

# SAHA PATHANA INTER-HOLDING PLC

No. 86/2018  
27 June 2018

## CORPORATES

**Company Rating:** AA  
**Outlook:** Stable

### Company Rating History:

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

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## RATIONALE

TRIS Rating affirms the company rating of Saha Pathana Inter-Holding PLC (SPI) at “AA”. The rating reflects 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 its strong business network. The rating also takes into consideration its 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 consumer products group of companies in Thailand, manufacturing and distributing a wide range of consumer products with many leading brands in many market segments, such as Mama, Wacoal, Pao, Essence, Mistine, BSC, and more. The Saha Group has built a strong business network, encompassing the supply chains of raw materials through manufacturing and distribution.

SPI has been an operator for industrial parks belonging to the Group, providing utilities and services for companies operating in the industrial parks. SPI also acts as a holding company, holding an interest in companies under the Saha Group.

### Diverse portfolio of investments

SPI has a well-diversified investment portfolio. Currently, SPI has investment in 134 companies within the Saha Group. Its investment portfolio covers various segments, such as food and beverage, garment, cosmetic, consumer products, and others. In 2017, dividends from the food and beverage companies contributed 31% of SPI’s total cash flow while dividends from consumer products, garment, and cosmetics companies accounted for 24%, 16%, and 12%, 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 reliance on any specific partner.

### Reliable dividends from Saha Group’s affiliates

SPI’s main source of cash flow is the dividends earned from its investment portfolio. During the past five years, dividend receipts constituted over 80% of total cash flow, with the remaining contributed by service income from its industrial parks. Due to its highly diversified portfolio, SPI’s dividend receipts have been fairly stable. In 2017, the company received dividends of Bt1,055 million from its investments, increasing from a range of Bt700 million to Bt900 million during 2013-2016. The rise was due mainly to increased interest in “Mama” and “Farmhouse” companies resulting from the purchase of President Holding Co., Ltd. (PH).

### Leverage continues to be healthy, despite rising debt

SPI’s balance sheet remains strong even though its debt is rising. SPI’s total debt rose to Bt9,939 million at the end of March 2018. The rising debt was because SPI issued Bt3,505 million in convertible debentures and Bt4,000

million in other debt instruments to finance the investment in PH. SPI's leverage ratio is projected to improve from the current level of 30% to approximately 20%-25% after the conversion of convertible debentures to equity in late 2018.

### **Strong liquidity profile**

SPI's liquidity is strong. The company has no debt service obligations due in the next 12 months. At the end of March 2018, SPI's source of funds comprised cash on hand of Bt87 million plus available uncommitted credit facilities of approximately Bt4,960 million. TRIS Rating estimates that the company will generate funds from operations (FFO) of approximately Bt1,100 million per annum. In 2018, the company plans an investment budget around Bt2,790 million, which will be partly financed by debt. SPI's financial flexibility is enhanced by its liquid investment portfolio. The market value of SPI's holdings in 22 listed firms was Bt31,202 million at the end of March 2018. Its investment portfolio value was 3 times over its total debt outstanding at the end of March 2018.

### **RATING OUTLOOK**

The "stable" outlook reflects TRIS Rating's expectation that the company will receive steady dividend income from investment in companies under the Saha Group. Under TRIS's base case scenario, we assume SPI's revenues will grow around 5% per annum. The debt to capitalization ratio is expected to be in the range of 20%-30%, while the earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio should stay around 5 times.

### **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 Saha Group 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 2018, the Chokwatana family was the company's major shareholder with direct and indirect holdings of 79%. SPI is a holding company with investment in 134 companies in the Saha Group. SPI usually invests with strategic partners to establish and operate production facilities in the food and beverage, garment, cosmetics, and consumer products industries. SPI facilitates 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 investment is jointly made by several member companies which ultimately constitute a major shareholding. SPI normally takes less than a 50% stake in each affiliate. Twenty-one companies in SPI's investment portfolio are listed on the SET and one company is listed on the Tokyo Stock Exchange.

