

I.C.C. INTERNATIONAL PLC

No. 109/2022
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CORPORATES

Company Rating: AA-
Outlook: Stable

Last Review Date: 19/07/21

Company Rating History:

Date	Rating	Outlook/Alert
15/07/20	AA-	Stable
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 a “stable” outlook. The rating reflects the company’s lengthy track record as a distributor of fashion and consumer products within the Saha Group and its leading position in the lingerie market. The rating also takes into consideration the expected recovery of its operating performance after the easing of the Coronavirus Disease 2019 (COVID-19) restrictions. The rating also incorporates ICC’s low debt level, a strong balance sheet, and financial flexibility from its liquid investment portfolio.

However, these strengths are partially offset by intense competitions in the fashion and apparel industries, as well as concerns over the surging inflation which could affect consumer spending.

KEY RATING CONSIDERATIONS

Lengthy track record in fashion products market

ICC has a lengthy track record as a distributor of fashion and consumer products of the Saha Group. The company offers a broad range of product lines and has a strong relationship with its distribution channels, which is one of the key factors contributing to ICC’s nationwide market coverage. ICC’s products are available in department stores, discount stores, traditional shops, and ICC’s own shops, covering about 2,800 points of sale and 14,000 counter sales nationwide. During 2019-2021, department stores and traditional shops are ICC’s major distribution channels, making up around 50% and 25% of its total sales, respectively.

The company also has long-standing relationships with its international brand licensors and suppliers within the Saha Group, which enables the company to achieve product sales in its respective retail channels.

Resumption of economic and social activities drive performance recovery

In 2021, ICC’s sales dropped by 13% to THB6.8 billion as a result of the COVID-19 pandemic and stringent control measures during the second and third quarter of 2021. However, after the relaxation of lockdown measures in the last quarter of 2021, there was a sign of sales recovery observed although it was not yet fully normal.

Despite being affected by the Omicron variant outbreak, ICC reported sales of THB1.9 billion in the first quarter of 2022, a 7% year-on-year (y-o-y) increase. Sales were boosted by an easing concern over COVID-19, the government’s shopping stimulus schemes, and a return to normal of many activities. There was a strong rebound in sales of menswear, lingerie, and sportswear products, as more people returned to work or school, resumed outdoor activities, and began to travel.

Going forward, we expect this growth momentum to continue into the second half of 2022. We expect pending demand for fashion products in department stores to rebound strongly, boosting the company’s operating performance to improve during the next three years. In our forecast, we project ICC’s total operating revenue growth to rebound by about 20% in 2022 and 10% per annum during 2023-2024 but remain at about 10% below the 2019 level by 2024. However, we have concerns over the Russia-Ukraine conflict, which has contributed to the sharp rise in global inflation and consumer prices. These factors could adversely affect consumer spending and ICC’s operations.

Strengthening new retail channels

Online shopping and television home shopping have become important channels to cater to changes in consumer buying behavior, effectively reaching target customers during the COVID-19 lockdowns. In 2021, ICC's sales through omni channels amounted to around THB705 million, rising by 36% compared with THB518 million in 2020. In the first three months of 2022, the company recorded growth of 32% y-o-y. ICC has simplified the payment process and focused more on the efficiency and punctuality of the shipping process to improve customer experience. Sales generated by these new retail channels accounted for 8.5%-10.0% of its total sales during 2021 through the first quarter of 2022.

The company also increased product variety on the online channels and is more selective in the types of products to suit online clients while engaging in collaborative e-commerce marketing with its partners. Despite the relatively small proportion of total sales, we expect ICC's online sales to continue to grow for the next several years.

Continued dominant position in lingerie segment

The lingerie segment is one of ICC's three largest segments, contributing about 27%-32% of total revenue during the last three years. The segment covers several well-known lingerie brands, such as Wacoal, BSC, ELLE, and Kullasatri.

