TRIS RATING
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SUB SRI THAI PLC

No. 36/2024
25 March 2024

CORPORATES

Company Rating: BBB-
Outlook: Stable

Last Review Date: 21/03/23

Company Rating History:

Date	Rating	Outlook/Alert
21/04/20	BBB-	Negative
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 "stable" from "negative". The outlook revision reflects the expectation of moderate capital expenditures in the coming two to three years and the recovery of SST's restaurant business. The rating continues to reflect the company's market position in the highly competitive and fragmented chain restaurant and quick service restaurant (QSR) businesses, as well as reliable cash flow from the storage business. The rating is weighed down by the company's elevated financial leverage due to ongoing investment, its weak track record of successful investments, and the uncertain outcome of the new businesses the company is pursuing.

KEY RATING CONSIDERATIONS

Modest growth and a focus on efficiency in the restaurant business

TRIS Rating forecasts modest revenue growth of 1%-3% per annum for the company's restaurant business in 2024-2026. This translates to expected revenues of THB3.5-THB3.7 billion per annum. We expect minimal growth in Dunkin's revenue as the company plans to prioritize efficiency in existing Dunkin' stores after a period of aggressive expansion over the past three years. Meanwhile, revenues from Au Bon Pain and Greyhound Café are anticipated to rebound moderately alongside Thailand's tourism recovery. Revenues from restaurants abroad are expected to decline due to potential closures of some underperforming locations. SST's restaurant earnings before interest, taxes, depreciation, and amortization (EBITDA) margin is projected to remain at around 16% in 2024 due to ongoing cost pressures, before gradually improving to 17%-18% as some loss-making overseas restaurants are phased out.

In 2023, SST's restaurant business saw a 13% revenue growth to THB3.5 billion, extending the recovery trend from 2022. Dunkin' led the gains with a 17% rise, driven by store expansions and the revival of department store locations due to increased foot traffic. However, hastily opened kiosks experienced declining average sales per outlet, prompting the company to prioritize existing store efficiency and relocate underperforming kiosks to areas with higher potential. Revenue growths were also observed at Au Bon Pain (18% growth) and Greyhound Café (10% growth), fueled by a combination of new openings and same-stores increases at Au Bon Pain, while growth at Greyhound Café stemmed from improved same-store sales despite closures of some underperforming branches.

Performance of international restaurants below expectations

The company's international restaurant ventures have yet to achieve the success that the company expected. Launched with the opening of a London Greyhound Café and the acquisition of Paris-based French restaurant Le Grand Vefour in 2017, the expansion included a further four restaurants in Paris during 2019-2022. However, 2023 saw a slight decline in overall overseas restaurant revenue and negative EBITDA. Consequently, the company plans the closure or sale of some underperforming restaurants in 2024-2025. The success of these divestiture plans remains to be seen. Furthermore, a restaurant recently acquired in Nancy, France, has been renovated and rebranded as a Thai street food concept restaurant under the name Thai Hey by Greyhound Café. The performance of this new restaurant, which opened in February 2024, is still under evaluation, with future branch openings contingent on satisfactory performance.

TRIS Rating holds the view that the company's overseas expansion adds uncertainty to its business risk profile. The operating environments of the restaurant industry vary widely from country to country while the company seems to lack the managerial capacity to ensure efficient and smooth operations in unfamiliar locations outside its home market.

Steady cash flow from storage business

SST's warehouse and document storage business generates reliable cash flow. Over the past three years, revenue has remained within a stable range of THB370-THB380 million annually, with EBITDA margins hovering around 60%-65%. TRIS Rating's base-case scenario anticipates that this segment's revenue and EBITDA margin will remain relatively unchanged for the period 2024-2026.

Previously, the company planned to expand its warehouse and document storage facilities due to high space utilization rates at existing locations. Development was envisioned on a 17-rai plot adjacent to the current warehouse, with a gradual, phased approach and an estimated total investment of THB200 million. However, the company is currently re-evaluating the plan and may postpone the expansion in light of the evolving supply-and-demand landscape for warehouse and document storage space, as well as the increased competition.

Uncertainty in the company's diversification strategy

The company has embarked on a number of ventures outside its core business, including a 62-room hotel with a restaurant in Phuket (estimated total investment of THB280 million) and a land acquisition in Ao Yon for villa development (estimated total development cost of THB200-THB300 million). However, both projects have faced delays. The hotel construction remains on hold due to architectural revisions and the pandemic, with only the lobby and restaurant (Tin Baron) completed. Similarly, the villa development awaits re-evaluation of market conditions and funding availability.

