

SIAM GLOBAL HOUSE PLC

No. 29/2020
18 March 2020

CORPORATES

Company Rating: A
Outlook: Stable

Last Review Date: 11/03/19

Company Rating History:

Date	Rating	Outlook/Alert
11/03/19	A	Stable
23/07/13	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Siam Global House PLC (GLOBAL) at "A", with a "stable" outlook. The rating reflects GLOBAL's market position in the home improvement retail business in Thailand, together with its sound profitability and efficient cost control. These strengths are weighed by the challenges of intensifying competitive pressures, a customer base which is highly susceptible to changes in crop prices, and the softening economic condition.

KEY RATING CONSIDERATIONS

Leading market position in the home improvement retailing industry

GLOBAL is one of the leading modern home improvement retailers in Thailand. At the end of 2019, GLOBAL had 66 outlets throughout Thailand and one outlet in Cambodia. All the stores in Thailand are located upcountry; approximately 40% are located in the Northeastern region of Thailand with the remainder located in other regions, with the exception of Bangkok.

GLOBAL's total operating revenues rose to Bt29.2 billion in 2019 from Bt26.2 billion in 2018, an 11.2% rise year-on-year (y-o-y). GLOBAL's profitability has consistently ranked above the industry average. The earnings before interest, tax, depreciation, and amortization (EBITDA) margin has been in the 11%-15% range for the last five years, higher than the 9%-11% average of other major players.

Same-store sales remain under pressure

GLOBAL's same-store sales grew by 3.4% y-o-y in 2019. The rise in 2019 was attributed to higher sales of steel and stainless pipe products, which are key sources of revenue for the company, contributing 20% of total revenue.

However, the current economic slowdown in the Thai economy combined with the negative impacts of the COVID-19 outbreak and the weak farm prices will slow down the same-store sales growth of most home improvement retailers, including GLOBAL, in 2020.

The Office of the National Economics and Social Development Council (NESDC) forecasts the country's gross domestic product (GDP) will grow by 1.5%-2.5% in 2020, compared with 2.4% in 2019. Private consumption in Thailand is projected to grow by 3.5% in 2020, down from 4.5% in 2019.

TRIS Rating forecasts a drop in GLOBAL's total operating revenues of 1% y-o-y in 2020 due to the prolonged economic slowdown, followed by growth of 4%-11% per year during 2021-2022 once the economy begins to recover.

Sound profitability

TRIS Rating believes GLOBAL should be able to maintain sound profitability during 2020-2022. The company's gross margin remained at around 21% in 2017-2019. The solid gross profit margin has been mainly the result of a change in product mix. Sales of house brands, which carry higher margins, accounted for 20% of sales. GLOBAL aims to increase the contribution of its house brands to around 23% during the next few years. However, the ratio of selling, general and administrative expenses (SG&A) to sales is expected to remain high at 14.5% during 2020-2022. Under TRIS Rating's base case scenario, EBITDA margin is projected to hover around 13% during 2020-2022, compared with 11%-15% in the past five years.

Leverage expected to remain high

GLOBAL's total debt to capitalization ratio rose to 48.8% at the end of 2019, up from 46.4% at the end of 2018 as GLOBAL renovated all stores to a new format in order to draw more traffic from target customers.

GLOBAL plans to open seven to ten stores annually in 2020-2022, compared with five to seven stores per year in 2018-2019. As a result, capital expenditures will remain high, in the range of Bt2.1-Bt2.5 billion per annum during 2020-2022. The total debt to capitalization ratio is forecast to stay at 44%-47% over the next three years. The EBITDA interest coverage ratio is projected to be at comfortable levels of 10-12 times.

Long cash conversion cycle

In order to ensure availability of products to serve its large-scale retail format, GLOBAL carries large amounts of inventory and has a long cash cycle of around 220 days on average. However, there has been no mismatch in funding. The current ratio has been acceptable at around one time over the past three years with short-term bank loans providing the main source of funds to finance current assets (mainly inventory).

