

# SIAM GLOBAL HOUSE PLC

No. 22/2018  
7 March 2018

## CORPORATES

**Company Rating:** A-  
**Outlook:** Stable

### Company Rating History:

Date	Rating	Outlook/Alert
23/07/13	A-	Stable

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## RATIONALE

TRIS Rating affirms the company rating of Siam Global House PLC (GLOBAL) at “A-”. The rating reflects the company’s proven record in the home improvement retailing industry in Thailand, a successful expansion of warehouse-format stores to provincial areas, and an ongoing shift in customer preference from traditional home improvement retailers to modern trade retailers. These strengths are constrained by a long cash conversion cycle, intense competition among home improvement retailers, and a customer base which is highly sensitive to changes in the prices of farm products.

## KEY RATING CONSIDERATIONS

### Proven track record in the home improvement retailing industry

GLOBAL is one of the leaders of modern home improvement retailers in Thailand. Currently, GLOBAL has 55 outlets throughout Thailand, all located upcountry. Approximately 40% of the stores are located in the Northeastern region of Thailand. The remainder is located in other regions, except Bangkok.

### Large-scale store format is used to penetrate the market

GLOBAL’s key strategy is to offer a wide range of construction materials, hardware, tools, and home decoration items. GLOBAL’s stores are large warehouse-style outlets, with an average saleable area of 20,000 square meters (sq.m.) per store. GLOBAL serves two target groups, homeowners and contractors. Each GLOBAL’s store is divided into two parts: a shopping zone and a drive-through area. GLOBAL’s store contains more than 100,000 stock keeping units (SKUs) of home-related products. In addition to increased customer satisfaction, large-scale stores benefit the company through economies of scale and lower operating costs.

### A shift in customer preference towards modern trade retailers

Thanks to urbanization, home improvement retailers grew by replacing traditional sales outlets. According to the National Economic and Social Development Board (NESDB), the wholesale and retail trade sector in Thailand grew by 6.3% in 2017. GLOBAL’s sales rose by 10.5% during the same period. A change in customer preference brought growth opportunities for all modern retailers. GLOBAL grew from eight outlets in 2009 to 55 outlets in 2017. While the total sales rose 4 times from 2009 to Bt20,831 million for 2017 operation. The continuing shift in customer preference will support GLOBAL’s plan to open eight new stores per year.

### International expansion

GLOBAL has expanded into neighboring countries. GLOBAL will open its first store in Phnom Penh, Cambodia, during the first half of 2018. The first store abroad will have the same format as outlets in Thailand. The saleable area is 27,000 sq.m. GLOBAL spent about Bt200 million in Cambodia. In February 2018, GLOBAL announced a joint venture (JV) with Tan Hoang Minh Group, a leading property developer in Vietnam. GLOBAL will hold a 55% stake in the JV. The initial registered capital will be US\$10 million.

### Low farm income depresses same-store sales

As most GLOBAL's stores are located upcountry, GLOBAL's total sales have been affected by a drop in low farm income in provincial areas. The year-on-year (y-o-y) growth in the retail sales index of furniture and electrical household appliances in specialty stores fell by 3.3% y-o-y during the first 11 months of 2017 following slow recovery in domestic consumption, as reported by NESDB. Although GLOBAL's same-store sales fell by 4.8% in 2017, its total sales continued to post a 10.5% rise in 2017. Seventeen new stores, opened in 2016 and 2017, pushed sales higher. GLOBAL plans to open eight new stores per year during 2018-2020.

### House brands improve margins

Profitability remained satisfactory during 2017. The gross margin remained healthy at 20.6% during 2017. Selling, general and administrative expenses to total sales increased to 13.8% in 2017 from 11.9% in 2016. GLOBAL's operating margin before depreciation and amortization (including rebates from suppliers) operating margin remained healthy at 13.9% in 2017. A sound operating margin was partly supported by changes in GLOBAL's product mix. Sales of house brands and imported brands, which carry higher margins, accounted for 14% of sales in 2017, compared with 12%-13% during 2015 and 2016. GLOBAL aims to make a composition of house brand products at 15% of sales within the next several years. Looking forward, under TRIS Rating's base case scenario, the operating margin before depreciation and amortization is forecast to range from 13%-15% during 2018-2020.

