

# CP AXTRA PLC

No. 123/2023  
5 July 2023

## CORPORATES

Company Rating:	A+
Issue Rating:	
Senior unsecured	A+
Outlook:	Positive

Last Review Date: 11/07/22

### Company Rating History:

Date	Rating	Outlook/Alert
11/07/22	A+	Stable

### Contacts:

Nauwarut Temwattanangkul  
nauwarut@trisrating.com

Sarinthorn Sosukpaibul  
sarinthorn@trisrating.com

Wajee Pitakpaibulkij  
wajee@trisrating.com

Sasiporn Vajarodaya  
sasiporn@trisrating.com



WWW.TRISRATING.COM

## RATIONALE

TRIS Rating affirms a company rating on CP Axta PLC (CPAXT), formerly named as Siam Makro PLC (MAKRO), at “A+” and revises the rating outlook to “positive” from “stable”.

The rating incorporates our view on the company’s status as a core subsidiary of CP All PLC (CPALL, rated “A+/positive”). The group status reflects our view on CPAXT’s vital role in cementing the group’s leading position in the wholesale and grocery retail businesses, together with CPAXT’s significant earnings contribution to CPALL. The revision of rating outlook follows the outlook revision on CPALL.

At the same time, TRIS Rating assigns the rating of “A+” to CPAXT’s proposed issue of up to THB15 billion senior unsecured debentures due within seven years. The proceeds from the new debentures are intended to be used for debt refinancing, funding investments, and working capital needs.

## KEY RATING CONSIDERATIONS

### Core subsidiary of CPALL

TRIS Rating views CPAXT as a core subsidiary of CPALL owing to its role as a flagship entity for the wholesale and grocery retail business of the group.

As of March 2023, CPALL, directly and indirectly, holds a 59.9% equity interest in CPAXT. CPAXT is the market leader in the wholesaler market. The company’s competitive edge is further reinforced by its subsidiaries, Ek-Chai Distribution System Co., Ltd. (LOTUSS) and Lotus’s Stores (Malaysia) Sdn. Bhd., leading grocery retail and rental property operators in Thailand and Malaysia.

The company’s performance has been strong and in line with CPALL’s business direction. CPAXT’s operating revenue contributed around 55% of CPALL’s total operating revenue in 2022, while its earnings before interest, taxes, depreciation, and amortization (EBITDA) accounted for 47% of CPALL’s EBITDA.

### Satisfactory operating results

CPAXT’s revenue and earnings base has expanded substantially through the consolidation of Lotus’s stores in Thailand and Malaysia in late-2021. Operating revenue surged to THB469.1 billion in 2022 from THB266.4 billion in 2021, while EBITDA doubled to THB34.7 billion from THB16.7 billion. EBITDA margin also improved to 7.4% in 2022 from 6.3% in 2021 as a result of higher margin from Lotus’s business-to-customer (B2C) sale model and rental business.

During the first quarter of 2023, CPAXT’s operating revenue increased further by 7.9% year-on-year (y-o-y) to THB120.2 billion, due mainly to the robust same-store-sale growth in wholesale business. EBITDA also grew by 5.3% y-o-y to THB9 billion.

### Strong performance of wholesale business

With the strategy of focusing on fresh products and effective cost management, CPAXT has demonstrated its ability to capture the growing demand from its key customers, food retailers, as well as hotels, restaurants, and catering business operators (HORECA). The company’s revenue from wholesaling business increased steadily over the past decade. Revenue edged

up to THB248 billion in 2022 from THB114 billion in 2012, a compound annual growth rate of 8.1%.

CPAXT also offers a variety of private-label branded products to enhance value for customers by offering quality products at reasonable prices. In 2022, private-label brands and solutions comprised around 16% of total sales. With strategies to improve margins and enhance customer satisfaction, the company plans to improve the product assortments and quality of private-label brands products with the target calls of 20% of total sales over the next few years.

#### **Leverage to further decline following the earnings base expansion**

Given the full-year integration of Lotus's stores in Thailand and Malaysia, the company's debt to EBITDA ratio decreased substantially to 3.5 times in 2022 and 3.8 times in the first quarter of 2023, from 7.1 times in 2021. Going forward, we expect CPAXT's leverage ratio to continue declining, driven by improving earnings base from new store openings and omni channels.

At the end of March 2023, CPAXT's reported interest bearing debt, excluding financial lease, was THB95.1 billion. The priority debt, including secured debts and debts of subsidiaries, totaled about THB75.8 billion. The ratio of priority debt to total debt was 80%. As its priority debt ratio is above our threshold of 50%, in general, CPAXT's unsecured creditors could be significantly disadvantaged to the company's priority debt holders. However, with CPAXT's low financial leverage and its operating assets generating more than 30% of the consolidated earnings, we view that the subordination risk is low. Thus, we rate CPAXT's senior unsecured debentures at "A+", the same level as the company rating.

