

I.C.C. INTERNATIONAL PLC

No. 109/2019
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CORPORATES

Company Rating: AA
Outlook: Stable

Last Review Date: 12/07/18

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 on I.C.C. International PLC (ICC) at “AA” with “stable” outlook. The rating reflects the company’s strong position as a leading distributor for fashion and consumer products within the Saha Group, its diverse portfolio of products and brands, and nationwide distribution network. The rating also takes into consideration ICC’s conservative financial policies and strong liquidity profile. However, these strengths are partially constrained by the intense competition in the fashion and consumer product industries.

KEY RATING CONSIDERATIONS

Strength in distribution network

ICC has a nationwide distribution network, covering 3,205 points of sale as of March 2019. Its products are available in department stores, discount stores, traditional shops, and ICC’s own shops throughout Thailand.

Traditional shops and department stores are ICC’s major distribution channels, making up around 47% and 34% of ICC’s total sales in 2018, respectively. However, sales in the department store segment dropped by 10% in 2018. This was due to changes in consumer lifestyles and behavior, and buying patterns more favorable toward online sales.

ICC has developed new retail formats, such as online shopping and television shopping, to cater to the changes in consumer behavior. The company also collaborates with Lazada website to grasp growing demand for online shopping.

Online sales and sales from television shopping in 2018 amounted to around Bt490 million, or about 4% of ICC’s total sales. ICC expects sales in the television shopping and online channels to make up around 10% of total revenue in 2020.

Dominant position in lingerie market

ICC dominates the lingerie market, especially the middle- to high-end segments. ICC held about a 62.1% market share in 2018, as measured by sales through department stores. The lingerie segment covers several well-known lingerie brands such as Wacoal, BSC, ELLE, and Kullasatri.

Wacoal, ICC’s flagship lingerie brand, is the market leader for lingerie products in Thailand. The Wacoal brand alone held about 56.2% of market share in 2018, up from 56.0% in 2017 and 55.4% in 2016. Wacoal brand has a long track record in the Thai lingerie market, dating back nearly five decades. The brand has a strong market position in the working-age segment.

The lingerie segment is ICC’s largest product segment, contributing about 33% of total sales in 2018. Products sold under the Wacoal brand contributed nearly 90% of ICC’s lingerie sales. ICC has put an effort to revamp its production process and manage supply chain in the lingerie segment, to improve efficiency and enhance its competitive edge.

Revenue under pressure

In 2018, ICC’s total sales was Bt12,350 million, down by 0.8% from 2017. Revenue dropped further in the first quarter of 2019, declining by 3.3% year-on-year (y-o-y). A combination of intense competition, uncertainties surrounding the political and economic situation, plus lower consumer

confidence, has dampened the revenue prospect for fashion products in 2019. Newcomers, particularly in the cosmetics segment and the online commercial platforms, have raised the intensity of competition. In addition, ICC also faces fierce marketing campaigns from its rivals. As a result, sales in the cosmetics segment for the first three months of 2019 slipped by 6.8% y-o-y. Sales in the lingerie segment dropped by 2.7% and sales in the men's apparel segment dropped by 1.1%.

Going forward, we expect ICC's revenue in 2019 will be under pressure, assuming that the economic outlook remains weak and consumer purchasing power does not rise significantly. Revenue is expected to slightly rebound in 2020 and 2021. In our forecast, we assume consumer confidence will rise gradually and ICC's efforts to boost sales will be effective, pushing revenue higher during 2020 and 2021.

Profit margin to stay steady

Despite a drop in revenue last year, the operating profit margin of ICC improved to 4.06% in 2018, up from 3.15% in 2017. The improvement was mainly due to the company's cost control efforts, lower selling general and administrative (SG&A) expenses, and higher efficiency. SG&A dropped to 36.6% of total sales in 2018, from 37.6% in 2017. The company has revamped its work processes and the way it manages its supply chain. These efforts have yielded greater efficiencies and lower expenses.

TRIS Rating expects the cost saving efforts of ICC will continue and forecasts that the company's profit margin will stay steady as a result. We project an operating profit margin of around 4.0% during the next three years.

Strong liquidity profile with conservative financial policies

ICC has very conservative financial policies, having been a debt-free company for an extended period. As of 31 March 2019, the company only had Bt31 million in outstanding debt. The borrowed funds are solely for the working capital needs of a subsidiary.

