

Banyan Tree Holdings Ltd: New Credit Review

Thursday, 20 April 2017

Recommendations Summary

| Issuer Profile: | Bond Recommendation: | |
|---|--|----|
| Neutral | BTHSP 4.85 '20 | OW |
| | BTHSP 4.875 '19 | OW |
| | BTHSP 5.75 '18 | N |
| | BTHSP 5.35 '18 | N |
| Fundamental Analysis Considerations <ul style="list-style-type: none"> • New strategic partners • Deleveraging trend • Still loss-making though cash burn has narrowed significantly | Technical Analysis Considerations <ul style="list-style-type: none"> • Some capital gains potential • Good yield for short dated paper • Issuer does not have a credit rating | |

Key credit considerations

Treasury Advisory

Corporate FX & Structured Products

Tel: 6349-1888 / 1881

Interest Rate Derivatives

Tel: 6349-1899

Investments & Structured Products

Tel: 6349-1886

GT Institutional Sales

Tel: 6349-1810

OCBC Credit Research

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- New strategic investors coming in:** In December 2016 and January 2017, Banyan Tree Holdings Limited ("BTH") has entered into binding term sheets with Accor S.A and China Vanke Co. Ltd ("VNRLE") respectively. These deals are pending completion though we see them as credit positives. Collectively, Accor S.A and VNRLE will be investing SGD49mn in BTH in the near term. Accor S.A will be investing via a SGD24mn convertible debenture (with an automatic trigger conversion feature into equity). VNRLE will subscribe SGD25mn in new equity via a private placement. Under the term sheets, Accor S.A and VNRLE will also be granted options to purchase additional new equity in the company. If this is exercised, we will see Accor S.A and VNRLE hold up to 10% each in BTH. The exercise price of such options will only be determined at a later date. Assuming exercising of the options and full dilution, we estimate that the founders of BTH will hold ~31%-stake (from the 39% currently). We assume BTH may raise an additional ~SGD49mn. VNRLE and BTH will also form a 50:50 joint venture (namely, Banyan Tree China) where BTH would sell certain assets into the JV. This helps BTH generate immediate liquidity in addition to gaining a partner that has countrywide local know-how. Rapid expansion in China over the past few years had culminated as a drag to the company's credit profile. In FY2015, BTH took a large provision for doubtful debt of SGD16.3mn, largely from nonpayment from third party property owners in China. This has narrowed significantly in FY2016 (additional SGD2.4mn taken). We expect provisions in FY2017 to be smaller. With the introduction of new strategic partners, BTH's business is at the cusp of a turning point.
- Staying independent in the midst of hospitality industry consolidation for now:** Currently, BTH is among a handful of Asia-based boutique resort/hotel players. In the near term, we expect BTH to stay as an independent group. Accor S.A and VNRLE are coming in as minority shareholders though BTH is targeting to benefit strategically from these partnerships. Both companies should offer significant operational scale benefits to BTH, if executed well. Conceptually, we agree that this is the right move for BTH though it remains to be seen how day-to-day operations would be affected on co-partnered hotels. BTH has two well-recognised brand names and in the process of building up a further two more new brands. We estimate that brands/trademarks only account for ~1.5% of total assets on its balance sheet. In contrast, ~13% of Accor S.A's total assets comprise brands.

- Still loss-making though cash burn significantly narrowed:** In FY2016, BTH's revenue was down 16% to SGD309.6mn. This was mainly due to lower revenue from the Property Sales and fee-based segments. BTH's headline profit before taxation was narrower at negative SGD0.7mn against a SGD19.5mn loss before taxation in FY2015. Nevertheless, FY2016's results include a SGD23.7mn net fair value gain from a reclassification from fair value adjustment reserve (an equity item) into other income. This was driven by recognition of Thai Wah Public Company Limited ("Thai Wah") and Banyan Tree Indochina Hospitality Fund L.P ("Indochina Fund") as associates in FY2016. These entities were previously accounted for as available-for-sale investments. Based on our calculation of EBITDA which excludes other income and share of results of associates, we find EBITDA at SGD22.0mn, 10.6% lower than FY2015. As BTH only holds 65.75%-stake in LRH, sizeable portion of profits LRH are attributable to non-controlling interests. In FY2016, profits attributable to non-controlling interest was SGD9.2mn while losses attributable to owners of BTH was SGD16.2mn. Largely due to a reduction in cash outflow for property development costs, BTH's operating cash flow was negative SGD6.2mn in FY2016 against negative SGD110.7mn in FY2015.
- Gearing stabilized after spiking in FY2015:** BTH had taken on moderate levels of debt as it funded growth plans in the last 10 years since IPO. We had observed the biggest spike in gearing between FY2014 and FY2015 (net gearing went from 0.5x to 0.7x) as it took on debt to fund operations, interest payments and capex. We take some comfort that as at 31 December 2016, net gearing had stabilised at 0.7x. Leverage as measured by Net Debt-to-EBITDA is significant, following thin EBITDA generation in FY2016 and FY2015. EBITDA is relatively lumpy as EBITDA contribution from property sales fluctuates according to project launches and timing of revenue recognition. We find 3 years average net debt-to-EBITDA at 17.0x, climbing from 5 years average net debt-to-EBITDA of 12.5x. Under our base case, we assume that Accor S.A's convertible debenture gets converted into equity and both Accor S.A and VNKRL will exercise options to purchase additional shares at SGD0.60/share. Conservatively, we also assume that BTH gets SGD82mn in cash from the sale of assets into BTC, being 50% of the net assets held for sale as at 31 December 2016. We think it is likely BTH will see net gearing falling to 0.4x on a proforma basis. Should assets be disposed to BTC at higher than book value, net gearing should improve further.

