
Consensus net profit (Btm)	-	-	917	993	1,100
UOBKH/Consensus (x)	-	-	0.95	0.95	0.90

Source: The Erawan Group, Bloomberg, UOB Kay Hian

BUY (Maintained)

Share Price	Bt3.64
Target Price	Bt4.40
Upside	+20.9%

Stock Data

Sector	Consumer Discretionary
Bloomberg ticker	ERW TB
Shares issued (m)	4,886.9
Market cap (Btm)	18,081.6
Market cap (US$m)	545.6
3-mth avg daily t'over (US$m)	2.9

Price Performance (%)

52-week high/low				Bt3.80/Bt2.02
1mth	3mth	6mth	1yr	YTD
19.4	40.2	17.8	37.0	51.6

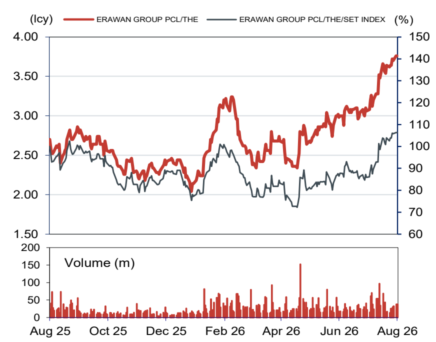
Major Shareholders (%)

Wattanavekin family	28.2
Vongkusolkit family	28.4

Balance Sheet Metrics

FY26 NAV/Share (Bt)	1.84
FY26 Net Debt/ Share (Bt)	2.95

Price Chart



Source: Bloomberg

Company Description

The Erawan Group is a leading hotel investment company in Thailand. Its hotel portfolio ranges from luxury to mid-scale and economy across Thailand's major tourist destinations.

- **Target to maintain margins in 2H26.** The overall EBITDA margin of ERW in 2H25 was considered high at 33.2%. Management is targeting to maintain that high level of EBITDA margin in 2H26 as they see improving booking demand. Despite seeing some cost pressure caused by the Middle East war, ERW has been actively implementing its strict cost control measures. Moreover, ERW observes that the Chinese recovery has been persistent throughout the 1H26 and expects this momentum to continue into 2H26.
- **Renovation impact remains manageable.** The renovation began in Apr 26 and is scheduled for completion by 4Q27, with allocated capex of Bt500m. The ballroom renovation is now completed, allowing ERW to capture MICE demand from Sep 26 onwards. Management plans to pause room renovations in some peak periods during the peak travel season in 4Q26-1Q27 and operate with full room inventory. Although some room renovations will continue in 3Q26 or be deferred to 2Q27, ERW's 2Q26 earnings growth demonstrates that the impact remains manageable. By the end of 2026, management is targeting to renovate 70% of Grand Hyatt's room inventory. The reopening of Naka Phuket in 3Q26 should also support the luxury hotel portfolio.
- **Update on 2026 growth guidance.** ERW now targets total revenue growth of 6% yoy, driven by luxury-economy (+5% yoy) and budget (+10% yoy) segments. In the luxury segment, growth will be supported by strong occupancy rate improvement in early-26 and ADR increase by the late-2026. Budget growth will come from new Hop Inn openings in Thailand and a new launch in Korea. So far, 1H26 has shown 5% yoy growth in revenue. We believe that its growth target of 6% yoy should be achievable given the outlook for 2H26. We are starting to see several supporting factors, including the continued recovery of Chinese visitors and large events in 2H26, which should boost traffic.

Valuation/Recommendation

- **Maintain BUY with a target price of Bt4.40.** Our valuation is rolled over to 2027 EV/EBITDA multiplier of 12x, based on 1 SD above its three-year mean. We are optimistic about ERW as one of our top picks, given its ability to show growth despite the pressure from renovation and the Middle East war. We see several supporting factors such as strong booking demand, the declining interest cost, the reopening of Naka Phuket and the traffic boost from large events in 2H26.

Environment Social Governance (ESG) Updates

Environmental

- **Prioritising effective and balanced use of resources** as well as taking into account the reduction of greenhouse gas generation, including management of ecosystems and biodiversity.

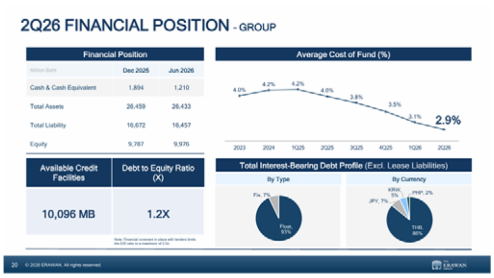
Social

- **Respecting human rights** based on the principles of international criteria, equality, fairness, and non-discrimination.
- **Focusing on enhancing quality of life** and potential of employees by cultivating social and environmental responsibility.

