

I.C.C. INTERNATIONAL PLC

No. 121/2024
15 July 2024

CORPORATES

Company Rating: AA-
Outlook: Stable

Last Review Date: 21/07/23

Company Rating History:

Date	Rating	Outlook/Alert
15/07/20	AA-	Stable
23/03/05	AA	Stable
12/07/04	AA-	Stable
11/07/02	AA-	-

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RATIONALE

TRIS Rating affirms the company rating on I.C.C. International PLC (ICC) at “AA-” with a “stable” rating outlook. The rating reflects the company’s lengthy track record as a distributor of fashion and consumer products within the Saha Group and its leading position in the lingerie market. The rating is also supported by the company’s low-debt balance sheet and the financial flexibility provided by its large portfolio of liquid investment assets. These strengths are partially offset by intense competition in the fashion and apparel industries. We are also concerned about the potential impact from rising cost of living and high levels of household debt, which put pressure on consumer purchasing power.

KEY RATING CONSIDERATIONS

Declining consumer spending, but improvement anticipated

After a post-Covid-19 recovery in 2022 and 2023, ICC’s first-quarter 2024 sales revenue declined by 2% year-on-year (y-o-y) to THB2.2 billion. We anticipate that sales performance throughout 2024 will be pressured by declining domestic consumer confidence, posing challenges for discretionary spending on fashion goods and cosmetics. Consequently, we project a 2% decline in the company’s sales of existing products in 2024. However, we project the company’s sales to gradually pick up by around 3% annually in 2025-2026. This improvement is expected to be driven by a potential government stimulus package in late-2024 and an overall strengthening of domestic consumer spending.

We expect ICC’s core EBITDA, which excludes dividend income, to sustain over 2024-2026. Over the past few years, its core EBITDA margin has continuously improved, reaching 6.7% in 2023 from 3.5% in 2021, thanks to stringent cost control and improved operating efficiency. As the company continues to focus on cost control—especially in selling and administrative expenses—and streamlining its internal processes, we expect its core EBITDA margin to be in the range of 5%-7% throughout the forecast period.

Acquisition of TNLX to bolster revenue and earnings

In March 2024, the company announced the acquisition of a 70% stake in TNLX Co., Ltd. (TNLX), a key men’s apparel supplier and manufacturer for ICC. TNLX generates roughly half its revenue from sales to ICC, with the remainder coming from other customers. We expect the acquisition to be completed in the third quarter of 2024.

The acquisition will allow ICC to consolidate approximately THB400 million of TNLX’s revenue in 2024, followed by an estimated THB900 million annually in 2025 and 2026. Additionally, the consolidation is expected to generate roughly THB60 million in annual operating profit for ICC. It should also lead to synergies in cost efficiency, product and inventory planning, and sales to third-party customers.

Dominant position in the lingerie segment amidst rising competition

The company is the market leader in the mid-priced and high-end lingerie markets in Thailand, leveraging several well-known lingerie brands, such as Wacoal, BSC, ELLE, and Kullasatri. However, ICC’s combined market share in the lingerie market has been slowly declining, from 60.4% in the pre-Covid-19

period of 2019 to 54.5% in the first three months of 2024—measured by sales through department stores.

Despite intensifying competition from a growing aggregate market share of small brands, we expect ICC to maintain its market-leader position in the lingerie segment over the next three years. We view ICC's competitive edge as being driven by its nationwide market coverage, the well-established "Wacoal" brand, its quality products, and new product launches in response to consumer needs.

To adapt to the evolving post-pandemic competitive landscape, ICC is strategically expanding its online distribution across all product categories, not just lingerie. This initiative aims to maintain the company's advantage in traditional channels like department stores and modern trade, while also capturing market share in the growing online segment. The comprehensive strategy should help ICC sustain its market strength across all distribution channels.

Dividend income to drive overall profitability

ICC's investment portfolio delivered strong performance in 2023. Dividend income surged to THB921 million, a significant increase from THB340 million in 2022. The growth is attributed to two factors: the rebound in consumer spending in 2022-2023 benefiting ICC's consumer product investments, and a special dividend received from an electronics manufacturing company.

Besides profits from sales, investment dividends are a crucial source of cash flow for ICC. The company's large investment portfolio contributes significantly to its EBITDA, with the contribution rising from 46% in 2022 to 60% in 2023. EBITDA in 2023 reached THB1,534 million, compared to THB736 million in 2022.

We expect ICC's dividend income to remain a significant cash flow contributor, generating about THB900-THB1,000 million annually between 2024 and 2026. As a result, we project annual EBITDA to remain around THB1.5 billion in 2024-2026, in our base-case forecast.

Conservative capital structure and ample liquidity

We expect ICC's virtually debt-free capital structure and ample liquidity to continue supporting its robust credit profile. As of March 2024, the company had only THB65 million in outstanding unsecured subsidiary-level debt used mainly for working capital.

In addition, the company has some contingent liabilities. ICC has provided guarantees to the loans of some related companies, totaling THB255 million as of March 2024. We anticipate these guarantees could potentially double over the next three years mainly from a loan guarantee for the development of the KingsQuare Residence condominium project by an affiliate company.

