

# CP ALL PLC

 No. 107/2022  
 30 June 2022

## CORPORATES

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

**Last Review Date:** 15/03/22

**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 its senior unsecured debentures at “A+”. TRIS Rating also affirms the ratings on CPALL’s subordinated capital debentures (hybrid debentures) at “A-”. The outlook remains “stable”

At the same time, TRIS Rating assigns the rating of “A+” to CPALL’s proposed issue of up to THB19 billion senior unsecured debentures. The proceeds from the new debentures will be used to refinance its outstanding debts.

The company rating reflects CPALL’s strong business fundamental, its proven record as the dominant operator of convenience stores in Thailand, nationwide store network, and well-established support facilities. CPALL’s competitive edge is also strengthened by its subsidiaries, leading positions in food wholesaling and grocery retailing markets.

However, the ratings are weighed down by the company’s high leverage, secular changes in consumer behavior toward online shopping, the weak economy following the Coronavirus Disease 2019 (COVID-19) pandemic, as well as the threat of stagflation.

## KEY RATING CONSIDERATIONS

### Tesco Asia’s acquisition to complement CPALL’s portfolio

We view the acquisition of Tesco Asia, operating a retail chain under the brand “Lotus’s, formerly Tesco Lotus” in Thailand and Malaysia, will significantly strengthen CPALL’s market position and channel diversification. Apart from CPALL’s dominant position in convenient stores and the leading status in wholesaling business of its subsidiary, Siam Makro PLC (MAKRO), CPALL’s business profile is further reinforced by Lotus’s, a leader in hypermarket and mall operator.

In Thailand, Lotus’s has the largest market share in the hypermarket segment. The company owns 2,600 stores nationwide in multi-store formats with total sale area of 1.5 million square meters (sq.m.) and leasable area of 0.7 million sq.m. In Malaysia, Lotus’s is the leading retailer in the hypermarket segment, operating 64 stores with sale area of 0.3 million sq.m. and leasable area of 0.3 million sq.m.

### Same store sales expected to gradually recover

We expect CPALL’s operations to recover gradually after being affected by the COVID-19 pandemic. This follows the recovery in economic activity and the revival of tourism industry after easing of entry requirements for travelers.

Same-store sales of “7-Eleven” stores contracted in 2020-2021, before reviving strongly to record growth of 13% year-on-year (y-o-y) in the first quarter of 2022. MAKRO as a food wholesaler has delivered resilient operating results posting positive growth in same store sales despite COVID-19.

Our baseline projection forecasts revenue from 7-Eleven to grow 6%-13% per year in 2022-2024 driven by mid-to-high single-digit same store sale growth reflecting the combination of post-COVID recovery and new store openings. Revenue from MAKRO is forecast to grow 7%-9% per annum, supported by steady low single-digit growth in same store sales, and planned new store openings in Thailand and overseas.

## Substantially enlarged operating scale from business integration

CPALL's operating scale has enlarged substantially through the consolidation of Lotus's stores in Thailand and Malaysia. Our base-case forecast projects the revenue contribution from Lotus's in Thailand and Malaysia to be around THB220-THB255 billion (or 27% of CPALL's total revenue) during 2022-2024, while Lotus's earnings before interest, taxes, depreciation, and amortization (EBITDA) to be TH24-THB30 billion per year, accounting for 35% of CPALL's EBITDA.

In the first quarter of 2022, CPALL's operating revenue surged by 49.7% year-on-year (y-o-y) to THB199.7 billion, while EBITDA edged up by 57.9% y-o-y to THB17.9 billion. The substantial increase is mainly attributed to the financial consolidation of Lotus's, as well as the recovering revenue of 7-Eleven stores.

Going forward, we view CPALL's revenue to continue improving on the back of the post-COVID recovery. 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 improve operating performance over the next few years. Our base-case forecast projects CPALL's operating revenue to hover around THB815-THB956 billion in 2022-2024 with EBITDA margin of around 8.6%-8.9%.

