TRIS RATING
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CreditNews ข่าวเครดิต

SUB SRI THAI PLC

No. 33/2023
21 March 2023

CORPORATES

Company Rating:	BBB-
Outlook:	Negative

Last Review Date: 29/03/22

Rating History:

Date	Rating	Outlook/Alert
21/04/20	BBB-	Negative
21/04/15	BBB-	Stable
06/12/11	BBB-	Negative
18/03/11	BBB-	Stable
26/02/10	BBB	Developing
17/02/10	BBB	Stable

Contacts:

Tulyawat Chatkam
tulyawatc@trisrating.com

Chanaporn Pinphithak
chanaporn@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Thiti Karoonyanont, Ph.D., CFA
thiti@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Sub Sri Thai PLC (SST) at “BBB-” with a “negative” outlook. The rating reflects the company’s market position in the highly competitive and fragmented chain restaurant and quick service restaurant (QSR) businesses, as well as reliable cash flows from the storage business. The rating is weighed down by the company’s elevated financial leverage due to continued investment. The “negative” outlook reflects our concerns over the company’s sizable investments and the uncertain outcome of the new businesses the company is pursuing, which could heighten the company’s debt level and financial leverage.

KEY RATING CONSIDERATIONS

Restaurant business to continue recovery

TRIS Rating expects the company’s restaurant operating performance to continue to recover as people resume their normal lives and more tourists come to Thailand. Under our base-case forecast, we expect revenue from the restaurant business to increase to THB3.5 billion in 2023 and THB3.8–THB3.9 billion per annum in 2024–2025. We expect Dunkin’ Donuts’ revenue to increase via kiosk expansion and Greyhound Café (GHC) and Au Bon Pain (ABP) revenues to continue their recovery thanks to more tourists.

We anticipate pressure on the profitability of its restaurant business to remain in 2023 due to prolonged rising raw material, utility, and transportation costs, while competition in the restaurant industry remains intense. We believe to remain competitive, restaurant operators may need to keep offering sales promotions and spending more on marketing activities. The company’s earnings before interest, taxes, depreciation, and amortization (EBITDA) margin for the restaurant segment is forecast to stay around 16% during 2023–2025.

SST’s restaurant business performance started to recover in 2022, thanks to the post-Coronavirus Disease 2029 (COVID-19) normalization of consumption. Its restaurant revenue grew 40% year-on-year (y-o-y) to THB2.8 billion in 2022. GHC revenue recovered 64% y-o-y in 2022 as dine-in activity resumed after being hit hardest during the COVID-19 pandemic. ABP also recovered by 31% y-o-y as more tourists came to Thailand and office workers returned to the office. Dunkin’ revenue grew 30% y-o-y in 2022 thanks to the company’s strategy to expand more outlets in kiosk format in gas stations, hypermarkets, and local markets. The kiosk format increases market penetration while requiring lower investment per outlet and providing more flexibility to relocate. SST’s profitability in the restaurant business softened due to rising raw material costs and utility costs, yet remained in line with our expectations. The company’s EBITDA margin of the restaurant business fell to 15.9% in 2022, compared to 18.3% in 2021.

Weak performance in overseas restaurant business

The company started to expand its restaurant business overseas in 2017 by acquiring a well-known French restaurant, Le Grand Vefour, in Paris and opening its first owned GHC restaurant outside of Thailand in London. The company later opened another four restaurants in Paris, namely Pasco, Augustin, and A-Noste in 2020, and La Mere Lachaise in early 2022. Revenue from SST’s restaurants in France and the UK improved in 2022; however, the performance of both restaurants fell short of the company’s expectations, and most of the overseas restaurants contributed negative EBITDA in 2022, even after the COVID-19 situation improved. The company views rising costs and operational difficulties as the reasons for disappointing restaurant performance. Nonetheless, the company still has plans to acquire more restaurants in France and potentially convert them to GHC restaurants as the company aims to penetrate the European market with its GHC brand. TRIS Rating holds the view that overseas expansion adds uncertainty to the company's business risk profile as the operating environments of the restaurant industry vary widely from country to country.

Steady cash flows from storage business

SST's storage business provides reliable cash flow for the company. During the past three years, its revenue was around THB380-THB400 million annually, with an adjusted EBITDA margin of around 60%. Going forward, we expect modest revenue growth in SST's storage business. In our base-case forecast, storage revenue is projected to be THB380-THB390 million per annum during 2023–2025. EBITDA margin is expected to remain around 60%–70% over the same period.

