TRIS RATING
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SUB SRI THAI PLC

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CORPORATES

Company Rating:	BBB-
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
02/04/15	BBB-	Stable
06/12/11	BBB-	Negative
18/03/11	BBB-	Stable
26/02/10	BBB	Developing
17/02/10	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating of Sub Sri Thai PLC (SST) at "BBB-". The rating reflects SST's market position in the chain restaurant and quick service restaurant (QSR) market segments and its track record in warehouse and document storage businesses. However, the rating is partially weighed down by its weak profitability, earnings growth challenges in the QSR and restaurant businesses, and looming capital expenditures from the restaurant business and a new business.

KEY RATING CONSIDERATIONS

Stable warehouse and document storage businesses

SST has operated warehouse and wharf businesses since 1976 and expanded to document storage business in 1995. The company holds a strong market position with a long track record in the storage business. SST currently operates 32 goods storages and 19 document storages. The revenue from the storage business has grown steadily with a 5-year compounded annual growth rate of 8%. In 2017, the storage business posted revenue of Bt340 million, an increase of 3% from the previous year. The storage business contributed a stable source of revenue at 10% of total revenue and contributed about 27% of the group's earnings before interest, tax, depreciation, and amortization (EBITDA) in 2017.

Well-known QSR and restaurant brands

SST's business profile largely relies on the chain restaurant and QSR businesses, which contributed 85% of total revenue. SST's food and beverage brands are well-known among Thais and foreigners. The company operates, through its subsidiaries, three franchised brands including donut and beverage shops under the Dunkin' Donuts brand, bakery shops under the Au Bon Pain brand, and premium ice cream shops under the Baskin Robbins brand. Apart from franchised QSRs, the company has its owned-brand restaurant, acquired in 2014, under the Greyhound Café (GHC) brand. The company has moderate market coverage with a total of 420 food outlets nationwide.

Small revenue base and thin profitability

SST's food and beverage business sales size is relatively small and profitability is rather low compared with peers, with its revenue of Bt2,832 million and EBITDA of Bt238 million in 2017, or an EBITDA margin of 8.4%. The company faces an earnings growth challenge from the slow economic recovery and intense competition in the restaurant business. Sales dropped 2% in 2017 as same store sales contracted by 2.7% and in-store traffic declined. The drop was mainly attributed to deteriorated Dunkin' Donuts sales, with an 11% drop in revenue from the previous year, to Bt1,020 million in 2017. However, GHC performed well as same store sales and traffic continued to improve in 2017, bringing revenue of Bt844 million in 2017, a 20% increase year-on-year (y-o-y).

Enhanced overseas restaurant footprint

In 2017, there were 17 GHC overseas branches, an increase of three branches during the year, operated under the franchise model. GHC receives upfront franchise fees, shop opening fees, and recurring royalty fees as a percentage of the shop's turnover which will improve the company's profitability as franchise expansions incur few additional costs. In December 2017, the company also opened its first owned overseas GHC restaurant in London. The company plans to open more owned GHC branches in London and Europe given the well-received recent opening of the first restaurant.

In addition, the company acquired a 100% stake in a two Michelin star, historic restaurant in Paris, "Le Grand Vefour", from Mr. Guy Martin, a renowned French chef, in December 2017. The company looks towards further collaboration with Mr. Martin to help the company expand its footprint in Europe and international markets.

Diversifying to a new business

SST is expanding its business by entering into the hotel business. The company will invest in a project consisting of a 62-room hotel named "House of Tin Baron" and a restaurant named "Old Town" located in central Phuket. The company entered into a 30-year land lease agreement with the company's managing director to develop the project. The total construction cost is estimated to be Bt280 million which will be funded by debt. The company believes that, upon completion by the end of 2020, the project will help the company earn more revenue and enhance its profit.

Improved balance sheet from an IPO of Mudman

In April 2017, Mudman PLC (MM), a subsidiary of SST, raised about Bt1,100 million of cash from its initial public offering (IPO). The proceeds are used for repayment of debts. As a result, the adjusted debt to capitalization ratio improved from 59% in 2016 to 45% in the first quarter of 2018. The company's liquidity also improved with the ratio of funds from operations (FFO) to total debt of 20% in the first quarter of 2018.

Based on TRIS Rating's forecast, SST's capital expenditures are expected to be around Bt425-Bt460 million per annum during 2018-2020 which will be used to expand the branches of QSR and full service restaurants and to invest in the new hotel project in Phuket. We assume sales growth at 8% annually, mainly driven by more branches of QSR and full service restaurants and the consolidation of recently acquired Le Grand Vefour restaurant in Paris. During 2018-2020, the company's EBITDA is projected to fall within the range of Bt340-Bt420 million per annum and the adjusted debt to capitalization ratio to move within the band of 46%-49%.

RATING OUTLOOK

The "stable" outlook reflects the expectation that SST will maintain its market positions in its businesses and improve operating performance over time.

RATING SENSITIVITIES

The credit rating of SST could be revised upward if the operating performance improves substantially with a sound balance sheet. The rating could be downgraded if the operating result is weaker than expected for a prolonged period of time or the company makes aggressive debt-funded investments.

