TRIS RATING
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SUB SRI THAI PLC

No. 234/2024
23 December 2024

CORPORATES

Company Rating:	BB+
Outlook:	Stable

Last Review Date: 25/03/24

Company Rating History:

Date	Rating	Outlook/Alert
25/03/24	BBB-	Stable
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 downgrades the company rating on Sub Sri Thai PLC (SST) to "BB+" from "BBB-" with a "stable" rating outlook. The rating downgrade reflects weaker-than-expected performance in the restaurant business and an increase in financial leverage, with the debt to EBITDA ratio projected to remain above our threshold of 5 times. The rating continues to reflect SST's market position in the highly competitive and fragmented chain restaurant and quick service restaurant (QSR) sectors, as well as the reliable cash flow generated from its storage business. However, the rating is constrained by SST's weak track record of successful investments and the uncertain outcomes of the new business ventures the company is currently pursuing.

KEY RATING CONSIDERATIONS

Weakening restaurant business

SST's restaurant and lifestyle business has experienced a significant setback in the first nine months of 2024, with revenue declining by 13% year-on-year (y-o-y) to THB2.3 billion. This reversal of the 2023 recovery trend is primarily attributable to a revenue decline in Dunkin' (-17%), Greyhound Café (-14%), and overseas restaurants, while being partially offset by a 5% y-o-y increase in Au Bon Pain revenue. The weak performance of Dunkin' kiosks, hastily opened during the 2020-2023 period, is largely the result of sluggish consumer spending and intense competition. Greyhound Café's revenue decline stems from falling same-store-sales and the closure of underperforming branches.

To address these challenges, SST plans to prioritize existing store efficiency, close underperforming locations, enhance product quality and offerings, and reduce reliance on heavy promotions. TRIS Rating forecasts SST's restaurant and lifestyle revenue to decline by 15% to THB3 billion in 2024 and by a further 4% to THB2.9 billion in 2025 due to the expected closures of underperforming Dunkin' kiosks and potential closures of certain Greyhound Café, Au Bon Pain, and overseas restaurant outlets. However, a marginal revenue growth is projected for 2026-2027. The segment's EBITDA margin is anticipated to decrease to 13% in 2024 due to weak sales and closure-related expenses, before improving to 17% in 2025-2027 as the company implements its restructuring efforts and phases out loss-making operations.

International restaurant ventures face challenges

SST's international restaurant ventures have continued to underperform expectations, with a notable deterioration in 2024. Overseas restaurant revenue declined by 11% (like-for-like) in the first nine months of 2024, accompanied by a deeper y-o-y negative EBITDA. Performance of the recently opened Thai Hey by Greyhound Café in Nancy, France, has also fallen short of the company's expectations. In response to these challenges, SST plans to divest some underperforming restaurants in 2024-2025. The success of these divestiture plans remains uncertain.

TRIS Rating views SST's overseas expansion as adding uncertainty to its business risk profile. The diverse operating environments of the restaurant industry across different countries, coupled with SST's lack of managerial capacity for efficient operations in unfamiliar markets, have hindered its international ventures. To address these issues, the company has appointed new management with industry experience to oversee its overseas restaurants. The success of these turnaround efforts remains to be seen.

Steady cash flow from storage business

SST's warehouse and document storage business has historically provided a reliable source of cash flow. Over the past three years, revenue has remained relatively stable within the THB370-THB380 million range annually, with EBITDA margins consistently hovering around 60%-65%. However, in the first nine months of 2024, revenue declined slightly by 1% to THB272 million due to the departure of some document storage clients. TRIS Rating's base-case scenario projects a modest decline in both revenue and EBITDA margin for this segment, with revenue stabilizing at around THB360 million per annum in 2024-2026.

Previously, SST had plans to expand its warehouse and document storage facilities on a 17-rai plot adjacent to its current warehouse, with a gradual, phased approach and a total investment of THB200 million. However, the company is now reassessing this expansion plan due to evolving market dynamics, including changing supply-demand conditions and increased competition in the warehouse and document storage space. As a result, the company may postpone the expansion project.

Diversification efforts face setbacks

SST has embarked on several ventures outside its core business, including a 62-room hotel with a restaurant in Phuket and a land acquisition in Ao Yon for villa development. The estimated total investment for the hotel project is THB280 million, while the villa development is estimated to be around THB200-THB300 million. However, both projects have encountered delays. The hotel construction is currently on hold due to architectural revisions and the pandemic, with only the lobby and restaurant completed. The restaurant, Tin Baron, has underperformed expectations since its opening in 2023 and has recently undergone renovations to rebrand as an Italian fine-dining and champagne bar. The success of this new concept remains uncertain. Similarly, the villa development project is awaiting a reassessment of market conditions and funding availability.