#### **Adequate liquidity profile**

We assess CPAXT's liquidity to be at an adequate level over the next 12 months. The company's cash on hand plus cash flow from operations should be sufficient to cover scheduled debt repayments and capital spending totaling THB23 billion. At the end of March 2023, the company has a liquidity buffer with cash on hand of around THB15 billion and numerous credit facilities from commercial banks.

The financial covenant on CPAXT's new debenture issues requires the company's net interest-bearing debt to equity ratio to stay below 2.5 times. As of March 2023, the ratio was 0.3 times. We believe the company should be able to comply with the financial covenant over the forecast period.

#### **BASE CASE ASSUMPTIONS**

CPAXT will remain a core subsidiary of CPALL.

#### **RATING OUTLOOK**

The "positive" outlook follows the rating outlook on CPALL and our expectation that CPAXT will maintain its group status as a core subsidiary of CPALL. We believe CPAXT will continue to represent a core component of CPALL's revenue and business profile.

#### **RATING SENSITIVITIES**

As a core subsidiary of CPALL, the ratings on CPAXT are tied to the rating on CPALL. Any change in the rating on CPALL, or CPAXT's group status, will affect the ratings on CPAXT accordingly.

#### **COMPANY OVERVIEW**

CPAXT (formerly MAKRO), founded by SHV Netherlands B.V. and the Charoen Pokphand Group, was established in 1988 and listed on the Stock Exchange of Thailand (SET) in 1994. Charoen Pokphand Group sold its entire stakes in CPAXT, following the 1997 crisis. Later in 2013, CPALL acquired nearly all (98%) of CPAXT's shares for THB188 billion from SHV Netherlands B.V., the former majority shareholder of CPAXT.

In October 2021, CPAXT acquired all of the shares of Lotus's through the entire business transfer (EBT) by allocating its newly issued shares to the group of Lotus's shareholders, comprising i) CPALL, ii) Charoen Pokphand Holdings Co., Ltd. (CPH), and iii) CPF's wholly-owned subsidiary. Under the EBT Transaction, CPAXT issued and allocated up to 5,010 million new ordinary shares at the offering price of THB43.50 per share, totaling THB217.9 billion.

In late 2021, CPAXT also allocated up to 770 million newly issued ordinary shares to the public at the offering price of THB43.50 per share, totaling THB32.9 billion. At the end of March 2023, CPALL remains the CPAXT's major shareholder, holding a 59.9% stake in CPAXT. CPH held 16.2%, while CPF's subsidiary held 8.9%.

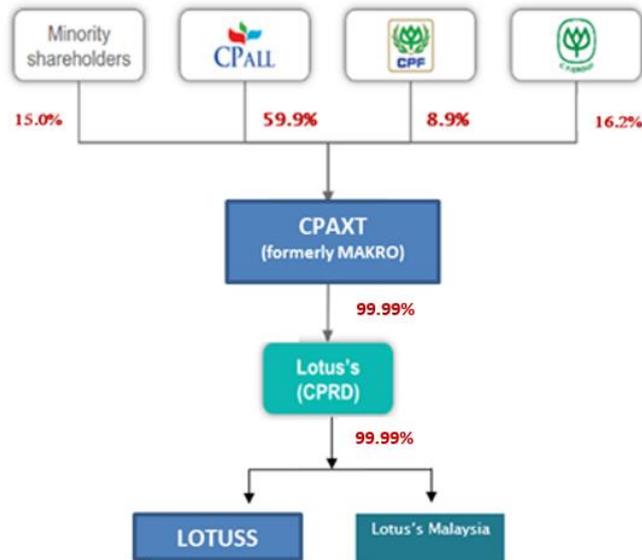
CPAXT is a leading wholesaler. Under wholesale business, there are six store formats: classic, foodservice, eco plus, food shop, frozen shop, and Fresh@Makro. As of March 2023, CPAXT owned 153 stores in Thailand, comprising 80 large stores (classic format), 59 medium-sized stores (food service and eco plus), and 14 small stores (food shop, frozen shop, and

Fresh@Makro). CPAXT has expanded abroad since 2017. Presently, CPAXT owns three stores in Cambodia, four stores in India, two stores in China, and one store in Myanmar.

Lotus's is a leading grocery and consumer goods retailer and mall operator in Thailand and Malaysia. As of March 2023, Lotus's Thailand owned 2,589 stores in Thailand, comprising 225 large stores (Hypermarkets), 182 supermarket stores (Go Fresh Supermarket), and 2,182 small stores (Lotus's Go Fresh Mini supermarket). Additionally, Lotus's Malaysia owned 65 stores in Malaysia, comprising 46 hypermarkets, and 19 supermarket stores.

