

SIAM GLOBAL HOUSE PLC

No. 72/2024
30 April 2024

CORPORATES

Company Rating: A
Outlook: Stable

Last Review Date: 30/03/23

Company Rating History:

Date	Rating	Outlook/Alert
11/03/19	A	Stable
23/07/13	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Siam Global House PLC (GLOBAL) at “A”, with a “stable” rating outlook. The rating is supported by its leading position in the home improvement retail business in Thailand, acceptable profit margins, low financial leverage, and adequate liquidity. However, the rating is weighed down by its relatively weaker working capital management compared to rated peers, and unfavorable market sentiment stemming from the elevated interest rate, high household debt, and intense competition in the home improvement retail business.

KEY RATING CONSIDERATIONS

Rating underpinned by leading market position

We expect GLOBAL to maintain its status as one of the leading home improvement retailers in Thailand. GLOBAL’s revenue and earnings base have consistently ranked in the top-three tier in the industry for past several years. GLOBAL’s total operating revenue increased to THB33-THB36 billion in 2021-2023, from THB26-THB28 billion in 2018-2020. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) climbed to THB4.6-THB5.6 billion in the past three years from THB3.5-THB3.8 billion in 2018-2020. GLOBAL’s EBITDA margin ranged between 13%-16% over the past five years, in line with the industry average of 10%-16%.

In addition, GLOBAL’s stores are reasonably diversified in terms of numbers and locations. As of December 2023, GLOBAL owned and operated 83 stores in Thailand and one store in Cambodia. All stores in Thailand are located in the provinces outside Bangkok, with around 40% in the northeastern region. Apart from its own stores, GLOBAL also invests in home improvement retailers in Laos, Myanmar, and Indonesia through Global House International Co., Ltd. (GBI), a joint venture (JVs) between GLOBAL and SCG Distribution Co., Ltd. (SCGD). The JVs operated 32 stores at the end of 2023.

Moderate revenue growth anticipated

We expect GLOBAL’s total operating revenue to hover in the THB35-THB40 billion range in 2024-2026, a 6%-8% year-on-year (y-o-y) growth. The modest revenue growth is based on our assumption of modest same-store sales growth (SSSG) on top of new store expansion over the next few years.

GLOBAL’s SSSG has remained in negative territory for five consecutive quarters since the fourth quarter of 2022 (Q42022). Its SSSG was -10.8% in 2023, declining from 2.5% in 2022 and 19% in 2021. The SSSG in 2023 was hampered by a sharp drop in steel prices, weakening purchasing power due to a slowdown in the domestic economy, and a delay in government disbursements. This trend is likely to persist in the first half of 2024 (1H2024).

However, we expect GLOBAL’s SSSG to turn positive in 2H2024 after the disbursement under the new government budget begins and steel prices become more stable. We project GLOBAL’s SSSG to be flat in 2024 and revive by 1%-2% per annum in 2025-2026. Additionally, we expect the company to open five to eight stores each year.

Acceptable profit margins

Although GLOBAL’s profit margin is pressured by high pre-opening costs from new store expansion and intense competition among leading retailers, we

expect the company will maintain profitability consistent with the industry average throughout the forecast period. Our base case projects GLOBAL's gross profit margin from sales to stay above 25%, while its EBITDA margin to hover at least 12%-13%. The company's ability to sustain profitability largely depends on its ability to generate sales volume from house-branded products and effectively control operational expenses.

GLOBAL's gross profit margin from sales improved to 25%-26% in 2021-1Q2024 from 21%-24% in 2018-2020. This was primarily due to a greater proportion of sales from house-branded products, which typically yield higher profit margins. The contribution of sales from house brands increased to one-fourth of total sales over the past three years, up from around 20% in 2018-2020. The gross profit margins of house-branded products have consistently ranged between 41%-42%, significantly higher than those of other branded products. However, its EBITDA margin declined to 14% in 2023-1Q2024 from 16% in 2021-2022, due to higher operating expenses related to store expansion and increased promotional campaigns to bolster sales.

