

CP ALL PLC

No. 103/2018
16 July 2018

CORPORATES

Company Rating:	A+
Issue Ratings: Senior unsecured	A
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
09/10/17	A+	Stable

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RATIONALE

TRIS Rating affirms the “A+” company rating on CP All PLC (CPALL). At the same time, TRIS Rating affirms the ratings on the outstanding senior unsecured debentures at “A”. The rating reflects CPALL’s market position and proven record as the dominant operator of convenience stores in Thailand, the cash-based nature of its business, nationwide store network, and well-established support facilities. However, these strengths are partially offset by high financial leverage and intense competition. The rating takes into consideration the slow pace of the economic recovery in Thailand, which affects consumer spending.

KEY RATING CONSIDERATIONS

Leader in the convenience store segment

CPALL's strong business profile is underpinned by its status as the leading operator of convenience stores in Thailand. The company operates a nationwide convenience store chain under the well-known international brand, “7-Eleven”. 7-Eleven stores make up around two-thirds of all convenience stores in Thailand. As of March 2018, there were 10,533 stores nationwide. Nearly half (44%) of the stores are in Bangkok and the vicinity while the remaining 56% are in provincial areas.

Acquisition opens up new segment

CPALL enhanced growth opportunities through the acquisition of Siam Makro PLC (MAKRO) in late 2013. MAKRO is one of the leading food wholesalers in Thailand. Unlike 7-Eleven, MAKRO’s key customers are resellers, as well as operators in hotel, restaurant, and catering businesses. CPALL can also leverage MAKRO brand equity and expertise to expand overseas. At the end of March 2018, MAKRO owned 124 stores nationwide, plus one store in Cambodia. In 2017, MAKRO generated sales of Bt182.8 billion (40% of CPALL's consolidated sales) and Bt10.4 billion in earnings before interest, tax, depreciation, and amortization (EBITDA; 25% of CPALL's consolidated EBITDA).

Sales growing at a slower pace

TRIS Rating views the same store sales growth of 7-Eleven and MAKRO will stay at a low single-digit percentage over the next three years. Sales edged up by 8.4% year-on-year (y-o-y) to Bt471.1 billion in 2017, lower than the 10% growth rates achieved in 2015 and 2016. New store openings drove growth, while same-store sales grew at a lower rate. Same-store sales of 7-Eleven grew by 1.6% in 2017, compared with 2.4% in 2016. Same-store sales of MAKRO rose by 1.3% in 2017, compared with a 4.1% rise in 2016.

In the first quarter of 2018, CPALL's consolidated sales rose by 9.1% y-o-y to Bt123.7 billion. Two factors pushed growth higher: more new 7-eleven stores and a hike in the excise tax on cigarettes which pushed prices higher.

Satisfactory profit margin

Success in improving efficiencies and increasing sales of high margin products attributed to the widening margin. EBITDA margin, including the adjustments for operating leases, continued to grow from 9.6% of sales in 2016 to 9.9% in 2017 and the first quarter of 2018. EBITDA increased steadily from Bt36.8 billion in 2016 to Bt41.1 billion in 2017 and Bt10.9 billion in the first quarter of 2018.

In our view, CPALL will continue to benefit from economies of scale, and higher operating efficiency. Sales will increase from Bt471 billion in 2017 to Bt580 billion in 2020. EBITDA will grow from Bt41 billion in 2017 to Bt52 billion in 2020.

Financial leverage to improve gradually

We expect CPALL's total debt to capitalization will improve gradually. Total debt had increased considerably to pay for the acquisition of MAKRO in 2013. Cash flow rose significantly over the past five years. Nevertheless, CPALL's total debt remains high, owing to sizable capital expenditures for new store openings, both 7-Eleven and MAKRO stores. The total debt to capitalization ratio (total debt includes perpetual debentures outstanding and adjustments for operating leases) was 77.5% in 2017 and 73.3% at the end of March 2018.

Over the next three years, we expect Bt17,000-Bt18,000 million for capital expenditures per year. CPALL will add about 700 convenience 7-Eleven stores and 8-10 MAKRO stores per year in Thailand and abroad. Operating cash flow will be sufficient to fund the capital spending plans. We expect the total debt to capitalization ratio to decline to 65% in 2019, assuming CPALL does not divest its equity holding in MAKRO.

Sound liquidity

CPALL's liquidity profile is strong. Cash flow from operations plus cash on hand are sufficient to cover scheduled debt repayments, planned capital expenditures, and the regular dividend payments. Cash flow protection has improved gradually as operating performance improved. The FFO to total debt ratio improved from 13.5% in 2016 to 16.3% in 2017 and 17.9% (annualized, from the trailing 12 months) during the first quarter of 2018. The EBITDA interest coverage ratio was 4.4 times in 2017 and 4.0 times in the first quarter of 2018, improving from 3.9 times in 2016.

TRIS Rating's base case scenario takes into account the potential impact of the waiver of transfer fees by banks. We do not expect significant adverse change in CPALL's consolidated sales as counter service income accounts for only 1% of total revenue. We forecast the EBITDA interest coverage ratio will improve to 5-8 times in 2018-2020. The FFO to total debt will increase to around 20% in 2018-2020.

