TRIS RATING
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SUB SRI THAI PLC

No. 57/2020
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CORPORATES

Company Rating:	BBB-
Outlook:	Negative

Last Review Date: 14/06/19

Company Rating History:

Date	Rating	Outlook/Alert
21/04/15	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 on Sub Sri Thai PLC (SST) at "BBB-" and revises the rating outlook to "negative" from "stable". The "negative" outlook reflects the impact of the coronavirus (COVID-19) pandemic on SST's restaurant business, and the risk that the depth of the negative impact from the pandemic would be more severe than our projection. The "negative" outlook also reflects an expected rise in financial leverage driven by the company's overseas expansion plan, and its weaker-than-expected operating performance resulting from the intense competition in the restaurant business. The rating continues to reflect the company's strength in the chain restaurant and quick service restaurant (QSR) market segments and its track record as a warehouse operator and provider of document storage services.

KEY RATING CONSIDERATIONS

COVID-19 to sharply affect restaurant performance in 2020

The COVID-19 pandemic is severely disrupting the economic system of the country, particularly the restaurant industry, following the imposition of various measures to minimize the spread of the virus by the government with focus on social distancing encouragement. The measures include the country lockdown which has led to travel restrictions, as well as work-from-home and stay-at-home initiatives, and mandatory mall and shop closures, particularly dine-in restaurants. The company has temporarily closed some of its QSRs and all of its dine-in restaurants for as long as the government requires. The company has shifted its focus to take-out and delivery capabilities to capture more eat-in demand during the stay-at-home period.

TRIS Rating expects SST's revenue from the restaurant business to decline substantially by around 30% to Bt2.2 billion in 2020. We expect sales to drop by 50%-70% during the mandatory closure period and by 10%-30% during post lockdown, assuming that the outbreak can be largely contained by mid-2020. We predict sales to gradually recover to Bt3.3-Bt3.5 billion per annum over 2021-2022. We expect the company to be able to reduce its fixed costs in the restaurant business by around 30% during the lockdown period as the company has taken steps to reduce costs, including cutting payroll and negotiating with landlords to waive or reduce rental fees. We project the company's adjusted earnings before interest, tax, depreciation and amortization (EBITDA) from the restaurant business to fall to Bt180 million in 2020, from Bt550 million in 2019, and recover to Bt530-Bt560 million per annum in 2021-2022.

Steady profits from the warehouse business

SST has a long track record and established market positions in the warehouse, wharf, and document storage businesses. The warehouse business provides a source of revenue and profit that is quite stable. This business accounted for 12% of total revenue in 2019 and 29% of the group's adjusted EBITDA.

Revenue from the warehouse business was around Bt400 million in 2019, an increase of 1% year-on-year (y-o-y). The profitability remained healthy with adjusted EBITDA of around Bt220 million in 2019 and an adjusted EBITDA margin of 55%. Under our base-case forecast, we expect revenue from the warehouse business to stay flat at around Bt400 million in 2020 and grow by 1%-2% per annum during 2021-2022. The adjusted EBITDA margin is expected to stay around 50% over the same period.

Well-known QSR and restaurant brands

SST's market position is underpinned by its well-known restaurant brands and moderate level of market coverage. The company's restaurant portfolio features three franchised brands ("Dunkin' Donuts", "Au Bon Pain", and "Baskin Robbins") and an owned brand "Greyhound Café" (GHC). The company also operates a Greyhound Café restaurant in London and "Le Grand Vefour", a two Michelin-star French fine-dining restaurant in Paris. GHC contributed around 29% of the company's EBITDA in 2019 while the three franchised brands accounted for around 43%. SST's restaurant network includes 281 Dunkin' Donuts outlets, 78 Au Bon Pain outlets, 29 Baskin Robbins outlets, and 25 Greyhound Café locations as of December 2019.

Small revenue base and thin profitability

SST's restaurant business is smaller and less profitable when compared with peers. The company's revenue from the restaurant business was Bt3 billion and adjusted EBITDA was Bt550 million in 2019, with the adjusted EBITDA margin of 18%. Same-store sales for each brand fell 6%-10% in 2019 as a result of intense competition and the sluggish economy in Thailand.

Going forward, TRIS Rating expects intense competition in the restaurant industry to continue, and the weakening performance to be exacerbated by the pandemic in 2020. We expect same-store sales for each brand to fall by 25%-35% in 2020 and gradually recover to pre COVID-19 levels in 2022. We expect the intense competition to continue exerting pressure on the company's profitability in 2021-2022 as restaurant operators may need to spend more on marketing activities and offer sales promotions to stay competitive.