## Surge in leverage

Over the past few years, CPALL's financial leverage has risen significantly, following the debt-funded Lotus's acquisition in 2020 and the financial consolidation of C.P. Retail Development Co., Ltd. (CPRD) and the operation of Lotus's in Thailand and Malaysia in 2021.

The adjusted net debt rose to THB392.7 billion as of March 2022 from THB183.6 billion in 2019, while the ratio of adjusted debt to EBITDA increased to 7.1 times (annualized, from the trailing 12 months) in the first quarter of 2022, compared with 3.5 times in 2019. However, CPALL's total equity stood at THB296.6 billion, from TH108-112 billion in 2019-2020, thanks to the business integration with Lotus's as well as MAKRO's public offering in late-2021. The ratio of debt to capitalization improved to 58.2% at the end of March 2022, compared with 68%-75% in 2019-2020.

Over the next three years, we expect CPALL's capital expenditures to be around THB36-THB39 billion per year as it pursues its growth strategy in omni-channel and multi-format stores. The investments include THB13 billion per year in 7-Eleven, THB10-THB15 billion per year in MAKRO, and THB11-THB13 billion in Lotus's in Thailand and Malaysia. Despite sizable capital expenditures lying ahead, we project CPALL's debt to EBITDA ratio to hover around 5.8 times in 2022 and improve gradually to stay below 5 times in 2024, while the debt to capitalization ratio to hover around 58%.

## Sufficient liquidity

We assess CPALL's liquidity to be at an adequate level over the next 12 months. At the end of March 2022, CPALL had cash on hand of THB81.7 billion. We forecast the company's funds from operations (FFO) to be around THB48 billion in 2022. The company's cash on hand plus FFO should be sufficient to cover scheduled debt repayments and capital spending totaling THB78 billion.

## BASE CASE ASSUMPTIONS

- CPALL's operating revenue to surge by 39% in 2022 on the back of full year consolidation of Lotus's and edge by 7%-10% annually in 2023-2024.
- The adjusted EBITDA margin to stay in the range of 8.6%-8.9% in 2022-2024.
- Total capital spending of around THB36-THB39 billion per year in 2022-2024.

## RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that CPALL will sustain its leading position and competitive edge and continue to deliver sound financial results. We expect its high level of cash balance and stable cash flow will continue to provide sufficient financial strength to support its future expansion plans.

## RATING SENSITIVITIES

CPALL's ratings could be revised upward should the company materially improve its capital structure and cash flow protection such that the ratio of adjusted debt to EBITDA fall below 5 times for a sustained period.

On the contrary, the ratings would be revised downward if the operating performance is materially weaker than expected or there are sizable debt-funded investments, that are expected to result in material weakening of capital structure such that the ratio of adjusted debt to EBITDA exceeds 8 times for a sustained period.

**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 2022, Charoen Pokphand Foods PLC (CPF) and its affiliates held approximately 34% of CPALL’s shares.

Presently, CPALL has 13,253 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). Presently, there are sixteen 7-Eleven stores in Cambodia. CPALL is planning to open its first 7-Eleven store in Lao PDR by early-2023.

CPALL acquired MAKRO’s shares in 2013. MAKRO is a leading food wholesaler in Thailand. MAKRO is a Business to Business (B2B) operator, focusing on food retailers and operators in hotels, restaurants, and caterers. As of March 2022, MAKRO owned 144 stores in Thailand, and 7 stores overseas (Cambodia, India, China, and Myanmar).

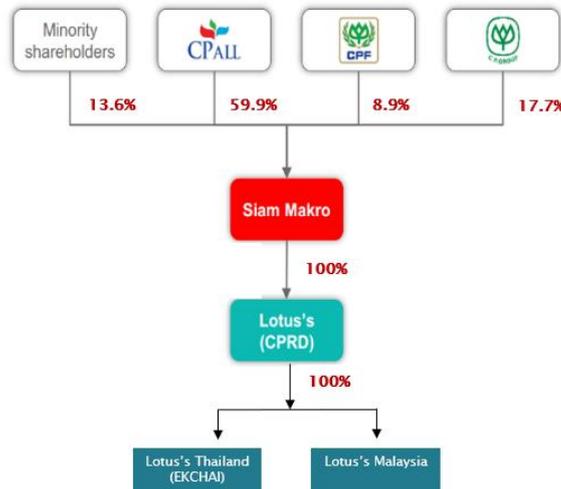
In late-2020, CPALL acquired 40% of total issued shares in Lotus’s stores in Thailand and Malaysia, formerly Tesco Lotus, while the remaining stakes are held by Charoen Pokphand Holdings Co., Ltd. (40% stakes) and CPF’s subsidiary (20%). The acquisition cost for the 40% interest is approximately USD2.6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

In Oct’21, MAKRO, a CPALL’s subsidiary, acquired 99.9% of the shares of Lotus’s stores in Thailand and Malaysia through Entire Business Transfer (EBT). This transaction is part the shareholding restructuring plan for CP group’s retail business. As a result of EBT transaction and MAKRO’s public offering in late-2021, CPALL remains the MAKRO’s major shareholder, holding about 60% stakes in MAKRO. CPH held 18%, while CPF’s subsidiary held 9%.

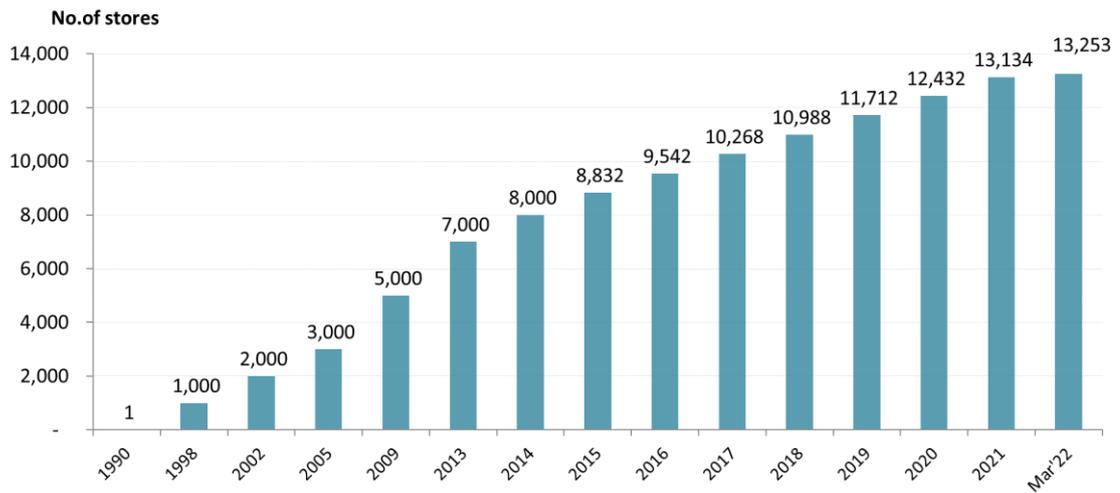
Lotus’s is a leading grocery retailer and mall operator in Thailand and Malaysia. As of March 2022, Lotus’s owned 2,600 stores with 0.7 million square meters (sq.m.) of leasable area in Thailand, and 64 stores with 0.3 million sq.m.of leasable area in Malaysia.