I) Company Background :

BTH, listed on the Singapore Stock Exchange since June 2006, has a market cap of SGD388mn (as at 19 April 2017). BTH is an international developer and operator of resorts, residences, spas, retail galleries and golf courses. BTH's flagship brand "Banyan Tree" is a household name regionally in the high-end hospitality segment. BTH holds 65.75%¹ stake in Laguna Resorts & Hotels Pcl ("LRH"), which is listed on the Thailand Stock Exchange with a market cap of THB4.8bn (SGD195mn).

BTH operates 3 key business segments:

Hotel investments: This segment relates to hotels whereby the BTH group has an ownership interest in. Equity ownership interest ranges from minimally held stakes (including those held under real estate private funds) to those properties where BTH own a 100% equity interest. Revenues from this segment are driven by room rates, available room inventory and average occupancy levels. As at end-2016, BTH has an equity stake in 19 resorts/hotels (of the 37 resorts/hotels within its portfolio). Of these 19, one has been sold to CDL Hospitality Trust under a sale-and-leaseback. BTH has grown through the years via an asset-light strategy (as at end-2006, BTH held equity stakes in 14 of the 20 properties in its portfolio). BTH is in the process of selling 2 hotels in China into BTC, thus accelerating its asset-light strategy. Going forward, we

¹ Effective stake of 65.75% though voting rights is higher at 73.67%. This adjusts for shares held by investors via Thai Trust Fund Management Company Limited and Thai NVDR Company Limited which does not have voting rights (apart from delisting)

expect BTH to only take equity interest on a selective basis in new properties. Hotel Investment (excluding management fees that have been allocated to the Hotel Management segment) recorded operating profit of SGD13.2mn in FY2016 (up 193% from FY2015). Hotel Investment was 41% of total operating profit in FY2016 and 96% was attributable to properties located in Thailand. Over the past two years, the decline in travellers to the Maldives and Seychelles (eg: from China and Russia source markets) and domestically within China had negatively affected BTH's non-Thailand Hotel Investments. Improvements in operating profit for Hotel Investments-Thailand was driven largely by cost cutting measures implemented in FY2016 and stronger tourist arrivals from Russia.

Property sales

Operating income from property sales is lumpy (dependent on project launches and revenue recognition upon handover) and property development projects in Thailand are reliant on foreign buyers. Comprises two main sub-segments. Historically, BTH's property sales business targeted buyers of holiday/secondary homes. These were typically located within vicinities of BTH resorts/hotels. In FY2012, BTH launched its first branded primary residences project (no equity interest, BTH collected royalties) and property development was a side-line business. By FY2014, BTH has become a more dedicated property developer. Property sales was 11% of operating profit in FY2016 (FY2015: 42%)

A) Hotel Residences: Sale of hotel villas or suites which are part of hotel operations to investors under a compulsory leaseback scheme. On-going projects are located in Phuket (Thailand) and Bintan (Indonesia). In FY2016, BTH expanded its offering and launched Banyan Tree-branded residences in Brisbane (Australia) that are not part of hotel operations. Unrecognised revenue of SGD74.1mn was recorded as at 31 December 2016, 64% higher than 31 December 2015. About 37% of unrecognised revenue is attributable to the Banyan Tree Residence Brisbane project (average price of SGD1.6mn/unit in FY2016). As at 31 December 2016, 17 of the 76 units available have been sold. The company has guided that sales is likely to be slower in FY2017 post-introduction of property cooling measures in Brisbane, lending constraints imposed by banks and an oversupply of off-the-plan apartments. Cassia Bintan and Cassia Phuket contributed 31% collectively to unrecognised revenue. Unlike the Brisbane project (which caters to city dwellers), these two projects are more affordable at ~SGD300k/unit and cater to investors looking for investment return from hospitality assets. Angsana Beachfront Residences (launched in December 2016) and Banyan Tree Phuket, two high-end projects located in Laguna Phuket contributed the remainder of unrecognised sales.

B) Laguna Property Sales: Relates to development and sale of properties which are standalone vacation homes that are within the vicinity of BTH resorts but are not part of hotel operations. BTH's main projects within this sub-segment are the Laguna Park Phuket (Thailand) and Laguna Chengdu (located in Wenjiang, Chengdu). As at 31 December 2016, unrecognised revenue was SGD12.7mn, 47% lower than FY2015, Unrecognised revenue from the Chengdu project made up 60% of the total. Nevertheless, the property sales in Chengdu have been temporarily halted due to lack of provision of infrastructure (water, power, sewerage and gas) by the government. BTH has disclosed that it is in discussions with the government to resolve this problem. We expect to see a revival of this project as part of BTH's recent deal with VNKRL.

Fee-based segment

A) Hotel management: In FY2016, 64% of operating profit was made up of Hotel Management fees. Comprises fees received from hotels/resorts managed and royalties received from the licensing and use of brands to these hotels/resorts and branded properties. As at end-2016, BTH manages 37 resorts/hotels (including those with and equity interest). Resorts/hotels under management is projected to rise to 57 by 2020. Room keys under management were 5,358 (end-2016) and BTH projects that it will grow by

69% to 9,077 by 2020. With an operating profit of SGD20mn p.a on average between FY2014 to FY2016, Hotel Management forms the single largest contributor to BTH's operating profit and is more stable (versus other segments). The Hotel Management income is primarily affected by room rates, average occupancy levels and available room inventory.

