

# SIAM GLOBAL HOUSE PLC

No. 28/2019  
11 March 2019

## CORPORATES

**Company Rating:** A  
**Outlook:** Stable

**Last Review Date:** 07/03/18

### Company Rating History:

Date	Rating	Outlook/Alert
23/07/13	A-	Stable

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## RATIONALE

TRIS Rating upgrades the company rating on Siam Global House PLC (GLOBAL) to “A” from “A-”, with a “stable” outlook. The upgrade reflects GLOBAL’s improvement in profitability and debt serviceability, driven by its house brand products and efficient cost controls. The rating also reflects its proven record in the home improvement retailing industry in Thailand, expansion of warehouse-style stores to provincial areas, and ongoing shift in customer preference from traditional home improvement to modern trade retailers. These strengths are constrained by a long cash conversion cycle, intense competition, and a customer base which is highly sensitive to changes in agricultural product prices.

## KEY RATING CONSIDERATIONS

### Proven track record in the home improvement retailing industry

GLOBAL is one of the leaders of modern home improvement retailers in Thailand. Currently, GLOBAL has 61 outlets throughout Thailand and one outlet in Cambodia. All stores in Thailand are located upcountry; approximately 40% are located in the Northeastern region of Thailand. The remainder is located in other regions, with the exception of Bangkok.

### Keeping a large-scale retail format

GLOBAL’s key strategy is to offer a wide range of construction materials, hardware, tools, and home decorating items. GLOBAL’s stores are large warehouse-style outlets, with an average saleable area of 20,000 square meters (sq.m.) per store. GLOBAL’s stores contain more than 100,000 stock keeping units (SKUs) of home-related products. In addition to increased customer satisfaction, large-scale stores benefit the company through economies of scale and lower operating costs.

### Shift in customer preference towards modern trade retailers

Thanks to urbanization, home improvement retailers grew by replacing traditional sales outlets. According to the National Economic and Social Development Board (NESDB), the wholesale and retail trade sector in Thailand grew by 7.3% in 2018. GLOBAL’s sales rose by 21.6% during the same period. The continuing shift in customer preference will support GLOBAL’s plan to open seven new stores per year.

### Sound profitability

TRIS Rating believes GLOBAL should be able to maintain its sound profitability during 2019-2021. The company’s gross margin continued to improve to 20.6%-20.9% during 2016-2018, compared with 15.0%-16.7% during 2013-2015. The improvement came mainly from a change in product mix and a rise in steel price. Sales of house brands and imported brands, which carry higher margins, accounted for 18% of sales in 2018, compared with 12%-14% during 2015-2017. Steel sales were still the largest portion of total revenue, comprising 20% of total revenue.

Operating margin before depreciation and amortization (including rebates from suppliers) was at a relatively high level, ranging between 13.5%-14.5% in 2016-2018, higher than the industry average of 9%-10%. GLOBAL aims to make a proportion of house brands at 20% of total sales. Under TRIS Rating’s base case scenario, the operating margin before depreciation and amortization is forecast to range from 13.0%-14.0% during 2019-2021.

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**Leverage is expected to decline, while debt serviceability is improving**

GLOBAL plans to open new seven stores per annum in 2019-2021, compared with seven to nine stores per year in 2016-2018. As a result, capital expenditures will reduce to around Bt1,800 million per annum, from Bt2,200-Bt2,800 million per annum during 2016-2018. The total debt to capitalization ratio is forecast to decline to 40%-45% over the next three years, down from 46.4% at the end of 2018. The ratio of earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage is expected to rise, ranging from 14-17 times during 2019-2021.

**Long cash conversion cycle, but liquidity is still manageable**

In order to cope with GLOBAL's large-scale retail format, for both contractors and end users, the cash cycle was long at around 200 days due to the large amounts of inventory. In comparison, Home Product Center PLC (HMPRO), another listed competitor reported a negative cash cycle. However, GLOBAL's liquidity was still manageable. The current ratio was fine at around one times and undrawn uncommitted credit lines totaled around Bt10 billion.

**BASE-CASE ASSUMPTIONS (During 2019-2021)**

- Projected sales growth around 6%-9% and same-store growth at around 0%-2% per annum.
- Operating margin before depreciation and amortization will narrow slightly to 13%-14% due to the decrease in steel price.
- Total capital spending and investment will be around Bt1,800 million per annum.

