

# SIAM GLOBAL HOUSE PLC

No. 45/2023  
30 March 2023

## CORPORATES

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

**Last Review Date:** 24/03/22

### 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 leading position in the home improvement retail business in Thailand, its satisfactory profitability, and manageable working capital. The rating also incorporates our concerns over expected higher financial leverage from new store expansion, the cyclical nature in the housing market, and unfavorable economic sentiment caused by rising inflation and high household debt.

## KEY RATING CONSIDERATIONS

### Rating underpinned by leading market position

We expect GLOBAL to retain its leading status as a leading modern home improvement retailer in Thailand. GLOBAL’s revenue and earnings base have ranked in the top-three tier for the past several years. GLOBAL reported annual operating revenue of THB34-THB35 billion in 2021-2022, up from the THB26-THB28 billion range in 2018-2020. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) increased to around THB5.5 billion in 2021-2022 from THB3.5-THB3.8 billion in 2018-2020. GLOBAL’s EBITDA margin ranged between 13%-16% over the past five years, remaining within the industry average of 10%-16%.

As of December 2022, GLOBAL owned and operated 77 stores in Thailand and one store in Cambodia. All stores in Thailand are located in the provinces, with around 40% in northeastern Thailand. Apart from its own stores, GLOBAL also invests in home improvement retailers in Laos, Myanmar, and Indonesia through joint ventures (JVs). The JVs operated 30 stores as at the end of 2022.

### Expected moderate revenue growth

We expect GLOBAL’s total operating revenue to be flat in 2023 and grow by 7%-8% per annum during 2024-2025. GLOBAL’s revenue will likely remain at THB35 billion in 2023, and from there build up to reach the THB38-THB41 billion range in 2024-2025. Moderate revenue growth follows our base-case assumption of softer same-store sales growth over the next three years with six new stores added every year.

GLOBAL reported the same-store sales growth of 2.5% in 2022, shrinking from 19% in 2021. Its same-store sales growth in 2022 was constrained by unfavorable economic conditions and decreasing steel prices in the last quarter. We view same-store sales growth in 2023 to continue under pressure from rising inflation and high household debt levels, which directly impact the purchasing power of target customers. We project same-store sales growth to turn negative of -3% in 2023 and revive by 2%-3% per annum in 2024-2025.

### Satisfactory profit margin

GLOBAL’s profit margins improved steadily in the past two years, thanks to the higher sale proportion from house brand products and rising steel prices. The sales contribution from house brands, achieving higher profit margins than other branded products, increased to around one-fourth of total sales in 2021-2022 from around 20% in 2019-2020. The profit margins of steel products also rocketed alongside steel prices. As a result, GLOBAL’s gross margin improved to 26%-27% in 2021-2022 from 23%-25% in earlier years. Its EBITDA margin reached 16% in 2021-2022 from 13%-14% in 2017-2020.

Our base-case scenario expects GLOBAL's profitability will be in line with the industry average. We project the sale proportion from house brand products to reach 26%, while gross profit margin to lower to 24%-26% in 2023-2025 due mainly to decreasing steel prices and intense competition among leading home improvement retailers. We expect GLOBAL's EBITDA to stand at around THB5 billion with an EBITDA margin of 12%-14% over the forecast period.

### Manageable working capital

GLOBAL's construction material products comprise 60% of the total, with the rest from hardware and decorative products. GLOBAL sources most of its products from overseas, requiring a longer lead time than local products. To ensure the availability of products, the company carries large amounts of inventory. Thus, GLOBAL had a long cash conversion cycle of 210 days on average in 2018-2021. Its cash conversion cycle improved to below 200 days in 2022, supported by more efficient product assortment planning and merchandise management. With its continued business expansion, we are of the opinion that GLOBAL needs to stock some of its inventory in advance. This will push longer inventory and cash conversion days. However, we expect the company to continue managing working capital efficiently. GLOBAL normally uses short-term loans to finance inventory and long-term loans to fund capital expenditures.

