

# I.C.C. INTERNATIONAL PLC

No. 112/2021  
19 July 2021

## CORPORATES

**Company Rating:** AA-  
**Outlook:** Stable

**Last Review Date:** 15/07/20

### Company Rating History:

| Date     | Rating | Outlook/Alert |
|----------|--------|---------------|
| 15/07/20 | AA-    | Stable        |
| 23/03/05 | AA     | Stable        |
| 12/07/04 | AA-    | Stable        |
| 11/07/02 | AA-    | -             |

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## RATIONALE

TRIS Rating affirms the company rating on I.C.C. International PLC (ICC) at “AA-” with “stable” outlook. The rating reflects the company’s lengthy track record as a distributor of fashion and consumer products within the Saha Group and its leading position in the lingerie market. The rating also takes into consideration ICC’s low debt level, strong balance sheet, and financial flexibility from its liquid investment portfolio.

These strengths are tempered by ICC’s drastic revenue decline as a result of the economic fallout from the Coronavirus Disease 2019 (COVID-19) pandemic along with a slow recovery of fashion products.

## KEY RATING CONSIDERATIONS

### Operating performance hurt by COVID-19

ICC’s operating performance during 2020 through the first quarter of 2021 suffered from a severe impact of the COVID-19 pandemic. In 2020, ICC generated THB7.8 billion in total sales, down by 31% from 2019. The revenue slump was largely attributable to the temporary closure of major distribution channels such as department stores from the end of March to mid-May 2020, the absence of foreign tourists, movement restrictions, as well as weak consumer confidence.

During the first quarter of 2021, revenue dropped by a further 16.4% year-on-year (y-o-y) to about THB1.8 billion, in the wake of the second wave of COVID-19 outbreak that started in late December 2020 and continued to January and February 2021. The fragile domestic economy and softened consumer spending resulted in fewer customers visiting stores, exacerbating the situation.

The economic fallout from the COVID-19 outbreak, coupled with a high level of household debt, has raised concerns over the purchasing power of consumers. In our view, the outlook in 2021 is likely to remain sluggish, owing to the prolonged and escalated COVID-19 outbreak, coupled with absence of foreign tourists. A rebound in spending for fashion products will likely take more time to return to the pre-COVID-19 level. Changes in purchasing habits and intense competition across industry are other negative factors that contribute to poor industry prospects in the medium term.

Our base-case forecast projects ICC’s revenue in 2021 will continue to be under pressure amid a weak economy and successive waves of COVID-19 new infections. We expect consumer sentiment and spending environments to rebound in 2022, supported by wider vaccine distribution and easing social-distancing measures. We forecast ICC’s total sales growth to rebound to the mid-teen percentage range in 2022 and by about 5% in 2023, but remain about 25% below the 2019 level. A resumption in social activities, together with a rise in foreign tourist numbers are essential keys to unlock an economic recovery in 2022 and 2023.

### New retail sales to tap change in consumer behavior

ICC has a nationwide distribution network, covering around 3,000 points of sale as of March 2021. Department stores and traditional shops are ICC’s major distribution channels, making up around 48% and 25% of ICC’s total sales in 2020, respectively. The COVID-19 pandemic had a severe impact on ICC’s sales through department stores in 2020, dropping by nearly 40% y-o-y,

while sales through traditional shops decreased by 28% y-o-y. The pandemic has brought a shift in consumer behavior from conventional channels to digital channels. More people now prefer online shopping to shopping at malls, a trend that is expected to remain even after the pandemic.

ICC has attempted to expand sales across new retail formats, such as online shopping, collaborations with strategic online platform partners, and television (TV) shopping to reach customers and grasp growing demand during the period of social-distancing measures. In the first quarter of 2021, ICC recorded a growth of 8% in omni-channel retail sales compared with the same period of the previous year. Sales generated by these platforms accounted for 5.2% of total sales, up from 4% for the same period of the previous year. Nonetheless, sales from these channels remain relatively small and are still insufficient to compensate for the loss of revenue from department stores and traditional shops.