- B) Fund/Club Management:** Management of an asset-backed destination club (ie: time-share concept of luxury villas) and the management of hospitality real estate private equity funds. This is a small contributor to operating profit. In FY2016, operating loss of SGD1.3mn, against an operating loss of SGD1.0mn in FY2015.
- C) Spa/Gallery Operations:** Consist of revenue from management fees of spas and galleries, provision of spa treatments, royalties received from licensing and use of brands. Gallery operations consist of revenue from sales of branded gifts, spa products, indigenous or cultural handicrafts, artefacts and souvenirs. Small but stable contributor to operating profit. In FY2016, this segment contributed SGD4.1mn to operating profit against SGD3.8mn in FY2015. In FY2016, Spa/Gallery operations were 12.6% to total operating profits.
- D) Design and Others:** Provision of architectural and design services and the management and ownership of golf courses. According to the company, the economic slowdown in China had negatively affected the architectural and design fees of several third party owners' developmental projects as projects were delayed/put on-hold. Provision for delinquent debts relating to the China region was taken in recent years and we think BTH has largely taken the hit on delinquent debt from China. As at 31 December 2016, trade receivables was SGD72.7mn against SGD101.7mn as at 31 December 2014 (prior to the clean-up in FY2015 and FY2016).

The BTH group markets its core brands separately with no cross-marketing activities.

- A) Banyan Tree:** The eponymous brand of BTH was launched in 1994 in Phuket (Thailand) when the founders moved on from developing properties on the site for a hospitality chain to running properties under their own brand name. Today the Banyan Tree brand is associated with high-end resorts, spas and residences regionally.
- B) Angsana:** Launched in 2000 with the opening of an Angsana-branded resort in Bintan (Indonesia). 4-star properties at a somewhat lower price range versus Banyan Tree.
- C) Cassia:** Launched in 2014 as a serviced apartment/extended stay brand of the BTH group. The first Cassia branded property was opened in Phuket (Thailand) in October 2015. Unlike the Banyan Tree villas, Cassia homes are one-two bedroom apartments.
- D) Dhawa:** Launched in October 2015 as a casual and contemporary full-service hotel catering to young and hip travellers. 3-star properties with price points of USD80-170/per night, according to the Nikkei Asian Review versus the Banyan Tree brand which ranges between USD300-400 per night. Opened the first Dhawa brand property in Bo'ao, Hainan Island (China) in March 2016.

II) Ownership and Management:

Figure 1: Major shareholders as at 13 April 2017

| Shareholder | Shares (mn) | Stake (Including Deemed Interest) |
|-------------------------------|-------------|-----------------------------------|
| Ho KwonPing and Claire Chiang | 301.9 | 39.7% |
| Qatar Investment Authority | 205.9 | 27.1% |
| Ho KwonCjan | 49.6 | 6.5% |

Source: Bloomberg, Company, OCBC estimates

Husband and wife team, Mr. Ho KwonPing and Ms. Claire Chiang are the founders of

BTH. Mr. Ho is the Executive Chairman of BTH and responsible for overall management and operations. He is also Chairman of LRH and Thai Wah Public Company Limited (“Thai Wah”). Excluding the stake held by LRH, we estimate that Thai Wah is at least 29%-owned by entities related to the Ho family. It is a leading maker and distributor of vermicelli, starch and starch-related food products and hold land in Thailand. Mr. Ho sits on boards of various educational establishments and is a Non-Executive Director of Diageo Plc (listed on the London Stock Exchange).

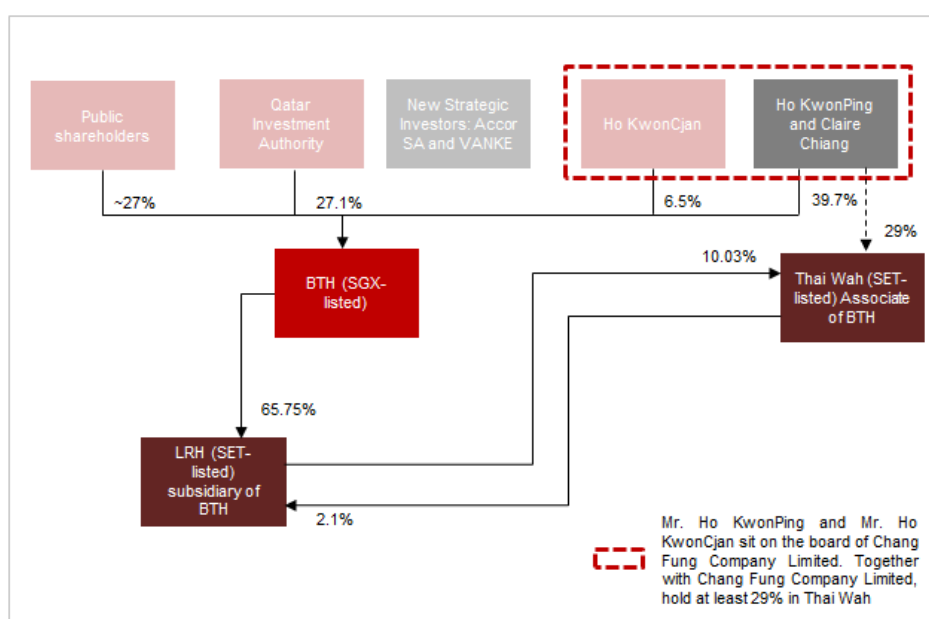
Ms. Claire Chang is a founder of BTH and pioneered BTH’s retail business. She focuses on acquiring new management contracts, guides human capital for the company and chairs Banyan Tree Global Foundation, BTH’s sustainability arm.

Qatar Investment Authority first became a substantial shareholder of BTH in 2008. We believe Qatar Investment Authority is holding its stake as a financial investment.

Mr. Ho KwonCjan is the brother of Mr. Ho KwonPing and was instrumental in the development of BTH since its early days. Currently, Mr. Ho is a Senior Vice President and Group Chief Designer involved in overseeing design and project teams in the architectural subsidiary of BTH. He is also a Director of LRH and served as Vice Chairman of Thai Wah between 1997 and 2003.

BTH’s remaining shareholding is dispersed and largely held by institutional investment firms.

