

SAHA PATHANA INTER-HOLDING PLC

No. 83/2020
11 June 2020

CORPORATES

Company Rating:	AA
Issue Ratings:	
Senior unsecured	AA
Outlook:	Stable

Last Review Date: 17/04/20

Company Rating History:

Date	Rating	Outlook/Alert
21/04/14	AA	Stable

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RATIONALE

TRIS Rating affirms the company rating on Saha Pathana Inter-Holding PLC (SPI) at “AA”. At the same time, TRIS Rating assigns the “AA” rating to SPI’s proposed issue of up to Bt5 billion in senior unsecured debentures. The new issue rating replaces the issue rating previously assigned on 17 April 2020, following SPI’s request to increase the tenor to due within 15 years, from due within 10 years. The proceeds from the new debentures will be used to repay outstanding debts and for investments.

The ratings reflect SPI’s position as one of the core holding companies of the Saha Group, its well-diversified investment portfolio of consumer products companies within the Saha Group, and strong business network. The ratings also take into consideration the company’s stable dividend income, conservative business policies, and strong financial flexibility.

KEY RATING CONSIDERATIONS

One of the core holding companies of the Saha Group

SPI is the main holding company of the Saha Group. The Saha Group is a leading group of consumer products companies in Thailand, manufacturing and distributing a wide range of consumer products with many leading brands across multiple market segments, such as Mama, Wacoal, Pao, Essence, Mistine, and more. The Saha Group has built a strong business network, encompassing entire supply chains from raw materials through manufacturing and distribution.

SPI is an operator of industrial parks belonging to the Group, providing utilities and services for companies operating in its industrial parks. SPI also acts as a holding company, with interests in companies under the Saha Group.

Diverse portfolio of investments

SPI has a well-diversified investment portfolio. As of March 2020, SPI had invested in 183 companies, mostly within the Saha Group. Its investment portfolio covers various segments, such as food and beverage, garments, cosmetics, consumer products, and others. In 2019, dividends from the food and beverage companies contributed 41% of SPI’s total cash flow while dividends from consumer products, garment, and cosmetics companies accounted for 21%, 16%, and 14%, respectively.

The Saha Group typically invests with partners and has established long-term relationships with various Thai and international business allies. A joint investment reduces SPI’s initial funding burden and helps ensure the partner’s support. As a result, SPI can continue expanding its investment portfolio. The wide range of business alliances also mitigates the risk of reliance on any specific partner.

Moderate impact from COVID-19 on dividend receipts

TRIS Rating expects the COVID-19 pandemic will have a moderate impact on SPI’s dividend receipts. SPI’s main source of cash flow is the dividends earned from its investment portfolio. For 2020, TRIS Rating expects the pandemic will negatively impact some of Saha Group’s businesses, particularly those in the cosmetics and fashion businesses. However, businesses like food and consumer products will be less affected or may even record favorable results during the lockdown measures to contain the spread of the disease. We

expect Saha Group's businesses will gradually recover with the pandemic largely under control by the end of the first half of 2020. As a result, we project SPI's dividend receipts from its investments to be flat in 2020, and then increase by 5% during 2021-2022.

Strong balance sheet

SPI's balance sheet remains strong. As of March 2020, SPI's adjusted net debt was Bt10 billion. SPI's debt to capitalization ratio improved to 21.1%, compared with 25.0% in 2018. The improvement was due to the substantial enlargement of equity resulting from the revaluation of its investments. TRIS Rating forecasts the debt to capitalization ratio of SPI will be maintained in the range of 20%-25% during 2020-2022.

Adequate liquidity profile with high flexibility

We assess SPI to have adequate liquidity over the next 12 months. At the end of March 2020, the company had cash on hand of Bt165 million and investments in trading securities worth Bt278 million. In addition, the company has undrawn credit facilities available from commercial banks of Bt4 billion. TRIS Rating estimates that the company will generate funds from operations (FFO) of approximately Bt1.3-1.5 billion per annum during 2020 to 2022. SPI's debt repayment schedule over the next 12 months consisted of Bt992 million in long-term obligations and Bt3 billion in short-term obligations. In 2020, the company plans an investment budget of around Bt2.2 billion. The company is in the process of issuing Bt5 billion in debentures to refinance its short-term obligations and for investments. SPI's financial flexibility is enhanced by its liquid investment portfolio. The market value of SPI's holdings in 52 listed firms was Bt34 billion at the end of March 2020, which was over 3 times of its total outstanding debt.