The company plans to add more warehouses and document storage facilities as the capacity of present facilities is near full utilization. The company is in the process of developing a company-owned 17 rai land plot, adjacent to an existing warehouse. The preliminary plan outlines the development in phases, with an estimated investment of THB200 million.

Uncertain outcome of new businesses

In 2017, SST unveiled its plan to expand into the hotel business by investing in a project in Phuket's city center, featuring a 62-room hotel and a restaurant. The total construction cost is estimated at THB280 million. The initial completion date was set for the end of 2020. However, architectural revisions and the COVID-19 fallout have chronically delayed the project. The company now aims to open the restaurant in 2023, while the timeline for the hotel has been further delayed depending on hotel market conditions and availability of funding.

In 2022, the company acquired another land plot in the Ao Yon area in Phuket for around THB170 million, on which it plans to develop a villa resort. Total construction costs for the project are expected to be around THB200-THB300 million.

Also, the company entered the durian trading business in the second quarter of 2022. The company partnered with an experienced Thai durian exporter to engage in sourcing durian from farmers, and then selling it in the domestic market and exporting it to China. SST invested around THB200 million to support working capital for the durian business. Revenue from the durian business was around THB550 million in 2022. However, the company incurred a loss due to the difficulty in shipping to China which had not fully opened its borders last year due to COVID-19.

In TRIS Rating's view, the uncertain outcome of new businesses in which the company has no track record or experience, increased debt burden from capital spent, and expected future capital outlay in these new businesses create additional risks that contribute to the "negative" rating outlook.

Financial leverage to remain elevated due to planned sizable investments

SST's financial leverage rose in 2022 due to the sizable investments committed to opening new food and beverage outlets and expanding into new businesses, despite the company's earnings recovering from COVID-19 in 2022. The company's debt to EBITDA ratio edged up to 5 times in 2022 from 4.7 times in 2021.

Going forward, TRIS Rating expects SST financial leverage to gradually improve but remain elevated as the company continues to spend heavily to expand its restaurant business and new businesses while its earnings continue to recover. The debt to EBITDA ratio is expected to trend downwards from 4.8 times in 2023 to 4.4 times in 2025. TRIS Rating forecasts SST's capital expenditures to be around THB430 million in 2023, THB270 million in 2024, and THB230 million in 2025. The capital expenditures are expected to be used for food and beverage (F&B) outlet expansion, acquisition of restaurants overseas, expansion of the warehouse business, and investment in other businesses.

As of December 2022, SST had consolidated debt of THB2.7 billion, of which THB2.1 billion was considered priority debt. SST's priority debt consisted of secured loans at the company level, and secured and unsecured loans at subsidiaries. As its priority debt ratio was 79%, higher than the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", we view that SST's senior unsecured creditors could be significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

SST's debentures have a key financial covenant that requires the company to maintain its interest-bearing debt to equity ratio below 3 times. As of December 2022, the ratio was 0.81 times. The company's long-term bank loan also has key financial covenants that require the company to maintain the total liabilities to equity ratio below 2.5 times. As of December 2022, the ratio was 1.9 times.

Tight liquidity

We assess SST's liquidity to be tight during the next 12 months. The company's sources of funds comprised cash and cash equivalents of around THB450 million as of December 2022, projected operating cash flow of around THB620 million in 2023, and available credit lines of around THB50 million. The company's uses of funds include debt repayments of around THB1.1 billion, lease payments of around THB480 million, and expected capital expenditures of THB430 million. SST will likely need to refinance a major portion of its debts coming due and secure additional funding to be able to carry out its investment plan.

BASE-CASE ASSUMPTIONS

- Revenue to range upward from THB4.8-THB5.3 billion annually during 2023-2025.
- EBITDA of THB880-THB960 million per annum during 2023-2025.
- Capital spending to be around THB430 million in 2023, THB270 million in 2024, and THB230 million in 2025.

RATING OUTLOOK

The "negative" outlook reflects our concerns over the company's planned sizable investments and uncertainty from the new businesses the company is pursuing, which could heighten the company's debt level and financial leverage above expected levels.

RATING SENSITIVITIES

We could downgrade the rating on SST if its credit metrics are weaker than our expectations, either from deteriorating operating performance or aggressive debt-funded investments, such that its adjusted debt to EBITDA ratio remains above 5 times for a prolonged period. We could revise the outlook to "stable" if the company's operating performance turns out to be better than our expectation such that the debt to EBITDA ratio stays below 4 times on a sustained basis.

