

I.C.C. INTERNATIONAL PLC

No. 131/2023
21 July 2023

CORPORATES

Company Rating: AA-
Outlook: Stable

Last Review Date: 11/07/22

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” rating 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 takes into consideration the improvement of its operating performance after the Coronavirus Disease 2019 (COVID-19) pandemic, its low-debt balance sheet, and financial flexibility from its liquid investment portfolio. On the contrary, these strengths are partially offset by intense competition in the fashion and apparel industries. We are also concerned about the rising cost of living and household debt, which put pressure on consumer purchasing power.

KEY RATING CONSIDERATIONS

Continued improvement in performance

During the next three years, we expect ICC’s operating performance to continue improving in tandem with the post-pandemic recovery in customer traffic and spending. Moreover, we expect the revival of inbound tourism to help support sales growth. In our forecast, we project ICC’s total operating revenue growth to be around 10% in 2023, before growing at a slower pace of 5% annually over 2024-2025 but remaining at about 5%-8% below the pre-COVID-19 levels by 2025.

ICC’s sales started to revive in 2022, following the resumption of social and economic activities and travel. ICC’s sales have shown continuous growth, with a 25% increase in 2022 and a 15% year-on-year (y-o-y) rise in the first quarter of 2023. Sales across key product categories i.e., menswear, lingerie, children’s apparel, and sportswear products, all saw strong rebounds during this period.

With pent-up demand for fashion products, customers are keen to experience in-store shopping for fashion products. As a result, we have seen surging traffic of in-store shoppers. Sales in department stores have rebounded vibrantly, rising 45% in 2022 and 17% y-o-y in the first quarter of 2023. Sales in ICC’s own shops have also witnessed robust growth, rising by over 55%. The increasing sales were due to the gradual rebound of customer traffic and an increase in the average basket size. However, store traffic remained below pre-COVID-19 levels, representing approximately 75%-80% of pre-COVID-19 levels.

Dominant position in lingerie segment with rebounded market share

We expect ICC to maintain its leading position in the middle- and high-end lingerie segments over the next three years. We view ICC’s competitive edge as being driven by its nationwide market coverage, the well-established “Wacoal” brand, its quality products, and new product launches in response to consumer needs.

The company is the market leader in the middle- and high-end lingerie markets in Thailand, leveraging several well-known lingerie brands, such as Wacoal, BSC, ELLE, and Kullasatri. ICC had a combined market share of 59.3% in the first three months of 2023, measured by sales through department stores. Its market share rose from 56%-57% during 2020 through 2022.

The Wacoal brand remains the market leader 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 52.6% in the first quarter of 2023, an increase from 50.6% in 2022. Nonetheless, its market share remained

below the pre-COVID-19 level of 54.4% in 2019. Going forward, with a favorable market environment, a strategy of offering product customization, and effective marketing tools, we expect Wacoal to continue to regain its market share.

Expanding to property development sector

To materialize the commercial potential of the large land plots under its possession, the company has developed a master plan for long-term land development that includes an international school, a condominium project, a service apartment, and retail property developments in nearby areas. The company has invested in these projects through joint ventures with the Saha Group for project developments on the company's land plots. ICC's income streams from these land utilizations will come in many forms, including land sales, land leases, as well as dividend income. These income streams will serve as recurring revenue in the long term. The Saha Group's real estate development projects also create commercial potential for future developments in the surrounding neighborhoods.

Dividend incomes to soar in 2023

In addition to profit from sales, another important source of income is from dividend receipts. ICC has a large portfolio of investments that provide dividend returns to the company. ICC received dividend incomes totaling THB350-THB400 million per annum during 2020-2022. Dividend receipts represented an important proportion of about 50%-60% of ICC's earnings before interest, taxes, depreciation, and amortization (EBITDA). However, dividend income during 2020-2022 remained below the pre-COVID-19 level of THB570 million in 2019.

In the first quarter of 2023, ICC's dividend receipts amounted to THB604 million, including a special dividend from one company. Over the forecast period, we expect dividend receipts to reach an extraordinarily high level of THB950 million in 2023, before reverting to normal receipts of THB380-THB420 million per year during 2024-2025, backed by recovery in the food and fashion business segments.

Profit to rebound

The sales recovery has resulted in gradual rebound in ICC's profitability. Its operating profit turned positive in the first quarter of 2023 after reporting operating losses during 2020-2022. The company has streamlined its internal processes to improve operating efficiency and working capital management, particularly in inventory management. Moreover, dividend receipts helped stabilize the company's EBITDA and EBITDA margin. In 2022, ICC's EBITDA reached around THB740 million, up from THB570-THB628 million during 2020-2021, while its EBITDA margin staying at 8.5%-9.0% during 2021-2022.