ICC's competitive position and market share in lingerie are particularly notable. ICC has maintained its dominant position in the middle- to high-end lingerie markets, with a combined market share of 57.3% in 2021, measured by sales through department stores. Its strong competitive advantage stems from its nationwide market coverage and the well-established "Wacoal" brand.

The Wacoal brand remains the market leader in Thailand with a strong reputation for fit and functionality and is well-recognized among working-age customers. The Wacoal brand alone held a market share of about 51.7% in 2021, a slight increase from 51.3% in 2020. However, its market share remained below the pre-COVID-19 level of 54.4% in 2019.

ICC focuses on revamping its internal work processes, managing its sub-brands and marketing channels to avoid channel overlapping, as well as offering new products to stimulate sales. With effective marketing tools and a brighter market environment, we expect Wacoal's sales to recover and regain its lost market share.

Dividend incomes support earnings

ICC has a large portfolio of investment, providing dividend returns to the company. ICC received the dividend incomes of about THB350-THB550 million per annum during the last three years. Dividend receipts contributed a significant proportion of about 50%-60% of ICC's earnings before interest, taxes, depreciation, and amortization (EBITDA).

In 2021, ICC's dividend receipts amounted to THB395 million, up from THB300 million in 2020. Dividends from firms in the food and consumer product segments remained strong in 2021 and contributed the largest amount. Over the next three years, investments are expected to yield dividends of THB400-THB520 million per year. We expect most businesses' operations to improve during the next three years, generating rebounding operating results, and distribute increasing amounts of dividends.

Revamping internal processes to drive profitability

Despite a drop in revenue in 2021, the company's EBITDA improved to THB0.63 billion, up 10% from THB0.57 billion in 2020. EBITDA margin was 8.9% in 2021, compared with 7.1% in 2020. The improvement was mainly due to improved efficiency in the company's work processes, lower expenses, and stronger dividend receipts. Selling, general, and administrative expenses (SG&A) dropped to 35.4% of total sales in 2021, from 35.8% in 2020.

Currently, ICC has placed great emphasis on operating efficiency improvement, online marketing campaigns, and ongoing cost control measures. During 2022-2024, we expect ICC's EBITDA margin to be 9.0%-9.5%, supported by the company's sales recovery. The company intends to reduce inventory level and obsolete products, aiming to improve its operating profits. In our forecast, we project EBITDA to be in the range of THB0.8-THB1.0 billion per year during 2022-2024.

Very low-debt balance sheet

ICC maintains a very conservative financial policy, having been a debt-free company for a long time. As of March 2022, the company only had THB35 million in outstanding debt. The borrowed funds are solely for the working capital needs of a subsidiary. ICC has provided guarantees to some related companies. As of March 2022, the outstanding guarantees totaled THB432 million.

Since ICC has had no sizable capital expenditure and has maintained a low debt level for a long period of time, the company is in a net cash position. As of March 2022, cash on hand and cash equivalents amounted to around THB2.8 billion versus adjusted total debt of THB1.6 billion. The company also had an undrawn bank facility of THB3.6 billion. ICC had a strong

balance sheet, supported by a large equity base amounting to nearly THB28 billion as of March 2022. The primary uses of funds are capital expenditures, estimated at around THB200-THB270 million per annum during 2022-2024. We expect ICC's capital structure to remain strong and its liquidity to remain ample during the next three years.

High financial flexibility

ICC holds a large portfolio of equity investments, comprising 24 listed firms and 107 non-listed firms. As of March 2022, its investment portfolio was worth around THB20.6 billion, about half of which derived from companies within the Saha Group. The investments have generated reliable returns to the company over the long term. ICC continues expanding its investment portfolio, investing about THB200-THB400 million a year, typically co-investing with companies within the Saha Group and its partners.

ICC's financial flexibility is enhanced by its liquid investment portfolio. The market value of ICC's listed-firm investment holdings was THB9.6 billion at the end of March 2022. The value of the investment portfolio was about 20 times greater than the total amount of outstanding debt, including guarantees to related companies.