ICC's sources of funds comprised cash on hand and cash equivalents of around Bt2,330 million at the end of March 2019. We forecast its funds from operations (FFO) at around Bt900-Bt1,000 million per annum during the next three years. The major uses of funds are planned capital expenditures of Bt240-Bt300 million per annum. We expect liquidity will remain strong, assuming there are no significant changes to the company's capital structure during the next three years.

ICC's financial flexibility is enhanced by its liquid investment portfolio. It holds stakes in 21 listed firms. The market value of ICC's holdings was Bt8,940 million at the end of March 2019. The value of the investment portfolio was about 19 times greater than the total amount of debt outstanding, including guarantees to related and joint venture companies, at the end of March 2019.

BASE CASE ASSUMPTIONS

- ICC's revenue will be under pressure in 2019, and then will rebound slightly during 2020 and 2021.
- The operating margin will stay around 4% during the next three years.
- Planned capital spending will be about Bt800 million in aggregate over the next three years.

RATING OUTLOOK

The "stable" outlook reflects the expectation of TRIS Rating 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 a strong liquidity profile.

RATING SENSITIVITIES

ICC's credit upside case would materialize if its ability to generate cash improves substantially. In contrast, TRIS Rating would revise the rating or outlook downward if ICC makes an aggressive shift in the use of leverage. A rating downside case would be triggered if the operating performance deteriorates for a prolonged period of time or if cash flow protection falls sharply for a sustained basis.

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 and consumer products. As of May 2019, approximately 63.9% of ICC's shares were held by the Chokwatana family and companies in the Saha Group.

ICC's business strength is underpinned by its diverse product categories, a broad portfolio of brands, and nationwide distribution network. ICC offers more than 80 brands, covering international licensed brands and its own brands. The international licensed brands such as Wacoal, Lacoste, and Arrow, are well accepted by Thai consumers. ICC also manages

its own brands such as BSC, Enfant, Essence, and St. Andrews. Revenue from the international licensed brands products comprised approximately 72% of total revenue in 2018.

The major segments in which ICC has strong competitive positions and significant market shares are lingerie, men's apparel, and cosmetics. Its strong competitive advantage stems from the lengthy track record in the industry as well as the support from suppliers within the Saha Group.

For the first quarter of 2019, total sales was Bt2,955 million. The top contributors were the lingerie segment (32% of revenue), men's apparel (27%), fabric softeners (11%), and cosmetics (9%).

KEY OPERATING PERFORMANCE

Table 1: ICC's Revenue Breakdown

Line of Business	2016		2017		2018		Jan-Mar 2019	
	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%
Lingerie	3,875	31	3,969	32	4,020	33	954	32
Men's wear	3,356	27	3,211	26	3,131	25	788	27
Cosmetics	1,299	10	1,274	10	1,142	9	261	9
Fabric softeners	1,306	10	1,376	11	1,403	11	323	11
Others	2,779	22	2,617	21	2,654	22	629	21
Total revenue	12,615	100	12,447	100	12,350	100	2,955	100

Source: ICC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Jan-Mar 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	3,158	12,597	12,663	12,853	12,500
Operating income	241	511	399	673	624
Earnings before interest and taxes (EBIT)	316	858	709	1,051	825
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	399	1,073	972	1,246	1,015
Funds from operations (FFO)	353	979	867	1,132	892
Adjusted interest expense	2	19	19	20	17
Capital expenditures	24	201	335	426	265
Total assets	23,625	23,550	23,280	20,199	18,565
Adjusted debt	0	0	158	0	213
Adjusted equity	20,391	20,245	19,911	17,380	15,986
Adjusted Ratios					
Operating income as % of total operating revenues (%)	7.64	4.06	3.15	5.23	5.00
Pretax return on permanent capital (%)	4.04	4.05	3.62	5.99	4.95
EBITDA interest coverage (times)	218.95	57.33	52.37	62.66	60.45
Debt to EBITDA (times)	0.00	0.00	0.16	0.00	0.21
FFO to debt (%)	n.m.	n.m.	550.01	n.m.	418.93
Debt to capitalization (%)	0.00	0.00	0.79	0.00	1.31

n.m. = Not meaningful

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

I.C.C. International PLC (ICC)

Company Rating:

AA

Rating Outlook:

Stable

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