ICC has focused more on the efficiency, accuracy, speed, and punctuality of the shipping process. The company has also been more selective in the types of products to suit online channels. ICC expects on-line sales will make up around 10% of the total sales in the long term.

### **Leader in the lingerie segment but market share declining**

ICC's sales of lingerie products in 2020 came to THB2.1 billion, or about 27% of the company's total revenue. Products sold under the Wacoal brand contributed about 90% of ICC's lingerie sales.

In 2020, ICC's sales from the lingerie segment decreased by 42% from 2019, moving in tandem with the market. The total market value of lingerie sold in department stores in Thailand was about THB2.67 billion, a 44% contraction from the previous year. Competition in the market remains intense, particularly with the adoption of aggressive marketing activities and price discount offers. In terms of sales, ICC ranks first in the Thai lingerie market sold through department stores, holding a market share of about 57.2% in 2020. However, ICC's lingerie sales continued to decline over the last two years with market share dropping from 60.4% in 2019, and 62.1% in 2018.

Among the various brands, Wacoal, ICC's flagship lingerie brand, is the market leader in Thailand. Wacoal has a strong brand image for fit and functionality and is well-accepted among working-age customers. The Wacoal brand alone held a market share of about 51.3% in 2020, down from 54.4% in 2019. Although still holding the highest share of the market, Wacoal's share has gradually eroded due to the fierce competition and price-cutting strategies. Winning back its market share could prove challenging for ICC. The company has attempted to revamp its operating process and improve efficiency in order to enhance its competitive edge in the long term.

### **Beauty product sales continued to drop, weaker than peers**

Social distancing due to the COVID-19 pandemic has reduced social interaction and the need to meet other people, adversely affecting sales in the beauty industry. Make-up category suffered the worst decline, while skin care segment has been relatively flat. However, the personal care segment, including cleansing products and hand sanitizers has witnessed sales growth. Overall, the market value of cosmetic products through department stores in 2020 was THB58 billion, down by 8% from 2019.

ICC's sales in the beauty segment have suffered from intense competition over the past three years. The number of competitors and brands, particularly in the self-select cosmetic products and cosmeceutical segments, increased markedly. The fallout from the pandemic also dragged ICC's cosmetic sales in 2020. The company's revenue from cosmetic products has continued to decline, dropping by around 10% annually during 2018-2019, and plunging by 28% in 2020, a weaker performance than peers. ICC has attempted to boost sales through the online channels, focusing more on hand sanitizers and cleansing products to grasp rising demand in these areas, as well as launching marketing activities and sales promotions.

### **Shrinking profitability but gradual recovery expected**

In 2020, the company reported a net loss of THB59 million, down from THB719 million net profit in 2019 due to a smaller revenue base and high fixed operating expenses. The company's earnings before interest, taxes, depreciation, and amortization (EBITDA) in 2020 declined by about 40% to around THB573 million, from about THB934 million in the previous year. EBITDA for the first quarter of 2021 rebounded to THB141 million, compared with an EBITDA loss in the same period of the previous year. EBITDA margin was about 7.2% in 2020 and 7.7% in the first three months of 2021, dropping from the 8%-8.5% range during 2018-2019.

ICC has been revamping its internal operations and simplifies complex procedures in order to improve its operating efficiency. At the same time, the company has focused on cost reductions. In 2020, ICC's selling, general, and administrative expenses (SG&A) decreased by 31% from 2019 (or around THB1.2 billion), and by 29% y-o-y for the first three months of 2021. SG&A dropped to 32.9% of total revenue for the first three months of 2021 from 34.1% during 2019

through 2020.

In all, we view ICC's earnings enhancement will largely hinge on the effectiveness of its cost reduction measures and ability to recover its sales. During the next two years, we project ICC's EBITDA to gradually improve, following the company's sales recovery, cost management, as well as an improvement in business processes. EBITDA margin should stay in the 7.5%-8.5% range during 2021-2023. In our forecast, we project the company's funds from operations (FFO) to be in the range of THB500-THB700 million annually.

