

# CP ALL PLC

No. 122/2023  
5 July 2023

## CORPORATES

<b>Company Rating:</b>	A+
<b>Issue Ratings:</b>	
Senior secured	A+
Senior unsecured	A+
Hybrid	A-
<b>Outlook:</b>	Positive

Last Review Date: 24/01/23

### Company Rating History:

Date	Rating	Outlook/Alert
08/12/20	A+	Stable
13/03/20	AA-	Alert Negative
10/07/19	AA-	Stable
09/10/17	A+	Stable

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## RATIONALE

TRIS Rating affirms the company rating on CP All PLC (CPALL) and the ratings on its senior secured debentures and senior unsecured debentures at “A+”. At the same time, TRIS Rating affirms the ratings on CPALL’s subordinated capital debentures (hybrid debentures) at “A-” and revises the rating outlook to “positive” from “stable”.

The outlook revision reflects CPALL’s strengthening financial profile supported by a significant decline in its financial leverage ratio and its improving profit margin. We expect CPALL to sustain earnings growth and further deleveraging, despite pressure from uncertain of economic conditions.

The ratings continue to reflect CPALL’s strong business profile, underpinned by its nationwide store network and well-established support facilities. CPALL’s competitive edge is also strengthened by its subsidiaries, leading positions in the wholesale and grocery retail markets. However, the ratings are held back by intense competition in the retail industry as well as secular changes in consumer behavior toward online shopping.

## KEY RATING CONSIDERATIONS

### Leading position in retail industry

CPALL's strong business profile is underpinned by its dominant status in the convenience store business under the well-known brand “7-Eleven” and the wholesale business through its subsidiary, CP Aextra PLC (CPAXT), formerly Siam Makro PLC (MAKRO).

Also, the company’s position is reinforced through an acquisition of C.P. Retail Development Co., Ltd. (CPRD), which holds 100% stakes in Ek-Chai Distribution System Co., Ltd. (LOTUSS) and Lotus’s Stores (Malaysia) Sdn. Bhd., the operator of “Lotus’s” hypermarkets in Thailand and Malaysia. Through the consolidation of its subsidiaries, CPALL’s market position is further entrenched with a comprehensive market coverage and substantially enlarged customer bases and channel diversifications.

### Improving operating results

We expect CPALL to continue delivering satisfactory performance, driven by growing sales volumes from both the convenience store business and wholesale business on the back of post-COVID reviving economic activities.

The retail business of Lotus’s stores is expected to improve at a slower pace owing to stiff competitions in Thailand and Malaysia. Our base-case scenario forecasts CPALL’s operating revenue to grow by 5.5%-7.2% per annum in 2023-2025, supported by high-single digit growth from convenience stores and wholesale business, coupled with mid-single digit growth from the retail business.

Thanks to the successful consolidation of Lotus’s stores in Thailand and Malaysia, CPALL’s earnings have expanded substantially. Operating revenue surged to THB852.3 billion in 2022 from THB585.7 billion in 2021, while earnings before interest, taxes, depreciation, and amortization (EBITDA) were THB73.3 billion, up from THB49.2 billion in 2021. The EBITDA margin slightly improved to 8.6% in 2022 from 8.4% in 2021 owing partly to contributions from the high margins of Lotus’s business-to-customer (B2C) sale model and rental business.

During the first quarter of 2023, CPALL's operating revenue increased by 11% year-on-year (y-o-y) to THB221.9 billion. The increase was mainly attributed to the robust same-store-sale growth in convenience store and wholesale businesses, together with rental rate adjustments for retail rental spaces in the hypermarkets. EBITDA also grew by 8.2% y-o-y to THB19.3 billion.

We expect CPALL's profitability to improve steadily on the back of the post-COVID recovery and better product mix. The company's strategies to focus on omni-channels, together with new service offerings as well as synergies from integration, should yield positive effects to lift operating performance over the next few years. Nevertheless, profitability is expected to come under pressure in 2023 owing to the high level of utility costs and the sizable expenses relating to investments in the omni-channels of its subsidiaries, CPAXT and LOTUSS. We project the EBITDA margin to stay at 8.6% in 2023, before edging up to around 9% in 2024-2025. EBITDA is projected to stay in the THB78-THB93 billion range in 2023-2025.

#### **Moderate financial leverage thanks to earning base expansion**

CPALL's leverage ratio improved significantly on the back of the full-year integration of Lotus's stores in Thailand and Malaysia. The debt to EBITDA ratio decreased substantially to 5.3-5.4 times in 2022 through the first quarter of 2023, from 8 times in 2021. Despite sizable capital expenditures, we expect CPALL's leverage ratio to continue declining, driven by a growing earning base following the resurgence of tourism sector.

