

# I.C.C. INTERNATIONAL PLC

No. 101/2018

12 July 2018

## CORPORATES

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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## RATIONALE

TRIS Rating affirms the company rating of I.C.C. International PLC (ICC) at “AA” with a “stable” outlook. The rating reflects the company’s strong position as a leading distributor for fashion and consumer products in Thailand, its diverse portfolio of products and brands, as well as nationwide distribution network. The rating also takes into consideration ICC’s conservative financial policies and ample liquidity. However, the intense competition in the fashion and consumer products industries partially constrains these strengths.

## KEY RATING CONSIDERATIONS

### Leading distributor for fashion products within Saha Group

ICC is a leading distributor of lingerie, men’s apparel, and cosmetics products in Thailand. The company has diverse portfolio of products and brands. ICC offers more than 80 brands, covering international licensed brands and its own brands. The international licensed brands, such as Wacoal, Lacoste, and Arrow, have strong brand equities which drive customer loyalty.

ICC’s strong competitive advantage stems from the lengthy track record in the industry as well as its good relationships with suppliers and key licensors of the international brands. Healthy relationships and strong bargaining power with major distribution channels help ICC offer the products with a wide market coverage. ICC’s products are available in department stores, discount stores, traditional shops, and ICC’s own shops, covering 3,344 points of sale nationwide.

ICC is seeking growth opportunities outside the conventional store channel. Sales from online websites and through television shopping in 2017 amounted to nearly Bt450 million, or around 4% of ICC’s total revenue. The company targets sales from these new channels to rise to about 10% of total revenue within the next two years. ICC expects the collaboration with Lazada website would meet growing demand for online shopping and help boost the online sales.

### Rising market share in the lingerie segment

Sales of lingerie products in 2017 was Bt3,969 million, or 32% of ICC’s total revenue. Products in the lingerie segment include well-known brands such as Wacoal, BSC, ELLE, and Kullasatri. ICC’s sales from lingerie segment grew at an average rate of 2.6% per annum during 2016-2017, moving along with peers. The total market value of lingerie in department stores was about Bt5,500 million in 2017, rising by 1.0% from 2016.

ICC has dominated the lingerie market, especially in the middle- to high-end segments. Measured by sales through department stores, ICC’s lingerie products had a combined market share of 62.3% in 2017, up from 61.6% in 2016, and 60.3% in 2015.

Wacoal is the market leader for lingerie products in Thailand, with a strong market position in the working-age segment. The Wacoal brand alone held a 56.0% market share in 2017. Its share continued rising during the last four years because ICC has put a lot of effort into revamping product sourcing process, expanding distribution network, as well as introducing new products.

### **Intense competition hurt sales in the cosmetic segment**

The beauty and personal care industry in Thailand is fragmented, comprising a lot of producers and brands because the market has low barriers to entry. Market value of domestic cosmetic products in 2017 was Bt57,750 million, rising by 8.0% from 2016.

ICC's cosmetics products face intense competition from both powerful global brand products and small local manufacturers. During the last two years, ICC's cosmetic products faced an onslaught from fast-growing local brands across on online and new channel platforms. Sales in the cosmetic segment dropped by 2.0% in 2017, and plunged by 12.5% year-on-year (y-o-y) for the first quarter of 2018. ICC plans to counter the competition through introduction of more attractive marketing activities and sales promotions, as well as boosting sales from the online channels.

### **Relatively flat revenue with lower profit margin**

In 2017, ICC's revenue was Bt12,447 million, down by 1.3% compared with 2016. The drop was due to the sluggish economy and intense competition. The operating profit margin declined to 1.0% in 2017 from 3.0% in 2016, because of lower revenue and high selling general and administrative (SG&A) expenses. SG&A climbed to 37.7% of total sales in 2017, from 36.3% in 2016.

For the first three months of 2018, revenue was Bt3,056 million, up by 1.8% y-o-y. The revenue was mainly driven by lingerie, men's wear, and fabric softeners segments. The operating profit margin rebounded to 2.0%.

During 2018-2020, TRIS Rating expects ICC's revenue to grow at a low single-digit rate per annum, driven by a gradual revival in the Thai economy and ICC's efforts to boost sales. Despite carrying high selling expenses for promotional and marketing activities, we expect ICC to continue the on-going cost saving efforts, control stock of inventory, and create more efficient supply chain, in order to improve the profit margin. We forecast ICC's operating profit margin to stay at 2.0%-3.0% during the next three years.

### **Strong liquidity profile with conservative financial policies**

ICC's liquidity is strong. ICC has very conservative financial policies, having been a debt-free company for an extended period. As of March 2018, the company had Bt30 million in outstanding debt, solely for the working capital needs of a subsidiary.

ICC's sources of funds comprised cash on hand of Bt1,471 million plus cash deposit of Bt12 million at the end of March 2018. We forecast ICC's funds from operations (FFO) at Bt900-Bt1,000 million per annum during the next three years. Uses of funds are planned capital expenditures of Bt200-Bt400 million per annum. Based on the conservative financial policies, TRIS Rating expects ICC to maintain strong liquidity with no significant change in its capital structure during the next three years.

ICC's financial flexibility is enhanced by its liquid investment portfolio. The market value of ICC's holdings in 20 listed firms was Bt8,986 million at the end of March 2018. Its investment portfolio value was 20 times over the amount of total debt outstanding, including guarantees to related companies, at the end of March 2018.