#### **Strong balance sheet with minimal financial leverage**

ICC adopts a conservative financial policy and has been debt free for a long time. ICC intends to maintain the debt-free policy as part of its long-term strategy. As of 31 March 2021, the company only had THB29 million in outstanding debts. The borrowed funds are solely for the working capital needs of a subsidiary. ICC has made some guarantees to some related companies. The total amount of outstanding guarantees as of March 2021 was totaled THB638 million, up from THB498 million at the end of 2020. The increased guarantee amount was to support Sahapat Real Estate Co., Ltd. ICC owns a 19.9% stake in Sahapat Real Estate, a logistics and warehouse company of the Saha Group.

Since ICC has had no sizable capital expenditure and has maintained low debt level for a long period of time, the company is in a net cash position. As of March 2021, cash on hand and cash equivalents amounted to around THB2.63 billion versus adjusted debt of THB1.98 billion. The company also had an undrawn bank facility of THB2.64 billion. ICC had a strong balance sheet, supported by large equity base amounting to nearly TH27 billion as of March 2021. Primary uses of funds are capital expenditures. We forecast ICC will incur a normal level of capital expenditures of about THB220 million per annum during 2021-2023. We expect ICC's capital structure to remain healthy and the liquidity to remain ample during the next three years.

#### **High financial flexibility**

ICC holds stakes in 23 listed firms and several non-listed firms. Dividend income from the company's investments contributed about 60% of its EBITDA in 2020. The COVID-19 pandemic and economic recession have had a negative impact on ICC's dividend receipts, particularly receipts from the cosmetics and fashion segments. Dividend receipts in 2020 amounted to THB343 million, down from THB531 million in 2019. Over the next three years, investments are expected to yield dividends of at least THB300 million per year.

ICC's financial flexibility is enhanced by its liquid investment portfolio. The market value of ICC's listed-firm investment holdings was THB8.7 billion at the end of March 2021. The value of the investment portfolio was about 13 times greater than the total amount of debt outstanding, including guarantees to related companies at the end of March 2021.

#### **BASE CASE ASSUMPTIONS**

- Revenue in 2021 to decline by 10%, and then rebound by 15% in 2022 and about 5% in 2023, but remaining about 25% below the 2019 level.
- EBITDA margin to stay in the 7.5%-8.5% range during 2021-2023.
- Total capital spending of about THB220 million per annum over the next three years.

#### **RATING OUTLOOK**

The "stable" outlook reflects TRIS Rating's expectation that ICC will maintain its position as the fashion product distribution arm of the Saha Group and maintain its dominant position in the lingerie market. Revenue and profitability are expected to gradually rebound in the medium term. We also expect ICC to continue to maintain its conservative financial policies, strong balance sheet, and healthy investment portfolio.

#### **RATING SENSITIVITIES**

The credit downside case would materialize if ICC adopts an aggressive shift in the use of leverage. A rating downside would be triggered if the company's operating performance deteriorates significantly more than expected. Prolonged cash flow shrinkage may materially affect the company's credit profile. The rating is unlikely to be upgraded in the next 12-18 months, taking into account projected weakening operating performance. However, a rating upside case would materialize if the company's operating performance improves materially on a sustained basis.

#### **COMPANY OVERVIEW**

ICC was established in 1964 and listed on the Stock Exchange of Thailand (SET) in 1978. ICC is one of the major companies within the Saha Group, distributing fashion and consumer products. As of May 2021, approximately 64% of ICC's shares

were held by the Chokwatana family and companies in the Saha Group.

ICC's business strength is underpinned by its diverse product categories, broad portfolio of brands, and nationwide distribution network. ICC offers about 70 brands, covering international licensed labels and its own brands. International licensed brands such as "Wacoal", "Lacoste", and "Arrow", are well accepted by Thai consumers. ICC also manages its own brands such as "BSC", "Enfant", "Essence", and "St. Andrews". Revenues from the international licensed brand products made up approximately 67% of its total sales in 2020.