**RATING OUTLOOK**

The "stable" outlook reflects the expectation that GLOBAL will maintain its market position in the home improvement retailing industry. The company is expected to sustain its profitability while it expands.

**RATING SENSITIVITIES**

GLOBAL's rating and/or outlook could be revised upward if it demonstrates an ability to improve efficiency by shortening its cash conversion cycle and significantly enlarging cash flow generation on a sustainable basis while maintaining sound profitability and cash flow protection. In contrast, a rating downgrade could occur if GLOBAL's operating performance declines dramatically or leverage rises considerably, which will lead to deteriorated debt serviceability for an extended period.

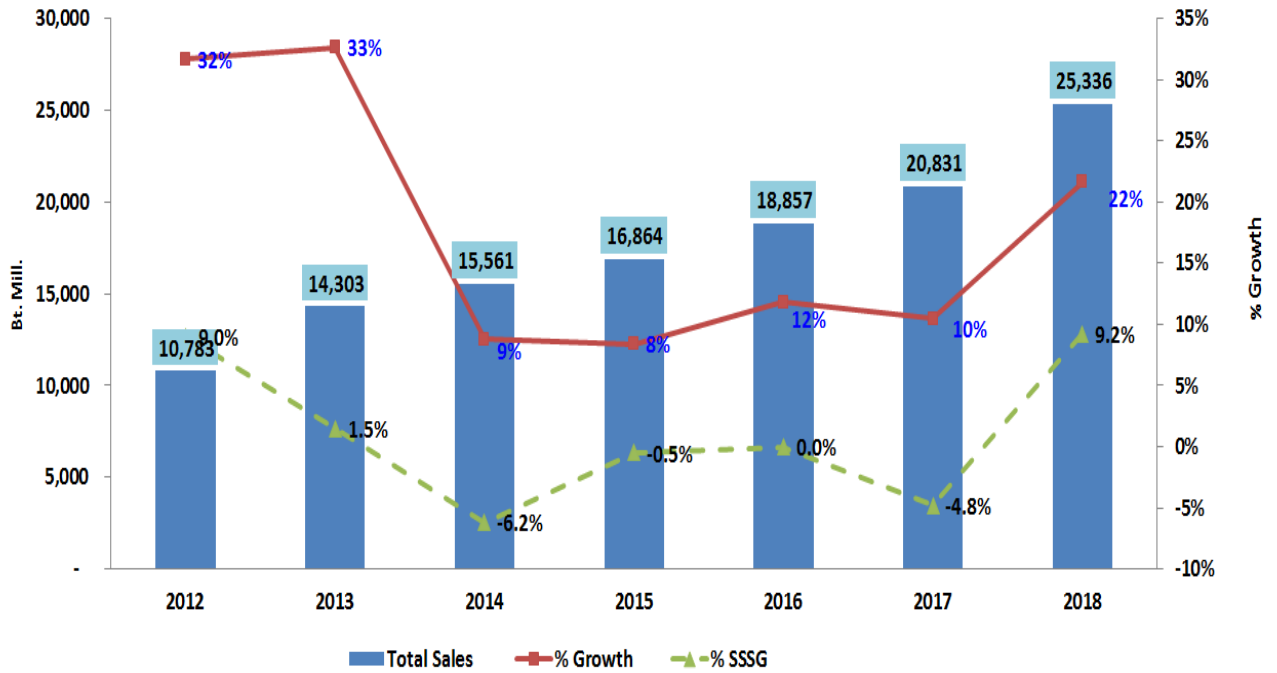
**COMPANY OVERVIEW**

GLOBAL is one of the leading warehouse-style home improvement retailers in Thailand. It was established in 1997 by Mr. Witoon Suriyawanakul. The company was listed on the Stock Exchange of Thailand (SET) in August 2009. In November 2012, SCG Distribution Co., Ltd. (SCGD), 100% owned by Siam Cement Group PLC (SCG), became a strategic partner of GLOBAL. As of March 2019, GLOBAL's major shareholders were the Suriyawanakul family (38%) and SCGD (30%).

As of December 2018, the company operated 61 stores in Thailand and one store in Cambodia, with a total store area of 1,291,270 sq.m.

