

Press Release

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TRIS Rating Affirms Company Rating and Outlook of "SPI" at "AA/Stable", Despite an Acquisition of "PH"

TRIS Rating has affirmed the company rating of Saha Pathana Inter-Holding PLC (SPI) at "AA" with a "stable" outlook. The rating action follows the 16 March 2017 announcement by SPI that it was set to acquire President Holding Co., Ltd. (PH) by the Entire Business Transfer (EBT) method. The rating affirmation reflects TRIS Rating's view that the acquisition will enhance the earnings. SPI's financial leverage, despite weakening, is still in line with the current rating.

The "stable" outlook reflects TRIS Rating's expectation that the company and its affiliates will maintain their strong operating performances and leading positions in their core markets. After the acquisition, SPI's capital structure will be weaker. However, the weaker capital structure is expected to be offset by higher earnings contributions from its affiliates. 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. The rating downside case may occur if SPI's dividend income lessens substantially due to weaker operating results of the Saha Group affiliates or if SPI makes an aggressive shift in its leverage policy.

PH is an investment holding company of the Saha Group. PH currently 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). TF is a leading instant noodle manufacturer in Thailand. Its products are sold under the "MAMA" brand. In 2016, TF generated sales of Bt12,600 million and reported a net profit of Bt2,414 million. PB is a leading producer of baked products in Thailand, using the "Farmhouse" brand. PB reported sales of Bt7,569 million and a net profit of Bt1,463 million in 2016. PR's key business is the manufacture of white instant noodles. In 2016, PR recorded Bt1,360 million in sales and Bt639 million in net profit.

The acquisition of PH is worth Bt7,920 million. Upon the completion of acquisition by the EBT method, SPI is required to make a tender offer for all the ordinary shares of PR and PB. For the PB transaction, TF and SPI will make a co-tender offer to acquire all of PB's shares. The total transaction value of acquiring all the outstanding shares of PR and PB will be around Bt23,306 million. The transaction is expected to be completed within July 2017. However, most of the shares of PR and PB are held by the related parties of the Saha Group. In addition, the tender offer prices are lower than the current market prices. As a result, most of the shareholders of PR and PB may choose not to tender their shares.

SPI will finance the acquisition mainly with new debt. The company plans to issue Bt4,000 million in convertible debentures to secure some funds for transaction; the remaining amount of funding needed will be financed by the issuances of other types of debt instruments. The new debt issuances will drive up leverage. The ratio of total debt as a percentage of total capitalization will climb from 8% in 2016 to 28% in 2017.

The acquisition of PH will enhance SPI's foray into the food industry, which is less sensitive to economic cycles. The acquisition will also diversify SPI's investment portfolio and boost cash flow. SPI's earnings before interest, tax, depreciation, and amortization (EBITDA) is expected to increase by approximately 28%, from the EBITDA of Bt1,936 million recorded in 2016.

SPI is the main holding company of the Saha Group which is a leading consumer product group of companies in Thailand. SPI operates industrial parks and has invested in 155 companies within the Saha Group. As a holding company, SPI acts as a one-stop service provider for the investments the Saha Group makes. The services it offers include providing rental factories and utility services for companies operating in industrial parks, providing consultancy services regarding equity investments, and providing financial support to affiliated companies, among other services.

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. At the end of December 2016, 23 of the 155 companies in which SPI had invested were listed on the Stock Exchange of Thailand (SET). One company was listed on the Market for Alternative Investment (mai), and one company was listed on the Tokyo Stock Exchange. The shareholding structure of the Saha Group has allowed SPI to benefit from diversified sources of dividends which cushion against economic cycles. From

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its past track record, dividend receipts have been fairly stable, even though SPI did not have full control over the dividend policies of all of its affiliates.

Saha Pathana Inter-Holding PLC (SPI)

Company Rating:

AA

Rating Outlook:

Stable

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