SUB SRI THAI PLC

No. 35/2021
22 March 2021

CORPORATES

Company Rating: BBB-
Outlook: Negative

Last Review Date: 21/04/20

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-" with a "negative" outlook. The rating reflects the company's market position in the highly competitive and fragmented chain restaurant and quick service restaurant (QSR) business as well as reliable cash flows from the storage business. The rating also considers the company's elevated leverage mainly from its restaurant expansions overseas and depressed earnings impacted by the Coronavirus Disease 2019 (COVID-19) pandemic. The "negative" outlook reflects our view that the COVID-19 situation, despite several positive developments, remains evolving and uncertain which will continue to put pressure on SST's restaurant operation and financial risk profile.

KEY RATING CONSIDERATIONS

Restaurant business performance severely hit by COVID-19

SST's restaurant business is operated by its core subsidiary, Mudman PLC (MM). The performance of its restaurant business was severely hit by the COVID-19 pandemic. In Thailand, the operational disruption during the lockdown period and urge of social distancing has massively impacted the company's restaurant business, particularly on its chain restaurants, "Greyhound Café" (GHC) and affiliate brands, which comprise mainly dine-in restaurants. The absence of tourists due to travel restrictions and work-from-home adaptation also impacted the performance of "Au Bon Pain" (ABP). The combined sales of GHC and ABP accounted for about half of the company's restaurant business sales. The company's restaurant outlets In England and France also suffered a great deal from a series of lockdowns and restaurant closures following the governments' pandemic control measures.

Revenue from the restaurant business contracted by 24% year-on-year (y-oy) to THB2.3 billion in 2020, down from THB3.1 billion in 2019. Earnings before interest, taxes, depreciation and amortization (EBITDA) declined by 36% (y-o-y) to THB354 million, down from THB552 million in 2019. Several cost control efforts, rental waiver by landlords, and supports from governments in England and France have helped alleviate the impacts on the earnings.

Restaurant business to gradually recover

As concerns over the second wave of COVID-19 outbreak in Thailand eased, we expect the company's restaurant operating performance to gradually improve. In England and France, we expect its restaurant operations to resume in the beginning of the second half of 2021 after vaccines have been widely rolled out.

Our base-case assumption projects SST's revenue from the restaurant business of around THB2.6-THB2.7 billion in 2021 and THB3-THB3.3 billion annually during 2022-2023. We project the profitability, measured by EBITDA margin, to be in a mid-teen percentage during the forecast period which will translate into EBITDA of THB350-THB400 million in 2021 and THB450-THB550 million per annum during 2022-2023. Intense competition and the vulnerable macroeconomic backdrop remain a key to earnings downside pressure. We view that restaurant operators may need to spend more on marketing activities and offer sales promotions to stay competitive. We also view the rising popularity of delivery platforms as a threat to MM as competition further intensifies while MM's presence on delivery channels is limited.

Overseas growth ambition

As part of an effort to diversify internationally, SST via MM in late 2017 acquired a well-known two Michelin-star French restaurant, "Le Grand Vefour", in Paris. Also, MM opened its first owned GHC restaurant outside Thailand in London in the same period. However, the performances of both restaurants fell short of expectation and got worsen due to the COVID-19 situation. MM, together with business partner, Mr. Guy Martin, the head chef of Le Grand Vefour, opened three more new restaurants in Paris last year, namely, "Pasco", "Augustin", and "A-Noste" and plans to open two more restaurants this year.

The company remains positive on its operation in overseas markets where it sees greater growth potential when business normalizes after COVID-19. We hold 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 also 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.

Steady cash flows from storage business

SST has a long track record and established market positions in the warehouse, wharf, and document storage businesses. The storage business provides a reliable source of cash flows to the company. During the past three years, revenue from the storage business was around THB400 million annually, with adjusted EBITDA margin of around 50%.

We expect a modest revenue growth in SST's storage business. Under our base-case forecast, storage revenue is projected to be THB400-THB410 million per annum during 2021-2023. EBITDA margin is expected to remain around 50% over the same period.

Investment in new business delayed

SST is expanding into the hotel business by investing in a project in Phuket's city center, featuring a 62-room hotel and a restaurant. The total construction cost is estimated at THB280 million. The project will be funded with debt. The initial completion date was set at the end of 2020; however, architectural revisions and the COVID-19 fallout have delayed the project for another 1-2 years.

Elevated leverage

SST's leverage rose substantially in 2020 mainly from investment abroad during the past few years coupled with earnings disruption in the restaurant business caused by the COVID-19 pandemic. The company's adjusted debt to EBITDA ratio rose to 5.3 times in 2020, compared with 3.7 times in 2019. Our base-case scenario forecasts the leverage ratio to stay elevated above 5 times in 2021 due to the ongoing impact of COVID-19 on its restaurant operation. The ratio is expected to improve to 3.5-4.5 times in 2022-2023, reflecting our expectation regarding recovery of restaurant business earnings. The projection incorporates our assumption of capital expenditures of around THB100-THB150 million per annum mainly in the restaurant business during 2021-2023.

At the end of 2020, SST had reported debts, excluding lease liabilities, of THB1.7 billion. Most of the debts are secured debts or unsecured debts at SST's subsidiary level. As a result, SST's unsecured creditors could be structurally subordinated or have inferior position compared with the company's secured creditors or creditors at its subsidiary level.