Over the next three years, we expect CPALL's capital expenditures to be around THB36-THB39 billion per year as it pursues growth strategy in omni-channel and multi-format stores. The investments include THB13 billion per year in 7-Eleven, THB11-THB13 billion per year in CPAXT, and THB12-THB13 billion in Lotus's in Thailand and Malaysia. Given the growing revenue and earning bases, we project CPALL's debt to EBITDA ratio to hover around 5 times in 2023 and to stay in the 4.3-4.6 times range in 2024-2025, and the debt to capitalization ratio to drop below 57%.

#### **Sufficient liquidity**

At the end of March 2023, CPALL had cash on hand of THB43.6 billion. At the end of March 2023, CPALL had cash on hand of THB44 billion. We forecast the company's funds from operations (FFO) to be around THB55 billion in 2023. The company's cash on hand plus FFO should be sufficient to cover scheduled debt repayments and capital spending totaling THB58 billion.

The financial covenant on CPALL's debenture obligations requires the company's net interest-bearing debt to equity ratio to stay below 2.0 times. As of March 2023, the ratio was 0.9 times. We believe the company should have no problem complying with the financial covenant over the forecast period.

#### **BASE CASE ASSUMPTIONS**

- CPALL's operating revenue to increase by 5.5%-7.2% in 2023-2025.
- The adjusted EBITDA margin to stay in the 8.6%-9% range in 2023-2025.
- Total capital spending of around THB36-THB39 billion per year in 2023-2025.

#### **RATING OUTLOOK**

The "positive" outlook reflects a significant improvement in CPALL's financial profile, supported by improving operating performance and a less leveraged capital structure. We view CPALL to sustain its leading position and competitive edges, and continue to deliver sound financial results. We expect its high level of cash generation will continue to provide sufficient financial strength to support its future expansion plans.

#### **RATING SENSITIVITIES**

The ratings on CPALL could be revised upward should the company further improve its capital structure and cash flow protection such that the adjusted debt to EBITDA ratio falls below 5 times over a sustained period. Conversely, we could lower the ratings if we believe the company has the tendency to increase and sustain its financial leverage above 8 times.

#### **COMPANY OVERVIEW**

CPALL was established in 1988 by the Charoen Pokphand Group. CPALL has been granted exclusive rights 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 2023, Charoen Pokphand Foods PLC (CPF) and its affiliates held approximately 34% of CPALL's shares.

As of March 2023, CPALL had 14,047 7-Eleven stores nationwide. CPALL's competitive edge is enhanced by its supportive 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. Apart from Thailand, CPALL has been granted franchising rights in the establishment and operation of 7-Eleven stores in Cambodia and the Lao People's Democratic

Republic (Lao PDR). As of March 2023, there were 54 7-Eleven stores in Cambodia. CPALL is planning to open its first 7-Eleven store in the Lao PDR in 2023.

CPALL acquired MAKRO’s shares in 2013. MAKRO is a leading wholesaler in Thailand. MAKRO is a B2B operator, focusing on food retailers as well as hotel and restaurant operators, and caterers. As of March 2023, MAKRO owned 153 stores in Thailand, and 10 stores overseas (Cambodia, India, China, and Myanmar).

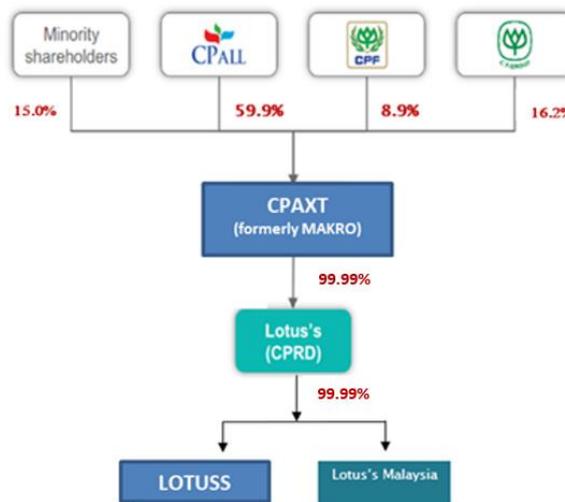
In late-2020, CPALL acquired 40% of total issued shares in Lotus’s stores in Thailand and Malaysia, formerly “Tesco Lotus”, while the remaining stakes were held by Charoen Pokphand Holdings Co., Ltd. (40% stakes) and CPF’s subsidiary (20%). The acquisition cost for the 40% interest was approximately USD2.6 billion (around THB86 billion).

In October 2021, MAKRO, a subsidiary of CPALL, acquired 99.9% of the shares of Lotus’s stores in Thailand and Malaysia through Entire Business Transfer (EBT). This transaction is a part of the shareholding restructuring plan for the CP Group’s retail business. At the end of March 2023, CPALL remained the MAKRO’s major shareholder, holding about a 60% stake in MAKRO. Charoen Pokphand Holding PLC (CPH) held 16%, while CPF’s subsidiary held 9%.