### **RATING OUTLOOK**

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

### **RATING SENSITIVITIES**

ICC's credit upside case would materialize if its ability to generate cash flow improves substantially. In contrast, TRIS Rating would revise the rating and/or outlook downward if ICC's operating results deteriorate for a lengthy period, or if it makes an aggressive shift in the leverage policies.

### **COMPANY OVERVIEW**

ICC was established in 1964 and was listed on the Stock Exchange of Thailand (SET) in 1978. ICC is one of the major distributors within the Saha Group, distributing fashion products such as lingerie, men's apparel, and cosmetics. As of May 2018, approximately 61.7% of ICC's shares were held by the Chokwatana family and companies in the Saha Group.

ICC has the rights to distribute a large number of international licensed fashion products. ICC also distributes its own brands. The key international licensed brands are Wacoal, Lacoste, Arrow, Guy Laroche, and ELLE. ICC's own brands include BSC, Enfant, St. Andrews, and Essence. Revenue from the international licensed brands products comprised approximately 70% of ICC's total revenue.

For the first quarter of 2018, ICC's revenue was Bt3,056 million. The top contributors were the lingerie segment (32% of revenue), men's apparel (26%), fabric softeners (11%), and cosmetics (9%).

**KEY OPERATING PERFORMANCE**

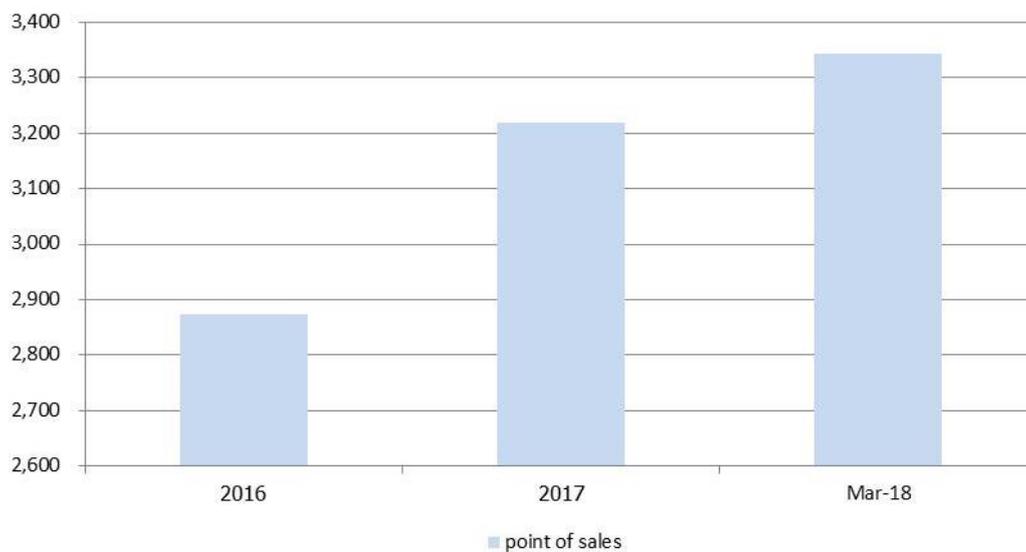
**Table 1: ICC's Revenue Breakdown**

Line of Business	2014		2015		2016		2017		Jan-Mar 2018	
	Bt Mil.	%	Bt Mil.	%						
Lingerie	3,309	27	3,772	31	3,875	31	3,969	32	980	32
Men's wear	3,253	27	3,236	26	3,356	27	3,211	26	797	26
Cosmetics	1,387	12	1,296	10	1,299	10	1,274	10	279	9
Fabric softeners	1,296	11	1,317	11	1,306	10	1,376	11	321	11
Others	2,788	23	2,722	22	2,779	22	2,617	21	678	22
<b>Total revenue</b>	<b>12,033</b>	<b>100</b>	<b>12,343</b>	<b>100</b>	<b>12,615</b>	<b>100</b>	<b>12,447</b>	<b>100</b>	<b>3,056</b>	<b>100</b>

Source: ICC

**Chart 1: ICC's Point of Sales**

Unit: points of sales



Source: ICC

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Bt million

	Jan-Mar 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Sales	3,056	12,447	12,615	12,343	12,033
Gross interest expense	0	2	2	1	0
Net income from operations	278	604	936	703	545
Funds from operations (FFO)	301	710	1,255	883	735
Total capital expenditures	35	335	423	258	341
Total assets	23,460	23,280	20,199	18,565	18,486
Total debts	30	30	20	30	-
Guarantees to related companies	417	418	259	222	176
Shareholders' equity	20,126	19,911	17,380	15,986	15,742
Operating income before depreciation and amortization as % of sales	2.0	1.0	3.0	3.3	2.4
Pretax return on permanent capital (%)	4.2 **	3.7	6.2	5.1	3.9
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	959.7	573.2	662.0	1,042.2	n.m.
FFO/total debt*** (%)	158.6 **	158.5	449.4	350.0	418.5
Total debt/capitalization*** (%)	2.2	2.2	1.6	1.6	1.1

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

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

n.m. Not meaningful

**I.C.C. International PLC (ICC)**
**Company Rating:**

AA

**Rating Outlook:**

Stable

**TRIS Rating Co., Ltd.**

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