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 2020, the ratio was 0.3 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 2020, the ratio was 1.5 times. Going forward, we view that the company has headroom to comply with both financial covenants.

Tight liquidity

We assess SST's liquidity to be tight but expect it to be manageable during the next 12 months. The company's uses of funds include debt repayments of around THB1.2 billion, lease obligations of around THB326 million, and capital expenditures of THB100-THB150 million. Primary sources of funds are cash and cash equivalent as of December 2020 of around THB263 million, projected funds from operations (FFO) of around THB370 million, and available revolving credit lines of around THB130 million. During the first quarter of 2021, SST obtained a long-term loan from a bank of THB400 million which will be used to repay part of the outstanding debt. SST still needs to refinance other major parts of the outstanding debts coming due.

BASE-CASE ASSUMPTIONS

- Revenue to be around THB3-THB3.1 billion in 2021 and THB3.4-THB3.7 billion annually during 2022-2023.
- EBITDA to be THB550-THB600 million in 2021 and THB650-THB750 million per annum during 2022-2023.
- Total capital spending of THB100-THB150 million per annum in 2021-2023.

RATING OUTLOOK

The "negative" outlook reflects our view that the COVID-19 situation, despite several positive developments, remains evolving and uncertain and will continue to put pressure on SST's restaurant business performance and overall financial risk profile.

RATING SENSITIVITIES

We could downgrade the rating if SST's credit metrics are weaker than our expectation either from a prolonged negative impact of the COVID-19 pandemic or aggressive debt-funded investments so that its adjusted debt to EBITDA ratio stays over 5 times on a sustained basis. 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 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 GHC restaurant chain and produces and distributes Greyhound fashion and lifestyle products. The company also has four restaurants in France including Le Grand Vefour, Pasco, Augustin, and A-Noste. As of December 2020, the company operated 423 QSR and restaurant outlets and one food court.

KEY OPERATING PERFORMANCE

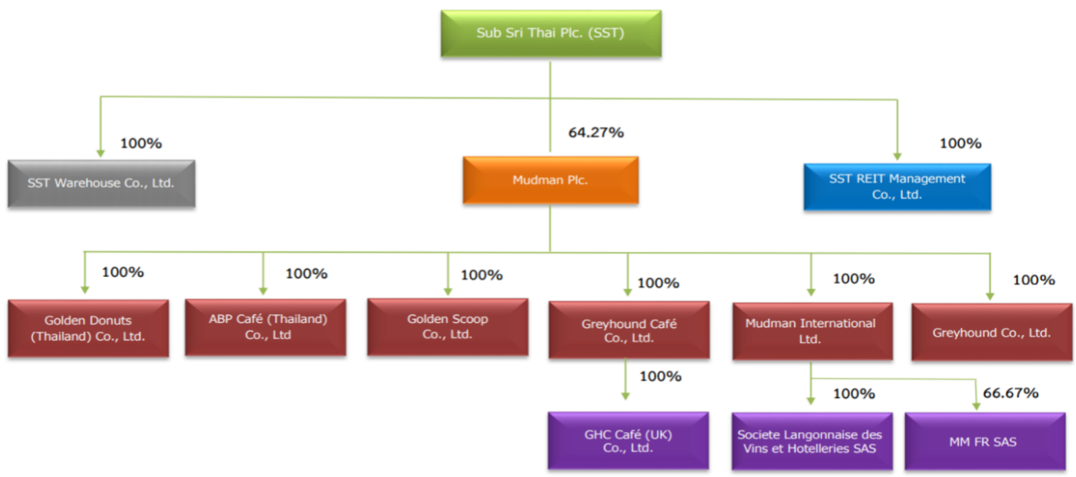
Table 1: SST's Revenue by Line of Business

Unit: %

Business	2015	2016	2017	2018	2019	2020
Storage	9	10	11	11	12	16
Food	83	84	85	85	84	79
Fashion	8	6	4	4	4	6
Total revenues (million THB)	**3,074**	**3,214**	**3,159**	**3,476**	**3,317**	**2,565**

Source: SST

Chart 1: SST's Group Structure



Source: SST

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	----------------------Year Ended 31 December ------------------				
	2020	**2019**	**2018**	**2017**	**2016**
Total operating revenues	2,730	3,479	3,652	3,304	3,329
Earnings before interest and taxes (EBIT)	(42)	138	210	137	169
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	575	776	755	719	712
Funds from operations (FFO)	416	595	586	545	552
Adjusted interest expense	182	174	162	169	186
Capital expenditures	283	195	189	281	162
Total assets	6,964	5,581	5,707	6,217	5,224
Adjusted debt	3,060	2,894	2,649	2,615	3,142
Adjusted equity	2,812	3,244	3,290	3,269	2,233
Adjusted Ratios					
EBITDA margin (%)	21.08	22.31	20.69	21.75	21.40
Pretax return on permanent capital (%)	(0.68)	2.20	3.31	2.29	3.01
EBITDA interest coverage (times)	3.17	4.46	4.65	4.25	3.84
Debt to EBITDA (times)	5.32	3.73	3.51	3.64	4.41
FFO to debt (%)	13.59	20.56	22.14	20.82	17.55
Debt to capitalization (%)	52.11	47.14	44.60	44.44	58.46

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Sub Sri Thai PLC (SST)

Company Rating:	BBB-
Rating Outlook:	Negative

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