Figure 2: High-Level Corporate Structure of BTH and its related companies



Source: Company filings, OCBC Credit Research

Note (1): Cross-holdings between Thai Wah and LRH

(2): Assuming Accor S.A converts, it will get ~5%-stake in BTH. VNKRL is due to receive ~5%-stake on full subscription of private placement. Accor S.A and VNKRL has been granted an option to subscribe for a further ~5%-stake each, at a price to be determined in the future. Mechanics have been agreed at 115% of VWAP (90 days immediately preceding exercise of option) and subject to listing rules.

III) Company Overview & Analysis:

Rapid expansion in China was a drag to credit profile but at an inflection point:

Since 2011, BTH’s credit risk profile tilted significantly to Northeast Asia with the region contributing 30-40% of total credit risk by quantum over the past few years. Prior to 2011, credit risk from Northeast Asia was less than 15%. The growth in credit risk attributable to China was driven by heightened exposure to BTH’s China built-out. Since 2011, 70-80% of new properties in the pipeline (those with equity interest and without) were in China. Credit risk for BTH arises primarily from trade and other receivables. By operations, credit risk was concentrated on the property sales and fee-based segments. China-based properties are largely owned by third party owners

and via BTH's managed real estate private funds which require minimal equity outlay by BTH, though BTH is exposed to counterparty credit risk. Typically, when third parties sign on agreements to develop BTH-branded properties, BTH provides design, architecture and management services. In FY2015, the company recorded significant provisions for doubtful debt SGD16.3mn. This was mainly driven by unpaid management fees from third party owners. However, provisions for doubtful debt were lower in FY2016 at only SGD2.4mn and we expect this number to fall in FY2017. In January 2017, BTH entered into a collaboration agreement with VNKRLE to form a new joint venture entity, namely Banyan Tree China ("BTC"). BTC will initially be held on a 50:50 basis and we expect VNKRLE to take a more active role in the development of BTH in China when the deal is completed. BTH will sell down property assets into BTC, generating upfront liquidity. In addition, we see the strategic interest of a "natural partner" in China as a credit positive. While BTH has been active in the micro-markets of Shangri-la and Lijiang since mid-2000s, BTH could benefit from the extensive local know-how of VNKRLE, a country-wide property developer (market cap as at 19 April 2017 of USD32.4bn).

Business concentrated on Thailand, Indian Oceania and China: In FY2016, revenue from Southeast Asia contributed 68%, reflecting stability in Thailand (after periods of on/off political uncertainty). Indian Oceania was 21% while Northeast Asia (mainly China) made up 8% of revenue (dropping from 11% in FY2015). Between 2011 and 2014, China properties contributed some 18% to total revenue. The decline in contribution was largely due to price war in the Chinese market, exacerbated by China's economic slowdown. At IPO, revenues of BTH was concentrated in Thailand (contributing 80% of revenue), with the rest mainly coming from Indian Oceania. For its next phase of growth, BTH is targeting Europe, Africa, the Middle East and the Americas (eg: Cuba), particularly in locations where Accor S.A already has a sizeable presence and plans to expand.

High-end tourism is reliant on outbound European and Chinese travellers: Half of BTH's clientele by revenue had traditionally come from Europe. The prolonged weakness of economies of Europe since the FY2008-2009 financial crisis had negatively affected BTH's business. In addition to BTH's hotel business, European buyers (eg: from Russia) are important customers in the property sales segment. Russia has been plagued by an economic crisis that had started in 2014. While the return of Russian tourists to Thailand since mid-FY2016 have helped the Hotel Investments and Hotel Management segments, property sales continues to be negatively impacted. Despite near term pressures with BTH's Chinese business, we see the rise of both Chinese domestic and outbound tourism as a sustainable trend. Intense competition in the high-end segment (we think due to combination of new boutique luxury properties, private vacation villas and lower number of high-end tourists) have led BTH to think about new avenues of growth.

Entry into mid-market: While BTH continues to grow its number of properties under the core "Banyan Tree" and "Angsana" brands, the company has entered into the mid-market segment. In 2015, BTH opened its first serviced apartment brand "Cassia" in Phuket (Thailand). The serviced apartment is sold with a leaseback and targets younger investors who are concurrently also looking for an extended holiday home. BTH launched the "Dhawa" brand in October 2015. The first Dhawa opened in Cuba in December 2016 and two more Dhawa hotels are in the pipeline. These two brands are targeted at a diverse group of younger travellers who are more-price conscious. We think these brands are able to capture intra-Asian flow and while average spending per night may be lower; this target market tends to make more frequent trips.

Asset-light strategy to continue: Following years of expansion through an "asset-light" strategy where BTH manages properties on behalf of third party owners, in FY2016 BTH only has equity interest in 19 of its 37 hotels/resort portfolio. This includes those held via real estate private equity funds where equity ownership is minimal. By 2020, BTH is projected to have 57 properties (total 9,077 keys from 5,358 currently). BTH is projected to have an equity interest in 33% of the total rooms. Bulk of the growth in room keys is expected to come from properties where BTH has zero equity interest.

New strategic partnerships: In December 2016 and January 2017, BTH has

entered into binding term sheets with Accor S.A and VNKRL E respectively. The 2 events are pending deal completion though we see these as credit positive and complementary to BTH's move towards being asset-light:

Agreement with Accor S.A: In December 2016, BTH entered into binding term sheets with Accor S.A (market cap as at 19 April 2017: USD11.8bn) for a strategic collaboration. Accor S.A is a French multinational hotel group managing more than 4,100 hotels across 95 countries. Key brands include: Novotel, Pullman, Fairmont, Sofitel, ibis. Main items agreed as follows:

Figure 3: Agreement entered into with Accor S.A

| Main Item Agreed | Brief Description | OCBC Comments |
|--|--|---|
| BTH proposing to issue to Accor S.A mandatory convertible debentures | <ul style="list-style-type: none"> Principal amounting to SGD24mn at 3.5% coupon p.a for a period of 4.5 years The principal amount is convertible into equity as follows: <ol style="list-style-type: none"> Automatically during the 4.5 year period from issue date, the volume weighted average price for the immediately preceding 90 consecutive days reaches SGD0.60/per share ("VWAP") Automatically at the end of 4.5 years, where conversion price will be lower of 115% of VWAP preceding the relevant date or SGD0.60, subject to minimum conversion of SGD0.40/per share At Accor S.A's option, if anytime BTH announces a rights issue or preferential offer, conversion will be at Strike Price BTH grants an option to Accor S.A (exercisable within 6 months after conversion) for Accor S.A to purchase more shares, but limited to a 10% stake in BTH on a fully diluted basis At 115% of VWAP immediately preceding the exercise of the option | <p>BTH will get SGD24mn in upfront cash (convertible debentures booked as debt prior to conversion).</p> <p>Within a 4.5 year period, BTH's book value equity increases by SGD24mn and debt extinguishes. Assuming mandatory conversion happens at SGD0.60/per share, Accor S.A to get ~5% stake in company on a diluted basis.</p> <p>Assuming options are exercised at SGD0.60/share, may raise a further SGD24-25mn in new equity.</p> |
| Nomination of director | <ul style="list-style-type: none"> Accor S.A will nominate one director to the board of BTH, subject to evaluation and recommendation by Nominating and Remuneration Committee and approval by the Board and/or shareholders Accor S.A has indicated its first nominee to the board will be Sebastien Bazin (CEO and Chairman of Accor S.A) | Positive signaling of strategic intent of both companies to make collaboration work. |

Agreement with China VNKRL E Co., Ltd ("V NKRL E"): In January 2017, BTH entered into two binding agreements with V NKRL E. V NKRL E is one of China's largest real estate developers and listed on both the Shenzhen and Hong Kong Stock Exchanges. Main items agreed as follows:

Figure 4: Agreement entered into with V NKRL E

| Main Item Agreed | Brief Description | OCBC Comments |
|--|--|--|
| Proposed collaboration to create a new entity known as Banyan Tree China ("BTC") | To consolidate ownership of BTH's interest in China and to co-develop/co-invest to develop Banyan Tree-branded projects overseas focusing on China's outbound travel market. | <ul style="list-style-type: none"> Strategic partner with strong financial backing for growth. Potential income from increase in management fee through the management of V NKRL E of hospitality properties by BTH. |
| BTC will initially be controlled by BTH and V NKRL E on a 50:50 basis | <p>Upon establishment or as soon as practicable after, BTC shall hold China-based assets.</p> <ul style="list-style-type: none"> 40% in Banyan Tree Hotels | Will unlock at least SGD82mn in upfront cash to BTH, being 50% of the net book value of assets to be sold down BTC. Possible upside gain from the sell-down. |

| | | |
|--|--|--|
| | <p>Management (Tianjin) Co., Ltd, a hotel management company in China</p> <ul style="list-style-type: none"> • 100% of Laguna Chengdu – property development • 100% of Banyan Tree Lijiang hotel and • 100% of Banyan Tree Ringha hotel • The exact valuation of these assets will be based on valuations at a later date, to be performed by independent third party valuers • As at 31 December 2016, net book value of the assets are SGD163.7mn | Revival of Laguna Chengdu project. |
| | <p>BTC may offer to purchase for cash or for shares in BTC all the assets and interest of other Limited Partner's stake in Banyan Tree China Hospitality Fund ("the Fund")</p> <ul style="list-style-type: none"> • These include BTH's 5% equity investment in the Fund • As at 30 September 2016, book value of BTH's equity investment in the Fund was SGD12mn | May unlock SGD12mn for BTH, being BTH's 5% stake in the Fund. |
| | <p>BTC may offer to purchase for cash or for shares in BTC other relevant hotel assets in China which bear one of the brands owned by BTH</p> | <p>Provides a route to monetization for 3rd party owners of Chinese assets. VNKRL E may inject its hotels into BTC.</p> <p>BTH may be required to fund such purchases via cash, debt and/or dilution of its equity stake in BTC when new assets are injected into BTC.</p> <p>BTC's goal is to attain sufficient size for a possible IPO.</p> |
| BTH agrees to issue shares to VNKRL E by private placement | <ul style="list-style-type: none"> • Aggregate principal amount of SGD25mn at placement price of SGD0.60 per share or minimum price required by applicable listing rules • BTH grants an option to VNKRL E to purchase a further number of shares, but limited to VNKRL E having 10% stake in BTH on a fully diluted basis • Exercise price 115% of VWAP for 90 days immediately preceding exercise of options | <p>SGD25mn in upfront new equity to BTH, representing ~5% stake.</p> <p>Assuming options are exercised at SGD0.60/share, may raise a further SGD24-25mn in new equity.</p> |
| Nomination of director | VNKRL E will nominate one director to the board of BTH, subject to evaluation and recommendation by Nominating and Remuneration Committee and approval by the Board and/or shareholders | Positive signaling of strategic intent of both companies to make the collaboration work. |

IV) Financial Analysis:

Weaker FY2016 results: In FY2016, BTH's revenue was down 16% to SGD309.6mn. This was mainly due to lower revenue from the Property Sales segment (down SGD42.9mn) as units sold were substantially recognised when handed over to buyers in FY2015. As at 31 December 2016, SGD86.8mn of property sales was unrecognised (largely attributable to sales of hotel residences in Phuket (Thailand), Brisbane (Australia) and Cassia Bintan (Indonesia). About 32% will be

recognised in income statement in FY2017 and the remaining over the next 2 years. BTH's headline profit before taxation was SGD0.7mn against a SGD19.5mn loss before taxation in FY2015. Nevertheless, FY2016 results was boosted by a SGD23.7mn reclassification of net fair value gains from fair value adjustment reserve (an equity item) into other income. This was driven by recognition of Thai Wah Public Company Limited ("Thai Wah") and Banyan Tree Indochina Hospitality Fund L.P ("Indochina Fund") as associates in FY2016. Based on our calculation of EBITDA which excludes other income, we find EBITDA at SGD22.0mn, 10.6% lower than FY2015. Including capitalised interest of SGD6.0mn in FY2016, we find Adjusted EBITDA/Interest weak at 0.6x (FY2015: 0.8x).

