

SAHA PATHANA INTER-HOLDING PLC

No. 114/2023
23 June 2023

CORPORATES

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

Last Review Date: 29/06/22

Company Rating History:

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

Contacts:

Tern Thitinuang, CFA

tern@trisrating.com

Sarinthorn Sosukpaibul

sarinthorn@trisrating.com

Wajee Pitakpaibulkij

wajee@trisrating.com

Pramuansap Phonprasert

pramuansap@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating downgrades the company rating on Saha Pathana Inter-Holding PLC (SPI) and the ratings on its senior unsecured debentures to “AA-” with a “stable” outlook, from “AA”. The rating downgrade reflects the company’s heightened financial leverage due to the expansion of its investment portfolio. Also, the deleveraging timeline has been extended beyond our previous expectations.

The “AA-” ratings continue to reflect SPI’s strong business profile, including its position as one of the holding companies of the Saha Group as well as its well-diversified investment portfolio of consumer product companies within the Saha Group. The ratings also factor in the company’s strong business network, and ample financial flexibility.

KEY RATING CONSIDERATIONS

Financial leverage remains high to support growth

Over the past two years, the company’s financial leverage has increased due to the expansion of its investment portfolio, particularly in property-related businesses and the additional investment in Thanulux PLC (TNL). This is alongside the growing loan portfolio of its asset financing business. As of December 2022, the company’s adjusted net debt reached THB14.8 billion, compared to THB9.8 billion in December 2020. Consequently, SPI’s debt to capitalization ratio rose to 25.0% in 2022, compared with 20.1% in 2020. The ratio of adjusted net debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) also increased to 6.9 times in 2022, from 5.3 times in 2020.

In our base-case forecast, we project that SPI will invest about THB6.5 billion in total between 2023-2025 to expand its investment portfolio and investment properties. As a result, the company’s adjusted net debt is expected to remain at around THB14 billion during 2023-2025, exceeding our previous forecast of around THB12 billion. We also project that the adjusted net debt to EBITDA ratio will temporarily drop to around 5.7 times in 2023 before increasing to over 6 times in 2024-2025. We anticipate an increase in EBITDA to THB2.4 billion in 2023, driven by extraordinary dividend incomes and a significant land sale, before declining to THB2.0-THB2.2 billion annually during 2024-2025.

Core holding company of Saha Group

SPI is the main holding company of the Saha Group, Thailand’s leading conglomerate in the consumer products industry. 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 many more. Saha Group has built a strong business network, encompassing end-to-end supply chains, from raw materials through to manufacturing and distribution.

SPI is also the operator of industrial parks belonging to the Group, providing utilities and services for companies operating in its industrial parks.

Greater presence in property-related sectors

As the primary vehicle spearheading in Saha Group’s property development business, SPI has focused on investing in property development projects in recent years. During 2022-2023, approximately 50% of SPI’s additional investments have been allocated to residential and retail property

developments as well as real estate investment trusts (REITs). Its investment projects include the King Square mixed-use complex, the KingBridge Tower office building, and other real estate projects. During 2021-2022, SPI invested a total of THB1.1 billion in equities for these development projects. Going forward, SPI plans to invest an additional THB1.1- THB1.3 billion in 2023 to finance ongoing project developments.

To bolster its presence in the REIT segment, SPI established Hydrogen Freehold and Leasehold Real Estate Investment Trust (HYDROGEN) in November 2022. As part of this strategy, SPI leased out portions of its rental industrial estate properties and divested its logistic machinery in Tiger Suvarnabhumi DC, generating THB1.0 billion in proceeds. The company has reinvested THB252 million in the REIT, becoming the largest unitholder of HYDROGEN with a 12% stake. Also, in 2022, SPI invested around THB520 million in the other REIT.

The expansion into the property sector will further diversify SPI's income streams, driven by management fees and distributions from REITs, dividends from rental property projects, and the potential of high returns from residential sales. This strategic move will also enhance SPI's portfolio diversification. However, it is important for the company to effectively manage the elevated risks associated with the property development businesses.

