

SIAM GLOBAL HOUSE PLC

No. 35/2022
24 March 2022

CORPORATES

Company Rating: A
Outlook: Stable

Last Review Date: 18/03/21

Company Rating History:

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

Contacts:

Jutatip Chitpromphan
jutatip@trisrating.com

Sarinthorn Sosukpaibul
sarinthorn@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Sasiporn Vajarodaya
sasiporn@trisrating.com



WWW.TRISRATING.COM

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 satisfactory financial performance, operating efficiency, and cost control management. These strengths are weighed down by the challenges of intensifying competitive pressures, a customer base which is highly susceptible to farm income, the volatility of steel cost, and increasing uncertainty concerning post-Coronavirus Disease 2019 (COVID-19) economic recovery.

KEY RATING CONSIDERATIONS

Despite lockdown, GLOBAL’s total operating revenues remain strong

GLOBAL’s business operations were pressured by the impact of the COVID-19 lockdown during the period from July to August 2021, and some provincial flooding. However, the company’s financial performance remained strong in 2021. The company’s total operating revenues rose by 14% year-on-year (y-o-y) to THB38.7 billion. GLOBAL’s same-store sales increased by 19% y-o-y in 2021 due partly to the rise in steel prices. Increasing customer traffic following existing store renovation and improved merchandise assortments also enhanced the company’s same-store sales growth in 2021.

Based on the ongoing economic recovery nationwide, we forecast that GLOBAL’s total operating revenues will rise by 10% y-o-y in 2022, then grow by 9% per year during 2023-2024. Same-store sales should grow by 4%-6% per year during 2022-2024.

Improving operating results

GLOBAL’s gross margin widened to 25.1% in 2021, up from 23.8% in 2020. This was driven by a more favorable product mix. Sales of house brands, which carry higher margins, accounted for 24% of total sales. The rise in more high-margin products, especially steel products, accounting for about 20% of GLOBAL’s total sales, also pushed up the overall gross margin of the company.

GLOBAL’s earnings before interest, taxes, depreciation, and amortization (EBITDA) margin also widened in 2021, rising to 16.2% compared with 14% in 2020. We expect GLOBAL to maintain sound profitability during 2022-2024. Under our base-case scenario, its EBITDA margin is projected to stay at 13%-14% during 2022-2024.

Financial leverage to decline

GLOBAL’s total debt to capitalization ratio declined to 42.7% at the end of 2021, down from 45.5% at the end of 2020, owing to lower working capital needs.

GLOBAL plans to open seven to eight stores annually in 2022-2024. On that basis, capital expenditures are expected to decline to THB2.0-THB2.3 billion per annum. Following on from that, the debt to capitalization ratio is forecast to improve to 35%-41% during 2022-2024, from 43%-46% in 2020-2021. Net debt to EBITDA ratio is expected to stay at around 2.4-3 times over the next three years and the ratio of its funds from operations (FFO) to debt to stay at around 27%-34% during 2022-2024.

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 THB20 billion and expected FFO of THB4-THB5 billion per annum during 2023-2024, which should adequately cover all its debt obligations.

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 1 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 2021, GLOBAL had 75 outlets throughout Thailand and one outlet in Cambodia. All its Thailand stores are located upcountry; about 30 in northeastern Thailand with the rest in other regions outside of Bangkok.

GLOBAL's total operating revenues rose to THB34 billion in 2021 from THB27.3 billion in 2020, a 25% rise y-o-y. GLOBAL's profitability has consistently ranked above industry average. The EBITDA margin has been in the 13%-16% range for the last five years, higher than the 11% average of other major players.

International expansion

GLOBAL had expanded its business into neighboring countries, covering the Lao People's Democratic Republic (Lao PDR), Cambodia, and Myanmar during 2015-2020. International investment should support the company's strategic expansion of retail business in the Association of South East Asian Nations (ASEAN). In November 2021, Global House International Co., Ltd. (GHI), a joint venture between GLOBAL and SCG Distribution Co., Ltd. (SCGD), announced its investment in a 22% stake in Caturkarda Depo Bangunan Tbk (CKDB), a leading Indonesian retailer of building material, decorative, and hardware products under the brand "Depo Bangunan". The total investments of GHI are THB847 million. In addition, GLOBAL established the subsidiary, Guangxi Global House Co., Ltd., to support the company's product procurement from China to Thailand and neighboring countries.

BASE-CASE ASSUMPTIONS

- Total operating revenues to rise by 10% in 2022, then to grow by 9% in 2023-2024.
- EBITDA margin to stay around 13%-14% in 2022-2024.
- Total capital spending and investment to be in the range of THB2.0-THB2.3 billion per annum during 2022-2024.

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.

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. Witon Suriyawanakul and listed on the Stock Exchange of Thailand (SET) in 2009. In November 2012, SCGD, 100% owned by Siam Cement Group PLC (SCG), became a strategic partner of GLOBAL. As of December 2021, GLOBAL's major shareholders were the Suriyawanakul family (36%) and SCGD (32%).

As of December 2021, the company operated 75 stores in Thailand and one store in Cambodia, with a total store area of 1,465,686 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 ----- | | | | |
|--|-----------------------------------|--------|--------|--------|--------|
| | 2021 | 2020 | 2019 | 2018 | 2017 |
| Total operating revenues | 34,007 | 27,274 | 28,598 | 26,226 | 21,547 |
| Earnings before interest and taxes (EBIT) | 4,325 | 2,678 | 2,915 | 2,754 | 2,177 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 5,508 | 3,818 | 3,816 | 3,550 | 2,926 |
| Funds from operations (FFO) | 4,472 | 3,111 | 3,006 | 2,779 | 2,342 |
| Adjusted interest expense | 183 | 248 | 308 | 302 | 215 |
| Capital expenditures | 1,858 | 2,195 | 2,882 | 2,288 | 2,789 |
| Total assets | 39,275 | 36,020 | 35,986 | 31,017 | 28,230 |
| Adjusted debt | 14,787 | 14,398 | 15,354 | 12,896 | 11,901 |
| Adjusted equity | 19,836 | 17,214 | 16,131 | 14,886 | 13,380 |
| Adjusted Ratios | | | | | |
| EBITDA margin (%) | 16.20 | 14.00 | 13.34 | 13.54 | 13.58 |
| Pretax return on permanent capital (%) | 12.50 | 8.16 | 9.52 | 10.19 | 9.43 |
| EBITDA interest coverage (times) | 30.16 | 15.41 | 12.38 | 11.77 | 13.63 |
| Debt to EBITDA (times) | 2.68 | 3.77 | 4.02 | 3.63 | 4.07 |
| FFO to debt (%) | 30.25 | 21.60 | 19.58 | 21.55 | 19.68 |
| Debt to capitalization (%) | 42.71 | 45.55 | 48.77 | 46.42 | 47.08 |

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology – Corporate, 26 July 2019

Siam Global House PLC (GLOBAL)

| | |
|------------------------|--------|
| Company Rating: | A |
| Rating Outlook: | Stable |

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2022, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria