

SAHA PATHANA INTER-HOLDING PLC

No. 39/2015

12 May 2015

Company Rating: AA

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
21/4/14	AA	Stable

Rating Rationale

TRIS Rating affirms the company rating of Saha Pathana Inter-Holding PLC (SPI) at “AA”. The rating reflects SPI’s well-diversified investment portfolio and strong group network. The rating also takes into consideration its conservative financial and investment policies. However, these strengths are partially offset by the intense competition SPI’s affiliates face in the consumer product, garment, and food industries. Its small cash flow generation was partly supported by financial flexibility from the various investments in listed holdings, though exposed to volatile and unpredictable stock market movements.

SPI was founded in 1972 by the Chokwatana family which remains the company’s major shareholder with direct and indirect holdings of 67.9% as of February 2015. SPI is the main holding company of Saha Group, operating industrial parks and investing in 151 companies. Key revenue contribution is from the industrial park business and utility sales, however, the cash flow generation is mainly relied on the dividend receipts from its investment portfolio. In 2014, SPI reported Bt4,180 million in revenue and Bt758 million in funds from operations (FFO). Top five dividend payers were Thai President Foods PLC (TF), I.C.C International (ICC), Saha Pathanapibul PLC (SPC), Lion (Thailand) Co., Ltd. (LION), and Thai Wacoal PLC (WACOAL).

Saha Group is a leading conglomerate in Thailand, manufacturing and distributing a wide range of products spanning the food, garment, cosmetics, and consumer product industries. SPI acts as one-stop service provider for group investment. Its service includes the industrial parks and infrastructure, equity investment, financial support, and consulting services. Saha Group has built a strong network, encompassing the supply chain from raw materials through manufacturing and distribution. Saha Group typically invests with partners and has established long-term relationships with various Thai and international business groups; many are large Japanese corporations. Group distribution channel is mainly handled by SPC, ICC, and Better Way (Thailand) Co., Ltd. (BWT). The revenue of Saha Group through three key distributors was over Bt50 billion in 2014, across all its product lines nationwide. Saha Group’s product portfolio includes many leading brands in many market segments, such as Mama, Wacoal, Pao, Essence, Mistine, BSC, and more. However, the competitive nature of these industries has challenged Saha Group’s ability to maintain its market positions and achieve operational efficiencies.

At the end of December 2014, out of SPI’s 151 invested companies, there were 21 companies listed on the Stock Exchange of Thailand (SET), one company listed on the Market for Alternative Investment (MAI), and one company listed on the Tokyo Stock Exchange. The shareholding structure of Saha Group has allowed SPI to benefit from diversified sources of dividend contribution which cushions against the economic cycles. From the past track record, SPI has recorded a fairly stable dividend receipt, although it does not have full control over dividend policies of all its affiliates. In 2014, about half of SPI’s affiliates paid dividends, but the five largest dividend payers accounted for 59% of the total amount of dividends SPI received.

In the industrial park segment, SPI operates three sites which primarily serve the Group’s manufacturing activities. SPI earned revenue from the sale of utility and from service fees. Revenues from land sales are minimal as SPI rarely sells land to companies outside the Saha Group. The operating cash flow from SPI’s industrial

Contacts:

Pramuansap Phonprasert
pramuansap@trisrating.com

Nauwarut Temwattanangkul
nauwarut@trisrating.com

Ruangwud Jarurungsipong
ruangwud@trisrating.com

Rungtip Charoenvisuthiwong
rungtip@trisrating.com

WWW.TRISRATING.COM

park segment is used mostly to support its operating and administrative expenses. Land sales if occur will boost the company's profit as it has very low cost.

In 2014, the company's revenue grew slightly, rising by 1.6% to Bt4,180 million. The revenue in the industrial park segment still grew by 3.1%, although land sales in the industrial park nearly halved from the previous year. However, the performance of the companies in Saha Group, especially apparel and cosmetic segments, was negatively affected from the stagnant growth economy.