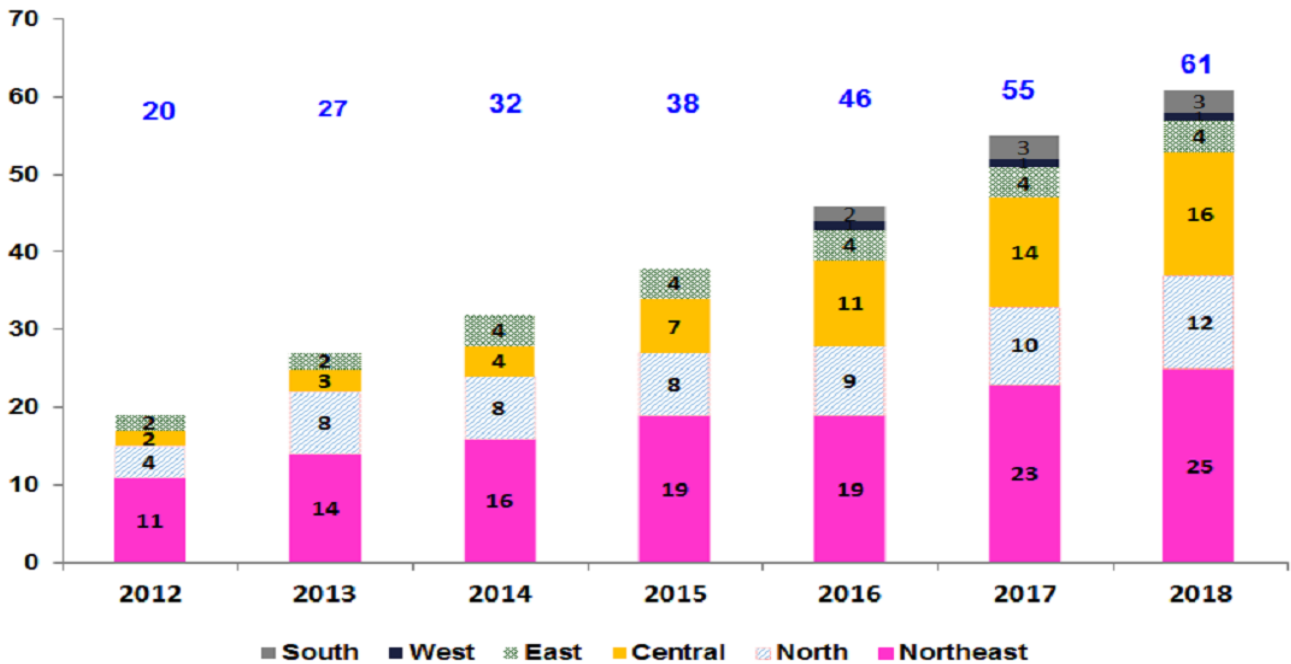
**KEY OPERATING PERFORMANCE**

**Chart 1: Same-Store-Sales Growth and Total Sales Growth**



Source: GLOBAL

**Chart 2: GLOBAL's Outlets by Regions**



Source: GLOBAL

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**
*Unit: Bt million*

	-----Year Ended 31 December -----				
	2018	2017	2016	2015	2014
Total operating revenues	26,226	21,547	19,465	17,373	16,034
Operating income	3,514	2,921	2,840	1,934	1,672
Earnings before interest and taxes (EBIT)	2,754	2,177	2,272	1,254	993
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,550	2,926	2,849	1,972	1,676
Funds from operations (FFO)	2,787	2,350	2,252	1,598	1,363
Adjusted interest expense	301	215	187	155	137
Capital expenditures	2,288	2,789	2,728	1,286	1,433
Total assets	31,017	28,230	23,067	23,037	21,174
Adjusted debt	12,896	11,901	8,041	4,555	4,082
Adjusted equity	14,886	13,380	12,346	14,918	14,083
<b>Adjusted Ratios</b>					
Operating income as % of total operating revenues (%)	13.40	13.56	14.59	11.13	10.43
Pretax return on permanent capital (%)	10.19	9.43	11.23	6.54	6.15
EBITDA interest coverage (times)	11.78	13.63	15.23	12.75	12.26
Debt to EBITDA (times)	3.63	4.07	2.82	2.31	2.44
FFO to debt (%)	21.61	19.75	28.01	35.09	33.40
Debt to capitalization (%)	46.42	47.08	39.44	23.39	22.47

**RELATED CRITERIA**

- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015
- Rating Methodology – Corporate, 31 October 2007

**Siam Global House PLC (GLOBAL)**

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

**TRIS Rating Co., Ltd.**

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