Weaker working capital management than rated peers

We view GLOBAL's cash conversion cycle as considerably longer compared to peers in the same sector. The longer cash conversion cycle implies a higher need for working capital funding. Over the past three years, GLOBAL has maintained inventory levels for more than 200 days, exceeding the 100-180 days observed among peers in the sector. According to the management, the company holds large inventory volumes to ensure availability of products. Also, approximately 46% of its inventory consists of construction materials, which are less prone to obsolescence or substantial markdowns, while the remaining inventory comprises hardware and decorative products.

However, the company has attempted to improve working capital management through product assortment planning and merchandise management over the past three years. Consequently, inventory days gradually decreased to 213 days in 2023 and 202 days in 1Q2024 from 236 days in 2021 and 256 days in 2020. The cash conversion cycle also shortened to 160-200 days in 2022-1Q2024 from more than 200 days in previous years. However, it remains longer than that of rated peers.

Looking ahead, we expect the company to improve its inventory turnover and lower its inventory levels to align with rated peers. Additionally, given its improving business scale, the company should be able to strengthen its position in the supply chain, enabling it to require suppliers or dealers to hold more of its inventory. This will help free up the company's capital for allocation to other investment areas.

Financial leverage expected to maintain low

Despite its continuing store expansion, we expect GLOBAL's financial leverage will not change much from the current level. Under TRIS Rating's base case, we project GLOBAL's debt to EBITDA ratio to slightly increase 2.4-2.7 times in 2024-2026 from 2.3-2.4 times in the past two years. The funds from operations (FFO) to debt ratio is likely to contract to 29%-34% in the next three years from 34%-35% in 2022-1Q2024.

This is based on our assumptions that GLOBAL will launch five to eight stores in Thailand every year and one store in Cambodia this year. We estimate the annual budget for capital expenditures of THB2-THB3 billion. This amount incorporates land acquisition of THB0.6-THB0.8 billion, construction cost of THB1.4-THB2.2 billion, and renovation costs of THB80 million.

Adequate liquidity

We assess GLOBAL as having adequate liquidity over the next 12 months. As of December 2023, GLOBAL's sources of liquidity comprised cash and deposits at banks of THB1.1 billion plus available credit facilities from banks of THB12 billion. Projected FFO is estimated at THB3.6 billion in 2024.

Debts due over the next 12 months will amount to THB9.8 billion, consisting of THB2.2 billion long-term loans, THB6.8 billion promissory notes (P/Ns), and THB0.8 billion trust receipt (T/R). The uses of funds incorporate planned capital expenditures of around THB3 billion and a dividend payout ratio of 40% in 2024.

The financial covenants on GLOBAL's debt obligations require the company to maintain its total liabilities to total equity (D/E) ratio below 2 times, the net interest-bearing debt to equity (net IBD/E) ratio below 2 times, and the debt service coverage ratio (DSCR) above 1.2 times. As of December 2023, the D/E ratio was 0.7 times, the net IBD/E ratio was 0.5 times, and the DSCR was 2.3 times. We expect GLOBAL to have no problem complying with the financial covenants over the next 12 months.

Debt structure

As of December 2023, GLOBAL's consolidated debt, excluding lease liability, was THB10.9 billion. Short-term borrowings accounted for 70% and the rest was long-term loans from banks. GLOBAL normally uses short-term loans to finance inventory and working capital, while long-term loans are used to fund land acquisition and capital expenditures. GLOBAL's

priority debt, totally secured debt at the company level, was THB800 million. This translates to a priority debt to total debt ratio of 8%.

BASE-CASE ASSUMPTIONS

The key assumptions in TRIS Rating’s base-case forecast for GLOBAL’s operations in 2024-2026 are as follows:

- Total operating revenue to grow by 6%-8% per annum
- Gross profit margin from sales to stand at least 25% and EBITDA margin to range between 12%-13%
- Annual spending for capital expenditure of THB2-THB3 billion

RATING OUTLOOK

The “stable” outlook reflects our expectation that GLOBAL should be able to retain its market presence as a top-tier player in the home improvement retailing industry. Given its ongoing business expansion, we expect the company to sustain its financial profile as targeted.

RATING SENSITIVITIES

A credit upside would materialize if GLOBAL enlarges cash flow generation as EBITDA heads towards the THB8-THB10 billion level on a sustained basis, while maintaining its financial profile at the current level. Conversely, a downward revision could occur if GLOBAL’s operating results and/or financial position turn out to be worse than our base-case forecast causing the net debt to EBITDA ratio to exceed 3.5 times.