In 2017, SPI's largest revenue stream was from the industrial park business, which accounted for 57% of total revenue. Share profit from associates comprised 37% of total revenue, and dividend income made up 6%. However, in terms of cash flow, the industrial park business contributed only 6% of EBITDA, while the dividends received from affiliates accounted for 94%. Food and beverage companies have been the largest dividend contributors, accounting for 31% of SPI's EBITDA in 2017. The dividend contributions from the top five affiliates accounted for 59% of the dividends SPI received.

**KEY OPERATING PERFORMANCE**

**Table 1: SPI's Revenue Breakdown**

Unit: %

Line of Business	2012	2013	2014	2015	2016	2017
Industrial parks	65	67	68	65	60	57
Share profits from associates	30	27	27	29	32	37
Dividends from non-associates	5	6	5	6	8	6
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: SPI

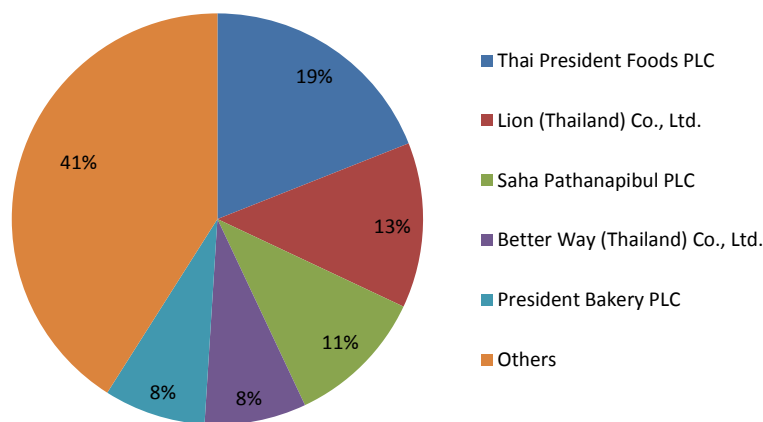
**Table 2: SPI's EBITDA Contribution**

Unit: %

Business Line	Unit	2013	2014	2015	2016	2017
<b>Total EBITDA</b>	<b>Bt million</b>	<b>954</b>	<b>838</b>	<b>880</b>	<b>1,044</b>	<b>1,121</b>
Industrial parks	%	22	16	13	16	6
Dividends	%	78	84	87	84	94
- Food and beverage	%	17	21	20	21	31
- Consumer products	%	15	17	17	16	24
- Garments	%	23	24	24	16	16
- Cosmetics	%	14	11	13	13	12
- Others	%	9	12	12	18	11
<b>Total</b>	<b>%</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: SPI

**Chart 1: SPI's Top Five Dividend Contributors in 2017**



Source: SPI

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Bt million

	Jan-Mar 2018	Year Ended 31 December			
		2017	2016	2015	2014
Sales**	1,232	4,873	4,528	4,100	4,180
Gross interest expense	54	113	44	47	58
Net income from operations	514	1,525	1,716	1,337	1,203
Earnings before interest, tax, depreciation, and amortization (EBITDA)	126	1,121	1,044	880	838
Funds from operations (FFO)	67	1,027	981	830	758
Capital expenditures	103	550	557	416	287
Total assets	35,433	35,130	25,126	23,088	21,854
Total debt ***	9,939	9,769	1,917	1,943	1,572
Shareholders' equity	25,522	24,729	22,488	20,357	19,354
Market value of listed holdings	31,202	32,192	18,002	16,009	16,864
Operating income before depreciation and amortization as % of sales	49.4	43.9	42.7	37.0	33.1
Pretax return on permanent capital (%)	7.2 ****	6.8	7.6	6.4	6.3
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	2.3	9.7	22.8	17.2	13.7
FFO/total debt (%)	9.7 ****	10.5	51.2	42.1	48.2
Total debt/capitalization (%) ***	28.6	28.9	7.9	8.8	7.5
Net debt/market value of listed holdings (%)	31.4	29.9	10.1	10.0	8.8

\* Consolidated financial statements

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

\*\*\* Including contingent liabilities of providing guarantees to related companies

\*\*\*\* Annualized from the trailing 12 months

**Saha Pathana Inter-Holding PLC (SPI)**
**Company Rating:**

AA

**Rating Outlook:**

Stable

**TRIS Rating Co., Ltd.**

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