Expanding overseas

As part of an effort to diversify internationally, the company in late 2017 acquired a well-known two Michelin-star French restaurant, Le Grand Vefour, in Paris. Besides, the company opened its first owned GHC restaurant outside Thailand in London in the same period. Le Grand Vefour's performance has improved slightly since the acquisition as its EBITDA turned slightly positive in 2019. However, GHC London's performance fell short of expectations as its sales declined in 2019 from a year earlier.

The company aims to continue expanding in the overseas market, where it sees greater growth potential. Despite the ongoing pandemic situation, the company, together with business partner Mr. Guy Martin, the head chef of Le Grand Vefour, plan to carry on with its plans to open several more restaurants in 2020-2021. Around five restaurants in France will be added to its portfolio each year. TRIS Rating holds the view that the overseas expansion adds uncertainty to the company's business profile as the operating environments of the restaurant industry vary widely from country to country while the headwinds caused by the pandemic are further intensifying the challenges. However, if the overseas expansion is successful, it will provide the company with more diversified sources of revenue and better growth prospects.

Investment in new business delayed

SST is expanding into the hotel business by investing in a project in the city-center of Phuket featuring a 62-room hotel and a restaurant. The total construction cost is estimated at Bt280 million. The project will be funded with debt. The initial completion date was set at the end of 2020, however, architectural revisions have delayed the project. The revised timeline will have the restaurant and the first phase of the hotel, consisting of 22 rooms, to be ready by the end of 2021.

Rising leverage level

SST's financial leverage is expected to rise as a result of deteriorating operating performance in 2020 and capital spending for its expansion in France. The company plans to continue its investment in France but scale back capital expenditure in all other areas. TRIS Rating expects SST's capital expenditure to be around Bt330-Bt360 million per annum in 2020-2021 and drop to Bt210 million in 2022. We project that the company's debt to EBITDA ratio to rise briefly to around 8.4 times in 2020 from 3.7 times in 2019, based on the assumption that the pandemic can be largely contained by around mid-2020. We expect the debt to EBITDA ratio to revert back to 4.7 times in the following years, reflecting a gradual recovery in performance to the pre-pandemic level. The debt to capitalization ratio is expected to range upward to 54%-57% in 2020-2022, from 47% in 2019.

SST's debentures have a key financial covenant that requires the company to maintain its interest-bearing debt to equity ratio below 3 times. As of December 2019, the ratio was 0.43 times. Also, the company's long-term bank loan has a key financial covenant that requires the company to maintain the total liabilities to equity ratio below 2.5 times. As of December 2019, the ratio was 0.72 times. Going forward, we view that the company has considerable headroom to comply with both financial covenants.

Tight liquidity and heightened refinancing risk

TRIS Rating expects the company to experience stretched liquidity in the near term from the impact of the pandemic, resulting in heightened refinancing risk. The company's debts coming due in 2020 include debentures of Bt600 million, long-term bank debts of Bt66 million, and short-term bank debts of around Bt200 million. The company's sources of liquidity include cash on hand of around Bt160 million and available revolving credit lines of around Bt300 million.

For the debentures, we view that the company is exposed to higher refinancing risk as the company needs to refinance its bonds coming due in September 2020 at a time of adverse bond market sentiment. The company is trying to issue new debentures in advance of the bonds' maturity dates and in discussion with banks for credit facilities for the refinancing.

Assuming that the short-term bank debt can be rolled over, we estimate the company's liquidity sources could weather around five months of operating loss from the restaurant business as the company has taken steps to reduce cash burn by cutting some selling and administration costs during the dine-in restaurant closure period.

BASE-CASE ASSUMPTIONS

- SST's revenue to drop by around 25% in 2020 and gradually recover to the pre-COVID-19 trading level in 2021-2022.
- Gross profit margin to stay in the 55%-56% range.
- EBITDA margin to drop to 15% in 2020 and recover to 19%-20% in 2021-2022.
- Total capital spending of Bt330-Bt360 million per annum in 2020-2021 and around Bt210 million in 2022.

RATING OUTLOOK

The "negative" outlook reflects the anticipated weakening operating performance resulting from the COVID-19 pandemic impact, and the expected rise in financial leverage from the company's expansion plan.

RATING SENSITIVITIES

We could downgrade the rating if the company's operating performance is weaker than our projection due to a prolonged impact from the COVID-19 pandemic or the recovery from the economic fallout takes longer than we expect. We would also consider lowering the rating if the company makes overly aggressive debt-funded investments or the performance of new investments overseas significantly fall short of our expectations. We could revise the outlook to "stable" if the company's operating performance demonstrates signs of sustainable recovery such that the credit metric outperforms or tracks our base-case projection.

