BERLI JUCKER PLC

No. 102/2017 22 August 2017

Company Rating: A+

Issue Ratings:

Senior unsecured A+

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
08/08/16	A+	Stable
17/02/16	A+	Alert Developing
25/11/14	A+	Stable
13/08/14	A+	Alert Developing
15/06/07	A+	Stable

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Rating Rationale

TRIS Rating affirms the company rating of Berli Jucker PLC (BJC) and the ratings of BJC's senior unsecured debentures at "A+". The ratings reflect BJC's strong competitive positions in its major business lines, diverse range of businesses and sources of income, and wide market coverage. The ratings also take into consideration its recent acquisition of Big C Supercenter PLC (BIGC). The acquisition brings a large network of retail sales outlets and synergies. However, these strengths are partially offset by BJC's high financial leverage and intense competition in consumer products and retailing industries. The ratings also take into consideration the slow economic recovery in Thailand which affects consumer spending.

BJC's strong business profile reflects its diverse portfolio of businesses and sources of income, and wide geographic coverage. BJC's core lines of business comprise: 1) Packaging Supply Chain (PSC), offering packaging such as glass bottles and aluminum cans; 2) Consumer Supply Chain (CSC), including food and consumer products; 3) Healthcare and Technical Supply Chain (HTSC), focusing on medicine, hospital equipment and supplies, and technical products; 4) Modern Retail Supply Chain (MSC), which is BIGC's retailing and rentable space segment; and 5) Others, including Asia Books and information technology.

BJC's products in its major lines of business have solid competitive positions. BJC is one of the leading producers and distributors in the Thai packaging industry and the consumer product industry. The strength of BJC's consumer products portfolio is attributed to its flagship brands, such as *Cellox* and *Zilk* in tissue paper segment, *Tasto* and *Dozo* in snacks, and *Parrot* in personal care products segment. BJC's market coverage is wide, extending several countries in Southeast Asia.

In 2016, BJC secured new growth opportunities by acquiring a 97.9% interest in BIGC. The investment cost was nearly Bt210,000 million. BIGC has a strong competitive position as one of two major hypermarket operators in Thailand. As of June 2017, BIGC owned 132 hypermarkets, 60 supermarkets, and 513 mini BIGC stores, with a total retail space of 1.1 million square meters (sq.m.) and 0.85 million sq.m. of rentable space. BIGC's competitive advantage stems from its large store network, and well established logistics network and supply chain.

The credit ratings are supported by BJC's sound and resilient operating performance, backed by diversified portfolio of business and sources of income. Sales grew by an average annual growth rate of 6% during 2012 through 2015. Revenue from sales plus rental and service income in 2016 was Bt133,281 million, up from Bt42,893 million in sales in 2015. The rise was driven mainly by strong growth in packaging segment (up 7% year-on-year (y-o-y)) and the inclusion of revenues from BIGC since late March 2016. BIGC records sales plus rental and service income of Bt117,340 million for the full year in 2016.

After the acquisition and subsequent consolidation of BIGC, about 70% of BJC's total revenue in 2016, including rental and service income, came from BIGC. Funds from operations (FFO) jumped to Bt11,203 million in 2016, from about Bt5,000 million in 2015. BJC expects to take three years after the merger with BIGC to fully realize the benefits from economy of scales and synergies, estimated at Bt1,700 million of earnings before interest, tax, depreciation, and amortization (EBITDA) per annum.

BJC's risk profile takes into account the intense competition in the consumer products and retailing industries. Price-based competition and promotional campaigns are frequent and quite fierce in these two segments. In addition, BJC faces the consequences of a slow economic recovery. The economic slowdown might cut consumer spending, affecting revenue as well as the growth in same-store sales of BIGC. According to the National Economic and Social Development Board (NESDB), private consumption expenditures (PCE) in Thailand grew by 0.6% in 2014, 2.2% in 2015, and 3.1% in 2016. PCE rose by 3.2% y-o-y in the first quarter of 2017. Despite upward trend, the slow economic recovery may continue to limit consumer spending and resulted in less traffic in stores. Sales in BJC's consumer supply chain segment in the Thai market slipped by 5% in 2016. BIGC's same-store sales dropped by 3% in 2015. Same-store sales slipped further in 2016, dropping by 12.8%. The drop was due in part to the adoption in mid-2016 of a new policy to discontinue unprofitable sales practices. Going forward, BIGC faces a challenge as it strives to boost same-store sales.