The company also diversified into the durian trade in 2022 with a THB200-million investment. This venture has underperformed, experiencing a revenue decline from THB550 million in 2022 to THB150 million in 2023, and incurred an operating loss. Challenges in exporting to China and product spoilage during transport were cited as contributing factors. Despite these obstacles, the company remains committed to the durian business and is exploring new markets within China and improved customer reach strategies.

In TRIS Rating's view, the uncertain outcome of new businesses in which the company has no track record or experience and potential future capital outlays in these new businesses are factors weighing down the rating of SST. The delays and underperformance of these expansion efforts, including the unsuccessful overseas restaurant expansion, are additional factors constraining the credit rating.

High financial leverage but a gradual decline expected

SST's financial leverage has remained high due to past investments in restaurants and diversification into new businesses. While debt is likely to remain elevated, it is projected to gradually decrease as capital expenditures are moderated while EBITDA is forecast to grow gradually. TRIS Rating expects SST's capital expenditures to total THB660 million for the period 2024-2026, approximately half of which will be directed towards restaurant expansions, while the remainder will be allocated for warehousing and other businesses. Consequently, TRIS Rating forecasts a gradual improvement in the debt to EBITDA ratio, dropping from 4.8 times in 2023 to 4.7 times in 2024, 4.4 times in 2025, and 4.2 times in 2026. However, a potential renewal of the document warehouse lease contract with Sub Sri Thai Real Estate Investment Trust (SSTRT) in 2027 could lead to a resurgence in debt and our measure of financial leverage.

As of December 2023, SST had consolidated debt of THB2.5 billion, of which THB1.9 billion was considered priority debt. SST's priority debt consisted of secured loans at the company level, and secured and unsecured loans at subsidiaries. As its priority debt ratio was 78%, higher than the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", we view that SST's senior unsecured creditors could be significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

SST's debentures have a key financial covenant that requires the company to maintain its interest-bearing debt to equity ratio below 3 times (consolidated financial statements). As of December 2023, the ratio was 0.9 times. The company's long-term bank loan also has key financial covenants that require the company to maintain the total liabilities to equity ratio below 2.5 times (consolidated financial statements). As of December 2023, the ratio was 1.9 times. In addition, the company has financial covenants under a long-term loan agreement from another financial institution, all of which SST has complied with except for one that requires that the debt to EBITDA ratio calculated from the separate financial statements does not exceed 5 times. As of December 2023, the ratio was 5.5 times, which exceeds the covenant limit. However, the company has received a covenant waiver for the period from the financial institution.

Tight liquidity

We assess SST's liquidity to be tight over the next 12 months. The company's sources of funds comprised cash and cash equivalents of around THB180 million as of December 2023, projected operating cash flow of around THB580 million in 2024, and available credit lines of around THB90 million. The company's uses of funds include debt repayments of around THB930 million, lease payments of around THB500 million, and expected capital expenditures of THB230 million. SST will likely need to refinance a major portion of its debts coming due and secure additional funding to be able to carry out its investment plan.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for SST's operations in 2024-2026 are:

- Revenue to range upward from THB4.2-THB4.3 billion annually.
- EBITDA of THB830-THB920 million per annum.
- Capital spending to total around THB660 million.

RATING OUTLOOK

The "stable" outlook reflects our expectation that the company will maintain its market position in the QSR and warehouse and document storage businesses with a gradual improvement in its operating performance. We also expect the company to be prudent in its investments in business expansion.

RATING SENSITIVITIES

We could downgrade the rating on SST if its credit metrics turn out to be weaker than our expectations, either because of deteriorating operating performance or aggressive debt-funded investments, such that its adjusted debt to EBITDA ratio remains above 5 times for a prolonged period. A rating upgrade is unlikely in the near term due to the company's elevated financial leverage.

COMPANY OVERVIEW

SST was established in 1976 and listed on the Stock Exchange of Thailand (SET) in 1994. As of May 2023, the Sukhanindr family and affiliates held about 61% 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 Mud & Hound PLC (MUD), the master franchisee of the Dunkin' Donuts and Au Bon Pain brands in Thailand. In July 2014, SST, through MUD, acquired the Greyhound Group (Greyhound). Greyhound operates the GHC restaurant chain and produces and distributes Greyhound fashion and lifestyle products. The company also has six restaurants in France including Le Grand Vefour, Pasco, Augustin, A-Noste, La Mere Lachaise, and Thai Hey by Greyhound Cafe. As of December 2023, the company operated 834 QSR and restaurant outlets and one food court.