BASE-CASE ASSUMPTIONS

- Due to the double whammy of drought and the impacts of COVID-19, total operating revenue to drop by 1% in 2020, and gradually grow by 4%-11% during 2021-2022.
- EBITDA margin to stay around 13% in 2020-2022.
- Total capital spending and investment to be in the range of Bt2.1-Bt2.5 billion per annum during 2020-2022.

RATING OUTLOOK

The "stable" outlook reflects our expectation that GLOBAL will maintain its market position in the home improvement retailing industry. The company is expected to sustain profitability while growing its business. In addition, TRIS Rating expects that the ratio of funds from operations (FFO) to total debt should maintain at around 20%.

RATING SENSITIVITIES

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

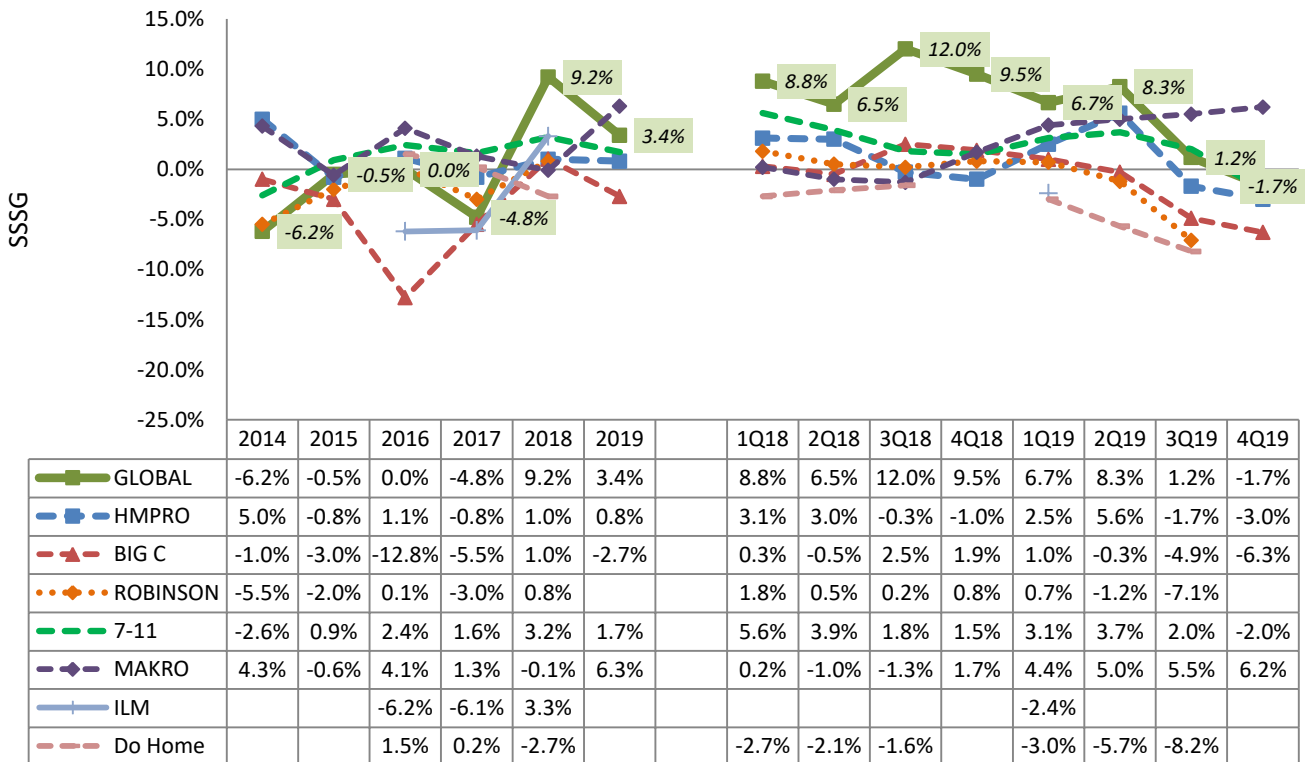
COMPANY OVERVIEW

GLOBAL is one of the leading warehouse-style home improvement retailers in Thailand. It was established in 1997 by Mr. Witoon Suriyawanakul and listed on the Stock Exchange of Thailand (SET) in 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 2019, GLOBAL's major shareholders were the Suriyawanakul family (37%) and SCGD (30%).

