

# SAHA PATHANA INTER-HOLDING PLC

No. 87/2017

27 July 2017

**Company Rating:** AA**Outlook:** Stable**Company Rating History:**

Date	Rating	Outlook/Alert
21/4/14	AA	Stable

**Contacts:**

Pramuansap Phonprasert  
[pramuansap@trising.com](mailto:pramuansap@trising.com)

Sarinthorn Sosukpaibul  
[sarinthorn@trising.com](mailto:sarinthorn@trising.com)

Ruangwud Jarurungsipong  
[ruangwud@trising.com](mailto:ruangwud@trising.com)

Wiyada Pratommsuwan, CFA  
[wiyada@trising.com](mailto:wiyada@trising.com)

**WWW.TRISING.COM****Rating Rationale**

TRIS Rating affirms the company rating of Saha Pathana Inter-Holding PLC (SPI) at “AA”. The rating reflects SPI’s position as one of the core holding companies of the Saha Group, its well-diversified investment portfolio of consumer products companies within the Saha Group, and its strong business network. The rating also takes into consideration its conservative business policies and strong financial flexibility. However, these strengths are partially offset by the intense competition in the consumer products, garment, and food industries.

SPI was founded in 1972 by the Chokwatana family. As of March 2017, the Chokwatana family and affiliates remained the company’s major shareholders, holding a 79% stake, directly and indirectly. SPI is the main holding company of the Saha Group, a group of leading consumer products companies in Thailand. The Saha Group manufactures and distributes a wide range of consumer products with many leading brands in many market segments, such as Mama, Wacoal, Pao, Essence, Mistine, BSC, and more. The Saha Group has built a strong business network, encompassing the supply chains of raw materials through manufacturing and distribution. SPI’s portfolio consists of 160 companies within the Saha Group. SPI has been an operator for industrial parks of the Group; it also acts as a one-stop service provider for companies operating in industrial parks. The services it offers include providing rental factories, utility services, consultancy services regarding equity investments, and providing financial support to affiliated companies.

In June 2017, SPI increased its interest in “Mama” and “Farmhouse” companies by purchasing President Holding Co., Ltd. (PH). PH holds a 0.09% stake in Thai President Food PLC (TF), a 32.76% stake in President Rice Products PLC (PR), and an 18.77% stake in President Bakery PLC (PB). The acquisition of PH is worth Bt7,920 million. The acquisition of PH will enlarge SPI’s investment in the food business, which is less sensitive to economic cycles. After completing the PH acquisition, SPI’s holding in PR and TF (“Mama” instant noodle) after amalgamation will increase to 25%, while its holding in PB (“Farmhouse” bakery) will increase from 3% to 22%. After this transaction, SPI can realize additional earnings before interest, tax, depreciation, and amortization (EBITDA) of Bt500 million from its increased interest in “Mama” and “Farmhouse”.

SPI’s main source of revenue is rental and utility income from the industrial parks it owns and operates. However, the main source of cash flow is the dividends earned from its investment portfolio. Due to the highly diversified portfolio, SPI’s dividend receipts have been fairly stable, within a range of Bt700 million to Bt900 million during the past five years.

In 2016, revenue grew by 10% to Bt4,510 million as SPI recorded significant sales of industrial park land and special dividend income from an associated company. In the first quarter of 2017, revenue dropped by 15% year-on-year (y-o-y) to Bt1,037 million as there was no special dividend and land sales fell.

SPI’s balance sheet remains strong. At the end of March 2017, the ratio of total debt as a percentage of total capitalization continued to be very healthy at 9.3%. However, SPI has issued Bt3,500 million in convertible debentures and Bt3,900 million in other debt instruments to finance the investment in PH. Total debt will increase from Bt2,327 million at the end of March 2017 to approximately Bt10,000 million at the end of 2017. SPI’s leverage ratio is forecast to increase to around 27% during 2018-2019.

Nearly 100% of SPI's funds from operations (FFO) are from dividends. In 2016, FFO increased to Bt981 million, compared with Bt819 million in 2015, due to higher dividend receipts. In the first quarter of 2017, the company's FFO stood at Bt381 million. The FFO to total debt ratio improved from 42.1% in 2015 to 51.2% in 2016, but declined to 35.2% (annualized, from the trailing 12 months) in the first quarter of 2017. The EBITDA interest coverage ratio increased from 17.2 times in 2015 to 22.9 times in 2016 but decreased to 9.6 times in the first quarter of 2017. TRIS Rating forecasts SPI's FFO to total debt ratio will decline to approximately 10% and the EBITDA interest coverage ratio will stay at around 5 times over the next three years.

SPI's liquidity is strong. At the end of March 2017, SPI had cash on hand of Bt143 million and marketable securities worth Bt100 million. The company also had available uncommitted credit facilities of approximately Bt2,440 million as of March 2017. Meanwhile, SPI has no debt service obligations due in the next 12 months. SPI's financial flexibility is enhanced by its liquid investment portfolio. The market value of SPI's holdings in 25 listed firms was Bt19,590 million at the end of March 2017. The ratio of net debt to market value of listed holdings was 11% at the end of March 2017.

#### Rating Outlook

The "stable" outlook reflects TRIS Rating's expectation that the company will receive steady dividend income from the investment in companies under the Saha Group. SPI's rating could be upgraded, should the operating performances of the companies in the Saha Group improve substantially, which would in turn significantly enlarge SPI's cash flow. A rating downside may occur if SPI's dividend income lessens substantially due to weaker operating results by Saha Group affiliates or if SPI makes an aggressive shift in its leverage policy.

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#### Saha Pathana Inter-Holding PLC (SPI)

Company Rating:

AA

Rating Outlook:

Stable

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**Financial Statistics and Key Financial Ratios\***

Unit: Bt million

	Jan-Mar 2017	Year Ended 31 December				
		2016	2015	2014	2013	2012
Sales**	1,037	4,510	4,100	4,180	4,114	4,027
Gross interest expense	13	44	47	58	61	50
Net income from operations	381	1,701	1,337	1,203	1,329	1,345
Funds from operations (FFO)	131	981	830	758	876	662
Capital expenditures	141	557	416	287	910	451
Total assets	25,939	25,016	23,088	21,854	20,000	19,292
Total debt***	2,327	1,917	1,943	1,572	1,684	1,306
Shareholders' equity	22,989	22,378	20,357	19,354	17,577	16,970
Market value of listed holdings	19,590	18,002	16,009	16,864	16,348	18,535
Operating income before depreciation and amortization as % of sales	41.1	42.6	37.0	33.1	36.8	36.1
Pretax return on permanent capital (%)	6.6 ****	7.6	6.4	6.3	7.5	8.0
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	9.6	22.9	17.2	13.7	15.3	14.2
FFO/total debt (%)	35.2 ****	51.2	42.1	48.2	52.0	50.7
Total debt/capitalization (%) ***	9.3	7.9	8.8	7.5	8.8	7.2
Net debt/market value of listed holdings (%)	11.1	10.1	10.0	8.8	9.9	6.7

\* Consolidated financial statements

\*\* Including share of profit from investment in associates by equity method and dividend income

\*\*\* Including contingent liabilities of providing guarantees to related companies

\*\*\*\* Annualized from the trailing 12 months

**TRIS Rating Co., Ltd.**

Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand [www.trisrating.com](http://www.trisrating.com)

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