COMPANY OVERVIEW

GLOBAL is a leading warehouse-style home improvement retailer in Thailand. It was established in 1997 by Mr. Witoon Suriyawanakul and listed on the Stock Exchange of Thailand (SET) in 2009. In November 2012, SCGD, 100% owned by Siam Cement Group PLC (SCG), became a strategic partner of GLOBAL. As of December 2023, GLOBAL’s major shareholders were the Suriyawanakul family (36%) and SCGD (33%). The company operated 83 stores in Thailand, with a total store area of 1,575,460 square meters (sq.m.), and one store in Cambodia.

In November 2021, GBI, a joint venture between GLOBAL and SCGD, announced its investment in a 22% stake in Caturkarda Depo Bangunan Tbk (CKDB), a leading Indonesian retailer of building material, decorative, and hardware products under the brand Depo Bangunan. The total investments of GBI were THB847 million. Also, GLOBAL established the subsidiary, Guangxi Global House International Trade Co., Ltd., to support the company’s product procurement from China to Thailand and neighboring countries.

In June 2022, GLOBAL signed a joint venture agreement with Cosco Capital Incorporated to operate various businesses in the Philippines, including a grocery retailer, office supply retailer, liquor distributor, real estate developer, and an oil and minerals business. GLOBAL established Global House Philippines Co., Ltd. (GBP) to operate modern trade retail stores for products such as building and construction-related materials, home decorative goods, and home improvement products in the Philippines. GLOBAL also established Global House Philippines Estate Co., Ltd. (GBP ESTATE) to lease lands for developing Global House stores in the Philippines.

KEY OPERATING PERFORMANCE

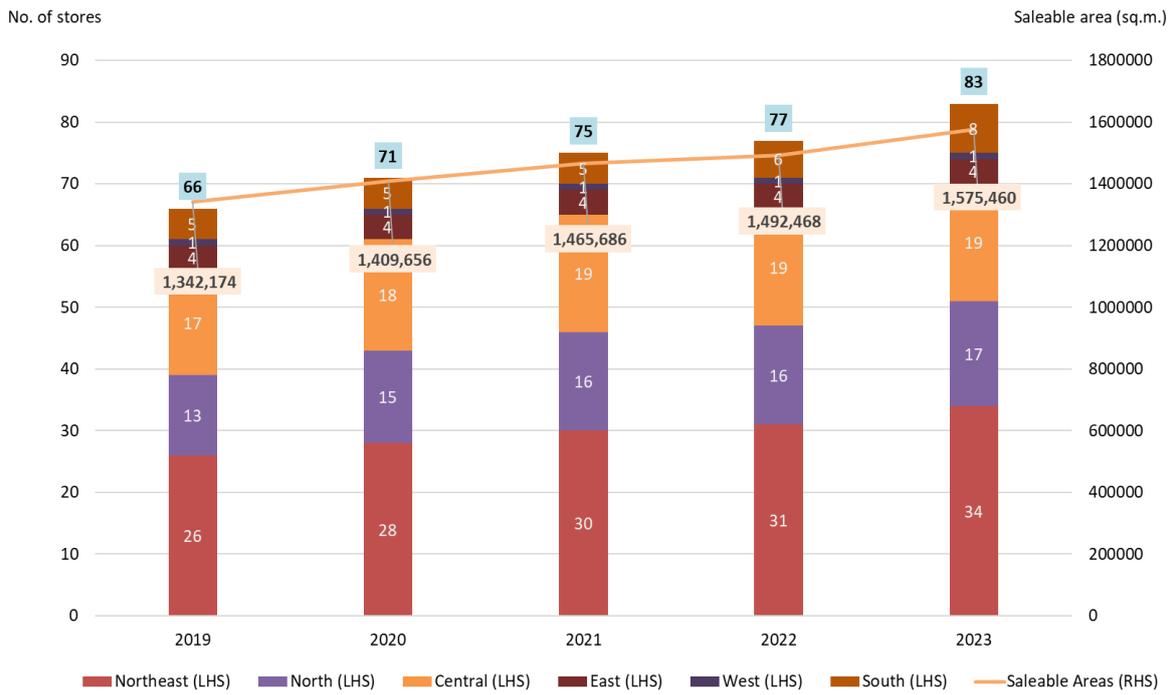
Table 1: GLOBAL’s Revenue Breakdown by Product Group

