

## Press Release

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### **TRIS Rating Affirms Company Rating and Outlook of "GLOBAL" at "A-/Stable"**

TRIS Rating has affirmed the company rating Siam Global House PLC (GLOBAL) at "A-" with "stable" outlook. The ratings reflect the company's proven record in the home improvement retailing industry in Thailand, successful expansion of warehouse-format stores to provincial areas, and track record of effective control of costs. The ratings are also supported by an ongoing shift in customer preference from traditional home improvement retailers to modern trade retailers. These strengths are partially offset by the company's long cash conversion cycle, intense competition among home improvement retailers, and the fact that the purchasing power of its customer base is highly sensitive to economic conditions and changes in the prices of farm products.

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 cost control competency as well as its profitability while it expands.

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

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 2016, GLOBAL's major shareholders were the Suriyawanakul family (37.61%) and SCGD (30.02%).

The company's first store is located in Roi-Et province, the founder's home province. As of December 2016, the company operated 46 stores in Thailand with a total store area of 1,045,281 square meters (sq.m.). GLOBAL offers a wide range of construction materials, hardware tools, and home decoration items, amounting to approximately 140,000 stock keeping units (SKUs). The company's stores are designed in a large-scale warehouse format. Each store has an average selling area of 22,000 sq.m. Recently, the company installed a new inventory management system, called Automatic Storage Retrieval System (ASRS), to improve operational efficiency and reduce the area used for product storage. As a result, the size of a new outlet shrinks to about 15,000 sq.m.

In 2016, the slow recovery in economic growth in Thailand resulted in low private consumption nationwide, especially during the mourning period in the fourth quarter of 2016. As a result, GLOBAL's same-store sales growth (SSSG) picked up modestly, by growing about 0.5% in the first three quarters of 2016 and turned to negative, falling by 2.3% during the fourth quarter of 2016.

Despite a lacklustre SSSG, GLOBAL's earnings grew significantly. Total sales increased by 11.8% y-o-y in 2016 to Bt18,857 million, thanks to additional sales from new stores opened in 2015-2016. GLOBAL's operating margin before depreciation and amortization improved to 15% in 2016, up from 11.4% in 2015. The rise in operating margin mainly came because GLOBAL benefited from higher discounts for ordering larger volumes. The increase in operating margin was partly due to rise in construction material prices. The improving profitability was also driven by change in GLOBAL's product mix. Sales of house brands, which generate higher margins than other private brands, made up a larger portion of total sales. GLOBAL's funds from operations (FFO) rose by 43% from Bt1,613 million in 2015 to Bt2,307 million in 2016. The company's policy to increase order size to get more discount and the increasing price of some construction materials resulted in higher inventory level and led to longer cash conversion cycle. Cash conversion cycle rose to 195 days from 142 days in 2015. Higher working capital needs for inventory pushed total debt to capitalization ratio up to 32.5% as of December 2016 from 24.1% at year end of 2015. Even though leverage was higher, cash flow protection remained at satisfactory level. The earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage ratio increased to 16.8 times in 2016 from 13.34 times in 2015 and 12.6 times in 2014. The FFO ratio to total debt was fair at 29.5% in 2016 from 32.5%-34.1% in 2014-2015.

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GLOBAL plans investment budget of about Bt2,000 million per year during 2017-2019. GLOBAL unveils plans to open eight stores per year during the next three years. GLOBAL's new distribution centre (DC) is expected to be completed within the first half of 2017. The new automated DC is expected to reduce the labour force needed in the warehouse, improve efficiency, and shorten cash conversion cycle. In addition to store expansion, GLOBAL announced to expand its footprint in Cambodia after investment in Souvanny Home Center in the Lao People's Democratic Republic (Lao PDR). GLOBAL and the local partner in Cambodia jointly set up Global House Cambodia Co., Ltd. and Global House Estate Co., Ltd. to operate home improvement retailers in Cambodia. GLOBAL will hold 55% and 49% stake, respectively. GLOBAL sets an investment budget totalling Bt200 million.

Even though GLOBAL's same store sales remains affected by the fragile recovery in purchasing power of consumers in provincial areas on the back of slow recovery in the Thai economy, successful penetration in new areas by adding new stores will continue to support total sales growth. GLOBAL continues to focus on improving profitability by increasing portion of house-brand sales. In the base case scenario, GLOBAL is projected to generate FFO at about Bt2,200-Bt2,500 million per annum. The store expansion and new DC will drive leverage higher gradually, but the debt to capitalization ratio is projected to remain below 50% over the next few years. EBITDA interest coverage is forecast to hover at approximately 12-14 times and FFO to total debt ratio to stay between 25%-30% during 2017-2019.

### **Siam Global House PLC (GLOBAL)**

**Company Rating:**

A-

**Rating Outlook:**

Stable

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