BASE-CASE ASSUMPTIONS

- Total operating revenue to rise by about 20% in 2022, and 10% annually in 2023-2024.
- Dividend receives of THB400-THB520 million over the forecast period.
- EBITDA margin to be 9.0%-9.5%.
- Total capital spending of about THB670 million over the next three years.

RATING OUTLOOK

The "stable" outlook reflects our expectation that ICC will maintain its status as the fashion product distribution arm of the Saha Group and retain its dominant position in the lingerie market. We also expect ICC to continue to deliver improving operating results, while maintaining its conservative financial policies, strong balance sheet, and healthy investment portfolio.

RATING SENSITIVITIES

The credit downside case would materialize if ICC adopts an aggressive shift in the use of leverage or if the company's operating performance is significantly worse than forecast. A rating upside case would occur if the company's operating performance improves materially on a sustained basis.

COMPANY OVERVIEW

ICC was established in 1964 and listed on the Stock Exchange of Thailand (SET) in 1978. ICC is one of the major companies within the Saha Group, distributing fashion and consumer products. As of May 2022, approximately 64% 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, broad portfolio of brands, and nationwide distribution network. The company has a lengthy track record in the industry and receives support from suppliers within the Saha Group. ICC offers about 70 brands, covering international licensed labels and its own brands. International licensed brands such as "Wacoal", "Lacoste", and "Arrow", are well accepted among Thai consumers. ICC also manages its own brands such as "BSC", "Enfant", "Essence", and "St. Andrews". Revenues from the international licensed brand products make up approximately 65% of its total sales.

Its total sales for the first quarter of 2022 were THB1.92 billion. The top contributors were men's apparel (32% of revenue), lingerie (26%), fabric softeners (14%), and cosmetics (7%). Department stores and traditional shops are ICC's major distribution channels, making up around 45% and 27% of its total sales.

KEY OPERATING PERFORMANCE
Table 1: ICC's Sales Breakdown

Line of Business	2019		2020		2021		Jan-Mar 2022	
	Mil. THB	%	Mil. THB	%	Mil. THB	%	Mil. THB	%
Lingerie	3,569	31.6	2,087	26.7	1,808	26.6	507	26.4
Men's wear	2,991	26.4	2,115	27.1	1,868	27.4	616	32.0
Cosmetics	1,027	9.1	739	9.5	577	8.5	139	7.2
Fabric softeners	1,400	12.4	1,224	15.7	1,151	16.9	275	14.3
Others	2,322	20.5	1,645	21.1	1,399	20.6	385	20.0
Total sales	11,309	100.0	7,809	100.0	6,803	100.0	1,922	100.0

Source: ICC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	Jan-Mar 2022	2021	2020	2019	2018
Total operating revenues	1,967	7,063	7,986	11,590	12,597
Earnings before interest and taxes (EBIT)	(20)	189	16	634	858
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	99	628	570	934	1,073
Funds from operations (FFO)	95	650	550	877	1,008
Adjusted interest expense	3	18	20	16	19
Capital expenditures	40	70	229	347	201
Total assets	33,361	33,467	32,228	23,645	23,550
Adjusted debt	0	0	0	0	0
Adjusted equity	27,848	27,861	27,117	20,470	20,245
Adjusted Ratios					
EBITDA margin (%)	5.01	8.89	7.14	8.06	8.52
Pretax return on permanent capital (%)	0.56 **	0.65	0.06	2.95	4.05
EBITDA interest coverage (times)	34.96	35.20	28.88	59.69	57.33
Debt to EBITDA (times)	0.00 **	0.00	0.00	0.00	0.00
FFO to debt (%)	n.m. **	n.m.	n.m.	n.m.	n.m.
Debt to capitalization (%)	0.00	0.00	0.00	0.00	0.00

* Consolidated financial statements

** Annualized with trailing 12 months

n.m. Not meaningful

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology – Corporate, 26 July 2019

I.C.C. International PLC (ICC)

Company Rating:	AA-
Rating Outlook:	Stable

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