

# SIAM GLOBAL HOUSE PLC

No. 30/2021  
18 March 2021

## CORPORATES

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

**Last Review Date:** 18/03/20

### Company Rating History:

Date	Rating	Outlook/Alert
11/03/19	A	Stable
23/07/13	A-	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Siam Global House PLC (GLOBAL) at “A”, with a “stable” outlook. The rating reflects GLOBAL’s market position in the home improvement retail business in Thailand as well as its increasing profitability and efficient cost control. These strengths are weighed by the challenges of intensifying competitive pressures, a customer base which is highly susceptible to farm income, and increasing uncertainty concerning softening consumption induced by the Coronavirus Disease 2019 (COVID-19) pandemic.

## KEY RATING CONSIDERATIONS

### Impact from COVID-19

GLOBAL’s total operating revenues declined during the COVID-19 lockdown. The company’s total operating revenues dropped by 4.6% year-on-year (y-o-y) to THB27.3 billion in 2020 following a contraction in same-store sales of 9.3%. In 2020, GLOBAL temporarily closed 40 stores (60% of total stores) in the second half of March, 31 stores (46%) in April, and 19 stores (28%) in the first half of May. Nevertheless, the company’s decline in-store sales were partially offset by an increase in online sales. GLOBAL generated revenue of around THB1.0-THB1.5 million per day from online channels, compared with THB0.2-THB0.45 million per day before the lockdown.

Based on the ongoing economic recovery nationwide and higher farm incomes in Thailand in 2021, we forecast that GLOBAL’s total operating revenues will rise by 9.5% y-o-y in 2021, then grow by 7%-7.5% per year during 2022-2023. Same-store sales should also recover to grow by 3%-5% per year during 2021-2023.

### Increased profitability from improved product mix

The company’s earnings before interest, taxes, depreciation, and amortization (EBITDA) margin improved to 14.1% in 2020 from 13.3% in 2019. The increased gross profit margin was driven by a more favorable product mix. Sales of house brands, which carry higher margins, accounted for 21% of its total sales. GLOBAL aims to increase the contribution of its house brands to around 23% during the next few years.

We expect GLOBAL to be able to maintain sound profitability during 2021-2023. Under our base case scenario, EBITDA margin is projected to stay at 14% during 2021-2023.

### Financial leverage to decline

GLOBAL’s total debt to capitalization ratio declined to 45.6% at the end of 2020, down from 48.8% at the end of 2019, owing to lower working capital needs.

GLOBAL plans to open five to six stores annually in 2021-2023. As a result, capital expenditures are expected to decline to THB2.0-THB2.3 billion per annum, down from THB2.5-2.9 billion per year during 2019-2020. Following on from that, the debt to capitalization ratio is forecast to improve to the 41%-45% range during 2021-2023, from 46%-49% in 2019-2020. Debt to EBITDA ratio is expected to stay around 3-3.6 times over the next three years and the ratio of its funds from operations (FFO) to debt is expected to stay

over 20% during 2021-2023.

We assess GLOBAL to have adequate liquidity over the next 12 months. Sources of liquidity include cash on hand and unused credit facilities of around THB19.4 billion and expected FFO of THB3.4-THB3.9 billion per annum, which should be adequate to cover all debt obligations coming due in the next 12 months.

### Long cash conversion cycle

To ensure availability of products to serve its large-scale retail format, GLOBAL carries large amounts of inventory and has a long cash cycle of around 220 days on average. However, there has been no mismatch in funding. The current ratio has been acceptable at around one time over the past three years with short-term bank loans providing the main source of funds to finance current assets (mainly inventory).

### Leading market position in home improvement retail

GLOBAL is one of the leading modern home improvement retailers in Thailand. At the end of 2020, GLOBAL had 71 outlets throughout Thailand and one outlet in Cambodia. All the stores in Thailand are located upcountry; approximately 39 stores are located in the Northeastern region of Thailand with the remainder located in other regions, except Bangkok.

GLOBAL's total operating revenues declined to THB27.3 billion in 2020 from THB28.6 billion in 2019, a 4.6% drop y-o-y. GLOBAL's profitability has consistently ranked above the industry average. The EBITDA margin has been in the 13%-15% range for the last five years, higher than the 11% average of other major players.

### BASE-CASE ASSUMPTIONS

- Total operating revenues to rise by 9.5% in 2021, then to grow by 7%-7.5% in 2022-2023.
- EBITDA margin to stay around 14% in 2021-2023.
- Total capital spending and investment to be in the range of THB2.0-THB2.3 billion per annum during 2021-2023.

### RATING OUTLOOK

The "stable" outlook reflects our expectation that GLOBAL will maintain its market position in the home improvement retailing industry. The company is expected to sustain profitability while growing its business. In addition, TRIS Rating expects that the FFO to total debt ratio to be maintained at around 20%.

### RATING SENSITIVITIES

GLOBAL's rating and/or outlook could be revised upward if it demonstrates the ability to improve efficiency by shortening its cash conversion cycle and significantly enlarging cash generation on a sustainable basis. This is in addition to 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, leading to materially weakened 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 and listed on the Stock Exchange of Thailand (SET) in 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 December 2020, GLOBAL's major shareholders were the Suriyawanakul family (36%) and SCGD (32%).

As of December 2020, the company operated 71 stores in Thailand and one store in Cambodia, with a total store area of 1,409,656 square meters (sq.m.).

**KEY OPERATING PERFORMANCE**
**Chart 1: GLOBAL's Same-Store-Sales Growth and Total Sales Growth**


Source: GLOBAL

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total operating revenues	27,274	28,598	26,226	21,547	19,465
Earnings before interest and taxes (EBIT)	2,696	2,914	2,754	2,177	2,272
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,847	3,815	3,550	2,926	2,849
Funds from operations (FFO)	3,126	3,014	2,787	2,350	2,252
Adjusted interest expense	266	308	302	215	187
Capital expenditures	2,499	2,882	2,288	2,789	2,728
Total assets	36,020	35,986	31,017	28,230	23,067
Adjusted debt	14,402	15,354	12,896	11,901	8,041
Adjusted equity	17,214	16,131	14,886	13,380	12,346
<b>Adjusted Ratios</b>					
EBITDA margin (%)	14.11	13.34	13.54	13.58	14.64
Pretax return on permanent capital (%)	8.22	9.52	10.19	9.43	11.23
EBITDA interest coverage (times)	14.44	12.38	11.77	13.63	15.23
Debt to EBITDA (times)	3.74	4.02	3.63	4.07	2.82
FFO to debt (%)	21.70	19.63	21.61	19.75	28.01
Debt to capitalization (%)	45.55	48.77	46.42	47.08	39.44

**RELATED CRITERIA**

- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019

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**Siam Global House PLC (GLOBAL)**

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

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