In addition to these ventures, SST entered the durian trade in 2022 with a THB200-million investment. This business has also fallen short of expectations. In the first nine months of 2024, the company recorded a provision of THB91 million for uncollectible accounts receivable and obsolete inventory related to the durian business. As a result, SST has decided to exit this business in 2024.

TRIS Rating considers SST's lack of a successful track record in these new business ventures and the uncertain outcomes of its ongoing projects, coupled with potential future capital outlays, to be factors weighing down the credit rating on SST.

Financial leverage higher than previously expected

SST's financial leverage has worsened due to weaker operating performance in the company's restaurant business and losses from the durian business. The company's debt to EBITDA ratio climbed to 7.0 times in the first nine months of 2024, increasing from 4.8 times in 2023. TRIS Rating expects this ratio to peak at 7.6 times in 2024 before gradually declining to 5.4 times in 2025 and 5.1 times in 2026, assuming improved EBITDA and no further durian-related losses. Nonetheless, financial leverage in this projection is higher than our previous forecast, which anticipated debt to EBITDA ratio of below 5 times over the same period.

Additionally, 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 a deterioration in financial leverage. TRIS Rating projects that SST's debt to EBITDA ratio could rise to around 6 times in 2027 if the lease is renewed.

We expect SST's capital expenditure to be relatively modest at around THB150 million per annum from 2024 to 2027. The majority of this expenditure will be allocated to maintenance and expansion in the restaurant business, while the remainder will be directed towards warehousing and other operations.

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 September 2024, the ratio was 1.1 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 September 2024, the ratio was 2.0 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 September 2024, the ratio was 6.8 times, which exceeds the covenant limit. The company is currently in the process of requesting a covenant waiver for the period from the financial institution.

Debt structure

As of September 2024, SST had consolidated debt of THB2.6 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 71%, 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.

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 THB150 million as of September 2024 and projected operating cash flow of around THB510 million in 2025. The company's uses of funds include debt repayments of around THB1.4 billion, lease payments of around THB500 million, and expected capital expenditures of THB150 million. SST will likely need to refinance a substantial portion of its maturing debt and secure additional funding to be able to meet these obligations and execute its investment plan.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for SST's operations in 2024-2027 are:

- Revenue to drop to THB3.4 billion in 2024 and THB3.3 billion in 2025, before gradually increasing to around THB3.4 billion per annum in 2026-2027.
- EBITDA margin of 15% in 2024, before improving to around 22% in 2025-2027.
- Capital spending of around THB150 million per annum.

RATING OUTLOOK

The "stable" outlook reflects our expectation of a gradual improvement in SST's operating performance and financial metrics, and that the company will maintain its market position in the QSR, and warehouse and document storage businesses. Additionally, we expect the company to exercise prudence in its investment decisions and business expansion plans.

RATING SENSITIVITIES

A rating downgrade could occur if SST's adjusted debt to EBITDA ratio exceeds 7 times for an extended period, either due to weaker-than-expected operating performance or aggressive debt-funded investments. Conversely, an upgrade could materialize if the company's operating performance improves significantly, leading to a sustained decline in the adjusted net debt to EBITDA ratio to well below 5 times.

COMPANY OVERVIEW

SST was established in 1976 and listed on the Stock Exchange of Thailand (SET) in 1994. As of November 2024, the Sukhanindr family and affiliates held about 60% of the company'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 September 2024, the company operated 815 QSR and restaurant outlets.