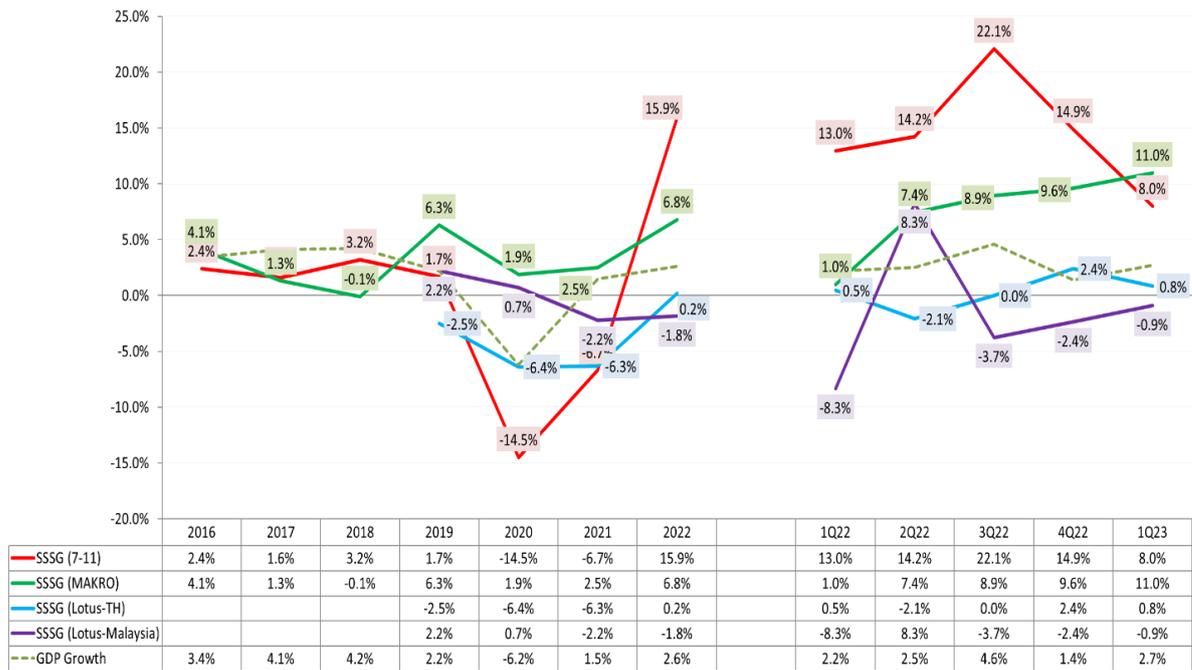
**KEY OPERATING PERFORMANCE**

**Chart 1: Group Shareholding Structure**



Source: CPALL

**Chart 2: Gross Domestic Product (GDP) Growth and Same-Store-Sales Growth, (Y-O-Y)**



Sources: 1) Bank of Thailand (BOT)  
2) Office of National Economic and Social Development Council (NESDC)  
3) CPALL, CPAXT, LOTUSS

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Mar 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	120,222	469,131	266,367	218,760	210,627
Earnings before interest and taxes (EBIT)	4,693	17,566	10,284	8,908	8,761
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	8,964	34,744	16,719	12,549	11,746
Funds from operations (FFO)	6,422	24,122	13,054	10,098	9,109
Adjusted interest expense	1,895	7,155	1,573	634	867
Capital expenditures	4,020	17,604	4,027	2,314	3,110
Total assets	522,920	548,643	569,490	159,587	62,641
Adjusted debt	132,722	122,988	118,333	6,699	12,103
Adjusted equity	292,814	290,931	288,498	108,263	20,734
<b>Adjusted Ratios</b>					
EBITDA margin (%)	7.46	7.41	6.28	5.74	5.58
Pretax return on permanent capital (%)	3.91 *	3.78	3.42	10.92	22.87
EBITDA interest coverage (times)	4.73	4.86	10.63	19.78	13.55
Debt to EBITDA (times)	3.77 *	3.54	7.08	0.53	1.03
FFO to debt (%)	18.30 *	19.61	11.03	150.74	75.26
Debt to capitalization (%)	31.19	29.71	29.09	5.83	36.86

\* Annualized with trailing 12 months

## RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021

## CP Aextra PLC (CPAXT)

<b>Company Rating:</b>	A+
<b>Issue Rating:</b>	
Up to THB15,000 million senior unsecured debentures due within 7 years	A+
<b>Rating Outlook:</b>	Positive

## TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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