KEY OPERATING PERFORMANCE

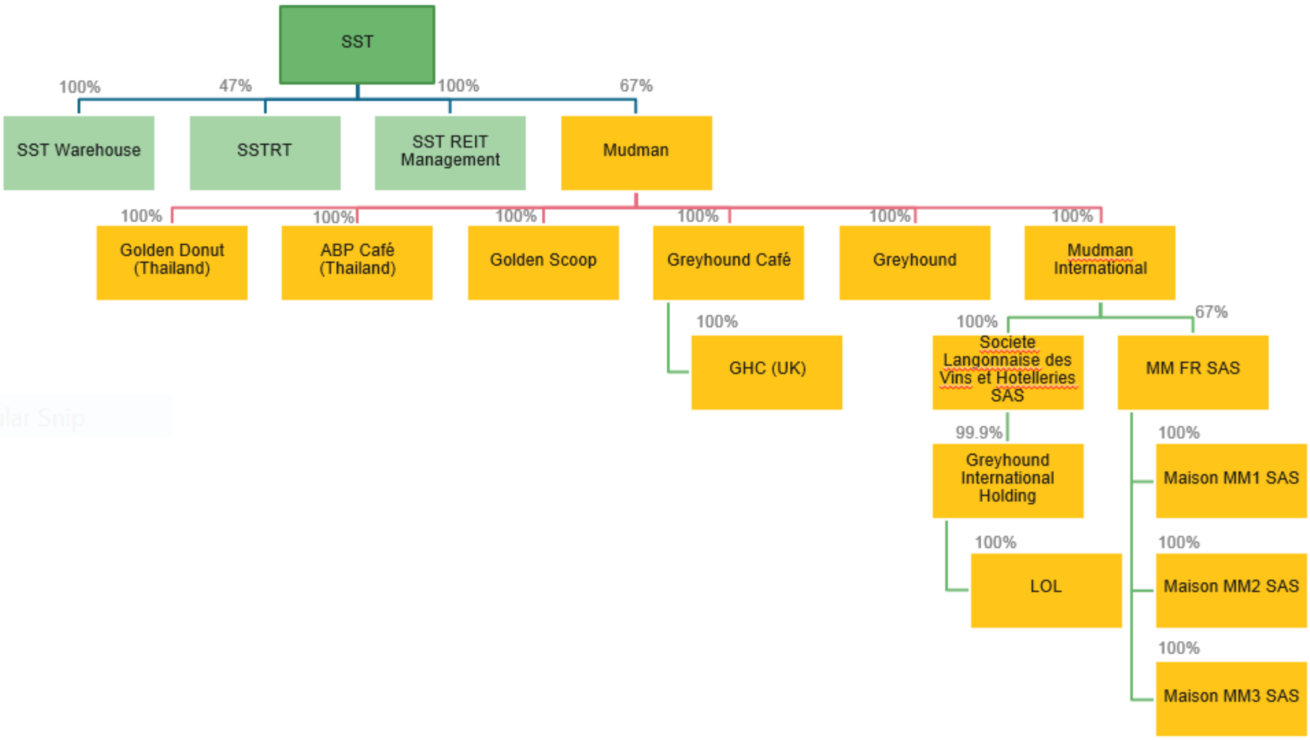
Table 1: SST's Revenue by Line of Business

Unit: %

Business	2015	2016	2017	2018	2019	2020	2021	2022	2023
Storage	9	10	11	11	12	15	15	10	9
Food	83	84	85	85	84	79	79	70	80
Fashion	8	6	4	4	4	6	6	6	7
Durian								14	4
Total revenues (million THB)	**3,074**	**3,214**	**3,159**	**3,476**	**3,317**	**2,565**	**2,551**	**3,996**	**3,987**

Source: SST

Chart 1: SST's Group Structure



Source: SST

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-------------------Year Ended 31 December -----------------				
	2023	**2022**	**2021**	**2020**	**2019**
Total operating revenues	4,090	4,118	2,716	2,730	3,479
Earnings before interest and taxes (EBIT)	242	203	100	(42)	138
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	824	730	666	575	776
Funds from operations (FFO)	566	484	476	387	574
Adjusted interest expense	234	209	173	182	174
Capital expenditures	297	500	238	279	195
Total assets	7,631	7,962	6,985	6,964	5,581
Adjusted debt	3,978	4,007	3,140	3,118	2,894
Adjusted equity	2,669	2,727	2,679	2,812	3,244
Adjusted Ratios					
EBITDA margin (%)	20.2	17.7	24.5	21.0	22.3
Pretax return on permanent capital (%)	3.4	3.0	1.6	(0.6)	2.2
EBITDA interest coverage (times)	3.5	3.5	3.8	3.2	4.5
Debt to EBITDA (times)	4.8	5.5	4.7	5.4	3.7
FFO to debt (%)	14.2	12.1	15.2	12.4	19.9
Debt to capitalization (%)	59.8	59.5	54.0	52.6	47.1

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Sub Sri Thai PLC (SST)

Company Rating:	BBB-
Rating Outlook:	Stable

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