KEY OPERATING PERFORMANCE

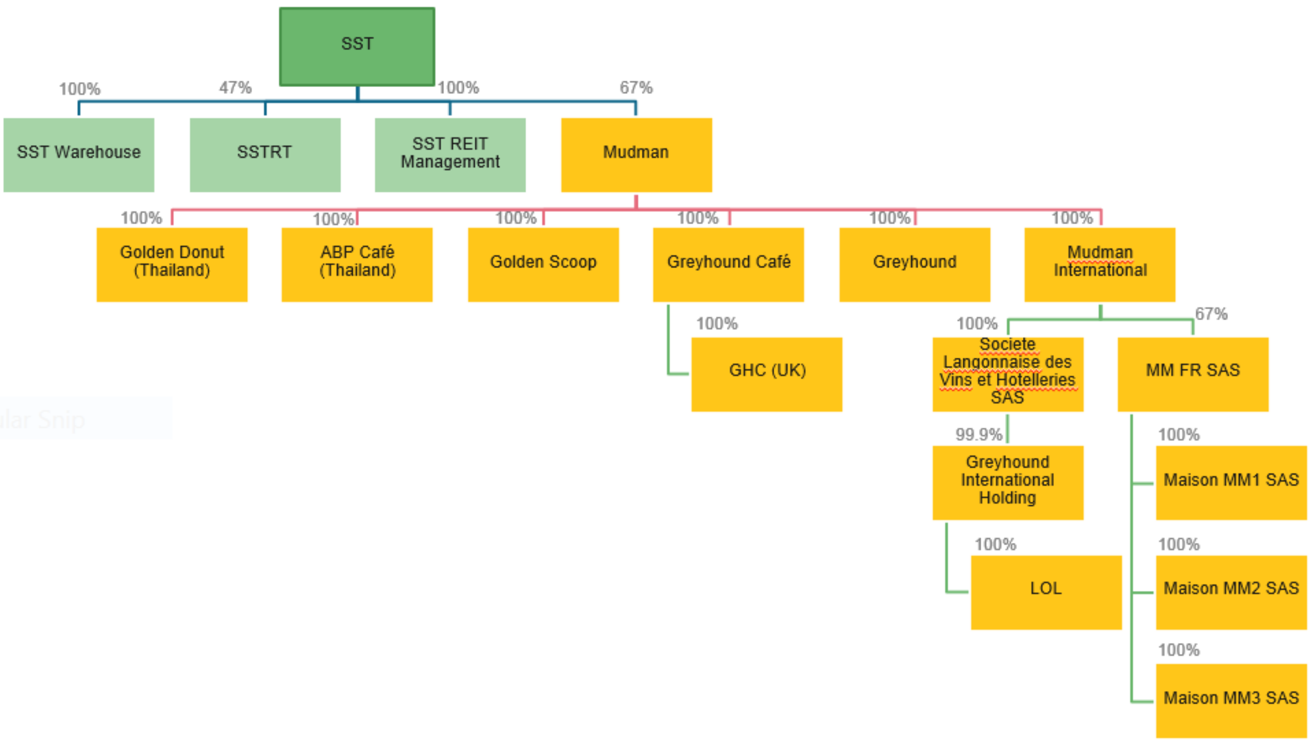
Table 1: SST's Revenue by Line of Business

Unit: %

Business	2015	2016	2017	2018	2019	2020	2021	2022	2023	9M24
Storage	9	10	11	11	12	15	15	10	9	11
Food	83	84	85	85	84	79	79	70	80	81
Fashion	8	6	4	4	4	6	6	6	7	8
Durian								14	4	0
Total revenues (million THB)	**3,074**	**3,214**	**3,159**	**3,476**	**3,317**	**2,565**	**2,551**	**3,996**	**3,987**	**2,534**

Source: SST

Chart 1: SST's Group Structure



Source: SST

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

		-----------Year Ended 31 December --------			
	Jan-Sep 2024	2023	2022	2021	2020
Total operating revenues	2,619	4,090	4,118	2,716	2,730
Earnings before interest and taxes (EBIT)	(72)	242	203	100	(42)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	392	824	730	666	575
Funds from operations (FFO)	209	566	484	476	387
Adjusted interest expense	173	234	209	173	182
Capital expenditures	82	297	500	238	279
Total assets	7,150	7,631	7,962	6,985	6,964
Adjusted debt	3,948	3,978	4,007	3,140	3,118
Adjusted equity	2,398	2,669	2,727	2,679	2,812
Adjusted Ratios					
EBITDA margin (%)	14.96	20.15	17.74	24.51	21.08
Pretax return on permanent capital (%)	(0.69)	3.44	3.03	1.60	(0.68)
EBITDA interest coverage (times)	2.27	3.52	3.49	3.84	3.17
Debt to EBITDA (times)	6.99	4.83	5.49	4.72	5.42
FFO to debt (%)	8.13	14.23	12.09	15.17	12.40
Debt to capitalization (%)	62.21	59.84	59.51	53.96	52.58

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:	BB+
Rating Outlook:	Stable

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