COMPANY OVERVIEW

SST was established in 1976 and listed on the Stock Exchange of Thailand (SET) in 1994. As of March 2020, 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.

In 2012, SST expanded into the restaurant and QSR segment by acquiring Mudman PLC (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) restaurant chain, and produces and distributes "Greyhound" fashion and lifestyle products. As of December 2019, the company operated 415 QSR and restaurant outlets and one food court.

KEY OPERATING PERFORMANCE

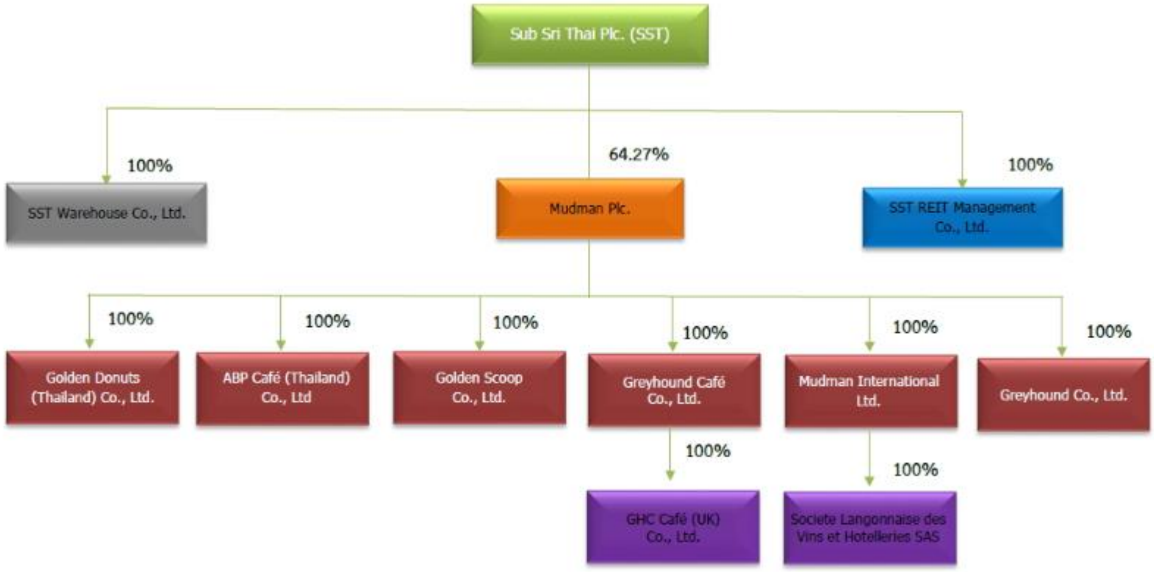
Table 1: SST's Revenue by Line of Business

Unit: %

Business	2013	2014	2015	2016	2017	2018	2019
Storage	11	11	9	10	11	11	12
Soybean	3	-	-	-	-	-	
Food	86	84	83	84	85	85	84
Fashion	-	5	8	6	4	4	4
Total revenues (Bt million)	**2,131**	**2,455**	**3,074**	**3,214**	**3,159**	**3,476**	**3,317**

Source: SST

Chart 1: SST's Group Structure as of Dec 2019



Source: SST

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	----------------------Year Ended 31 December --------------------				
	2019	2018	2017	2016	2015
Total operating revenues	3,479	3,652	3,304	3,329	3,179
Earnings before interest and taxes (EBIT)	138	210	137	169	129
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	776	755	719	712	607
Funds from operations (FFO)	595	586	545	552	405
Adjusted interest expense	174	162	169	186	190
Capital expenditures	195	189	281	162	220
Total assets	5,581	5,707	6,217	5,224	5,496
Adjusted debt	2,894	2,649	2,615	3,142	3,190
Adjusted equity	3,244	3,290	3,269	2,233	2,434
Adjusted Ratios					
EBITDA margin (%)	22.31	20.69	21.75	21.40	19.09
Pretax return on permanent capital (%)	2.20	3.31	2.29	3.01	2.24
EBITDA interest coverage (times)	4.46	4.65	4.25	3.84	3.20
Debt to EBITDA (times)	3.73	3.51	3.64	4.41	5.26
FFO to debt (%)	20.56	22.14	20.82	17.55	12.70
Debt to capitalization (%)	47.14	44.60	44.44	58.46	56.73

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

Sub Sri Thai PLC (SST)

Company Rating:	BBB-
Rating Outlook:	Negative

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