Press Release

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TRIS Rating Affirms Company Rating and Outlook of "SST" at "BBB-/Stable"

TRIS Rating has affirmed the company rating of Sub Sri Thai PLC (SST) at "BBB-" with "stable" outlook. The rating reflects SST's position in the chain restaurant and quick service restaurant (QSR) market segment and its stable track record in the warehouse and document storage market. The rating takes into consideration the growth prospects of its restaurant and QSR segment. These strengths are partially constrained by SST's earnings growth challenge amid intense competition, a sluggish economy which limits consumer spending, and looming capital expenditures.

The "stable" outlook reflects TRIS Rating's expectation that SST will maintain its market positions in its key lines of business and keep improving operating performance. The credit rating of SST could be revised upward if the operating performance and ability to generate cash flow improve substantially, with sound balance sheet. The rating downside case would be triggered by weaker-than-expected operating performance for a prolonged period of time or aggressive debt-funded investments.

SST was established in 1976 and was listed on the Stock Exchange of Thailand (SET) in 1994. As of March 2017, the Sukhanindr family and affiliates held about 68% of SST's total shares. SST operates three lines of business: restaurant and QSR, fashion and lifestyle, and storage. The company initially operated warehouses and wharfs, and provides document storage services. SST expanded into the soybean and vegetable oil business in 2010 but divested the business in September 2014. In 2012, SST expanded into the restaurant and QSR segment by acquiring Mudman PLC (MM), the master franchisee of the Dunkin' Donuts, Au Bon Pain, and Baskin Robbins brands in Thailand. In July 2014, SST, through MM, acquired the Greyhound Group (Greyhound). Greyhound operates the "Greyhound Cafe" (GHC) chain restaurant, and it produces and distributes the "Greyhound" fashion and lifestyle products. As of December 2016, the company operated 427 outlets and one food court. The majority of the stores are franchised outlets. Across its three major lines of business, the restaurant and QSR segment was the main revenue contributor, providing about 84% of total revenue and 83% of earnings before interest, tax, depreciation and amortization (EBITDA) in 2016.

SST's business profile hinges on the performance of the restaurant and QSR segment which is highly competitive and relies largely on the domestic economy. For the storage segment, SST holds a strong market position with long track record in the storage and warehouse industry.

The company's risk profile takes into account the intense competition in the chain restaurant and QSR industry. The industry has low barriers to entry due to the low initial capital requirement. Substitution is common. Given fragmented market, SST faces competition from the wide variety of food providers and rivals' promotional campaigns. Intense competition will drive high level of promotions and discounting to draw customers. In addition, SST faces the consequences of a sluggish economy. The economic slowdown might cut consumer spending and affect the revenue and same-store sales growth.

In 2016, SST reported total revenue of Bt3,214 million, a 5% increase from Bt3,073 million in 2015, driven mainly by a strong growth in the storage segment and the opening of more food outlets. In conjunction with the industry, the slowdown in domestic economy resulted in falling traffic in the food stores. The company's same-store sales fell in 2014 and 2015, but rose only slightly in 2016. The operating margin (operating income before depreciation and amortization, as a percentage of sales) was 10.3% in 2016, up from 8.5% in 2015. The rise was mainly due to improving operating margin in the storage segment. The profitability in the food segment is challenged by a rise in the raw material cost, higher labor cost and area space rental fee, and a high selling and administrative expenses (SG&A). SST reported the loss of Bt64 million in 2015 and Bt140 million in 2016 (including a loss of Bt181 million from the asset impairment and fair value adjustment of investment properties). Funds from operations (FFO) rose from Bt152 million in 2015 to Bt204 million in 2016. Total outstanding debt was Bt1,953 million as of December 2016. The debt to capitalization ratio was 52.9% in 2016. The debt burden from investment and acquisition plus interest expenses depress SST's financial status. The EBITDA interest coverage ratio stood at 2-3 times during the last three years. The FFO to total debt ratio was in a range of 5%-11%.

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Going forward, SST plans to add about 20-25 outlets in aggregate annually in Thailand. During the last two years, SST has moved to a greater emphasis on its self-owned restaurant brand, GHC. The company plans to expand about 2-3 GHC outlets annually across big cities in Thailand. SST aims to add more GHC stores abroad through franchising and is looking for opportunities in the European market. The company is building a new outlet in London, slated to open in the last quarter of this year. The London outlet will be the flagship store in Europe serving as a prototype store for the European market. The company faces challenges in building GHC's brand recognition in a new market. If the expansion is fruitful, the company will add more outlets in Europe through franchising.

TRIS Rating holds the view that the current slowdown in the domestic economy will continue until late 2017 and will squeeze the growth of same-store sales. During 2017-2019, TRIS Rating's base-case scenario assumes SST's revenue growth will be driven mainly by increases in the number of outlets, the consolidation of revenue from the new London store, and resilient revenue from the storage segment. SST's revenue is projected to grow at an average annual rate of 10% during 2017-2019. However, new food outlets may take time to ramp up revenue and profit. SST is expected to efficiently manage its SG&A and continues its cost saving initiatives, to improve its profit margin to the mid-teens level.

TRIS Rating expects SST's capital structure and liquidity profile to improve because SST's major subsidiary, MM, was listed on the Market for Alternative Investment (MAI) on 11 April 2017. MM received about Bt1,100 million in cash from the initial public offering (IPO). The proceeds were used to repay part of its outstanding debt and to add more outlets.

During 2017-2019, SST is expected to generate EBITDA of Bt370-Bt600 million per annum. TRIS Rating expects SST to make about Bt1,450 million in aggregate of capital expenditures. SST's capital structure over the next three years is expected to improve. The FFO to total debt ratio is expected to stay between 20%-40% during 2017-2019. The EBITDA interest coverage ratio will stay above 3 times. The debt to capitalization ratio is expected to stay below 45%. The company is seeking opportunities in the food segment. Future investment or acquisition, if any, should be prudently considered to strengthen its business profile.

Sub Sri Thai PLC (SST)	
Company Rating:	BBB-
Rating Outlook:	Stable

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