Asset financing business transferred to TNL

In 2021, the company entered into the asset financing business through its wholly-owned subsidiary, Oxygen Asset Co., Ltd. In 2022, SPI sold a 90% stake in Oxygen Asset Co., Ltd. for THB835 million to TNL—another subsidiary of the company at the time. In December 2022, TNL sought additional capital through a private placement offering to BTS Group Holdings PLC, resulting in a reduction of SPI's stake in TNL to about 41%. As part of a right-offering capital increase program in March 2023, SPI injected a further THB 1.4 billion in fresh capital into TNL. Following these transactions, TNL's core businesses will comprise an asset-backed lending and non-performing loan portfolio, as well as making investments in residential properties while maintaining its existing apparel business.

Diverse investment helps stabilize cash flows

The company's main source of cash is the dividends earned from its investment portfolio. Despite the impact of the COVID-19 pandemic, rising raw material costs, and a global economic slowdown, the company has consistently recorded total dividend receipts of THB1.0 billion-THB1.2 billion annually in 2020-2022. We still believe that SPI's well-diversified investment portfolio will continue to provide stability to its dividend receipts. Going forward, we project SPI's dividend receipts to range between THB1.5 billion and THB1.7 billion annually in 2023-2025. This increase will be supported mainly by the recovery of its associate investments in the food, garments, and consumer product sectors, as well as special dividend incomes from other investments.

The Saha Group typically co-invests with partners and has established long-term relationships with various Thai and international business allies. Such joint investments reduce SPI's initial funding burden and help ensure continual support from its partners. The wide range of business alliances also mitigates the risk of over-reliance on a specific partner.

As of March 2023, SPI had investments worth about THB54 billion in equities of 175 companies, mostly within the Saha Group. Its investment portfolio covers various industrial segments, such as food and beverage, garments, cosmetics, consumer products, and others. In 2022, dividends from the food and beverage companies contributed 48% of SPI's total dividend receipts, while dividends from consumer products, garment, and cosmetics companies accounted for 26%, 11%, and 6%, respectively.

Adequate liquidity profile with high financial flexibility

We assess SPI to have adequate liquidity for the next 12 months. At the end of March 2023, the company had cash on hand and short-term investments totaling THB1.1 billion. The company also had undrawn credit facilities from financial institutions of THB6.1 billion. In addition, TRIS Rating estimates the company will generate funds from operations (FFO) of approximately THB1.7 billion over the next 12 months. SPI's debt repayment schedule over the next 12 months consists of THB3.0 billion in long-term obligations, and THB1.8 billion in short-term obligations. In 2023, the company plans an investment budget of around THB3.8 billion. We believe in SPI's capability to issue new debts to refinance its maturing debt and to fund its investment plan.

The company also has a sizable liquid investment portfolio, available to support its financial flexibility. At the end of March 2023, the market values of SPI's holdings in 47 listed firms totaled THB42 billion—about 2.9 times of its adjusted net debt. SPI's rising debt has resulted in a decline in the coverage ratio of marketable investments to adjusted net debt, which was more than 3.0 times at the end of 2020.

As of March 2023, SPI had no priority debt.

BASE-CASE ASSUMPTIONS

- Total operating revenues of THB3.4 billion in 2023 and THB3.1-THB3.3 billion annually in 2024 and 2025, not including any gain from sales of investment properties.
- Gain from sales of investment property in 2023-2025 totaling THB1.5-THB1.6 billion.
- Share of profit from associates to range from THB2.5 billion to THB2.9 billion annually during 2023-2025.
- EBITDA margin between 61%-71% in 2023-2025.
- Total investments to be around THB6.5 billion in total during 2023-2025.
- Debt to capitalization ratio of around 21%-24% over 2023-2025

RATING OUTLOOK

The “stable” outlook reflects TRIS Rating’s expectation that the company will continue to receive reliable dividend incomes from its investments, and to maintain its financial flexibility from the substantial holding of marketable securities.

