

I.C.C. INTERNATIONAL PLC

No. 16/2015

11 March 2015

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-	

Rating Rationale

TRIS Rating affirms the company rating of I.C.C. International PLC (ICC) at “AA”. The rating reflects the company’s position as Thailand’s leading distributor of lingerie, men’s apparel, and cosmetics; a diverse portfolio of products and brands; intra-group supply chain; and nationwide distribution coverage. The rating also takes into consideration ICC’s conservative financial policies and sufficient liquidity. These strengths are partially constrained by ICC’s declining profitability, sluggish economic impacting consumer spending, and the challenge to revive brand popularity.

ICC was established in 1964 as a distributor of fashion products within Saha Group. ICC is one of leading distributors of lingerie, men’s apparel, and cosmetics products in Thailand. The company offers more than 80 brands, covering international licensed brands and its own brands. The licensed brands, such as *Wacoal*, *Arrow*, *Lacoste*, *Guy Laroche*, and *ELLE*, are well-accepted by Thai consumers, and contributed approximately 67% of total revenue in 2014. ICC’s products are available in department stores, discount stores, and ICC’s own shops, covering about 3,700 points of sales nationwide.

ICC’s business profile is considered strong, supported by its diverse portfolio of products and its strong position in the lingerie, men’s apparel, and cosmetics segments in Thailand. The company’s long-track record of distributing fashion products, together with the support provided by suppliers within the Saha Group, help maintain ICC’s competitive edge. Onward, ICC will focus on internal process re-structuring such as adjusting production plan and reducing duplicate processes in logistics, in order to create efficiency and minimize inventory. ICC is also developing its online sales channels and expanding abroad. ICC has faced challenges to modernize brands and launch a new marketing initiative to enhance its top line and profitability.

In 2014, the Thai economy was negatively affected by political instability. Although the private consumption was reported a flat growth of 0.3% compared with the previous year, the retail sales index dropped by 6%. The men’s apparel market and the lingerie market were substantially affected from the economic downturn, slipping by about 13% and 9%, respectively. Although being resilient to economic cycle, the cosmetics market in 2014 dropped by 3%. In 2015, the economic recovery is projected at the moderate growth rate, considering high household debt. According to office of the National Economics and Social Development Board (NESDB), the Thai private consumption is expected to expand by 2.9% in 2015.

“Wacoal” is ICC’s key lingerie brand. Wacoal remained the market leader of lingerie brands sold through department stores, holding about 50% of market share in 2014. Total ICC’s lingerie brand portfolio held nearly a 60% share in the middle- to high-end lingerie segment. ICC maintained its competitive positions in the men’s apparel segment and the cosmetics segment, considered its strong brands such as “Arrow” and “Lacoste” in the men’s wear market, and “BSC Cosmetology” in the cosmetics market.

In 2014, ICC generated Bt12,033 million in revenue, a 10% drop compared with the previous year. ICC’s major contributors are the lingerie segment (28%), the men’s apparel segment (27%), and the cosmetics segment (12%). The operating income before depreciation, and amortization as a percentage of sales

Contacts:

Sarinthorn Sosukpaibul
sarinthorn@trisrating.com

Pramuansap Phonprasert
pramuansap@trisrating.com

Rungtip Charoenvisuthiwong
rungtip@trisrating.com

WWW.TRISRATING.COM

softened from an average of 5% to 3% in 2013 and to 2.4% in 2014, as selling and administrative expenses remained high.

During 2015-2017, TRIS Rating's base-case expects ICC's revenue growth at about 5% per annum. The key growth driver is the reviving economic condition, but pressured by high household debt. Potential growth could come from ICC's expansion in international markets and online-shopping sales. The operating margins are expected to improve to about 4%-5% over the medium term, given an attempt to re-process the production and inventory management, as well as continue cost saving effort.

ICC's debt incurred from guarantees to related companies which increased slightly in 2014 to support Tsuruha (Thailand) Co., Ltd., a chain of pharmacy and beauty product stores of the Saha Group. ICC invested 15% in Tsuruha's shares. TRIS Rating expects no significant change in ICC's capital structure during the medium term. In addition, the company's financial policy remains to be a debt-free company. ICC plans total capital expenditures of Bt950 million during 2015-2017, mainly to renovate and expand shop outlets and build new office building.

In 2014, ICC set up a new property development subsidiary, WBRE Co., Ltd. ICC targets to maximize benefit from unutilized asset. WBRE's first project is to develop about 230-unit townhouse, located near the Saha Group's industrial estate in Chonburi province. Total project value is about Bt450 million. TRIS Rating expects no increase in debt from the property development segment. ICC gradually recognizes revenue from property sales. ICC will roll out the cash flow generation from the early phase to fund the next phase development. However, TRIS Rating views that the residential property industry is intensely competitive which has higher risk than the consumer product industry. Aggressive expansion in property development may negatively affect ICC's financial profile.

ICC's liquidity profile is acceptable, supported by its conservative financial policy and debt-free position. Impacted by slowdown economy, funds from operations (FFO) dropped to Bt736 million in 2014, compared with the average of Bt800-Bt900 million per annum during 2010-2013. During 2015-2017, FFO is expected to range from Bt800-Bt1,000 million per annum. TRIS Rating expects ICC's liquidity profile to remain strong over the medium term as the residential project requires minimal financing.

ICC and other Saha Group companies have complex cross-holding structures. TRIS Rating expects that all transactions between ICC and other companies in the Group should conform to the regulations of the Stock Exchange of Thailand (SET) and the Securities and Exchange Commission (SEC).

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 expects ICC to improve its operating performance and its cash-flow generative ability in order to maintain current credit profile.

ICC's potential rating upgrade is limited over the next 12-18 months, given the lack of robust growth momentum amid competitive pressure and an uneven economic recovery. The rating downside stems from weaker-than-expected profitability for a prolonged period of time and an aggressive shift in leverage policy.

I.C.C. International PLC (ICC)

Company Rating:

AA

Rating Outlook:

Stable

KEY RATING CONSIDERATIONS

Strengths/Opportunities

- Thailand's leading distributor of fashion products
- Diverse range of products and brands
- Nationwide distribution coverage
- Group supply chain

Weaknesses/Threats

- Declining profitability
- Intense competition
- Slowdown in private sector spending

CORPORATE OVERVIEW

ICC is the major distributor of fashion products for the Saha Group, one of the largest conglomerates in Thailand. ICC was established by the Chokwatana family in 1964, initially to distribute imported cosmetics. At present, ICC's product portfolio spans into several product lines: cosmetics, men's apparel, lingerie, women's wear, children's apparel, leather goods and accessories, sporting goods, and household products. ICC operates a large number of brands, both international licensed brands and its own brands. ICC's licensed brands, for example, are

Wacoal, Arrow, Lacoste, Guy Laroche, and ELLE. ICC's own brands include BSC, Enfant, St. Andrews, and Essence.

ICC was listed on the Stock Exchange of Thailand (SET) in 1978. As of December 2014, approximately 58% of ICC's shares were held by the Chokwatana family and various companies in the Saha Group, including ICC's suppliers, such as Thai Wacoal PLC, Thanulux PLC, People's Garment PLC, and International Laboratories Corp.

Table 1: Revenue Contribution by Major Product Line

Unit: %

Product Line	2011	2012	2013	2014
Lingerie	26.2	25.9	26.2	27.5
Men's wear	26.9	27.4	27.9	27.0
Cosmetics	12.6	12.0	11.6	11.5
Household products	9.9	9.8	9.9	10.8
Leather goods & accessories	8.7	9.0	8.7	8.0
Sporting goods & toys	4.3	5.1	5.6	6.0
Children's apparel	4.4	4.4	4.1	4.1
Women's apparel	4.2	4.4	4.0	3.2
Others	2.8	2.0	1.9	1.8
Total	100.0	100.0	100.0	100.0

Source: ICC

In 2014, ICC generated Bt12,033 million in revenue. The top brand contributor was Wacoal which contributed about 21%-23% of revenue annually during the last three years, followed by BSC, Arrow, and Lacoste which generated about 9%-11% of revenue.

RECENT DEVELOPMENTS

▪ Set up new subsidiaries

In December 2013, Saha Group set up a new subsidiary, Amis Du Monde SARL (ADM), a trading company in France. Saha Group holds 100% of ADM's €1.2 million registered capital, of which ICC owns an 82% stake. ADM operates an outlet shop located in France to distribute BSC and some Thai local products.

In March 2014, ICC set up a new subsidiary, WBRE Co., Ltd. (WBRE). ICC holds 100% of WBRE's registered capital, or about Bt50 million. WBRE is a property developer, established to extract benefits from ICC's under-utilized assets.

BUSINESS ANALYSIS

ICC's business profile reflects its position as one of leading distributor of fashion products in Thailand. The company benefits from its wide range of product categories and brands, and nationwide distribution coverage.

During the last two years, an economic slowdown negatively impacted ICC's operating performance. Going forward, ICC faces challenges to maximize its supply chain and strengthen its competitive position.

▪ Private sector spending slowed in 2014

Spending in the Thai private sector was stifled by political uncertainty during 2013 and 2014. The private consumption grew by 0.3% in 2014 while the retail sales index slipped by 6%.

Sales of consumer products and fashion products in 2014 were substantially affected from the economic downturn. The market value of men's apparel and lingerie were estimated to drop by approximately 13% and 9% in 2014. Even sales of cosmetics which were used to be resistant to economic cycles, dropped by about 3%.

In 2015, private sector spending is expected to recover at moderate growth rates as political conflict relieves. The NESDB forecasts the Thai private consumption will rise by 2.9% in 2015. However, rising household debt and low agricultural product price are two factors which may hinder the growth of household consumption and the consumer product industry.

▪ Diverse products and distribution channels

ICC offers a broad range of product lines: cosmetics, men's apparel, lingerie, women's wear, children's apparel, leather goods and accessories, sporting goods, and household products. ICC sells a large number of brands, both international licensed brands and its own brands. The licensed brands, such as Wacoal, Arrow, Lacoste, Guy Laroche, and ELLE, are well-known to the Thai consumers. The key licensed brand products contributed about 67% of ICC's total sales in 2014. ICC has its own brands, such as BSC, Enfant, Essence, and St. Andrews.

ICC's management team has a lengthy track record and good relationships with its international brand licensors and with its distribution channels. The good relationships with suppliers, the owners of the licensed brands, and the members of the major distribution channels are one key factor contributing to ICC's nationwide market coverage. ICC's products are available in department stores, discount stores, and ICC's own shops, covering about 3,700 points of sale nationwide. Department stores are ICC's major distribution channels, generating around half of ICC's total sales. The department store channel offers premium brand products to capture medium- to high-income consumers. The modern trade or discount store channel is suited for ICC's economy brands.

ICC has opened His&Her specialty stores to capture customers outside the department store channel and create brand loyalty through a membership program, His&Her Plus Point. During 2013-2014, ICC closed some

His&Her shops, as some locations reported losses. At the end of 2014, ICC had 94 *His&Her* outlets, which provided about 5% of total revenue. The company plans to add about 10 *His&Her* outlets during 2015-2016.

- **Support from group-wide supply chain**

As part of Saha Group, ICC sources most of its products through the companies in the Group. The companies in the Saha Group, including ICC, have complex cross-shareholdings. Some of ICC's executives also hold management positions its suppliers. However, the complex structures should conform to the regulations of the SET and the SEC. The benefit of this structure is that it ensures good cooperation with suppliers. The cooperation facilitates the development of new products and ensures reliable sources of the raw materials, which are key success factors in a fashion-driven business. However, a tightly-knit group structure sometime means firms within the group must provide financial support to other affiliates. The support could come in various forms, such as, loan guarantees, inter-company loans, and asset acquisitions. The huge supports may consume the company's resources.

ICC's current management team is marking a gradual transition. The new generation of management team will face challenges as it tries to keep the company growing and strengthen the brand images. However, some of ICC's brands need to be modernized in order to compete in an intensely competitive market and to penetrate the segments with younger customers.

- **Dominant position in lingerie market**

Sales of lingerie products constituted about 28% of total revenue in 2014. ICC dominated the lingerie market, especially in the middle- to high-end segment. ICC's lingerie brands, including *Wacoal*, *BSC*, *BSC Signature*, *ELLE*, *VR*, and *Kullasatri*, had a combined market share of nearly 60% in 2014, as measured by sales through department stores. The *Wacoal* brand alone held about 51% market share.

Wacoal is a leading brand in the women's premium lingerie market. The *Wacoal* brand has a history in Thailand dating back over 40 years and has a strong market position in the working age segment. Products sold under the *Wacoal* brand name contributed over 80% of ICC's lingerie sales, or 21%-23% of total revenues annually during the last three years. However, *Wacoal* faces challenges from the aggressive marketing activities of its rivals, especially in the young customer segments.

Wacoal is reawaking its production and distribution processes, in order to enhance its competitive edge and boost sales. Although ICC's sales in the lingerie segment slipped by 11% in the first nine months of 2014, the sales

rebounded by 15% in the fourth quarter. As a result, the full year sales dropped by 5%. *Wacoal*'s work process revamp, if successful, will yield greater efficiency and cost savings.

- **Lacoste and Arrow brands anchor the men's apparel segment**

The men's apparel segment generated 27%-28% of ICC's revenues annually during the past three years. The strength of ICC's men's apparel segment comes from the sound performance of the *Lacoste* and *Arrow* brands and their strong market positions. The *Lacoste* and *Arrow* brands contributed 40% and 33% of total segment sales, respectively.

The *Lacoste* brand competes in the high-end men's casual wear market. It held about 11% market share in 2014. The *Arrow* brand competes in the men's working apparel segment, targeting middle- to high-income customers. *Arrow* had about 20% market share in this segment.

In 2014, sales in ICC's men's apparel segment fell due to the economic slowdown and political instability. Sales in 2014 slipped by 13%.

Onwards, ICC plans to increase sales in the men's apparel segment in upcountry areas and export more to neighboring countries. ICC is also revamping its sourcing and inventory management procedures in the men's apparel segment. The company plans to open new outlets by expanding with new department stores and some localized shopping malls.

- **Starting own residential project**

In 2014, ICC established WBRE as a property developer to extract benefits from ICC's under-utilized assets. WBRE's first project is a 230-unit townhouse project, located near the Saha Group's industrial estate in Chonburi province. The total project value is about Bt450 million. ICC started the first-phase construction of 60-unit townhouse in March 2014 and will open for sales in September 2015. The project is expected to gradually roll out as ICC will roll out the cash flow generation from the early phase to fund the next phase development. ICC is not expected to have new borrowings from the property development business.

TRIS Rating views that the residential property industry is intensely competitive and has higher risk than the consumer product industry. An aggressive expansion into the property development industry may negatively affect ICC's financial profile.

- **Expand abroad**

ICC's export value was nearly Bt500 million in 2014, or about 4% of total sales. During the last two years, Saha Group, including ICC, has expanded its footprints more in

overseas markets, particularly in the ASEAN Economic Community (AEC) countries.

In January 2015, Saha Group joined with MK Group, a high-end fashion products supplier in Myanmar, to found Tiger MK Logistics (Myanmar) Co., Ltd. (TigerMK). Saha Group holds 60% of TigerMK's US\$300,000 paid up capital, of which ICC owns an 18% stake. TigerMK is a logistics service company in Myanmar. TigerMK operates as distributor for consumer products and will be Saha Group's logistics arm in Myanmar.

In February 2014, ICC invested a 40% stake in Canchana International Co., Ltd. (Canchana) in Cambodia, while its local partner held 51%. Canchana is a trading company, supplying products to department stores in Cambodia.