### More capital needed to fund inventory

GLOBAL's inventory level has outpaced sales for the last several years. Inventory days during 2013-2015 were managed at below 200 days. The inventory level jumped significantly, rising to more than 250 days during 2016-2017. The sharp rise means GLOBAL needs approximately Bt3,000 million to finance a 60-day increase in inventory. However, the distribution center, which was fully operational in 2017, should help improve inventory management.

### Financial leverage increases, but cash flow stays healthy

To pursue its growth strategy, GLOBAL opened five to nine stores per year during 2013-2017. The company plans to add eight stores per annum in the next few years. This plan requires capital expenditures of about Bt2,500 million per year and working capital needs of Bt2,500-Bt2,800 million per year. Under TRIS Rating's base case scenario, the funds from operations (FFO) are projected at Bt2,600-Bt3,000 million per year during 2018-2020. GLOBAL might need additional borrowing to grow business. The total debt to capitalization ratio is forecast to stay at 50% over the next three years, up slightly from 47.6% at the end of 2017. However, GLOBAL's cash flow protection is forecast to remain healthy. The ratio of earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage is expected to remain satisfactory, ranging from 10-15 times during 2018-2020. The FFO to total debt ratio is forecast at approximately 20% during the same period.

### RATING OUTLOOK

The "stable" outlook reflects the expectation that GLOBAL will maintain its market position in the home improvement retailing industry. The company is expected to sustain its cost control competency as well as its profitability while it expands.

### RATING SENSITIVITIES

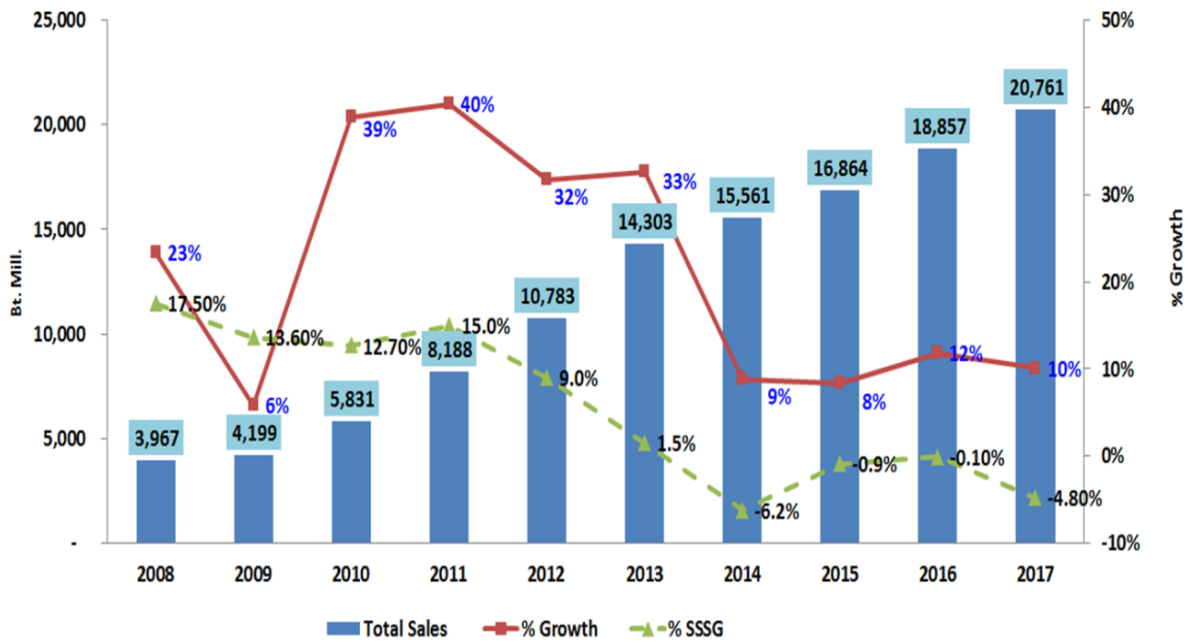
GLOBAL's rating and/or outlook could be revised upward if it demonstrates ability to improve efficiency by shortening cash conversion cycle and significantly enlarge cash flow generation on sustainable basis while maintaining its sound profitability and cash flow protection. In contrast, a rating downgrade could occur if GLOBAL's operating performance declines dramatically or leverage rose considerably, which will lead to deteriorated debt serviceability for an extended period.