As of December 2019, the company operated 66 stores in Thailand and one store in Cambodia, with a total store area of 1,342,174 square meters (sq.m.).

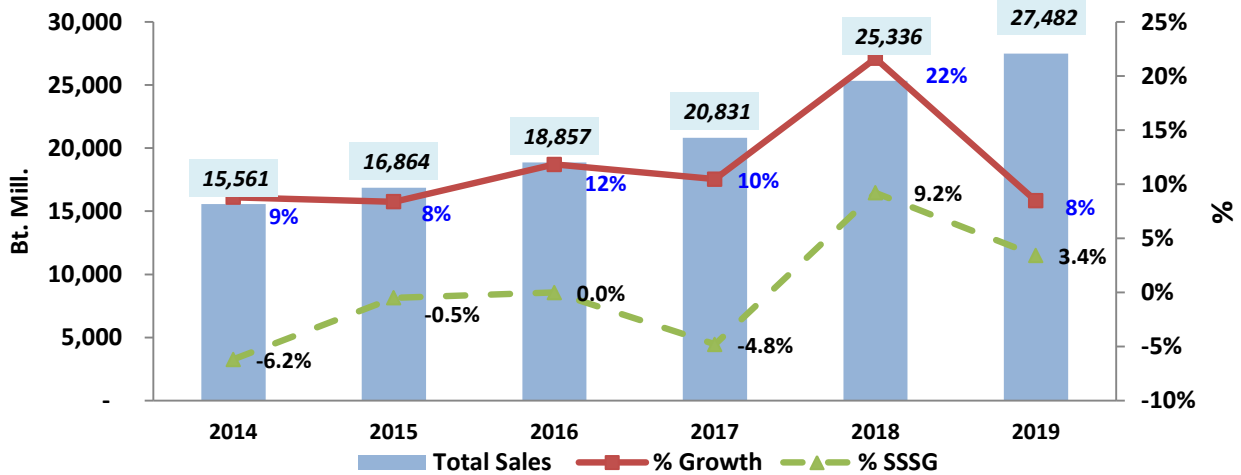
KEY OPERATING PERFORMANCE

Chart 1: Same-Store-Sales Growth



Sources: GLOBAL and the Stock Exchange of Thailand (SET)

Chart 2: GLOBAL's Same-Store-Sales Growth and Total Sales Growth



Source: GLOBAL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	-----Year Ended 31 December -----				
	2019	2018	2017	2016	2015
Total operating revenues	29,155	26,226	21,547	19,465	17,373
Earnings before interest and taxes (EBIT)	2,915	2,754	2,177	2,272	1,254
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,816	3,550	2,926	2,849	1,972
Funds from operations (FFO)	3,015	2,787	2,350	2,252	1,598
Adjusted interest expense	308	302	215	187	155
Capital expenditures	2,882	2,288	2,789	2,728	1,286
Total assets	35,986	31,017	28,230	23,067	23,037
Adjusted debt	15,354	12,896	11,901	8,041	4,555
Adjusted equity	16,131	14,886	13,380	12,346	14,918
Adjusted Ratios					
EBITDA margin (%)	13.09	13.54	13.58	14.64	11.35
Pretax return on permanent capital (%)	9.52	10.19	9.43	11.23	6.54
EBITDA interest coverage (times)	12.38	11.77	13.63	15.23	12.75
Debt to EBITDA (times)	4.02	3.63	4.07	2.82	2.31
FFO to debt (%)	19.64	21.61	19.75	28.01	35.09
Debt to capitalization (%)	48.77	46.42	47.08	39.44	23.39

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

Siam Global House PLC (GLOBAL)

Company Rating:	A
Rating Outlook:	Stable

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