### Elevated financial leverage from new store expansion

We view GLOBAL's debt burden as heading upwards in the wake of its ongoing store expansion in the next three years. In 2022, GLOBAL launched two stores and spent capital expenditures of THB1.4 billion. The number of new stores and capital spent were much lower than in recent years. Unfavorable global and domestic economy caused the company to postpone new store expansion last year. As a result, GLOBAL's net debt to EBITDA ratio improved to 2.4 times in 2022 from 2.7 times in 2021 and 3.8 times in 2020.

Given its plan to continually launch 5-7 stores every year, GLOBAL's net debt to EBITDA ratio is expected to hover at around 3 times in 2023-2025. Its funds from operations (FFO) to total debt ratio is likely to decline to the 24%-28% range from above 30% in 2021-2022. This is based on our assumptions that GLOBAL will launch five stores in Thailand and one store in either Cambodia or the Philippines every year. We estimate the annual budget for capital expenditures at THB2.5-THB3.5 billion. This amount incorporates land acquisition, land lease, construction, and renovation costs.

We assess GLOBAL's liquidity as adequate over the next 12 months. As of December 2022, GLOBAL's anticipated uses of funds over the next 12 months comprised debts due totaling THB11 billion, planned capital expenditures of THB2.5 billion, and a dividend payout ratio of 41%. GLOBAL's sources of funds consisted of THB1.2 billion in cash and cash equivalents and THB21 billion in unused credit facilities. FFO is forecast to reach around THB4 billion in 2023.

### BASE-CASE ASSUMPTIONS

The key assumptions in TRIS Rating's base-case forecast for GLOBAL's operations during 2023-2025 are as follows:

- Annual budget for capital expenditures of THB2.5-THB3.5 billion
- Total operating revenues to be flat in 2023, then grow by 7%-8% in 2024-2025
- Gross profit margin to range from 24%-26% and EBITDA margin from 12%-14%

### RATING OUTLOOK

The "stable" outlook reflects our expectation that GLOBAL should be able to sustain its leading market position in the home improvement retailing industry. Despite pursuing business expansion, we expect the company to continue its financial profile as targeted.

### RATING SENSITIVITIES

GLOBAL's credit upside could materialize if the company's EBITDA level heads towards THB8-THB10 billion on a sustained basis, while maintaining its financial profile at the current level. Conversely, the rating and/or outlook could be revised downward if its operating results and/or financial position deteriorate materially from our base-case forecast causing the net debt to EBITDA ratio to rise above 3.5 times.

### COMPANY OVERVIEW

GLOBAL is a leading warehouse-style home improvement retailer in Thailand. It was established in 1997 by Mr. Witoon Suriyanakul 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 2022, GLOBAL's major shareholders were the Suriyanakul family (36%) and SCGD (33%). The company operated 77 stores in Thailand and one store in Cambodia, with a total store area of 1,492,468 square meters (sq.m.).

In November 2021, Global House International Co., Ltd. (GBI), a joint venture between GLOBAL and 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 GBI are THB847 million. In addition, GLOBAL established the subsidiary, Guangxi Global House International Trade Co., Ltd., to support the company’s product procurement from China to Thailand and neighboring countries.

In June 2022, GLOBAL signed the joint venture agreement with Cosco Capital Incorporated, operating various businesses in the Philippines, including grocery retailer, office supply retailer, liquor distributor, real estate developer, and oil and minerals. GLOBAL established Global House Philippines Co., Ltd. (GBP) to operate modern trade retail stores for products such as building and construction-related materials, home decorative goods, and home improvement products in the Philippines. GLOBAL also established Global House Philippines Estate Co., Ltd. (GBP ESTATE) to lease lands for developing Global House stores in the Philippines.

