

I.C.C. INTERNATIONAL PLC

No. 73/2016

15 July 2016

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 the company’s position as one of major distributors of the Saha Group for lingerie, men’s apparel, and cosmetics, a diverse portfolio of products and brands, an extensive 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 the current economic slowdown which has crimped consumer spending and the intense competition ICC faces in the fashion and consumer product industries.

ICC was established in 1964 as a distributor of lingerie, men’s apparel, and cosmetics product within the Saha Group. The company offers more than 80 brands, covering licensed international brands and its own brands. The key international brands that ICC distributes are *Wacoal*, *Arrow*, *Lacoste*, *Guy Laroche*, and *ELLE*. ICC’s own brands such as *BSC*, *Enfant*, *Essense*, *St. Andrews*, and *Rainflower*, are also well-known among Thai consumers. ICC’s products are available in department stores, modern trade stores, and ICC’s own shops, covering about 3,400 points of sales nationwide.

ICC’s business profile is considered strong, 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’s track record of distributing fashion products, together with the support provided by suppliers within the Saha Group, help ICC maintain its competitive edge. During the last two years, ICC has placed a greater emphasis on restructuring its internal processes such as production planning, inventory management, cost controls, and reducing duplicate processes in logistics. Higher efficiency has boosted revenue with an improvement in profitability. In addition, ICC has looked for growth opportunities outside the department store channel by using online shopping and TV shopping. The new channels have become rapid-growing popular choices among consumers looking for the best value.

ICC’s revenue in 2015 was Bt12,343 million, up by 2.6% from 2014. The rise was driven by the lingerie segment. Revenue was Bt3,001 million for the first three months of 2016, rising by 1.9% year-on-year (y-o-y). The major revenue contributors are the lingerie segment (30%), the men’s apparel segment (28%), and the cosmetics segment (11%). Revenue from licensed international brands contributed approximately 68% of total revenue in 2015.

“*Wacoal*” is ICC’s key lingerie brand. *Wacoal* remained the market leader for lingerie sold through department stores, holding about 54% market share in 2015. ICC’s portfolio of lingerie brands held a 60% share in the middle- to high-end lingerie segment. The lingerie segment grew strongly by 14% in 2015 because ICC implemented internal process re-structuring and reduced duplicate processes in logistics. The changes boosted sales and improved efficiency. ICC maintained its competitive positions in the men’s apparel segment and the cosmetics segment, backed by strong brands such as “*Arrow*” and “*Lacoste*” in the menswear market, and “*BSC Cosmetology*” in the cosmetics market.

ICC started its property development in 2014, in order to use its un-utilized assets. Its first project is a townhouse project located near the Saha Group’s industrial estate in Chonburi province. ICC’s property project is small, comprising

231 townhome units. The project value is about Bt450 million. To be consistent with its conservative financial policy, ICC uses the cash flow from the early phase of the project to fund subsequent phases. As of April 2016, 24 units of townhouse were sold to Thai clients working at the industrial estates nearby.

ICC's financial profile is underpinned by its conservative financial policy, financial discipline, and sufficient liquidity. Profitability is low but this is typical for trading companies. ICC's operating margin was 3.3% in 2015 and 4.3% for the first three months of 2016, compared with 2.4% in 2014. The slight improvement was mainly due to the company's cost control efforts and higher efficiency. Funds from operations (FFO) rose from Bt735 million in 2014 to Bt883 million in 2015. The liquidity profile remains strong, supported by its debt-free position.

ICC has very conservative financial policies, having been a debt-free company for an extended period. As of March 2016, the company had about Bt31 million in outstanding debt, solely for its subsidiary's working capital. ICC has made guarantees to related companies. ICC's debt from guarantees to related companies at the end of March 2016 was Bt248 million, rising from Bt176 million in 2014. This was made mainly to support Saha Tokyu Corporation Co., Ltd. (SahaTokyu), which is a real estate developer in the Saha Group. ICC invested 12% of SahaTokyu's shares.

ICC's financial flexibility is enhanced by its investment portfolio. The market value of ICC's holdings in 20 listed firms was Bt5,722 million at the end of March 2016. The ratio of total debt, including guarantees, to the market value of the listed holdings was about 10% at the end of March 2016.

During 2016-2018, TRIS Rating expects ICC's revenue will grow at a low-single digit rate per annum, as the Thai economy gradually recovers. The operating margin is expected to be in the range of 3%-4% during the next three years, as the cost control inventory management efforts pay off. During 2016-2018, FFO is expected to stay around Bt900 million per annum. TRIS Rating expects ICC's liquidity profile to remain strong over the next three years. Given ICC's conservative financial policy and the small size of the property development project, TRIS Rating expects no significant change in ICC's capital structure during 2016-2018.

Rating Outlook

The "stable" outlook reflects TRIS Rating's expectation that ICC will maintain its strong market positions in its major product lines. ICC is expected to continue its conservative financial policies and maintain a high level of financial flexibility.

The credit rating of ICC could be revised upward should its business profile improve substantially, leading to a significant cash flow enlargement. 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.

I.C.C. International PLC (ICC)

Company Rating:

AA

Rating Outlook:

Stable

Financial Statistics and Key Financial Ratios

Unit: Bt million

	Jan-Mar 2016	Year Ended 31 December				
		2015	2014	2013	2012	2011
Sales	3,001	12,343	12,033	13,329	13,677	12,825
Gross interest expense	1	1	0	7	5	0
Net income from operations	121	703	545	685	972	744
Funds from operations (FFO)	177	883	735	810	951	928
Total capital expenditures	80	258	341	536	383	400
Total assets	19,049	18,565	18,486	17,820	19,325	16,583
Total debt	31	30	-	-	464	-
Guarantees to related companies	248	222	176	169	152	152
Shareholders' equity	16,273	15,986	15,742	15,291	16,106	13,758
Operating income before depreciation and amortization as % of sales	4.3	3.3	2.4	3.0	5.1	5.5
Pretax return on permanent capital (%)	5.3 **	5.1	3.9	5.1	8.4	8.4
Earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage (times)	330.7	1,042.2	n.m.	132.3	283.1	n.m.
FFO/total debt * (%)	330.2 **	350.0	418.5	478.1	154.4	611.8
Total debt/capitalization * (%)	1.7	1.6	1.1	1.1	3.7	1.1

n.m. Not meaningful

* Including contingent liabilities of guarantees to related companies

** Annualized with trailing 12 months

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