

SAHA PATHANA INTER-HOLDING PLC

No. 100/2022
29 June 2022

CORPORATES

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

Last Review Date: 11/06/21

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) and the ratings on its senior unsecured debentures at “AA” with a “stable” outlook. The ratings reflect SPI’s position as one of the core holding companies of the Saha Group, its well-diversified investment portfolio of consumer product companies within the Saha Group, and its strong business network. The ratings also take into consideration the company’s stable dividend income, and strong financial flexibility.

KEY RATING CONSIDERATIONS

Core holding company of Saha Group

SPI is the main holding company of the Saha Group, a leading conglomerate of consumer product companies in Thailand. The group manufactures and distributes a wide range of consumer products with many leading brands across multiple market segments, including “Mama”, “Wacoal”, “Pao”, “Essence”, “Mistine”, and more. The Saha Group has built a strong business network, encompassing end-to-end supply chains, from raw materials through manufacturing and distribution.

SPI is also an operator of industrial parks belonging to the Group, providing utilities and services for companies operating in its industrial parks. Besides, SPI 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 2022, SPI had investments in 177 companies worth THB47.1 billion, mostly within the Saha Group. Its investment portfolio covers various industrial segments, such as food and beverage, garments, cosmetics, consumer products, and others. In 2021, dividends from the food and beverage companies contributed 39% of SPI’s total dividend receipts, while dividends from consumer product, garment, and cosmetics companies accounted for 26%, 5%, and 4%, respectively.

The Saha Group typically co-invests with partners and has established long-term relationships with various Thai and international business allies. Joint investments reduce SPI’s initial funding burden and help ensure the partners’ continued 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.

Diversification mitigated impacts of COVID-19

The company’s main source of cash is the dividends earned from its investment portfolio. Despite the impact from the COVID-19 pandemic, dividend receipt for 2021 continued to grow to THB1.4 billion. The COVID-19 pandemic had significant impacts on some business sectors, particularly those from the cosmetics and fashion businesses. However, food and consumer products businesses have been less affected and recorded favorable results during the outbreaks of the disease. We expect Saha Group’s businesses will gradually recover in the second half of 2022 after the government has adopted policies of returning to normalcy and living with COVID-19 and the spread of the less harmful Omicron variant abates. As a result, we project SPI’s dividend receipts will be in the range THB1.4-THB1.5 billion per annum during 2022-2024.

New investments to enhance revenue base

In May 2022, SPI increased its stake in Thanulux PLC (TNL) to 66.75% by purchasing 41.81% of TNL's shares from the seven existing shareholders. The acquisition was worth THB1.06 billion. The company is obligated to make a tender offer for the remaining 33.25% stake in TNL, worth around THB842 million, and has to consolidate TNL's performance in SPI's financial statements. TNL is an affiliate of Saha Group involved in the manufacture and distribution of garments and leather goods. In 2021, TNL posted revenues of THB1.3 billion and earnings before interest, tax, depreciation, and amortization (EBITDA) of THB129 million.

The company entered the asset financing loan business through its subsidiary, Oxygen Asset Co., Ltd. As of March 2022, the portfolio of asset financing loans was THB1.4 billion. We project its portfolio will expand to around THB2.3 billion over the next three years, which will generate interest income of around THB250 million per annum. The company mitigates the high risk inherent in the asset financing loan business by adopting conservative lending policies such as a loan to value ratio lower than 50%.

We project SPI's revenue (excluding share of profit from associates and dividend income) to jump from THB3 billion in 2021 to THB4 billion in 2022 and THB5 billion annually in 2023 and 2024 as a result of the new investments. EBITDA should also increase, to around THB2.1 billion per annum during 2022-2024.

Strong balance sheet

SPI's balance sheet remains strong. As of March 2022, the company's adjusted net debt increased to THB13 billion due to its investments in affiliates and the asset financing loans business. SPI's debt to capitalization ratio rose to 23.9% as of March 2022, compared with 20.9% in the same period of the previous year. The company plans to bring down its leverage level by divesting some of its investments and setting up a real estate investment trust (REIT). The company expects to secure funding from both transactions totaling THB3.3 billion. We forecast that the company's debt to capitalization ratio to gradually improve to around 20% in 2024.