Lotus’s is a leading grocery retailer and mall operator in Thailand and Malaysia. As of March 2023, Lotus’s owned 2,589 stores with 0.7 million square meters (sq.m.) of permanent leasable area in Thailand, and 64 stores with 0.3 million sq.m. of leasable area in Malaysia.

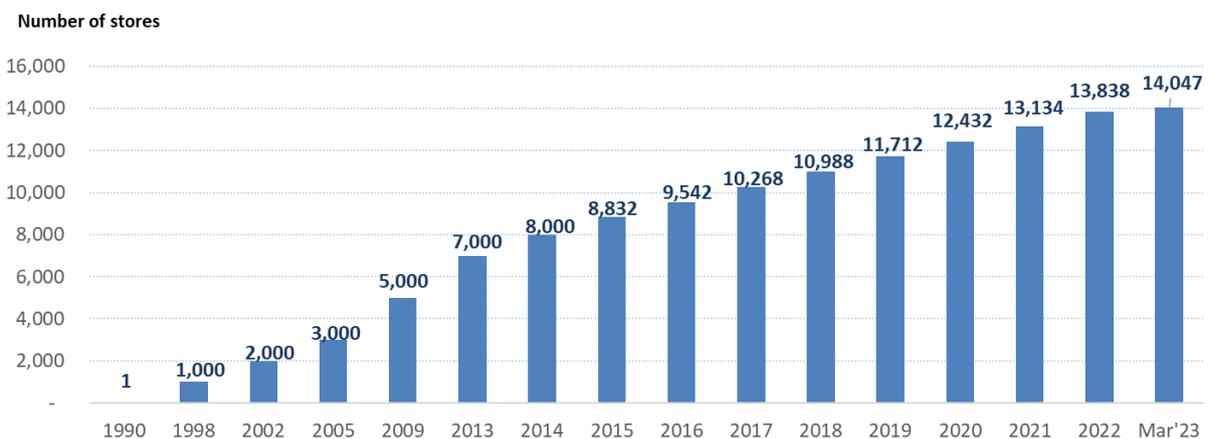
**KEY OPERATING PERFORMANCE**

**Chart 1: Group Shareholding Structure**



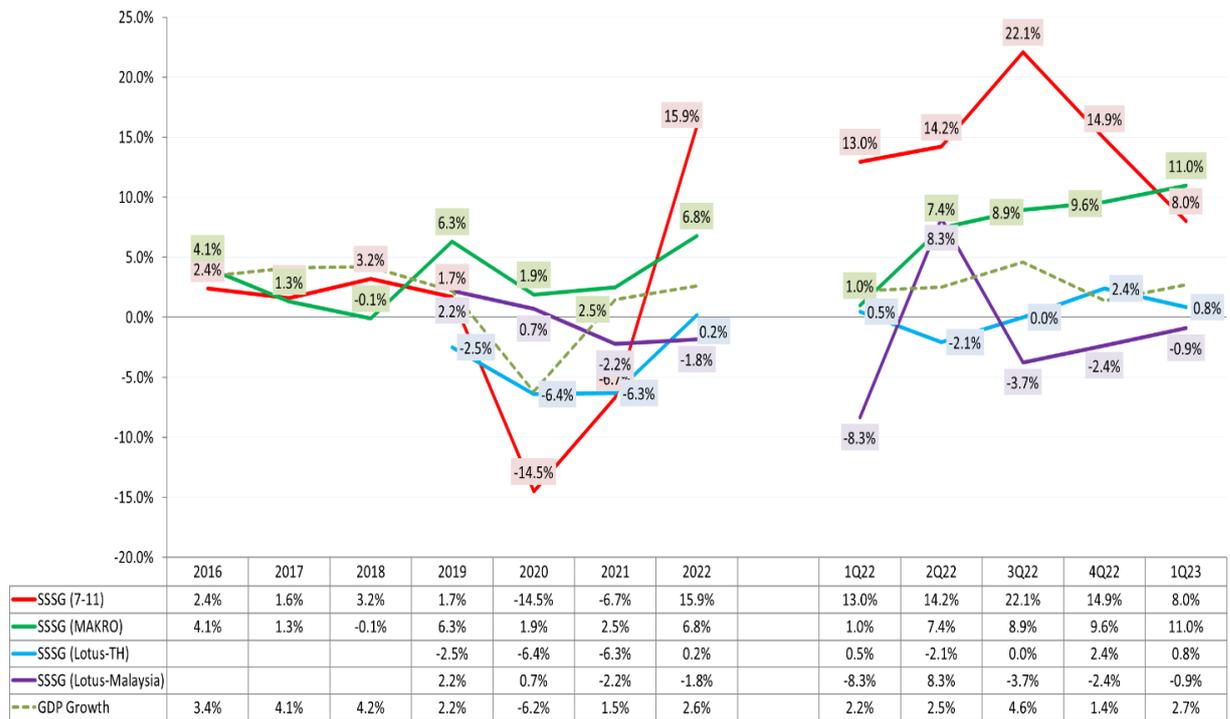
Source: CPALL

**Chart 2: 7-Eleven’s Expansion**



Source: CPALL

**Chart 3: 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, and LOTUSS

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Mar 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	221,926	852,322	585,676	546,207	570,712
Earnings before interest and taxes (EBIT)	10,407	37,029	24,422	27,857	36,397
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	19,349	73,301	49,216	48,571	52,264
Funds from operations (FFO)	13,839	51,803	32,837	36,051	37,290
Adjusted interest expense	4,468	17,176	13,589	9,590	10,628
Capital expenditures	8,102	31,520	17,757	17,389	17,902
Total assets	896,336	924,061	931,893	523,354	375,617
Adjusted debt	400,734	392,122	391,723	278,993	183,563
Adjusted equity	290,202	285,324	277,874	91,686	88,459
<b>Adjusted Ratios</b>					
EBITDA margin (%)	8.72	8.60	8.40	8.89	9.16
Pretax return on permanent capital (%)	5.14	4.89	4.15	7.81	12.14
EBITDA interest coverage (times)	4.33	4.27	3.62	5.06	4.92
Debt to EBITDA (times)	5.36	5.35	7.96	5.74	3.51
FFO to debt (%)	13.15	13.21	8.38	12.92	20.31
Debt to capitalization (%)	58.00	57.88	58.50	75.27	67.48

## 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

## CP AII PLC (CPALL)

<b>Company Rating:</b>	A+
<b>Issue Ratings:</b>	
CPALL230A: THB4,132 million senior secured debentures due 2023	A+
CPALL230B: THB10,990 million senior secured debentures due 2023	A+
CPALL243A: THB5,379.2 million senior secured debentures due 2024	A+
CPALL243B: THB9,934.5 million senior secured debentures due 2024	A+
CPALL248B: THB10,439 million senior secured debentures due 2024	A+
CPALL238A: THB500 million senior unsecured debentures due 2023	A+
CPALL246A: THB3,000 million senior unsecured debentures due 2024	A+
