

I.C.C. INTERNATIONAL PLC

No. 72/2017

29 June 2017

Company Rating: AA

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
23/03/05	AA	Stable
12/07/04	AA-	Stable
11/07/02	AA-	

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Rating Rationale

TRIS Rating affirms the company rating of I.C.C. International PLC (ICC) at "AA". The rating reflects ICC's position as a major distributor of the Saha Group for lingerie, men's apparel, and cosmetics products, as well as a diverse portfolio of branded consumer products, and a nationwide distribution network. The rating also takes into consideration ICC's conservative financial policies and sufficient liquidity. These strengths are partially constrained by the intense competition in the fashion and consumer product industries and a sluggish economy, which limits consumer spending.

ICC's strong business profile is supported by its diverse portfolio of products and its strong market position in fashion products in Thailand, particularly in the lingerie, men's apparel, and cosmetics segments. The company offers more than 100 brands, covering licensed international brands and its own brands. ICC's products are available nationwide, covering about 2,700 points of sale. The company's long track record of distributing fashion products, together with the support provided by suppliers within the Saha Group, help ICC maintain its competitive edge.

The company has strong competitive position in the Thai fashion segment. In the lingerie segment, ICC's portfolio of lingerie brands held about a 62% share in the middle- to high-end lingerie segment in 2016. *Wacoal* is ICC's key lingerie brand, remaining the market leader for lingerie sold through department stores with a 55.4% market share in 2016. The market share was up from 54% in 2015. ICC's attempt to reawaken its production and distribution processes in the lingerie segment has resulted in higher sales and a larger market share. ICC also maintains its competitive positions in the men's apparel segment and the cosmetics segment. ICC's major brands in the menswear market are *Lacoste* and *Arrow*. *BSC Cosmetology*, ICC's key brand, is also well-known in the Thai cosmetics market.

ICC's risk profile takes into account the intense competition in the fashion products and apparel industry. ICC faces competition from a wide variety of apparel makers and their aggressive promotional campaigns. Intense competition will push promotional expenditures higher as companies fight to draw customers and counter intense competition. In addition, a sluggish economy may cut consumer spending.

ICC's major revenue contributors are the lingerie segment (31%), the men's apparel segment (27%), and the cosmetics segment (10%). Revenue in 2016 was Bt12,615 million, up by 2.2% from 2015. The rise in revenue was driven by the men's apparel and the lingerie segments. Sales for the first three months of 2017 were Bt2,997 million, close to the same period a year ago. The recent slowdown in the domestic economy and a high level of household debt nationwide have limited consumer spending. ICC has looked for growth opportunities from new sales channels, such as online shopping and shopping channels on television (TV). This is in response to changing lifestyles and consumers' behavior. The Saha Group, including ICC, recently announced that it will partner with Lazada and Oshopping to strengthen its reach in the e-commerce and TV shopping segments.

ICC's financial profile is underpinned by a conservative financial policy and sufficient liquidity. Profitability is low but this is typical for trading companies. ICC's operating margin was 3% in 2016 and 2.1% for the first three months of 2017. The

decline was mainly due to higher selling, general, and administrative expenses (SG&A) as ICC spent to draw customers and to strengthen the brand awareness.

The liquidity profile remains strong as ICC is debt-free. ICC has very conservative financial policies, having been a debt-free company for an extended period. As of March 2017, the company had about Bt30 million in outstanding debt, solely for the working capital needs of a subsidiary. ICC has made debt guarantees worth Bt332 million to related companies within the Saha Group as at the end of March 2017. The value of the guarantees rose from Bt259 million as of 2016 because ICC made new guarantees to support Sahapat Real Estate Co., Ltd. ICC owns a 19.9% stake in Sahapat Real Estate, a logistics and warehouse company of the Saha Group.

ICC's financial flexibility is enhanced by its investment portfolio. The market value of ICC's holdings in 20 listed firms was Bt7,437.6 million at the end of March 2017. The ratio of total debt, including guarantees, to the market value of the listed holdings was very low, registering about 10% at the end of March 2017.

During 2017-2019, TRIS Rating expects ICC's revenue will grow at a low-single digit rate per annum. TRIS Rating holds the view that the current slowdown in the domestic economy will continue until late 2017 and the revenue will grow more rapidly in 2018. TRIS Rating assumes that ICC will efficiently manage the selling, general, and administrative (SG&A) expenses in order to gradually improve the operating profit margin. During 2017-2019, funds from operations (FFO) are forecast to stay around Bt850-Bt950 million per annum. Given ICC's conservative financial policies, TRIS Rating expects ICC to maintain strong liquidity with no significant change in its capital structure during the next three years.

Rating Outlook

The "stable" outlook reflects TRIS Rating's expectation that ICC will maintain its strong market positions in its major product lines. TRIS Rating also expects ICC to continue its conservative financial policies and maintain strong liquidity.

The rating downside case would be triggered by weaker-than-expected profitability for a prolonged period of time or an aggressive shift in financial policy. The credit rating of ICC could be revised upward should its ability to generate cash flow improve substantially, leading to a significant cash flow enlargement.

I.C.C. International PLC (ICC)

Company Rating:

AA

Rating Outlook:

Stable

Financial Statistics and Key Financial Ratios

Unit: Bt million

	----- Year Ended 31 December -----				
	Jan-Mar 2017	2016	2015	2014	2013
Sales	2,997	12,615	12,343	12,033	13,329
Gross interest expense	0	2	1	0	7
Net income from operations	173	936	703	545	685
Funds from operations (FFO)	182	1,255	883	735	810
Total capital expenditures	34	423	258	341	536
Total assets	21,259	20,199	18,565	18,486	17,820
Total debt	30	20	30	-	-
Guarantees to related companies	332	259	222	176	169
Shareholders' equity	18,234	17,380	15,986	15,742	15,291
Operating income before depreciation and amortization as % of sales	2.1	3.0	3.3	2.4	3.0
Pretax return on permanent capital (%)	6.2 **	6.2	5.1	3.9	5.1
Earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage (times)	747.2	662.0	1,042.2	n.m.	132.3
FFO/total debt * (%)	347.5 **	449.4	350.0	418.5	478.1
Total debt/capitalization * (%)	2.0	1.6	1.6	1.1	1.1

n.m. Not meaningful

* Including contingent liabilities of guarantees to related companies

** Annualized with trailing 12 months

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