Adequate liquidity profile with high flexibility

We assess SPI to have adequate liquidity for the next 12 months. At the end of March 2022, the company had cash on hand of THB315 million and marketable securities of THB425 million. The company also had undrawn credit facilities from commercial banks of THB4.3 billion. Over the next 12 months, TRIS Rating estimates that the company will generate funds from operations (FFO) of approximately THB1.6 billion. In addition, the company will likely secure funding of around THB3.3 billion from its divestment plans and the setting up of the REIT. SPI's debt repayment schedule over the next 12 months consists of THB997 million in long-term obligations and THB3.35 billion in short-term obligations. In 2022, the company plans an investment budget of around THB2.4 billion. SPI's financial flexibility is enhanced by its liquid investment portfolio. The market value of SPI's holdings in 47 listed firms was THB38.7 billion at the end of March 2022, equivalent to more than three times its total debt.

As of March 2022, SPI had no priority debt.

BASE-CASE ASSUMPTIONS

- Revenue to increase to THB4 billion in 2022 and THB5 billion in 2023 and 2024.
- Share profit from associates to decline by 3% in 2022, and then grow by around 3% per annum during 2023-2024.
- EBITDA margin to be in the 40%-50% range.
- Total investments to be around THB4 billion over the forecast period.
- Debt to capitalization ratio of around 20%.

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

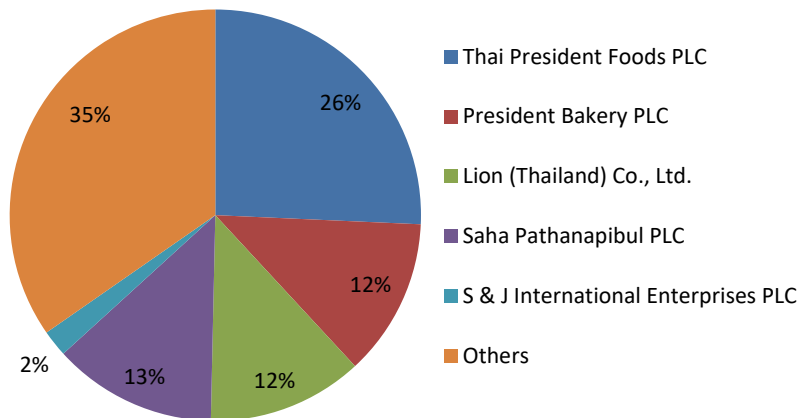
COMPANY OVERVIEW

SPI was established in 1972 and listed on the Stock Exchange of Thailand (SET) in 1977. As of March 2021, the Chokwatana family was the company's major shareholder with direct and indirect holdings of 81.4%. SPI is a holding company with investments in 177 companies in the Saha Group. SPI usually co-invests with strategic partners to establish and operate production facilities in the food and beverage, garment, cosmetics, and consumer product industries. SPI 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.

In 2021, revenue from the industrial park business accounted for 51% of SPI's total revenue (including share profit from associates and dividend income). Share profit from associates comprised 41% of total revenue, and dividend income made up 8%. In terms of cash flow, in 2021, the industrial park business contributed 12% of EBITDA, while the dividends received from affiliates accounted for 78%. Food and beverage companies were the largest dividend contributors, accounting for 30% of SPI's EBITDA in 2021. 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 2021



Source: SPI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues***	737	2,985	2,887	2,552	2,627
Earnings before interest and taxes (EBIT)	442	2,775	2,482	2,533	2,476
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	75	1,801	1,849	1,708	1,394
Funds from operations (FFO)	1	1,486	1,569	1,442	1,167
Adjusted interest expense	73	314	280	266	225
Capital expenditures	298	482	139	795	258
Total assets	56,673	55,347	54,718	41,575	38,799
Adjusted debt	12,988	11,796	9,824	10,125	9,674
Adjusted equity	42,264	42,168	39,091	30,533	29,006
Adjusted Ratios					
EBITDA margin (%)	58.10 **	60.31	64.04	66.93	53.08
Pretax return on permanent capital (%)	5.21 **	5.11	5.16	6.22	6.63
EBITDA interest coverage (times)	5.88 **	5.73	6.60	6.42	6.21
Debt to EBITDA (times)	7.15 **	6.55	5.31	5.93	6.94
FFO to debt (%)	11.60 **	12.59	15.97	14.24	12.06
Debt to capitalization (%)	23.51 **	21.86	20.08	24.90	25.01

* 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 Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

Saha Pathana Inter-Holding PLC (SPI)

Company Rating:	AA
Issue Ratings:	
SPI256A: THB1,000 million senior unsecured debentures due 2025	AA
SPI276A: THB1,500 million senior unsecured debentures due 2027	AA
SPI306A: THB1,000 million senior unsecured debentures due 2030	AA
SPI326A: THB1,500 million senior unsecured debentures due 2032	AA
Rating Outlook:	Stable

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