Unit: %

Product groups	2019	2020	2021	2022	2023
Construction materials product	44.1	43.5	44.5	41.1	38.8
Hardware and decorative	55.9	56.5	55.5	58.9	61.2
Total sales	100	100	100	100	100
Total sales (Mil. THB)	28,081	26,803	33,498	35,270	32,301

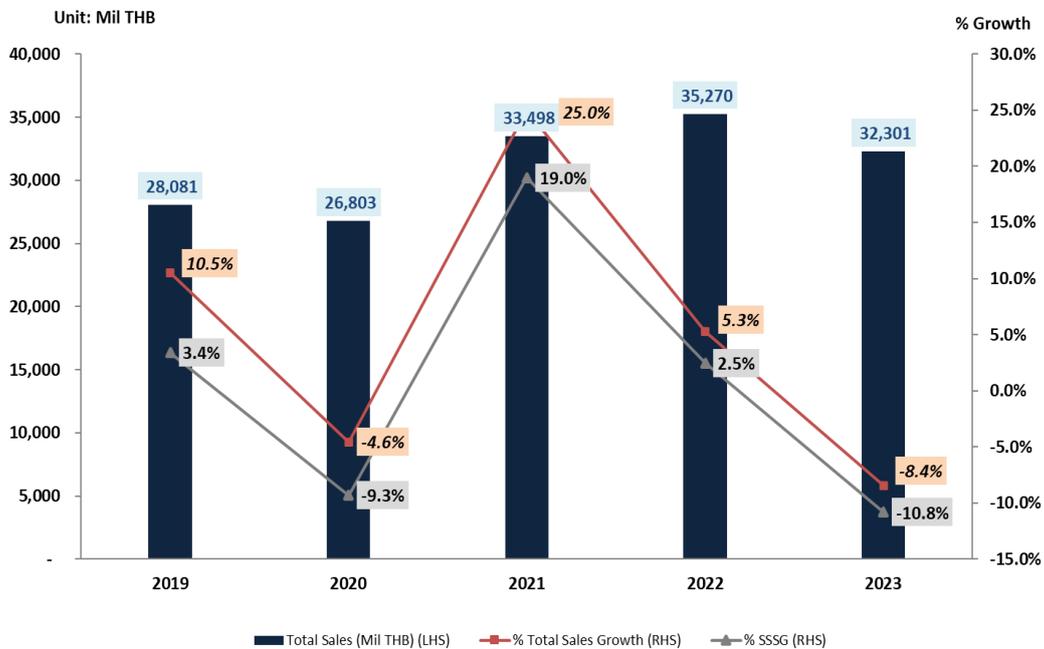
Source: GLOBAL

Chart 1: No. of Store Breakdown by Location and Saleable Area (in Thailand)



Source: GLOBAL

Chart 2: GLOBAL's Same-Store-Sales Growth and Total Sales Growth



Source: GLOBAL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	8,980	32,970	35,898	34,002	27,274
Earnings before interest and taxes (EBIT)	989	3,585	4,513	4,325	2,678
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,263	4,673	5,639	5,508	3,818
Funds from operations (FFO)	998	3,754	4,565	4,472	3,111
Adjusted interest expense	86	287	197	183	248
Capital expenditures	495	2,138	1,260	1,858	2,195
Total assets	40,767	39,058	39,148	39,275	36,020
Adjusted debt	10,567	10,985	13,231	14,768	14,398
Adjusted equity	24,329	23,547	22,091	19,836	17,214
Adjusted Ratios					
EBITDA margin (%)	14.1	14.2	15.7	16.2	14.0
Pretax return on permanent capital (%)	9.5 **	9.9	12.4	12.5	8.2
EBITDA interest coverage (times)	14.7	16.3	28.7	30.2	15.4
Debt to EBITDA (times)	2.3 **	2.4	2.3	2.7	3.8
FFO to debt (%)	34.2 **	34.2	34.5	30.3	21.6
Debt to capitalization (%)	30.3	31.8	37.5	42.7	45.5

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Siam Global House PLC (GLOBAL)

Company Rating:	A
Rating Outlook:	Stable

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