

## Equities

14 March 2011 | 6 pages

## The Ambassador Hotel (2704.TW)

### Alert: Limited Impact from Japan's Earthquake

Although international flights from Japan were operating soon after the earthquake, the reduced levels of operation is causing the market to be concerned on Ambassador Hotel's operations, as 30% of the company's visitors are Japanese tourists.

Based on our checks with management, so far, only about 100 rooms are cancelled as a result of the earthquake (most of the cancellation came on Friday and Saturday of last week), which roughly represents 2-3% of the company's monthly total rooms available for sale. Management indicated that the booking visibility is about two weeks, and so far, there are no further cancellations from Japanese tourists. In response, in the near term, Ambassador Hotel will focus more on mainland tourists to make up for the cancellation.

In terms of impact to sales, it should be very limited as F&B sales account for two-thirds of Ambassador Hotel's total revenue (F&B sales are mostly domestic demand). Although the average daily room rate (ADR) from mainland tourists are about 10-15% lower than Japanese visitors, the impact to sales should be within 1-2% of the total.

The Ambassador Hotel (2704.TW; NT\$41.90; 1M)

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#### ■ Company Update

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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## The Ambassador Hotel

### Valuation

Our target price for Ambassador Hotel of NT\$56.0 is based on a sum-of-the-parts valuation approach. For the core business, we use a DCF-based valuation to reflect its capability to generate stable cash flows. We apply a cost of equity of 8.1%, which assumes a risk free rate of 1.5%, a market risk premium of 7.0%, and an equity beta of 1.1. We mark its listed investments to market value and apply a 20% discount for any downcycle or event risks. Ambassador Hotel uses its land assets for hotel operations, which is why we do not make assumptions on land development as development plans are far from being materialized.

### Risks

We rate Ambassador Hotel Medium Risk in accordance with our quantitative risk rating system, which tracks the 260-day volatility of share prices. Key downside risks that could impede the stock from achieving our target price include: 1) fewer-than-expected mainland tourists coming to Taiwan; 2) slower-than-expected easing of restrictions on travel to Taiwan by mainland tourists; 3) a drop in domestic tourism, offsetting the positive effects from mainlanders; and 4) worse-than-expected RevPar and F&B sales for Ambassador Hotel.

## Appendix A-1

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#### The Ambassador Hotel (2704.TW)

#### Ratings and Target Price History

#### Fundamental Research

Analyst: Dave Chiou

Covered since November 9 2009



Chart current as of 12 March 2011

	Date	Rating	Target Price	Closing Price
1	9-Nov-09	*1M	*43.50	32.85
2	13-Apr-10	1M	*43.20	36.25

	Date	Rating	Target Price	Closing Price
3	3-Aug-10	1M	*48.00	42.60
4	2-Dec-10	1M	*56.00	47.00

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## The Ambassador Hotel (2704.TW)

### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Dave Chiou

Covered since November 9 2009

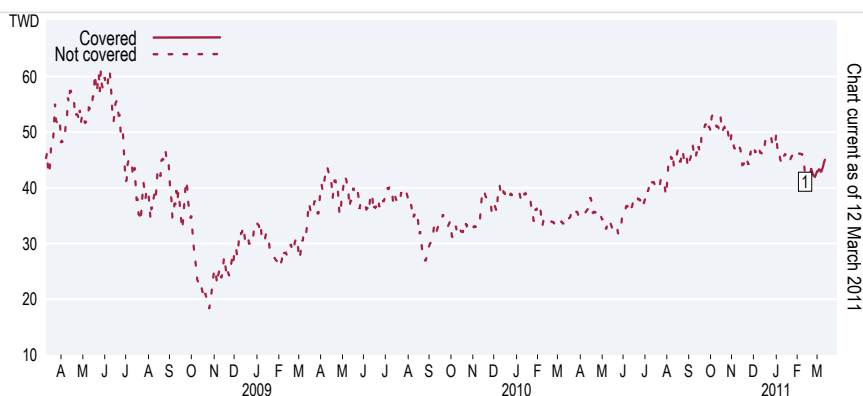


Chart current as of 12 March 2011

Date	Rating	Target Price	Closing Price
11-Feb-11	*ADD MP	-	42.00

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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#### Data current as of 31 Dec 2010

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12 Month Rating			Relative Rating		
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45%	44%	40%	0%	44%	0%

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