BTH segmental breakdown: BTH's segmental breakdown for operating profit reclassify management fees from both hotels owned and managed into one segment², namely "Hotel Management". In FY2016, Hotel Management was the largest contributor to operating profit at SGD20.8mn (up SGD6.7mn from FY2015). This was followed by operating profit from Hotel Investments which contributed SGD13.2mn (up SGD8.7mn from FY2015), largely due to improvements in revenue in Thailand and lower operating costs from cost cutting measures. The Spa & Gallery segments reported a small increase of SGD0.3mn to SGD4.1mn while the remaining segments saw an operating loss. Property sales saw an operating profit of SGD3.7mn (down SGD11.4mn from FY2015). Design and Others was negatively affected by a number of third party hotel owners shelving/delaying their developmental plans (particularly in China). With the lower provision in doubtful debt insufficient to compensate for slowing growth, Design and Others reported an operating loss of SGD8.0mn (down SGD7.6mn from FY2015).

Figure 5: Segmental Operating Profit³

| Business Segment (SGDmn) | FY2014 | FY2015 | FY2016 |
|--|-------------|-------------|-------------|
| Hotel Investments – Thailand | 8.8 | 3.2 | 12.7 |
| Hotel Investments – Non-Thailand | 12.7 | 1.3 | 0.5 |
| Hotel management | 24.1 | 14.1 | 20.8 |
| Spa/gallery | 6.2 | 3.8 | 4.1 |
| Design and others | 5.1 | (0.4) | (8.0) |
| Fund/club | 0.9 | (1.0) | (1.3) |
| Property sales – Hotel residences | 2.5 | 10.6 | 1.8 |
| Property sales – Laguna property sales | (3.3) | 4.5 | 1.9 |
| Total Operating Profit | 57.0 | 36.1 | 32.5 |

Source: Company FY2016 Analyst Presentation

Cash flow from operations still negative but much improved from FY2015:

Despite the 26% lower operating cash before working capital (SGD37mn versus SGD50mn in FY2016), BTH reported an operating cash inflow of SGD31.0mn against operating cash outflows of SGD75.7mn in FY2015). This was driven by significantly lower working capital needs for property development costs and BTH collecting its trade receivables. BTH paid SGD29.7mn in interest and SGD9.3mn in tax during the year, leading to a net outflow in operating activities of SGD6.2mn against (FY2015: net outflow in operating activities of SGD110.7mn). During the year, BTH spent SGD20.0mn in net cash flows used in investing activities (down SGD10.6mn) against FY2016. We believe BTH had delayed certain capex and such outlay will need to happen in the future. Despite the stretched liquidity, BTH paid down debt (net repayments of SGD24.2mn) by drawing down on existing cash balances in FY2016. This is in contrast from the large drawdowns in FY2015 when both bank debt and bonds were used to plug cash gaps. As at 31 December 2016, cash balances at BTH stood at SGD108.8mn against SGD165.5mn at the beginning of the financial period.

Gearing stabilised after spiking in FY2015: Over the past 10 years, BTH had gone from a lowly geared company (net gearing of 0.3x) to taking on moderate amounts of

² Unaudited financial statements groups hotel/fund/club management as one category

³ To better reflect the underlying economics of its businesses, BTH's investor presentation allocates management fees from "Hotel Investments" into the "Hotel Management" category. We understand from management that for each hotel, separate management agreements are entered into

debt as it funded its growth plans. Based on our observations, the biggest move was between FY2014 and FY2015 (net gearing went from 0.5x to 0.7x) as it took on debt to fund operations, interest payments and capex. We take some comfort that as at 31 December 2016, net gearing has stabilised at 0.7x. Leverage as measured by Net Debt-to-EBITDA is significant, following thin EBITDA generation in FY2016 and FY2015. Smoothing out the lumpiness from property sales, we find 3 years average net debt-to-EBITDA at 17.0x, climbing from 5 years average net debt-to-EBITDA of 12.5x. Partly driven by SGD25.6mn reclassified as liabilities held for sale (ie: disposal into BTC), gross debt levels was lower at SGD616.6mn. In addition to lower gross debt levels, BTH also saw a SGD33.4mn improvement in book value equity despite still reporting a net loss. This was driven by upward revaluation of properties in Thailand, Sri Lanka and Singapore, foreign exchange translation gains and increase in non-controlling interest (from higher share of profits at LRH). Secured debt was SGD180.7mn as at 31 December 2016 while encumbered assets used as security for such debt was SGD481.8mn. Contingent liabilities in BTH include future minimum lease payments are payable under non-cancellable operating leases (eg: villas under sale-and-leaseback for use in BTH operations). As at 31 December 2016, this was SGD126.7mn (FY2015: SGD138.3mn). Adding non-cancellable operating leases into gross debt, we find adjusted net gearing flat at 0.9x.

Expect gearing to improve with the introduction of Accor S.A and VNKRL as new strategic partners: Our base case assumes that both Accor S.A and VNKRL exercise their options for additional shares. Conservatively, we also assume that BTH gets SGD82mn in cash from the sale of assets into BTC, being 50% of the net assets held for sale as at 31 December 2016. We think it is likely BTH will see net gearing falling to 0.4x on a proforma basis. Should assets be disposed to BTC at higher than book value, net gearing should improve further. Assets earmarked for BTC are likely to be deconsolidated post disposal into the JV. We expect BTH to continue meeting its covenants post the transactions with Accor S.A and VNKRL.

