TRIS RATING
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SUB SRI THAI PLC

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CORPORATES

Company Rating:	BBB-
Outlook:	Stable

Last Review Date: 24/05/18

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-". The rating reflects SST's market position in the chain restaurant and quick service restaurant (QSR) market segments and its track records as a warehouse operator and provider of document storage services. However, the rating is partially weighed down by weak profitability, challenges in the QSR and restaurant businesses, and uncertainty surrounding the efforts to expand the restaurant segment outside Thailand.

KEY RATING CONSIDERATIONS

Steady profits from warehouse and document storage businesses

SST has a long track record and established market positions in the warehouse, wharf, and document storage businesses. SST operates 32 goods storages and 19 document storages. Warehouse and document storage segment provides source of revenue and profit that are quite stable. These two segments account for 11% of total revenue in 2018 and 30% of the group's earnings before interest, tax, depreciation, and amortization (EBITDA).

Revenues from the warehouse and document storage segment grew 19% in 2018, reaching Bt390 million. The growth mainly came from goods handling services in the wharf area that the company started to provide in 2018 and higher service fees for some customers. Profitability remains healthy. The warehouse and storage segment generated reported EBITDA of Bt114 million in 2018, and an EBITDA margin of 29%.

Well-known QSR and restaurant brands

SST's business profile hinges on the chain restaurant and QSR businesses. This segment contributed 84% of total revenue and 68% of total EBITDA. The food and beverage segment is buoyed by well-known restaurant brands and moderate market coverage. The company operates, through its subsidiaries, three franchised brands including donut and beverage shops under the "Dunkin' Donuts" brand, bakery shops under the "Au Bon Pain" brand, and premium ice cream shops under the "Baskin Robbins" brand. The company also has restaurants under its own brand, "Greyhound Cafe" (GHC). SST has moderate market coverage with a total of 418 food outlets nationwide.

In addition to restaurants, the company has a fashion and lifestyle segment under the "Greyhound Original" and "Smiley Hound" brands. This segment, however, generates only a fraction (2%) of total EBITDA.

Small revenue base and thin profitability

SST's food and beverage businesses are smaller and less profitable when compared with peers. In 2018, revenue from the food and beverage segment was Bt2,935 million. Reported EBITDA was Bt260 million, with an EBITDA margin of 8.8%.

Revenue grew 8.9% in 2018 as the GHC London branch operated for a full year and the company consolidated the full year performance of Le Grand Vefour, which it acquired in late 2017. However, a sluggish economy and intense competition pushed down same-store sales by 2.5% in 2018.

TRIS Rating expects SST's revenue in the food and beverage segment will grow by around 5% per annum during 2019-2021. The growth drivers are: more branches in the domestic market, greater international revenue through the franchise model, and new restaurants in France. Reported EBITDA margin should remain at around 8%-9%.

Expanding overseas

The first owned GHC restaurant outside Thailand, located in London, was open for a full year in 2018. Although the restaurant is well received among Thai expats and locals, EBITDA was negative in 2018. The store's outdoor area was underutilized plus marketing and advertising expenses were high. The company initially planned to open more branches in London and other cities in Europe on its own. However, the strategy has changed to a franchise model. Franchising requires minimal cost while yielding upfront fees and recurring royalty fees. The franchise model could boost profitability. The company has awarded Greyhound Café franchises to operators in several countries. As of December 2018, there were 17 franchised GHC restaurants in Hongkong, China, Malaysia, Singapore, and Indonesia.

In late 2017, a subsidiary acquired a two Michelin-star French restaurant in Paris, Le Grand Vefour, from celebrity chef Mr. Guy Martin. In 2018, Le Grand Vefour's EBITDA was slightly negative because of higher staff expense. The company and Mr. Martin plan several new restaurants in France. The first is expected to open in late 2019. The company will need time to prove the expansion a success.

Investment in a new business delayed

SST is expanding into hotel business. A project in the city-center of Phuket features 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 at the end of 2020. However, architectural revisions delayed the project. As a result, the restaurant and the first phase of the hotel, consisting of around 20 rooms, will be ready by the end of 2021.

Moderate level of financial leverage

The company's capital structure improved slightly in 2018. The adjusted debt to capitalization ratio slipped to 43% as of March 2019 from 44% in 2017. This drop came because the hotel project was delayed and because of the shift to a franchise model for GHC restaurants abroad. Cash flow protection remained fair. The ratio of funds from operations (FFO) to total debt was 24% in the first quarter of 2019.

Based on TRIS Rating's forecast, SST's capital expenditures are expected to be around Bt260-Bt370 million per annum during 2019-2021. The funds will be used to add QSR branches, add more full service restaurants, and finish the hotel project in Phuket. The debt to capitalization ratio will move within the band of 43%-45% during 2019-2021. FFO is forecast to fall within the range of Bt660-Bt690 million per annum, yielding an FFO to debt ratio of around 25%.

The liquidity profile is acceptable. Sources of liquidity include cash on hand of Bt226 million as of March 2019 and operating cash flow forecast at about Bt300 million per annum. Uses of liquidity consist of financial obligations coming due in the next 12 months of around Bt200 million and capital expenditures forecast at around Bt350 million.

BASE-CASE ASSUMPTIONS

- Revenues will grow by 4%-5% per annum over the next three years.
- The gross profit margins will stay at around 57%-58% and the EBITDA margin will stay around 21%-22%.
- Capital expenditures will be Bt350 million in 2019, Bt370 million in 2020, and Bt260 million in 2021.