Governance

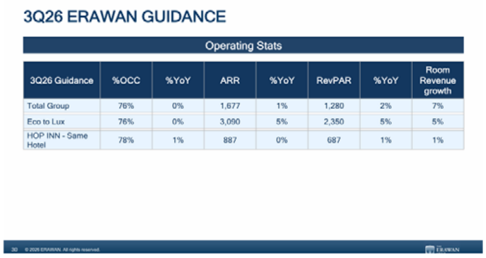
- **Board gender diversity.** Male to female ratio of 3:1.
- **Board balance and composition.** Four board members are independent directors, amounting to 33% of the board members.

ERW'S Debt Profile



Source: ERW

3Q26 Guidance



Source: ERW

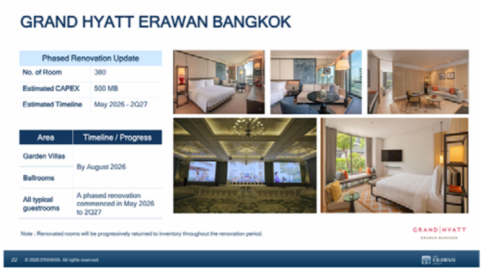
2026 Guidance

Source: ERW

ERW Source Markets In Thailand

Source: ERW

Details of Grand Hyatt Renovation



Source: ERW

Profit & Loss

Year to 31 Dec (Btm)	2025	2026F	2027F	2028F
Net turnover	7,930	8,782	9,447	10,097
EBITDA	2,613	2,907	3,134	3,259
Deprec. & amort.	1,048	1,252	1,336	1,421
EBIT	1,565	1,655	1,798	1,838
Total other non-op. income	2	0	0	0
Associate contributions	0	30	31	32
Net interest income/(expense)	(612)	(583)	(571)	(553)
Pre-tax profit	956	1,102	1,257	1,317
Tax	(51)	(161)	(245)	(257)
Minorities	(67)	(38)	(40)	(42)
Net profit	838	903	972	1,017
Net profit (adj.)	836	873	941	986

Balance Sheet

Year to 31 Dec (Btm)	2025	2026F	2027F	2028F
Fixed assets	23,417	24,310	25,422	26,498
Other LT assets	640	483	528	587
Cash/ST investment	1,894	3,043	2,363	1,605
Other current assets	509	700	767	833
Total assets	26,460	28,536	29,079	29,522
ST debt	2,690	1,765	1,765	1,765
Other current liabilities	1,224	1,252	1,373	1,506
LT debt	11,899	15,720	15,475	15,032
Other LT liabilities	859	642	703	834
Shareholders' equity	8,967	8,982	9,547	10,127
Minority interest	820	175	216	258
Total liabilities & equity	26,460	28,536	29,079	29,522

Cash Flow

Year to 31 Dec (Btm)	2025	2026F	2027F	2028F
Operating	2,007	2,028	2,403	2,548
Pre-tax profit	956	1,102	1,257	1,317
Tax	(51)	(161)	(245)	(257)
Deprec. & amort.	1,048	1,252	1,336	1,421
Associates	0	(30)	(31)	(32)
Working capital changes	(16)	7	(1)	6
Non-cash items	70	(171)	56	61
Other operating cashflows	0	30	31	32
Investing	(1,010)	(2,204)	(2,433)	(2,425)
Capex (growth)	(2,072)	(2,145)	(2,448)	(2,497)
Investment	0	12	25	38
Others	1,062	(72)	(9)	35
Financing	(716)	1,325	(651)	(881)
Dividend payments	(440)	(342)	(406)	(437)
Proceeds from borrowings	(71)	2,896	(244)	(444)
Others/interest paid	(204)	(1,228)	0	0
Net cash inflow (outflow)	282	1,149	(681)	(758)
Beginning cash & cash equiv.	1,612	1,894	3,043	2,363
Ending cash & cash equiv.	1,894	3,043	2,363	1,605

Key Metric

Year to 31 Dec (Btm)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	33.0	33.1	33.2	32.3
Pre-tax margin	12.1	12.5	13.3	13.0
Net margin	10.6	10.3	10.3	10.1
ROA	3.2	3.3	3.4	3.5
ROE	9.5	10.1	10.5	10.3
Growth (% yoy)				
Turnover	0.2	10.7	7.6	6.9
EBITDA	(1.2)	11.2	7.8	4.0
Pre-tax profit	(27.7)	15.3	14.1	4.7
Net profit	(34.6)	7.8	7.6	4.7
Net profit (adj.)	(11.0)	4.4	7.7	4.8
EPS	(11.0)	4.3	7.7	4.8
Leverage				
Debt to total capital	59.8	65.6	63.8	61.8
Debt to equity	162.7	194.7	180.6	165.9
Net debt/(cash) to equity	141.6	160.8	155.8	150.0
Interest cover (x)	4.3	5.0	5.5	5.9