BASE-CASE ASSUMPTIONS

During 2020 to 2022, TRIS Rating's assumptions are as follows:

- SPI's utility sales to be flat over the forecast period while land sales to be around Bt350 million per annum.
- SPI's share profit from associates to be flat in 2020, and then grow by approximately 3% per annum during 2021-2022.
- SPI's EBITDA margin to stay in the 50%-60% range.
- SPI's total investments to be around Bt4 billion over the forecast period.
- The debt to capitalization ratio of SPI to be in the range of 20%-25%.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that the company will continue to receive reliable dividend income from businesses under the Saha Group.

RATING SENSITIVITIES

SPI's rating could be upgraded, should the operating performances of the companies in the Saha Group improve substantially, which would in turn significantly enlarge SPI's cash flow. A rating downside may occur if SPI's dividend income lessens substantially due to weaker operating results by the Saha Group's affiliates or if SPI makes an aggressive shift in its leverage policy.

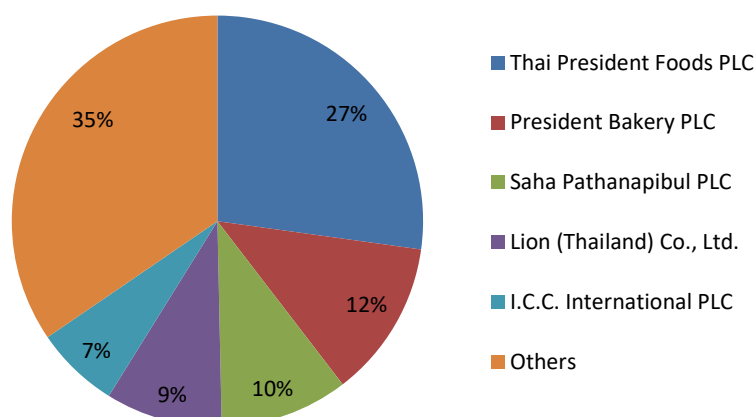
COMPANY OVERVIEW

SPI was established in 1972 and listed on the Stock Exchange of Thailand (SET) in 1977. As of March 2020, the Chokwatana family was the company's major shareholder with direct and indirect holdings of 81%. SPI is a holding company with investments in 183 companies in the Saha Group. SPI usually invests with strategic partners to establish and operate production facilities in the food and beverage, garments, cosmetics, and consumer products industries. SPI facilitates operates four industrial parks and utilities, mainly serving its group affiliates. Saha Group is vertically integrated, from raw materials through end products, including sales and distribution. Saha Group's investments are made jointly with several member companies, which ultimately constitute a major shareholding. SPI normally takes less than a 50% stake in each affiliate.

During the past two years, SPI's revenue stream from the industrial park business accounted for 50% of total revenue. Share profit from associates comprised 45% of total revenue, and dividend income made up 5%. However, in terms of cash flow, the industrial park business contributed only 1% of earnings before interest, tax, depreciation, and amortization (EBITDA), while the dividends received from affiliates accounted for 99%. Food and beverage companies have been the largest dividend contributors, accounting for 41% of SPI's EBITDA in 2019. The dividend contributions from the top five affiliates accounted for 65% of the dividends SPI received.

KEY OPERATING PERFORMANCE

Chart 1: SPI's Top Five Dividend Contributors in 2019



Source: SPI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues ***	611	2,552	2,627	2,728	2,712
Earnings before interest and taxes (EBIT)	524	2,439	2,473	1,975	1,774
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	24	1,614	1,391	1,142	1,047
Funds from operations (FFO)	(30)	1,350	1,144	1,034	990
Adjusted interest expense	53	266	225	157	45
Capital expenditures	56	795	258	513	557
Total assets	48,194	41,575	38,799	34,910	25,126
Adjusted debt	9,945	10,125	9,674	10,028	1,869
Adjusted equity	37,051	30,533	29,006	25,063	22,488
Adjusted Ratios					
EBITDA margin (%)	56.71 **	63.25	52.97	41.85	38.60
Pretax return on permanent capital (%)	5.45 **	5.99	6.63	6.62	7.58
EBITDA interest coverage (times)	5.72 **	6.07	6.19	7.28	23.13
Debt to EBITDA (times)	6.91 **	6.27	6.95	8.78	1.79
FFO to debt (%)	11.95 **	13.34	11.83	10.31	52.97
Debt to capitalization (%)	21.16	24.90	25.01	28.58	7.67

* Consolidated financial statements

** Annualized from the trailing 12 months

*** Excluding share of profit from investment in associates by equity method and dividend income

RELATED CRITERIA

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

Saha Pathana Inter-Holding PLC (SPI)

Company Rating:	AA
Issue Rating:	
Up to Bt5,000 million senior unsecured debentures due within 15 years	AA
Rating Outlook:	Stable

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