ICC's competitive position and market share in the lingerie are particularly notable. The company has a lengthy track record in the industry and receives support from suppliers within the Saha Group.

For the first quarter of 2021, its total sales were THB1.8 billion. The top contributors were men's apparel (27% of revenue), lingerie (25%), fabric softeners (17%), and cosmetics (9%).

## KEY OPERATING PERFORMANCE

**Table 1: ICC's Sales Breakdown**

| Line of Business   | 2018          |              | 2019          |              | 2020         |              | Jan-Mar 2021 |              |
|--------------------|---------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|
|                    | Mil. THB      | %            | Mil. THB      | %            | Mil. THB     | %            | Mil. THB     | %            |
| Lingerie           | 4,020         | 32.6         | 3,569         | 31.6         | 2,087        | 26.7         | 449          | 25.1         |
| Men's wear         | 3,131         | 25.4         | 2,991         | 26.4         | 2,115        | 27.1         | 486          | 27.1         |
| Cosmetics          | 1,142         | 9.2          | 1,027         | 9.1          | 739          | 9.5          | 168          | 9.4          |
| Fabric softeners   | 1,403         | 11.4         | 1,400         | 12.4         | 1,223        | 15.7         | 310          | 17.3         |
| Others             | 2,654         | 21.5         | 2,322         | 20.5         | 1,645        | 21.1         | 378          | 21.1         |
| <b>Total sales</b> | <b>12,350</b> | <b>100.0</b> | <b>11,309</b> | <b>100.0</b> | <b>7,809</b> | <b>100.0</b> | <b>1,791</b> | <b>100.0</b> |

Source: ICC

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

|   | -----Year Ended 31 December ----- |        |        |        |        |
|---|-----------------------------------|--------|--------|--------|--------|
|   | Jan-Mar<br>2021                   | 2020   | 2019   | 2018   | 2017   |
| Total operating revenues  | 1,835                             | 7,975  | 11,590 | 12,597 | 12,663 |
| Earnings before interest and taxes (EBIT)                                   | 5                                 | 81     | 634    | 858    | 709    |
| Earnings before interest, taxes, depreciation,<br>and amortization (EBITDA) | 141                               | 573    | 934    | 1,073  | 972    |
| Funds from operations (FFO)   | 141                               | 423    | 862    | 979    | 867    |
| Adjusted interest expense   | 3                                 | 94     | 16     | 19     | 19     |
| Capital expenditures  | 25                                | 229    | 347    | 201    | 335    |
| Total assets  | 32,250                            | 32,228 | 23,645 | 23,550 | 23,280 |
| Adjusted debt   | 0                                 | 0      | 0      | 0      | 158    |
| Adjusted equity   | 26,814                            | 27,117 | 20,470 | 20,245 | 19,911 |
| <b>Adjusted Ratios</b>  |                                   |        |        |        |        |
| EBITDA margin (%)   | 7.69                              | 7.19   | 8.06   | 8.52   | 7.67   |
| Pretax return on permanent capital (%)                                      | 0.76 **                           | 0.32   | 2.95   | 4.05   | 3.62   |
| EBITDA interest coverage (times)  | 56.04                             | 6.07   | 59.69  | 57.33  | 52.37  |
| Debt to EBITDA (times)  | 0.00 **                           | 0.00   | 0.00   | 0.00   | 0.16   |
| FFO to debt (%)   | n.m. **                           | n.m.   | n.m.   | n.m.   | 550.01 |
| Debt to capitalization (%)  | 0.00                              | 0.00   | 0.00   | 0.00   | 0.79   |

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

n.m. Not meaningful

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## RELATED CRITERIA

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- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

## I.C.C. International PLC (ICC)

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|                        |        |
|------------------------|--------|
| <b>Company Rating:</b> | AA-    |
| <b>Rating Outlook:</b> | Stable |

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## TRIS Rating Co., Ltd.

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