COMPANY OVERVIEW

SST was established in 1976 and listed on the Stock Exchange of Thailand (SET) in 1994. As of March 2018, the Sukhanindr family and affiliates held about 66% of SST's total shares. SST operates three lines of business: restaurant and QSR, fashion and lifestyle, and storage. The company initially operated warehouses and wharfs and expanded into document storage services. SST expanded into the soybean and vegetable oil business in 2010 but divested the business in September 2014.

In 2012, SST expanded into the restaurant and QSR segment by acquiring MM, the master franchisee of the Dunkin' Donuts, Au Bon Pain, and Baskin Robbins brands in Thailand. In July 2014, SST, through MM, acquired the Greyhound Group (Greyhound). Greyhound operates the "Greyhound Cafe" (GHC) chain restaurant, and it produces and distributes the "Greyhound" fashion and lifestyle products. As of December 2017, the company operated 420 outlets and one food court. The majority of the stores are franchised outlets.

Across its three major lines of business, the restaurant and QSR segment was the main revenue contributor, providing about 85% of total revenue and 74% of EBITDA in 2017.

KEY OPERTING PERFORMANCE

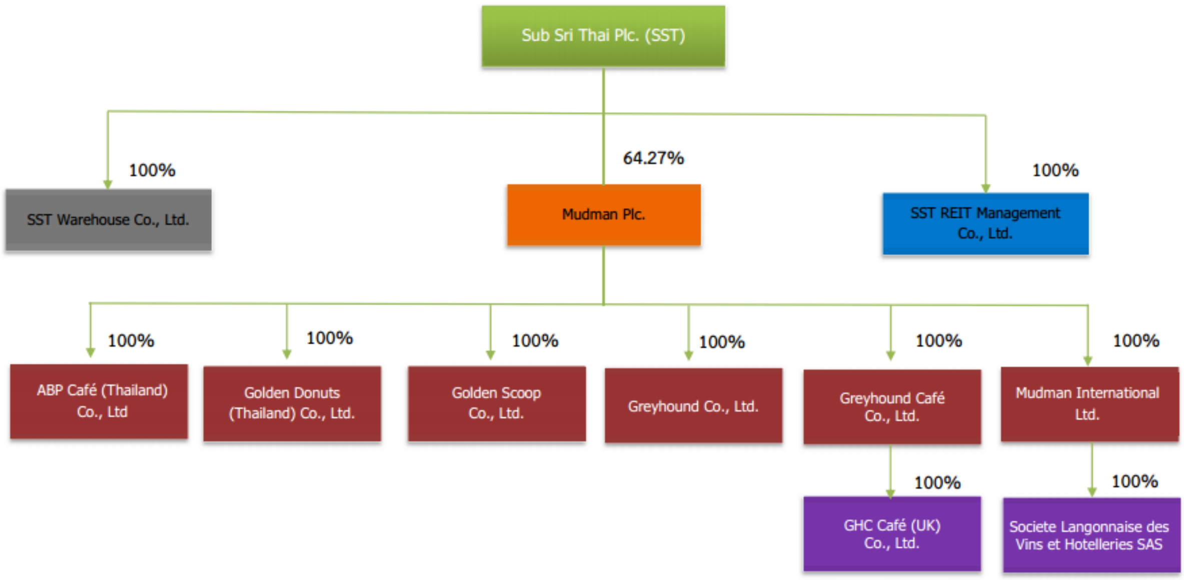
Table 1: SST's Revenue by Line of Business

Unit: %

Business	2011	2012	2013	2014	2015	2016	2017
Storage (%)	53	10	11	11	9	10	11
Soybean (%)	47	14	3	-	-	-	-
Food (%)	-	76	86	84	83	84	85
Fashion (%)	-	-	-	5	8	6	4
Total revenues (Bt million)	**410**	**2,147**	**2,131**	**2,455**	**3,074**	**3,214**	**3,159**

Source: SST

Chart 1: SST's Group Structure as of Dec 2017



Source: SST

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2018	------------- Year Ended 31 December ------------- 2017	2016	2015	2014
Revenue	869	3,159	3,214	3,073	2,455
Gross interest expense	18	80	100	109	110
Net income from operations	1	(21)	41	(65)	(115)
Funds from operations (FFO)	76	244	204	152	113
Capital expenditures	43	281	162	204	166
Total assets	5,636	6,190	5,224	5,496	5,595
Total debts	1,420	1,879	1,953	2,112	1,907
Total adjusted debts	2,698	3,215	3,203	3,270	3,026
Shareholders' equity	3,266	3,269	2,233	2,434	2,729
Operating income before depreciation and amortization as % of sales	14.9	17.1	18.0	15.5	15.4
Pretax return on permanent capital (%)	2.3 **	2.3	3.0	2.2	2.0
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.5	4.2	3.8	3.2	2.7
FFO/total debt (%)	20.3 **	16.9	15.1	11.7	8.3
Total debt/capitalization (%)	45.2	49.6	58.9	57.3	52.6

Note: All ratios have been adjusted by operating leases.
* *Consolidated financial statements*
** *Annualized with trailing 12 months*

Sub Sri Thai PLC (SST)

Company Rating:	BBB-
Rating Outlook:	Stable

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