COMPANY OVERVIEW

SST was established in 1976 and listed on the Stock Exchange of Thailand (SET) in 1994. As of November 2022, the Sukhanindr family and affiliates held about 66% of SST's total shares. SST operates three lines of business: restaurant and QSR, fashion and lifestyle, and storage.

In 2012, SST expanded into the restaurant and QSR segment by acquiring Mud & Hound PLC (MUD), the master franchisee of the Dunkin' Donuts and Au Bon Pain brands in Thailand. In July 2014, SST, through MUD, acquired the Greyhound Group (Greyhound). Greyhound operates the GHC restaurant chain and produces and distributes Greyhound fashion and lifestyle products. The company also has five restaurants in France including Le Grand Vefour, Pasco, Augustin, A-Noste, and La Mere Lachaise. As of December 2022, the company operated 704 QSR and restaurant outlets and one food court.

KEY OPERATING PERFORMANCE

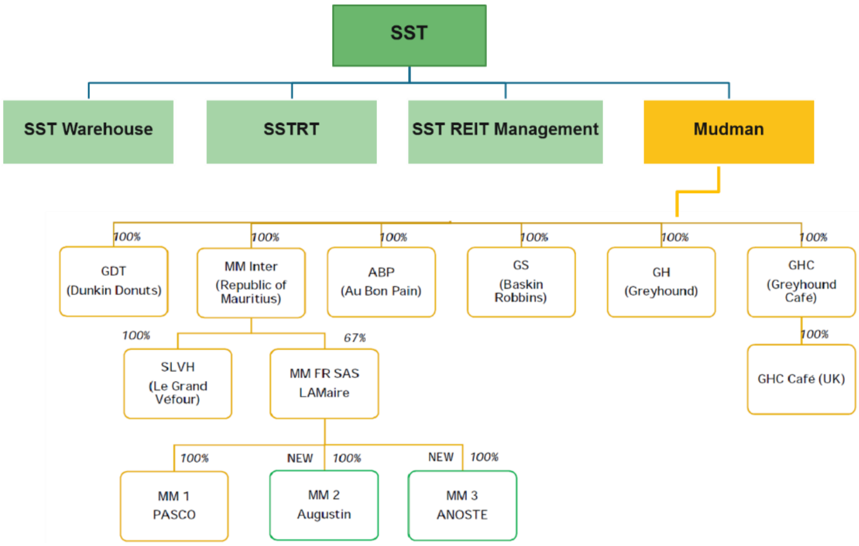
Table 1: SST's Revenue by Line of Business

Unit: %

Business	2015	2016	2017	2018	2019	2020	2021	2022
Storage	9	10	11	11	12	15	15	10
Food	83	84	85	85	84	79	79	70
Fashion	8	6	4	4	4	6	6	6
Durian								14
Total revenues (million THB)	**3,074**	**3,214**	**3,159**	**3,476**	**3,317**	**2,565**	**2,551**	**3,996**

Source: SST

Chart 1: SST's Group Structure



Source: SST

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	---------------------Year Ended 31 December ---------------------				
	2022	**2021**	**2020**	**2019**	**2018**
Total operating revenues	4,192	2,716	2,730	3,479	3,652
Earnings before interest and taxes (EBIT)	277	100	(42)	138	210
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	804	666	575	776	755
Funds from operations (FFO)	558	476	387	574	573
Adjusted interest expense	209	173	182	174	162
Capital expenditures	500	238	279	195	189
Total assets	7,962	6,985	6,964	5,581	5,707
Adjusted debt	4,007	3,140	3,118	2,894	2,649
Adjusted equity	2,727	2,679	2,812	3,244	3,290
Adjusted Ratios					
EBITDA margin (%)	19.19	24.51	21.08	22.31	20.69
Pretax return on permanent capital (%)	4.13	1.60	(0.68)	2.20	3.31
EBITDA interest coverage (times)	3.84	3.84	3.17	4.46	4.65
Debt to EBITDA (times)	4.98	4.72	5.42	3.73	3.51
FFO to debt (%)	13.93	15.17	12.40	19.85	21.63
Debt to capitalization (%)	59.51	53.96	52.58	47.14	44.60

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Sub Sri Thai PLC (SST)

Company Rating:	BBB-
Rating Outlook:	Negative

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000