**KEY OPERATING PERFORMANCE**

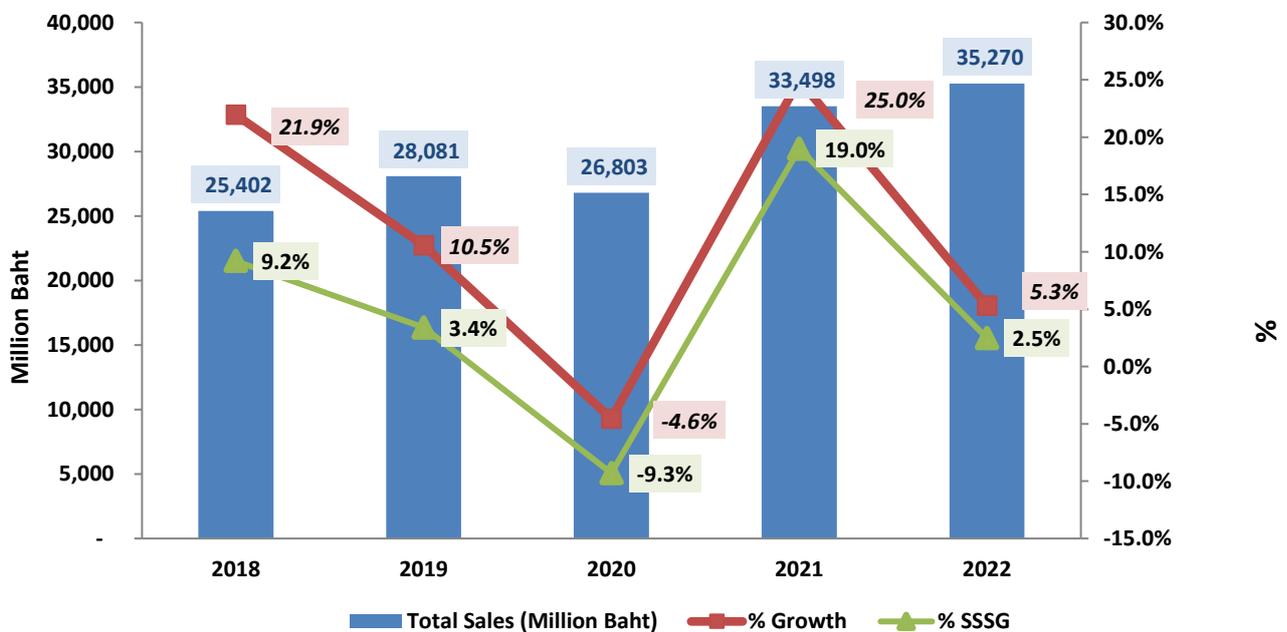
**Table 1: GLOBAL’s Revenue Breakdown by Product Group**

Unit: %

Product groups	2018	2019	2020	2021	2022
Construction materials product	63.2	62.6	63.0	63.2	61.4
Hardware and decorative	36.8	37.4	37.0	36.8	38.6
<b>Total sales</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Total sales (Mil. THB)</b>	<b>25,402</b>	<b>28,081</b>	<b>26,803</b>	<b>33,498</b>	<b>35,270</b>

Source: GLOBAL

**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 -----				
	2022	2021	2020	2019	2018
Total operating revenues	35,898	34,002	27,274	28,598	26,226
Earnings before interest and taxes (EBIT)	4,513	4,325	2,678	2,915	2,754
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,639	5,508	3,818	3,816	3,550
Funds from operations (FFO)	4,565	4,472	3,111	3,006	2,779
Adjusted interest expense	197	183	248	308	302
Capital expenditures	1,444	1,858	2,195	2,882	2,288
Total assets	39,148	39,275	36,020	35,986	31,017
Adjusted debt	13,241	14,787	14,398	15,354	12,896
Adjusted equity	22,091	19,836	17,214	16,131	14,886
<b>Adjusted Ratios</b>					
EBITDA margin (%)	15.71	16.20	14.00	13.34	13.54
Pretax return on permanent capital (%)	12.38	12.50	8.16	9.52	10.19
EBITDA interest coverage (times)	28.68	30.16	15.41	12.38	11.77
Debt to EBITDA (times)	2.35	2.68	3.77	4.02	3.63
FFO to debt (%)	34.48	30.25	21.60	19.58	21.55
Debt to capitalization (%)	37.48	42.71	45.55	48.77	46.42

\* Consolidated financial statements

## RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

## Siam Global House PLC (GLOBAL)

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

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