Short term debt due but impending source of liquidity helps: As at 31 December 2016, SGD147.0mn in short term debt (24% of total debt) will come due against cash balance of SGD108.8mn. BTH has inked two binding term sheets which will see the company (1) Getting SGD49mn in upfront capital injection (2) Options allowing the two parties to subscribe for additional equity and (3) At least SGD82mn via selling down of certain assets into a 50:50 joint venture with VNKRL. This would help alleviate near term liquidity pressure at the company.

V) Bondholder protection:

Financial covenants: BTH's bond documentation provide for 3 financial covenants. In our view, this helps keep BTH's gearing levels in check.

- A) Consolidated Tangible Net worth: At any time not less than SGD450mn
- B) Consolidated Total Borrowings to Consolidated Tangible Net worth shall not exceed 1.9x
- C) Consolidated Secured Assets to Total Tangible Assets shall not exceed 0.7x

Change of control: No change of control provisions specific to the Issuer, but it shall (1) At all times own directly (or indirectly) own not less than 48% of the issued share capital for LRH and (2) Retain management control of LRH.

Delisting put: There is no delisting put although the Issuer has covenanted that as long as the bonds remain outstanding, the Issuer will remain listed on the SGX.

Material disposal of asset is an Event of Default: LRH is considered a Principal Subsidiary and if the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on all or an material part of its business (other than for reconstruction, reorganisation, consolidation, amalgamation that is unlikely to have a material adverse effect to the Issuer), this is considered an Event of Default.

Certain sales of assets: The Issuer has covenanted that none of its Principal

Subsidiaries will sell, transfer, lease out, lend or otherwise disposal of assets that will lead to a material adverse effect to the Issuer. This however carves out (1) Disposals made in the ordinary course of business (2) Disposals conducted on an arm's length basis and result in an increase in net tangible assets (3) Assets that are obsolete (4) Transfers of assets into real estate property funds or any member(s) of the group where BTH will still own 5% stake, provided that such transfers are at arm's length and do not result in a decrease in net tangible assets of the group (5) Disposals of assets approved by bondholders via an Extraordinary Resolution.

VI) Conclusion & Recommendation:

We are initiating BTH with a **Neutral** issuer profile. Post the rally since middle of March 2017, we think the market has priced in some of the positive impact from the introduction of new strategic partners. Although BTH's business has suffered in recent years, it is due to see ~SGD49mn in upfront capital with a further option granted for an additional ~SGD49mn in equity. We are neutral the BTHSP 5.35%'18s and BTHSP 5.75%'18s and are Overweight the BTH 4.85%'20s and BTH 4.875%'19s (Figure 6). We think spreads on these two bonds may tighten a further 25-30bps to trade within the Aspiat curve.

Figure 6: BTH's SGD Bonds

| Issue | Maturity / First Call Date | Outstanding Amount (SGDm) | Ask Price | Ask YTW (%) | I-Spread | Bond Rating |
|-----------------|----------------------------|---------------------------|-----------|-------------|----------|-------------|
| BTHSP 4.85 '20 | 5-June-2020 | 100 | 94.00 | 7.02 | 539 | OW |
| BTHSP 4.875 '19 | 3-June-2019 | 125 | 96.25 | 6.81 | 536 | OW |
| BTHSP 5.35 '18 | 26-Nov-2018 | 50 | 99.25 | 5.85 | 451 | N |
| BTHSP 5.75 '18 | 31-July-2018 | 70 | 100.00 | 5.82 | 456 | N |

Note: (1) Indicative prices as at 18 April 2017

(2) We have excluded the BTHSP 6.25 '17 in light of its short term to maturity (in 1.5 months)

We have considered the following:

A) Technical considerations

Positives:

- Adequate protection to bondholders via financial covenants, limitations on asset sales and in the event of a privatization
- Longer dated bonds are trading below par with potential for capital gains

Negatives:

- Lack of credit rating
- Accor S.A and VNKRLE deals have yet to complete, though binding term sheets have been entered into

B) In our view, BTH's profile of being a mid-sized hospitality group focused on the high-end hotel & resorts segment is unique and there is a lack of direct comparables within the SGD bond universe. BTH focuses on leisure travellers, in contrast to a business-oriented clientele.

C) Aspiat Corp Ltd's ("Aspiat") ASPSP'19s is trading at a spread of 512 bps. Aspiat is a mid-cap listed on the SGX and derives its income largely from property development. We see its credit profile as weaker than BTH and thus provide a floor for BTH's bond prices.

D) Pierre & Vacances S.A (market cap of EUR417mn as at 19 April 2017), is based in France. The company is a mid-sized hospitality group focusing on countryside, ski and beach resorts with a property development arm. While

Pierre & Vacances has a more balanced customer profile of budget and high-end travellers (vis-à-vis BTH's currently high-end dominated profile), the company similarly focuses on leisure travellers. As at 30 September 2016, net gearing was 0.6x while gearing was 0.8x. Indicatively, the EUR-denominated VACFP 4.25%'22 is trading at an Ask YTW of 2.7% in SGD terms, though it is likely that this bond is not frequently traded.

- E) We hold Aspial Corp Ltd with a Negative issuer profile but do not cover Pierre & Vacances S.A.