The company has a conservative leverage policy. Total debt (including guarantees to related companies) decreased from Bt1,684 million in 2013 to Bt1,572 million in 2014. The ratio of total debt as a percentage of total capitalization declined from 8.8% in 2013 to 7.5% in 2014. SPI's investment philosophy is making joint ventures with expert partners and utilizing its core competence in project management. In addition, the project will be supported by several of Saha Group's companies. Hence, SPI's investment in each project will not be large. SPI typically owns less than 50% of each affiliate.

In 2014, SPI's liquidity profile softened, although remaining strong. The dividends SPI receives represent free cash flow available for capital investments and financing activities. Dividends received constitutes nearly 100% of SPI's FFO. In 2014, FFO declined to Bt758 million, compared with Bt876 million in 2013 due to the lower dividends receipt and land sales. Thus, the FFO to total debt ratio declined from 52% in 2013 to 48.2% in 2014 while earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio lowered from 15.3 times to 13.7 times during the same period. During the next 12 months, SPI will have debt service obligations of Bt580 million, of which Bt213 million is short-term promissory notes. Considering SPI's FFO, its liquidity is well-managed. In addition, SPI has an option to sell more land to boost its liquidity, if it needs more funds to make more sizable investments. At the end of December of 2014, the company had 1,475 rai of land available for sale in three industrial parks. The company also has available uncommitted credit facilities of approximately Bt2,000 million. SPI's financial flexibility is enhanced by its liquid investment portfolio. The market value of SPI's holdings in 23 listed firms was Bt16,864 million as at the end of 2014. The ratio of total debt to the market value of the listed holdings was at 9% in 2014.

During the next three years, TRIS Rating expects that the operating performance of the Saha Group companies will gradually grow as the domestic economy rebounds. SPI's revenue could grow by approximately 4% per annum. SPI's leverage ratio is estimated to remain below 10%, as its investment budget will be approximately Bt300 million per annum. The company does not indicate any sizable investments. Liquidity is expected to stabilize with the average FFO to total debt ratio of 50% and the EBITDA interest coverage ratio of 15 times.

Rating Outlook

The "stable" outlook reflects the company's conservative financial policy and high level of financial flexibility. TRIS Rating also expects that the Saha Group will maintain its strong operating performance and its leading positions in its core markets.

SPI's potential for a rating upgrade is unlikely over the next 12-18 months base on its limit growth of cash flow from current economic conditions. The rating downside may occur if the stagnant economic condition affects the Saha Group's operating performances which lessen SPI's dividend income or it makes an aggressive shift in leverage policy.

Saha Pathana Inter-Holding PLC (SPI)

Company Rating:	AA
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----				
	2014	2013	2012	2011	2010
Sales**	4,180	4,114	4,027	3,287	2,993
Gross interest expense	58	61	50	31	22
Net income from operations	1,203	1,329	1,345	1,048	997
Funds from operations (FFO)	758	876	662	561	514
Capital expenditures	287	910	451	385	355
Total assets	21,854	20,000	19,292	16,657	15,008
Total debt***	1,572	1,684	1,306	1,203	885
Shareholders' equity	19,354	17,577	16,970	14,926	13,768
Market value of listed holdings	16,864	16,348	18,535	14,022	11,937
Operating income before depreciation and amortization as % of sales	33.1	36.8	36.1	34.9	37.0
Pretax return on permanent capital (%)	6.3	7.5	8.0	7.0	7.3
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	13.7	15.3	14.2	19.0	24.8
FFO/total debt (%)	48.2	52.0	50.7	46.6	58.1
Total debt/capitalization (%) ***	7.5	8.8	7.2	7.5	6.0
Net debt/ market value of listed holdings (%)	8.8	9.9	6.7	8.1	7.1

* Consolidated financial statements

** Including share of profit from investment in associates by equity method and dividend income

*** Including contingent liabilities of providing guarantees to related companies

TRIS Rating Co., Ltd.

Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com

© Copyright 2015, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at <http://www.trisrating.com/en/rating-information/rating-criteria.html>.