RATING OUTLOOK

The "stable" outlook reflects the expectation that CPALL will sustain its leading position and competitive edge and continue to deliver sound financial results. Its high cash balance and the stable cash flow will provide financial flexibility to support its business expansion.

RATING SENSITIVITIES

CPALL's rating and/or outlook could be revised upward should the capital structure and cash flow protection improve substantially. On the contrary, the rating and/or outlook could be revised downward if the operating performance is weaker than expected or there are huge investments, which will result in the deteriorations of capital structure and debt serviceability.

COMPANY OVERVIEW

The company was established in 1988 by the Charoen Pokphand Group. CPALL has been granted the exclusive right from 7-Eleven, Inc., USA, under an Area License Agreement, to be the sole operator of 7-Eleven convenience stores in Thailand. As of March 2018, Charoen Pokphand Group Co., Ltd. (CPG) and its affiliates held 36.4% of CPALL's shares.

As of March 2018, CPALL had 10,533 of 7-Eleven stores nationwide. Currently, an average of 1,183 customers visit each store each day; daily sales per store averages Bt81,226. CPALL's competitive edge is enhanced by its support facilities, run by its subsidiaries, such as food and bakery production, the logistics network, nationwide distribution centers, as well as colleges to provide staff training and other educational services.

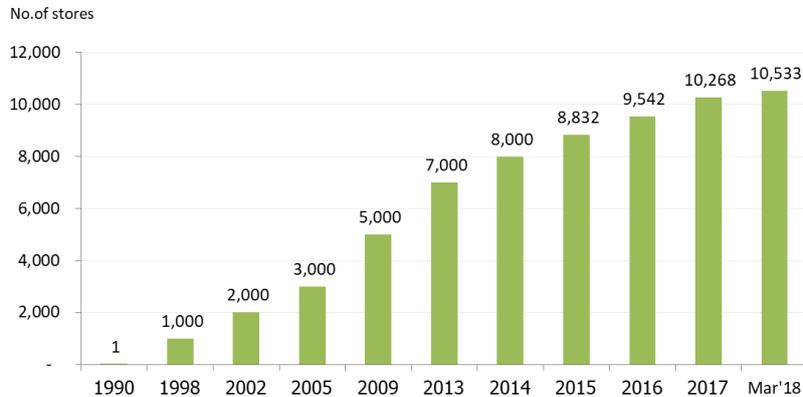
In 2013, CPALL acquired 98% of MAKRO shares for Bt188 billion. MAKRO is a food wholesaler with five store formats: Classic, Food service, Eco plus, Food shop, and Frozen shop. At the end of March 2018, MAKRO owned 124 stores in Thailand, comprising 79 large stores (Classic format), 32 medium-sized stores (Food service and Eco plus) and 13 small stores (Food shop and Frozen shop).

Apart from Thailand, MAKRO has expanded abroad. In 2017, MAKRO purchased 80% interest in four companies: food importing and trading company in Singapore, Hong Kong and the United Arab Emirates. In late 2017, MAKRO opened a 10,000 square meter store in Cambodia. MAKRO plans to open one more store in Cambodia and two stores in India in 2018. In addition, new store in China is scheduled to open in 2019.

Presently, CPALL owns a 93.01% stake in MAKRO. The market capitalization of MAKRO was approximately Bt174 billion as of 2 July 2018. CPALL plans to reduce its stake in MAKRO steadily to the level around 80%-85%, in order to comply with regulation of the Stock Exchange of Thailand.

KEY OPERTING PERFORMANCE

Chart 1: 7-Eleven’s Expansion



Source: CPALL

Chart 2: Gross domestic product (GDP) Growth and Same-Store-Sales Growth, (y-o-y)



Sources: 1. Bank of Thailand (BOT)
2. National Economic and Social Development Board (NESDB)
3. CPALL
4. MAKRO

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Sales	123,652	471,069	434,712	391,817	357,766
Gross interest expense	1,789	7,993	8,442	8,586	8,518
Net income from operations	5,424	19,908	16,599	13,687	9,823
Funds from operations (FFO)	8,006	29,950	25,392	21,597	17,045
Total capital expenditures	3,046	17,043	18,228	16,990	15,146
Total assets	371,137	360,299	352,268	329,083	326,410
Total debt	186,204	186,947	199,059	189,486	198,480
Shareholders' equity	75,360	60,320	49,650	41,676	35,058
Operating income before depreciation and amortization as % of sales	9.94	9.88	9.62	9.88	9.08
Pretax return on permanent capital (%)	12.16 ^{**}	12.42	11.56	10.71	9.03
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.03	4.39	3.94	3.50	2.92
FFO/total debt (%)	17.88 ^{**}	16.34	13.47	12.81	9.84
Total debt/capitalization (%)	73.28	77.47	81.34	83.15	86.10

Note: Total debt includes perpetual debentures outstanding

All ratios are adjusted with operating lease

* Consolidated financial statements

** Annualized from trailing 12 months

*** Including other income

CP All PLC (CPALL)

Company Rating:	A+
Issue Ratings:	
CPALL22NA: Bt9,000 million senior unsecured debentures due 2022	A
CPALL27NA: Bt9,000 million senior unsecured debentures due 2027	A
Rating Outlook:	Stable

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