TRIS Rating's base-case forecast, covering the next three years, assumes BJC's revenue will grow at a single-digit rate annually, driven by a gradual revival in the Thai economy, the addition of new production capacity in the packaging segment, and the opening of new retailing outlets. BIGC's same-store sales are expected to grow in 2018. The operating profit margins will rise gradually, as the company tries to continue the on-going cost saving efforts, manage inventory, as well as group-wide synergies.

BJC's rating is partly constrained by high financial leverage, a consequence of the acquisition of BIGC. Total debt rose considerably from about Bt15,000 million at the end of 2015 to Bt152,234 million at the end of 2016. The debt to capitalization ratio was 57.8% as of December 2016. The ratio of cash flow protection was lower, as indicated by the ratio of FFO to total debt at 7.4% in 2016, compared with 28%-36% during 2013 through 2015. The EBITDA interest coverage ratio was 3 times in 2016, down from 11 times in 2015.

BJC plans to make roughly Bt28,000 million in capital expenditures during 2017-2019. The major investments ahead are adding more retail outlets and increasing production capacities in the packaging supply chain segment. BIGC plans to add about five hypermarket stores, one supermarket, and 200 mini BIGC shops per year. Operating cash flow and liquidity profile will be expected to gradually improve. TRIS Rating expects the net debt to EBITDA ratio of BJC to decline below 4 times over the medium term.

Rating Outlook

The "stable" outlook reflects the expectation that BJC will maintain its competitive positions in the key business segments. TRIS Rating also assumes BJC will make sustained improvements in its financial profile.

Any downside pressure on the ratings would arise if the deleveraging proceeds are more slowly than expected. The rating downside case would be also triggered if the company's financial profile shows a sustained deterioration due to weaker operating performance and/or a deterioration in capital structure for a long period of time. The potential for a rating upgrade will likely be limited during the medium term, given BJC's sizable debt burden.

Berli Jucker PLC (BJC)

Company Rating:	A+
Issue Rating:	
BJC199A: Bt22,000 million senior unsecured debentures due 2019	A+
BJC219A: Bt9,000 million senior unsecured debentures due 2021	A+
BJC239A: Bt3,000 million senior unsecured debentures due 2023	A+
BJC269A: Bt20,000 million senior unsecured debentures due 2026	A+
BJC206A: Bt17,920 million senior unsecured debentures due 2020	A+
BJC21DA: Bt3,050 million senior unsecured debentures due 2021	A+
BJC23DA: Bt2,100 million senior unsecured debentures due 2023	A+
BJC25DA: Bt1,200 million senior unsecured debentures due 2025	A+
BJC26DA: Bt3,730 million senior unsecured debentures due 2026	A+
BJC193A: Bt16,200 million senior unsecured debentures due 2019	A+
BJC203A: Bt12,000 million senior unsecured debentures due 2020	A+
BJC213A: Bt300 million senior unsecured debentures due 2021	A+
BJC223A: Bt2,500 million senior unsecured debentures due 2022	A+
BJC243A: Bt4,000 million senior unsecured debentures due 2024	A+
BJC273A: Bt5,000 million senior unsecured debentures due 2027	A+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Jun 2017	---------------- Year Ended 31 December ---------- 2016	2015	2014 ***	2013
Revenues from sales and rental income****	78,064	133,281	42,893	41,695	42,226
Gross interest expense and financial cost	2,238	5,203	493	556	575
Net income from operations	2,013	2,930	1,743	1,574	2,315
Funds from operations (FFO)	7,083	11,203	5,334	4,530	4,801
Total capital expenditures	3,570	5,072	1,705	3,323	3,656
Total assets	307,766	309,368	44,701	43,428	44,503
Total debt	152,405	152,234	14,975	16,232	16,676
Shareholders' equity	111,716	111,148	20,750	18,017	17,699
Operating income before depreciation and amortization as % of sales	9.5	9.2	11.2	10.4	12.1
Pretax return on permanent capital (%)	4.3 **	7.0	9.4	8.4	11.4
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.2	3.0	11.0	8.8	9.9
FFO/total debt (%)	8.6 **	7.4	35.6	27.9	28.8
Total debt/capitalization (%)	57.7	57.8	41.9	47.4	48.5

* *Consolidated financial statements*
** *Annualized with trailing 12 months*
*** *Restated according to the accounting standard enforced in 2015*
**** *Including rental income of modern retail supply chain segment since 2016*

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