RATING SENSITIVITIES

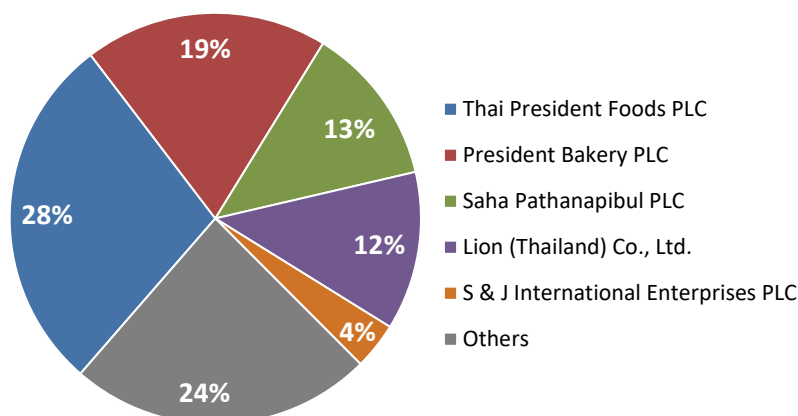
The ratings on SPI could be upgraded if the company improves its financial leverage significantly, which could be achieved through reducing its debt level or increasing cash flows in the group’s operating performance. Conversely, a rating downside may occur if SPI’s operating performance is weaker than projected or if there are further increases in financial leverage.

COMPANY OVERVIEW

SPI was established in 1972 and listed on the Stock Exchange of Thailand (SET) in 1977. As of March 2023, the Chokwatana family was the company’s major shareholder with direct and indirect holdings totaling 81.2%. SPI is a holding company with investments in 175 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 to end products, including sales and distribution. Saha Group’s investments are made jointly with several member companies, which ultimately constitute a major shareholding.

In 2022, revenues from the industrial park business accounted for 51% of SPI’s total revenues which include the share profit from associates and dividend incomes. Shared profits from associates comprised 32% of total revenues, while the dividend incomes made up 2%. In terms of cash flow, in 2022, the industrial park business contributed about 33% of EBITDA, while dividends received from affiliates accounted for 39%. Food and beverage companies were the largest dividend contributors, accounting for 22% of SPI’s EBITDA in 2022. Dividend contributions from the top five affiliates accounted for 76% of the dividends SPI received.

Apart from its main investment in distribution and manufacturing for staple consumer goods, SPI is expanding its portfolio in property-related investments. The company also invests in the property-financing sector through TNL, and the property development sector through the KingBridge and King Square projects.

KEY OPERATING PERFORMANCE
Chart 1: SPI's Top Five Dividend Contributors in 2022


Source: SPI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues***	811	4,448	2,731	2,887	2,552
Earnings before interest and taxes (EBIT)	1,224	3,102	2,859	2,482	2,533
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	602	2,159	1,801	1,849	1,708
Funds from operations (FFO)	497	1,768	1,486	1,569	1,442
Adjusted interest expense	105	355	314	280	266
Capital expenditures	275	935	482	139	795
Total assets	62,293	61,719	55,432	54,718	41,575
Adjusted debt	14,391	14,838	11,796	9,824	10,125
Adjusted equity	45,467	44,449	42,253	39,091	30,533
Adjusted Ratios					
EBITDA margin (%)	74.24	48.55	65.92	64.04	66.93
Pretax return on permanent capital (%)	6.66 **	5.39	5.26	5.16	6.22
EBITDA interest coverage (times)	5.72	6.09	5.73	6.60	6.42
Debt to EBITDA (times)	5.42 **	6.87	6.55	5.31	5.93
FFO to debt (%)	15.52 **	11.91	12.59	15.97	14.24
Debt to capitalization (%)	24.04	25.03	21.82	20.08	24.90

* Consolidated financial statements

** Annualized from the trailing 12 months

*** Not including share of profit from investment in associates by equity method and dividend income; not including gain from sales of investment properties, from 2021 onwards.

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

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

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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