### COMPANY OVERVIEW

GLOBAL is one of the leading warehouse-style home improvement retailers in Thailand. It was established in 1997 by Mr. Witon Suriyawanakul. The company has been listed on the Stock Exchange of Thailand (SET) in August 2009. In November 2012, SCG Distribution Co., Ltd. (SCGD), 100% owned by Siam Cement Group PLC (SCG), became a strategic partner of GLOBAL. As of March 2017, GLOBAL's major shareholders were the Suriyawanakul family (36.84%) and SCGD (30.02%). The company's first store is located in Roi-Et province, the founder's home province. As of December 2017, the company operated 55 stores in Thailand with a total store area of 1,183,978 sq.m.

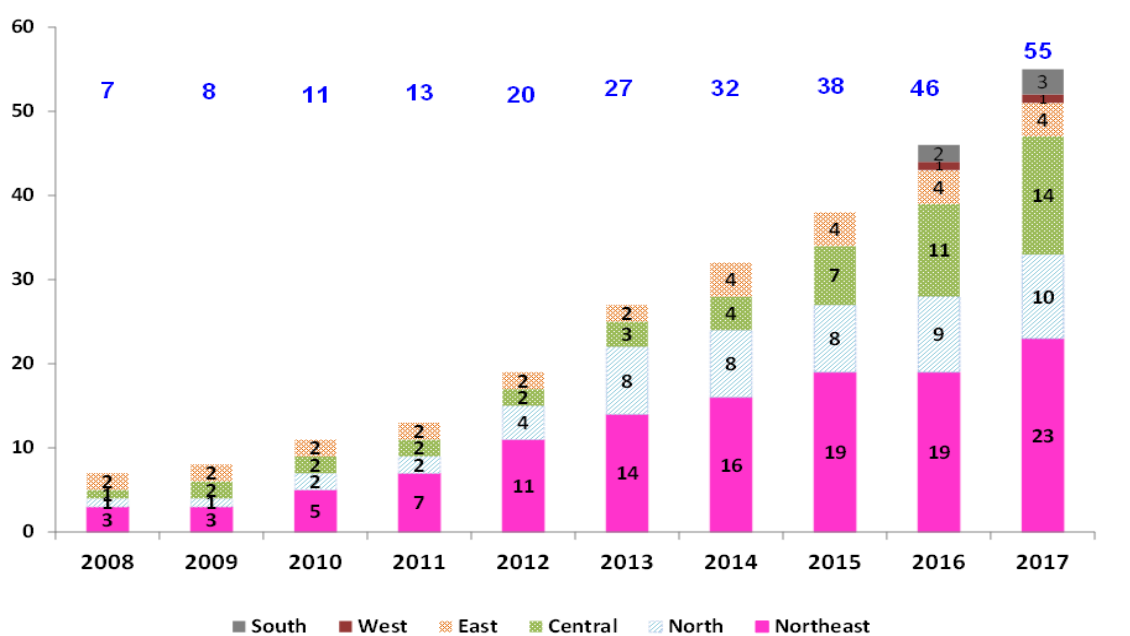
**KEY OPERING PERFORMANCE**

**Chart 1: Same-Store-Sales Growth and Total Sales Growth**



Source: GLOBAL

**Chart 2: GLOBAL's Outlets by Regions**



Source: GLOBAL

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***
*Unit: Bt million*

	----- Year Ended 31 December -----				
	2017	2016	2015	2014	2013
Sales	20,831	18,857	16,864	15,561	14,302
Gross interest expense	184	169	144	133	71
Net income from operations	1,597	1,667	843	678	942
Funds from operations (FFO)	2,373	2,262	1,613	1,373	1,316
Total capital expenditures	2,757	2,636	1,202	1,350	2,489
Total assets	28,230	23,067	23,037	21,174	16,046
Total debt	11,636	7,827	4,731	4,219	3,469
Shareholders' equity	13,350	12,346	14,920	14,083	10,301
Operating income before depreciation and amortization as % of sales *	13.94	15.02	11.44	10.73	11.32
Pretax return on permanent capital (%)	9.36	11.17	6.33	6.13	10.77
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	14.98	16.28	13.12	12.56	22.81
FFO/total debt (%)	19.51	27.89	32.84	32.08	37.93
Total debt/capitalization (%)	47.61	39.64	24.76	23.30	25.20

*Note: All ratios have been adjusted by operating leases.*
*\* Consolidated financial statements*

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**SIAM GLOBAL HOUSE PLC (GLOBAL)**

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**Company Rating:**

A-

**Rating Outlook:**Stable

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**TRIS Rating Co., Ltd.**

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