Banyan Tree Holdings

Table 1: Summary Financials

| Year End 31st Dec | FY2014 | FY2015 | FY2016 |
|-------------------------------------|---------|---------|---------|
| Income Statement (SGD'mn) | | | |
| Revenue | 327.4 | 370.7 | 309.6 |
| [^] EBITDA | 41.9 | 24.6 | 22.0 |
| EBIT | 20.0 | -0.1 | -3.0 |
| Gross interest expense | 25.5 | 32.6 | 35.7 |
| Profit Before Tax | 7.2 | -19.5 | 0.7 |
| Net profit | 1.0 | -27.5 | -16.2 |
| Balance Sheet (SGD'mn) | | | |
| Cash and bank deposits | 169.3 | 165.7 | 108.8 |
| Total assets | 1,495.0 | 1,593.0 | 1,608.2 |
| Gross debt | 518.6 | 652.7 | 616.6 |
| Net debt | 349.3 | 487.0 | 507.8 |
| Shareholders' equity | 724.3 | 699.5 | 732.8 |
| Total capitalization | 1,242.9 | 1,352.1 | 1,349.4 |
| Net capitalization | 1,073.6 | 1,186.5 | 1,240.7 |
| Cash Flow (SGD'mn) | | | |
| Funds from operations (FFO) | 22.9 | -2.8 | 8.9 |
| * CFO | -34.0 | -110.7 | -6.2 |
| Capex | 19.7 | 23.5 | 15.9 |
| Acquisitions | 0.1 | 0.1 | 0.0 |
| Disposals | 0.5 | 0.1 | 0.0 |
| Dividend | 8.4 | 1.3 | 1.2 |
| Free Cash Flow (FCF) | -53.7 | -134.2 | -22.1 |
| * FCF adjusted | -61.7 | -135.5 | -23.3 |
| Key Ratios | | | |
| EBITDA margin (%) | 12.8 | 6.6 | 7.1 |
| Net margin (%) | 0.3 | -7.4 | -5.2 |
| Gross debt to EBITDA (x) | 12.4 | 26.5 | 28.0 |
| Net debt to EBITDA (x) | 8.3 | 19.8 | 23.0 |
| Gross Debt to Equity (x) | 0.72 | 0.93 | 0.84 |
| Net Debt to Equity (x) | 0.48 | 0.70 | 0.69 |
| Gross debt/total capitalisation (%) | 41.7 | 48.3 | 45.7 |
| Net debt/net capitalisation (%) | 32.5 | 41.0 | 40.9 |
| Cash/current borrowings (x) | 2.4 | 1.8 | 0.7 |
| EBITDA/Total Interest (x) | 1.6 | 0.8 | 0.6 |

Source: Company, OCBC estimates | EBITDA figures include Prov. for Doubt. Debt

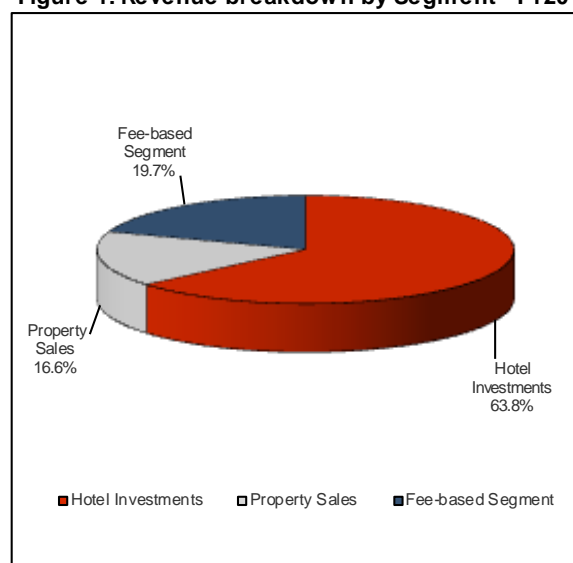
*FCF Adjusted = FCF - Acquisitions - Dividends + Disposals | *CFO after deducting interest expense

Figure 3: Debt Maturity Profile

| Amounts in (SGD'mn) | As at 31/12/2016 | % of debt |
|---|------------------|---------------|
| Amount repayable in one year or less, or on demand | | |
| Secured | 90.8 | 0.8% |
| Unsecured | 3,087.3 | 27.4% |
| | 3,178.1 | 28.2% |
| Amount repayable after a year | | |
| Secured | 176.0 | 1.6% |
| Unsecured | 7,915.1 | 70.2% |
| | 8,091.1 | 71.8% |
| Total | 11,269.2 | 100.0% |

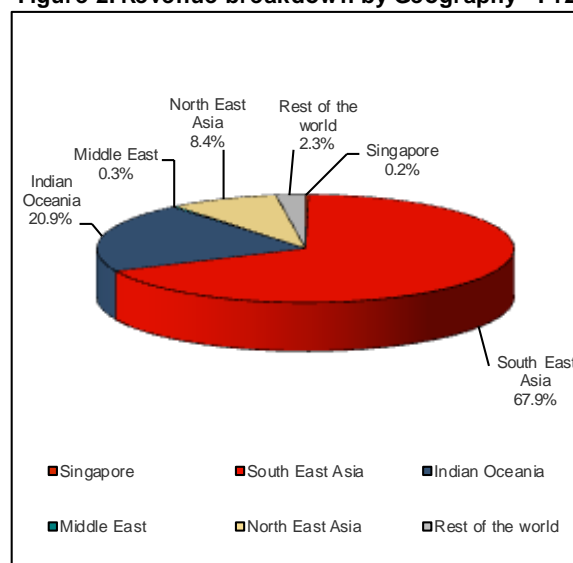
Source: Company

Figure 1: Revenue breakdown by Segment - FY2016



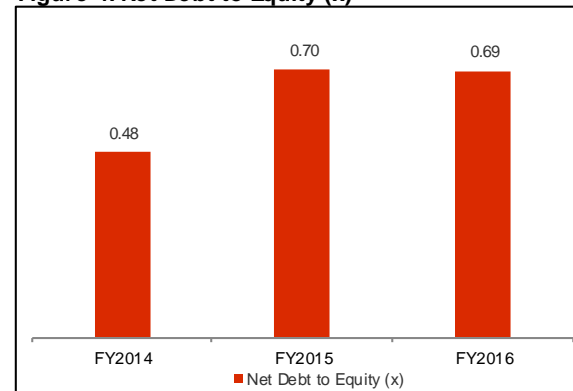
Source: Company

Figure 2: Revenue breakdown by Geography - FY2016



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

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