Since ICC has not made any sizable capital expenditures over the past five years, the company is in a net cash position. ICC's primary sources of liquidity comprised cash and cash equivalents of around THB2.2 billion at the end of March 2024, compared with an adjusted total debt of THB1.3 billion. We estimate that the company will generate funds from operations (FFO) of about THB1.3-THB1.4 billion annually in 2024 and 2025. The company also had an undrawn bank facility of THB3.3 billion. Meanwhile, the primary uses of funds are capital expenditures and investments in companies and new projects within the Saha Group, estimated to total THB2.4 billion over 2024-2025.

High financial flexibility

ICC maintains a diversified equity portfolio, including investments in 25 listed companies. As of March 2024, this portfolio of marketable securities held a value of approximately THB10 billion, predominantly from holdings within the Saha Group. These sizable marketable securities provide ICC with substantial financial flexibility. The portfolio's value is roughly 33 times of ICC's total outstanding debts, including guarantees to related companies.

BASE-CASE ASSUMPTIONS

- Total operating revenue to rise to approximately THB9.2 billion in 2024 and THB10.2 billion in 2026.
- Dividend income of about THB900-THB1,000 million annually in 2024-2026.
- EBITDA margin to be 14%-17% in 2024-2026.
- Total investments of about THB3 billion over 2024-2026.

RATING OUTLOOK

The "stable" outlook reflects our expectation that ICC will maintain its conservative financial policies while retaining its status as the flagship fashion-product distribution arm of the Saha Group. We anticipate that ICC will retain competitiveness in its key market segments. We also expect ICC to continue focusing its operational efficiency while maintaining a strong balance sheet and a healthy investment portfolio.

RATING SENSITIVITIES

A rating upgrade is unlikely in the next 12-18 months. However, a credit downside case could arise if ICC adopts an aggressive shift in the use of financial leverage or if the company's operating cash flow falls below our base-case forecast. A rating downgrade could also result from its sales growth consistently underperforming relative to domestic consumption trends or if it loses competitiveness in key market segments.

COMPANY OVERVIEW

ICC was established in 1964 and listed on the Stock Exchange of Thailand (SET) in 1978. ICC is one of the major companies within the Saha Group, distributing fashion and consumer products. As of May 2024, approximately 64% of ICC's shares were held by the Chokwatana family and companies in the Saha Group.

ICC's business strength is underpinned by its diverse product categories, broad portfolio of brands, and nationwide distribution network. The company has a lengthy track record in the industry and receives support from suppliers within the Saha Group. ICC offers about 60 brands, covering international licensed labels and its own brands. International licensed brands such as "Wacoal", "Lacoste", and "Arrow" are well accepted among Thai consumers and inbound tourists. ICC also manages its own brands such as "BSC", "Enfant", "Essence", and "St. Andrews".

The company's total sales for 2023 were THB8.8 billion. The top contributors were men's apparel (30.8% of revenue), lingerie (26.6%), household products (14.6%), and cosmetics (7.3%). Department stores and traditional shops are ICC's major distribution channels, making up around 42% and 19% of its total sales, respectively.

KEY OPERATING PERFORMANCE

Table 1: ICC's Sales Breakdown

Line of Business	2021		2022		2023		Jan-Mar 2024	
	Mil. THB	%	Mil. THB	%	Mil. THB	%	Mil. THB	%
Lingerie	1,730	25.4	2,223	26.2	2,353	26.6	573	26.6
Men's wear	1,836	27.0	2,696	31.8	2,723	30.8	685	31.7
Cosmetics	544	8.0	570	6.7	647	7.3	153	7.1
Household products	1,202	17.7	1,247	14.7	1,290	14.6	337	15.6
Others	1,491	21.9	1,743	20.6	1,830	20.7	410	19.0
Total sales	6,803	100.0	8,479	100.0	8,843	100.0	2,158	100.0

Source: ICC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	2,230	9,111	8,683	7,063	7,986
Earnings before interest and taxes (EBIT)	63	959	240	189	16
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	174	1,534	736	628	570
Funds from operations (FFO)	170	1,495	721	650	550
Adjusted interest expense	5	26	19	18	20
Capital expenditures	37	94	160	70	229
Total assets	34,605	34,816	34,255	33,467	32,228
Adjusted debt	0	0	0	0	0
Adjusted equity	29,228	29,252	28,577	27,861	27,117
Adjusted Ratios					
EBITDA margin (%)	7.8	16.8	8.5	8.9	7.1
Pretax return on permanent capital (%)	1.2 **	3.2	0.8	0.7	0.1
EBITDA interest coverage (times)	37.6	59.5	37.9	35.2	28.9
Debt to EBITDA (times)	0.0 **	0.0	0.0	0.0	0.0
FFO to debt (%)	n.m. **	n.m.	n.m.	n.m.	n.m.
Debt to capitalization (%)	0.0	0.0	0.0	0.0	0.0

* Consolidated financial statements

** Annualized with trailing 12 months

n.m. Not meaningful

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

I.C.C. International PLC (ICC)

Company Rating:	AA-
Rating Outlook:	Stable

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