RATING OUTLOOK

The "stable" outlook reflects the expectation of TRIS Rating that SST will maintain its current market positions and its operating performance will improve over time.

RATING SENSITIVITIES

The credit rating of SST could be revised upward if the operating performance improves substantially and the balance sheet remains sound. The rating could be downgraded if the operating results are weaker than expected for a prolonged period of time or if the company makes aggressive debt-funded investments.

COMPANY OVERVIEW

SST was established in 1976 and listed on the Stock Exchange of Thailand (SET) in 1994. As of March 2019, 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) chain restaurant, and it produces and distributes the "Greyhound" fashion and lifestyle products.

As of December 2018, the company operated 437 outlets and one food court. The majority of the stores are franchised outlets. Across its three major lines of business, the restaurant and QSR segment was the main revenue contributor, providing about 84% of total revenue and 68% of EBITDA in 2018.

KEY OPERATING PERFORMANCE

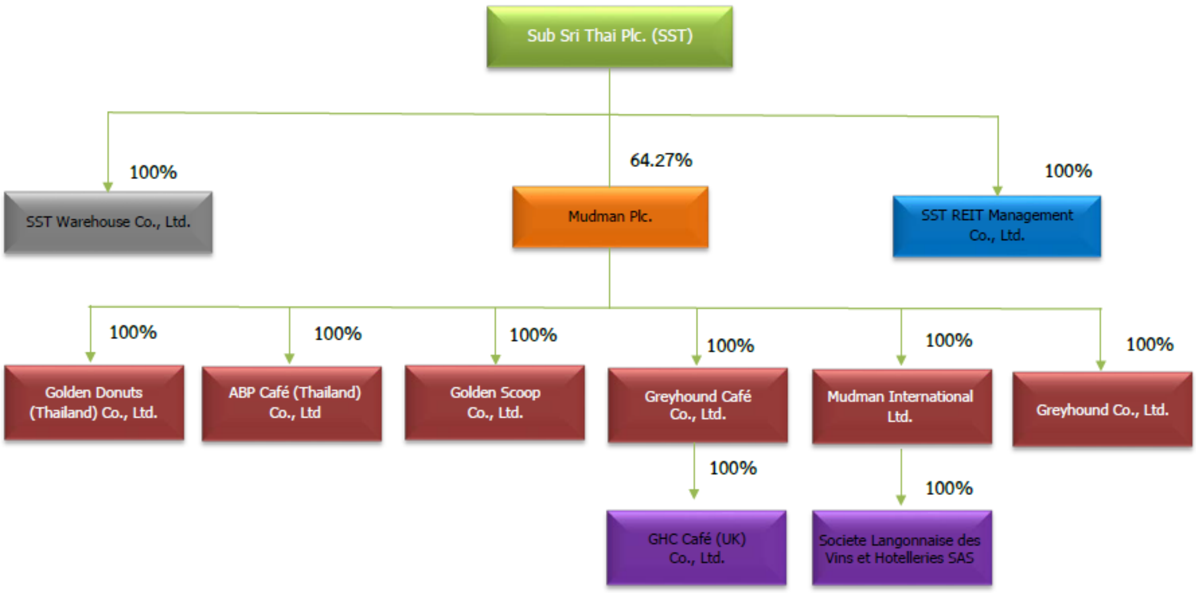
Table 1: SST's Revenue by Line of Business

Unit: %

Business	2011	2012	2013	2014	2015	2016	2017	2018
Storage	53	10	11	11	9	10	11	11
Soybean	47	14	3	-	-	-	-	-
Food	-	76	86	84	83	84	85	85
Fashion	-	-	-	5	8	6	4	4
Total revenues (Bt million)	**410**	**2,147**	**2,131**	**2,455**	**3,074**	**3,214**	**3,159**	**3,476**

Source: SST

Chart 1: SST's Group Structure as of Dec 2018



Source: SST

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Jan-Mar 2019	--------------Year Ended 31 December ------------ 2018	2017	2016	2015
Total operating revenues	860	3,652	3,304	3,329	3,179
Operating income	190	741	694	696	583
Earnings before interest and taxes (EBIT)	50	206	137	169	129
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	198	755	719	712	607
Funds from operations (FFO)	154	590	545	552	405
Adjusted interest expense	40	159	169	186	190
Capital expenditures	30	189	281	162	220
Total assets	5,651	5,707	6,217	5,224	5,496
Adjusted debt	2,485	2,485	2,615	3,142	3,190
Adjusted equity	3,293	3,290	3,269	2,233	2,434
Adjusted Ratios					
Operating income as % of total operating revenues (%)	22.14	20.30	21.02	20.91	18.33
Pretax return on permanent capital (%)	3.57	3.30	2.29	3.01	2.24
EBITDA interest coverage (times)	5.00	4.75	4.25	3.84	3.20
Debt to EBITDA (times)	3.22	3.29	3.64	4.41	5.26
FFO to debt (%)	24.34	23.73	20.82	17.55	12.70
Debt to capitalization (%)	43.01	43.03	44.44	58.46	56.73

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015
- Rating Methodology – Corporate, 31 October 2007

Sub Sri Thai PLC (SST)

Company Rating:	BBB-
Rating Outlook:	Stable

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