During 2023-2025, we expect ICC's normalized EBITDA margin to be 9.0%-9.5%, supported by the company's sales recovery. The company's strategy going forward is to focus on boosting its operational efficiency and improving asset utilization, aiming to improve operating profit. In our forecast, we project EBITDA to rise to THB1.5 billion in 2023 on exceptionally high dividend income, before returning in the normal range of THB950 million-THB1 billion per year during 2024-2025.

Very low debt and ample liquidity

We expect ICC's capital structure to remain strong and its liquidity to remain ample during the next three years. ICC maintains a very conservative financial policy, having been a debt-free company for many years. As of March 2023, the company had only THB63 million in outstanding debt. The borrowed funds are solely for the working capital needs of a subsidiary. ICC has also provided guarantees to some related companies. As of March 2023, the outstanding guarantees totaled THB245 million, down from THB432 million in the same period of the previous year.

Since ICC has had no sizable capital expenditures, the company is in a net cash position. ICC's primary sources of funds comprised cash and cash equivalents of around THB3 billion at the end of March 2023, compared with an adjusted total debt of THB1.3 billion. We estimate the company will generate funds from operations (FFO) of THB850 million-THB1.3 billion annually during 2023-2025. The company also had an undrawn bank facility of THB4.8 billion. Meanwhile, the primary uses of funds are capital expenditures and investment in companies and new projects within the Saha Group, estimated at around THB1 billion in 2023 and around THB550 million per annum during 2024-2025. Moreover, ICC had a strong balance sheet, supported by a large equity base amounting to THB29 billion as of March 2023.

High financial flexibility

ICC holds a large portfolio of equity investments, comprising investments in 25 listed firms and several non-listed firms. Normally, the company joins the Saha Group and its partners to co-invest in both Thai and international firms. As of March 2023, its investment portfolio was worth around THB21.2 billion, about half of which was derived from companies within the Saha Group. The investments have generated reliable returns to ICC over the long term.

We view the investment portfolio which comprises sizable marketable securities, as a major source of financial flexibility. The market value of the company's listed-firm investment holdings was THB10.1 billion at the end of March 2023. The value

of the investment portfolio was about 33 times greater than the total amount of outstanding debt, including guarantees to related companies.

BASE-CASE ASSUMPTIONS

- Total operating revenue to rise by about 10% in 2023, and 5% annually in 2024-2025.
- Dividend received of about THB950 million in 2023 and THB380-THB420 million per annum during 2024-2025.
- EBITDA margin to be 9.0%-9.5%.
- Total investments of about THB2 billion over the next three years.

RATING OUTLOOK

The “stable” outlook reflects our expectation that ICC will maintain its status as the flagship fashion-product distribution arm of the Saha Group and retain its dominant position in the lingerie market. We also expect ICC to continue to improve its operating performance and efficiency in operations while maintaining its conservative financial policies, strong balance sheet, and healthy investment portfolio.

RATING SENSITIVITIES

The credit downside case could arrive if ICC adopted an aggressive shift in the use of financial leverage or if the company’s operating cash flow falls materially below our base-case forecast. A rating upgrade could 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 2023, approximately 61% 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 60 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 72% of its total sales.

Its total sales for the 2022 were THB8.5 billion. The top contributors were men’s apparel (32% of revenue), lingerie (26%), household products (15%), and cosmetics (7%). Department stores and traditional shops are ICC’s major distribution channels, making up around 45% and 25% of its total sales.

KEY OPERATING PERFORMANCE
Table 1: ICC's Sales Breakdown

Line of Business	2020		2021		2022		Jan-Mar 2023	
	Mil. THB	%	Mil. THB	%	Mil. THB	%	Mil. THB	%
Lingerie	2,034	26.0	1,730	25.4	2,223	26.2	591	27.0
Men's wear	2,073	26.5	1,836	27.0	2,696	31.8	701	32.0
Cosmetics	711	9.1	544	8.0	570	6.7	153	7.0
Household products	1,275	16.3	1,202	17.7	1,247	14.7	288	13.1
Others	1,739	22.2	1,491	21.9	1,743	20.6	459	20.9
Total sales	7,832	100.0	6,803	100.0	8,479	100.0	2,192	100.0

Source: ICC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	2,258	8,683	7,063	7,986	11,590
Earnings before interest and taxes (EBIT)	665	240	189	16	634
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	754	736	628	570	934
Funds from operations (FFO)	746	721	650	550	877
Adjusted interest expense	4	19	18	20	16
Capital expenditures	22	160	70	229	347
Total assets	34,617	34,255	33,467	32,228	23,645
Adjusted debt	0	0	0	0	0
Adjusted equity	29,029	28,577	27,861	27,117	20,470
Adjusted Ratios					
EBITDA margin (%)	33.41	8.48	8.89	7.14	8.06
Pretax return on permanent capital (%)	3.10 **	0.81	0.65	0.06	2.95
EBITDA interest coverage (times)	210.55	37.84	35.20	28.88	59.69
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

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

I.C.C. International PLC (ICC)

Company Rating:	AA-
Rating Outlook:	Stable

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