FINANCIAL ANALYSIS

ICC's financial profile is strong, supported by its conservative financial policy. A weaker economy and intense competition have constrained ICC's sales growth and profitability. The weakened profitability for a prolonged period of time may negatively impact the company's credit profile.

- **Weak economy pressures sales and margins**

In 2014, ICC generated Bt12,033 million in revenue, a 10% drop compared with 2013. The drop reflected a weak economy, hindered by domestic political uncertainty.

ICC's operating margin was thin, averaging 5% during 2010-2012. The margin dropped to 3% in 2013 and to 2.4% in 2014. The operating profit margin was squeezed by a soften sales, but remained high comparing with marketing expenditures made in an effort to boost sales. Selling and administrative expense as a percentage of total sales rose to 37% in 2013 and 2014, compared with 34.5% in 2012. The return on permanent capital ratio dropped from 8.4% in 2012, to 5% in 2013, and to 3.8% in 2014.

During 2015-2017, TRIS Rating expects ICC's revenue growth at about 5% per annum. The key growth driver is an economic rebound. Private sector spending is expected to improve moderately, as the domestic political

uncertainty lessens. However, rising household debt may limit the growth of the consumer product segment. Given ICC's attempt to cut costs by revamping its production and inventory management processes, ICC's operating profit margin is expected to revive to 4%-5% during the next three years.

- **Conservative financial policy**

ICC has a conservative financial policy and remains debt-free. ICC's management team intends to maintain debt-free policy. ICC has made some guarantees to some related companies in its supply chain. The total amount of outstanding guarantees to related companies rose slightly from Bt152 million in 2012 to Bt176 million at the end of 2014. The rises of guarantees were given to support Tsuruha (Thailand). ICC's adjusted debt to capitalization ratio (including guarantees to related parties) was very low, or 1.1% in 2014. ICC plans its capital expenditures of about Bt950 million in total during 2015-2017. The expenditures include the opening of shop outlets and the construction of a new office building. According to ICC's projection, the property development business will not incur additional debt as the project size is small. Hence, TRIS Rating expects no significant change in ICC's capital structure during 2015-2017.

- **Ample liquidity**

ICC's liquidity profile remains strong, supported by its conservative financial policy. The FFO to total debt ratio was over 400% in 2013 and 2014.

ICC generated about Bt800-Bt900 million per year in FFO during 2010-2013. FFO dropped to about Bt750 million in 2014. During 2015-2017, ICC's FFO is expected to grow in the range of Bt800-Bt1,000 million per annum.

The company has a high degree of financial flexibility. At the end 2014, ICC had Bt617 million in cash on hand and Bt3,653 million in credit facilities available from financial institutions. In addition, ICC's long-term investments in listed companies had a combined market value of Bt5,710 million as of December 2014.

Financial Statistics and Key Financial Ratios

Unit: Bt million

	Year Ended 31 December				
	2014	2013	2012	2011	2010
Sales	12,033	13,329	13,677	12,825	11,294
Gross interest expense	0.0	7.4	5.0	0.0	0.0
Net income from operations	545	685	972	744	810
Funds from operations (FFO)	736	810	951	928	985
Total capital expenditures	341	536	383	400	284
Total assets	18,486	17,820	19,325	16,583	15,083
Total debt	-	-	464	-	-
Guarantees to related companies	176	169	152	152	152
Shareholders' equity	15,735	15,921	15,920	13,758	12,963
Operating income before depreciation and amortization as % of sales	2.4	3.0	5.1	5.5	5.9
Pretax return on permanent capital (%)	3.8	5.1	8.4	8.4	8.7
Earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage (times)	n.m	132.3	283.1	n.m.	n.m.
FFO/total debt * (%)	418.8	478.1	154.4	611.8	649.1
Total debt/capitalization * (%)	1.1	1.1	3.7	1.1	1.2

n.m. Not meaningful

* Including contingent liabilities of 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>.