CPALL256B: THB13,200 million senior unsecured debentures due 2025	A+
CPALL256C: THB6,500 million senior unsecured debentures due 2025	A+
CPALL263A: THB2,074 million senior unsecured debentures due 2026	A+
CPALL263B: THB10,000 million senior unsecured debentures due 2026	A+
CPALL268A: THB748 million senior unsecured debentures due 2026	A+
CPALL271A: THB2,466 million senior unsecured debentures due 2027	A+
CPALL272A: THB3,500 million senior unsecured debentures due 2027	A+
CPALL275A: THB1,698.7 million senior unsecured debentures due 2027	A+
CPALL275B: THB8,000 million senior unsecured debentures due 2027	A+
CPALL278A: THB3,000 million senior unsecured debentures due 2027	A+
CPALL278B: THB2,548.2 million senior unsecured debentures due 2027	A+
CPALL27NA: THB9,000 million senior unsecured debentures due 2027	A+
CPALL283A: THB2,607 million senior unsecured debentures due 2028	A+
CPALL283B: THB6,800 million senior unsecured debentures due 2028	A+
CPALL286A: THB7,376 million senior unsecured debentures due 2028	A+
CPALL288A: THB4,851 million senior unsecured debentures due 2028	A+
CPALL291A: THB1,920 million senior unsecured debentures due 2029	A+
CPALL293A: THB4,500 million senior unsecured debentures due 2029	A+
CPALL298A: THB9,738.6 million senior unsecured debentures due 2029	A+
CPALL302A: THB3,930 million senior unsecured debentures due 2029	A+
CPALL305A: THB2,169.3 million senior unsecured debentures due 2030	A+
CPALL311A: THB5,614 million senior unsecured debentures due 2031	A+
CPALL313A: THB3,600 million senior unsecured debentures due 2031	A+
CPALL316A: THB21,351 million senior unsecured debentures due 2031	A+
CPALL325A: THB3,632 million senior unsecured debentures due 2032	A+
CPALL328A: THB899.8 million senior unsecured debentures due 2032	A+
CPALL336A: THB7,000 million senior unsecured debentures due 2033	A+
CPALL359A: THB3,450 million senior unsecured debentures due 2035	A+
CPALL363A: THB1,500 million senior unsecured debentures due 2036	A+
CPALL378A: THB1,386.5 million senior unsecured debentures due 2037	A+
CPALL21PA: THB10,000 million subordinated capital debentures	A-
<b>Rating Outlook:</b>	Positive

**TRIS Rating Co., Ltd.**

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