

# SAHA PATHANA INTER-HOLDING PLC

No. 82/2019  
11 June 2019

## CORPORATES

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

**Last Review Date:** 27/06/18

### 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". 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 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 product 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, and more. The Saha Group has built a strong business network, encompassing the entire supply chains from raw materials through manufacturing and distribution.

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

### Diverse portfolio of investments

SPI has a well-diversified investment portfolio. As of March 2019, SPI invested in 131 companies, mostly within the Saha Group. Its investment portfolio covers various segments, such as food and beverage, garment, cosmetics, consumer products, and others. In 2018, 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 18%, 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 reliance on any specific partner.

### Higher dividends from Saha Group's affiliates

TRIS Rating expects SPI's cash flow will continue to grow in the next three years. 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 SPI's 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. However, during 2017-2018, the dividend receipts jumped to Bt1,100-Bt1,200 million, from a range of Bt700-Bt900 million during 2013-2016 after the company increased interest in "Mama" and "Farmhouse" companies. TRIS Rating projects dividend receipts from SPI's investment will grow by 5% per year in the next three years.

### Balance sheet remains healthy

SPI's balance sheet remains strong. As of March 2019, SPI's total debt declined to Bt9,279 million due to debt repayment. As a result, SPI's debt to

capitalization ratio improved to 25.3%, compared with 27.0% in the same period last year. TRIS Rating forecasts the debt to capitalization ratio of SPI will gradually improve to around 21% in 2021.

#### **Adequate liquidity profile with high flexibility**

SPI's liquidity is adequate. At the end of March 2019, the company had cash on hand of Bt44 million and investment in trading securities worth Bt28 million. In addition, the company has undrawn credit facilities available from commercial banks of Bt7,070 million. TRIS Rating estimates that the company will generate funds from operations (FFO) of approximately Bt1,400 million per annum during 2019 to 2021. Based on the debt repayment schedule over the next 12 months, outstanding debt includes Bt980 million in long-term obligations and Bt90 million in short-term obligations. In 2019, the company plans an investment budget around Bt1,300 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 29 listed firms was Bt32,071 million at the end of March 2019. Its investment portfolio value was 3 times over its total debt outstanding.

#### **BASE-CASE ASSUMPTIONS**

During 2019 to 2021, TRIS Rating's assumptions are as follows:

- SPI's revenues will grow by approximately 5% per annum.
- SPI's operating profit margins will stay at around 35%-40%.
- SPI's total investments will be Bt3,500 million over the forecast period.
- The debt to capitalization ratio of SPI is expected to be in the range of 20%-25%.

#### **RATING OUTLOOK**

The "stable" outlook reflects TRIS Rating's expectation that the company will receive reliable dividend income from investments in the companies under the Saha Group.

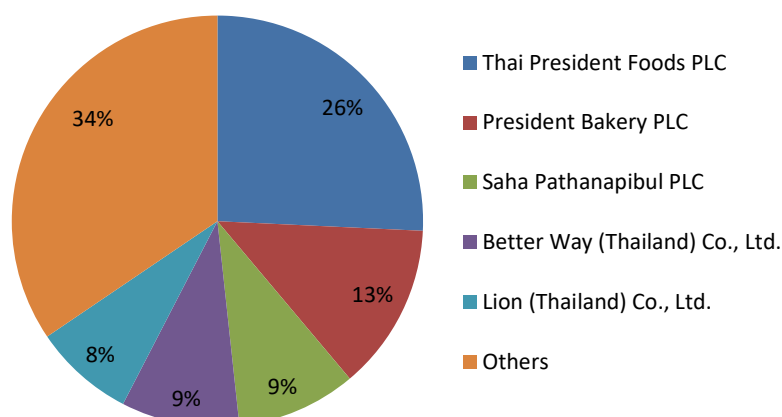
#### **RATING SENSITIVITIES**

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 2019, the Chokwatana family was the company's major shareholder with direct and indirect holdings of 81%. SPI is a holding company with investment in 131 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 product 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 made jointly with several member companies which ultimately constitute a major shareholding. SPI normally takes less than a 50% stake in each affiliate. Twenty-eight companies in SPI's investment portfolio are listed on the SET and one company is listed on the Tokyo Stock Exchange.

In 2018, 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 2% of earnings before interest, tax, depreciation and amortization (EBITDA), while the dividends received from affiliates accounted for 98%. Food and beverage companies have been the largest dividend contributors, accounting for 41% of SPI's EBITDA in 2018. The dividend contributions from the top five affiliates accounted for 66% of the dividends SPI received.

**KEY OPERATING PERFORMANCE**
**Chart 1: SPI's Top Five Dividend Contributors in 2018**


Source: SPI

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

Unit: Bt million

	Jan-Mar 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues ***	625	2,627	2,728	2,712	2,624
Operating income	87	252	87	167	116
Earnings before interest and taxes (EBIT)	593	2,473	1,975	1,774	1,377
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	199	1,391	1,142	1,047	881
Funds from operations (FFO)	133	1,144	1,034	990	841
Adjusted interest expense	67	225	157	45	49
Capital expenditures	324	258	513	557	416
Total assets	38,878	38,788	34,910	25,126	23,088
Adjusted debt	9,999	10,154	10,028	1,869	1,678
Adjusted equity	29,571	29,006	25,063	22,488	20,357
<b>Adjusted Ratios</b>					
Operating income as % of total operating revenues (%)	13.97	9.60	3.19	6.15	4.41
Pretax return on permanent capital (%)	6.66 **	6.63	6.62	7.58	6.35
EBITDA interest coverage (times)	6.03 **	6.19	7.28	23.13	18.12
Debt to EBITDA (times)	7.10 **	7.30	8.78	1.79	1.90
FFO to debt (%)	11.54 **	11.27	10.31	52.97	50.14
Debt to capitalization (%)	25.27	25.93	28.58	7.67	7.61

\* 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**

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

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**Saha Pathana Inter-Holding PLC (SPI)**

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<b>Company Rating:</b>	AA
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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