**KEY OPERATING PERFORMANCE**

**Chart 1: Group Shareholding Structure**

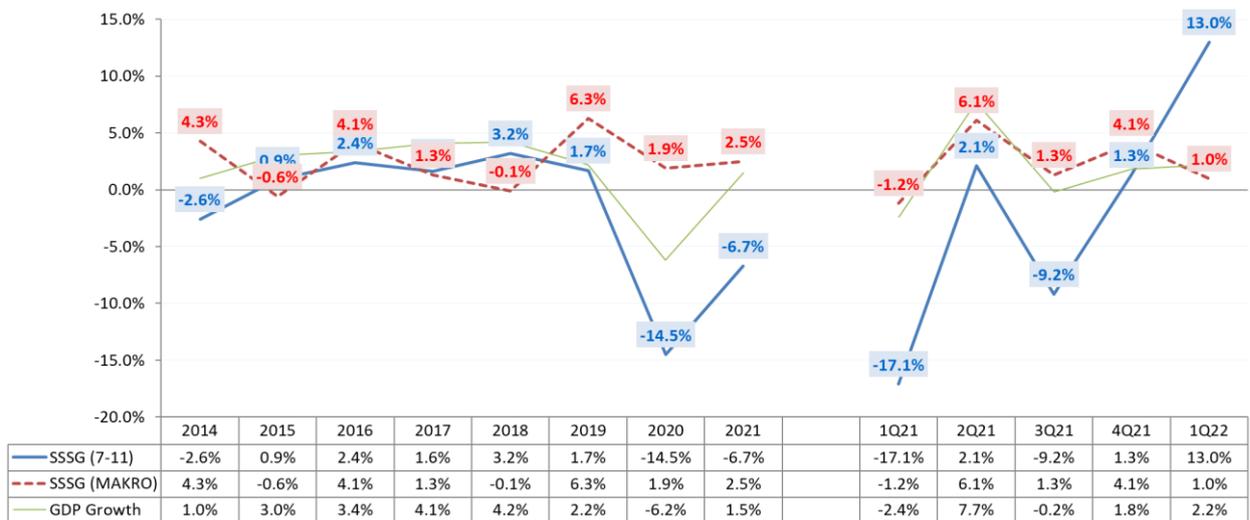


**Chart 2: 7-Eleven's Expansion**



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  
4) MAKRO

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**
*Unit: Mil. THB*

	Jan-Mar 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	199,662	585,743	546,207	570,712	526,855
Earnings before interest and taxes (EBIT)	9,026	24,419	27,857	36,397	34,428
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	17,862	48,464	48,571	52,264	49,519
Funds from operations (FFO)	12,909	32,023	36,051	37,290	35,118
Adjusted interest expense	4,007	13,651	9,590	10,628	10,272
Capital expenditures	8,705	17,757	17,389	17,902	15,771
Total assets	920,880	931,893	523,354	375,617	373,741
Adjusted debt	392,673	392,614	278,993	183,563	182,311
Adjusted equity	281,672	277,874	91,686	88,459	79,910
<b>Adjusted Ratios</b>					
EBITDA margin (%)	8.95	8.27	8.89	9.16	9.40
Pretax return on permanent capital (%)	4.67	4.15	7.81	12.14	12.13
EBITDA interest coverage (times)	4.46	3.55	5.06	4.92	4.82
Debt to EBITDA (times)	7.14	8.10	5.74	3.51	3.68
FFO to debt (%)	9.46	8.16	12.92	20.31	19.26
Debt to capitalization (%)	58.23	58.56	75.27	67.48	69.53

**RELATED CRITERIA**

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

## 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+
CPALL22NA: THB9,000 million senior unsecured debentures due 2022	A+
CPALL233A: THB937 million senior unsecured debentures due 2023	A+
CPALL233B: THB6,000 million senior unsecured debentures due 2023	A+
CPALL236A: THB3,000 million senior unsecured debentures due 2023	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+
CPALL266A: THB17,773 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+
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+
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+
CPALL305A: THB2,169.3 million senior unsecured debentures due 2030	A+
CPALL305B: THB2,350 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+
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+
CPALL17PA: THB10,000 million subordinated capital debentures	A-
CPALL21PA: THB10,000 million subordinated capital debentures	A-
Up to THB19,000 million senior unsecured debentures due within 15 years	A+
<b>Rating Outlook:</b>	Stable

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