

CP ALL PLC

No. 84/2021
1 June 2021

CORPORATES

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

Last Review Date: 28/04/21

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 unsecured debentures at “A+” with a “stable” outlook.

The ratings continue to reflect CPALL’s strong business fundamental, supported by its proven record as the dominant operator of convenience stores in Thailand, the cash-based nature of its business, the strength of its nationwide store network, and well-established support facilities. Nevertheless, the ratings are constrained by the company’s elevated leverage, the impact of the Coronavirus Disease 2019 (COVID-19) fallout which deteriorated domestic purchasing power, as well as a slow pace of economic recovery.

KEY RATING CONSIDERATIONS

Significant drop in revenue following COVID-19

CPALL’s operations have been impacted materially by the COVID-19 pandemic. The national lockdown and travel restriction measures during the first wave of outbreak and economic slump led to a significant drop in CPALL’s sales and volume of transactions.

CPALL’s operating revenue dropped by 4.3% year-on-year (y-o-y) to THB546.2 billion in 2020 and declined further by 8.5% y-o-y to THB133.3 billion in the first quarter of 2021. Same-store sales of “7-Eleven” stores declined sharply, posting a contraction of 14.5% in 2020 and 17.1% in the first quarter of 2021. Revenue of 7-Eleven stores took a significant hit from the absence of foreign tourists and weak domestic purchasing power. “MAKRO” as a food wholesaler, posted more favorable results than those of convenient stores. Despite the decrease in revenue from food service operators, MAKRO benefited from home-cooking trends during the pandemic. Same-store sales of MAKRO edged up by 1.9% in 2020 before slipping slightly by 1.2% in the first quarter of 2021.

For the remaining of 2021, we expect CPALL’s operations will continue to face challenges. The new wave of infections which is more severe and hard to contain than the first and the second wave, together with the slow pace of the country’s vaccine rollout continues to cloud the prospects of tourism and economic recovery. We expect the recovery to begin in late 2021 with the domestic economy approaching pre-COVID-19 levels in 2022 when a certain degree of public vaccinations has been administered, with the easing of cross-border travel restrictions as well as a return of social and economic normality. Nevertheless, we believe the company’s strategies to focus on omni-channels, together with new service offerings and the synergy from the recent acquisition, should help the company sustain strong operating performance over the next few years.

Deteriorated profit margin, but gradual recovery expected

CPALL’s operating profit weakened, following the substantial drop in the number of customers and change in revenue mix. Earnings before interest, taxes, depreciation, and amortization (EBITDA) slipped by 7.1% y-o-y to THB48.6 billion in 2020 and plunged by 17.7% y-o-y to THB11.3 billion in the first quarter of 2021. EBITDA margin was 8.9% in 2020 and 8.5% in the first quarter of 2021, down from 9.2%-9.5% during 2017-2019. The drop in margin was due mainly to pricing and promotion strategies amid a sluggish economy, together with a lower sales contribution from 7-Eleven stores, which yields

higher margin than that of MAKRO. Additionally, the company has benefited less from economy of scale, owing to lower sales volume.

Apart from the decline in revenue, CPALL's profitability has been affected by a surge in interest burden from its recent acquisition. CPALL posted interest expenses and financial costs of THB2.9 billion in the first quarter of 2021, a THB1 billion surge from the same period of the previous year. That resulted in a dive in net profit by 54% y-o-y to THB2.6 billion in the first quarter of 2021.

Our base-case forecast projects CPALL's EBITDA margin to stay below 9% in 2021 following its strategies to drive sales volume. We project EBITDA margin to ramp up to the pre-COVID level of 9.3%-9.5% in 2022-2023. CPALL's EBITDA is projected to be flat at THB48.7 billion in 2021, before climbing to THB55-THB60 billion in 2022-2023. However, we expect minimal equity income and no dividend upstream from its newly acquired equity stakes in "Lotus" over the next few years. This is due to Lotus's weakened operations affected by the pandemic, as well as high transformation and rebranding expenses, together with sizable interest burden from USD4 billion loan at the level of the acquiring company, C.P. Retail Development Co., Ltd. (CPRD).

A surge in leverage from debt-funded acquisition

CPALL's financial leverage has risen significantly, following its recent debt-funded acquisition. Adjusted debt was THB284.1 billion at the end of March 2021, compared with THB183.6 billion in 2019. The ratio of debt to capitalization ratio rose to 75% from 67.5% in 2019, while the adjusted debt to EBITDA increased to 6.2 times from 3.5 times in 2019.

Going forward in the next three years, we expect CPALL's capital expenditures to be around THB18-THB21 billion per year, including the expansion of 700 7-Eleven stores and 6-8 MAKRO branches per year, domestically and overseas. Despite sizable capital expenditures lying ahead, we expect CPALL's leverage to improve gradually. We project its debt to EBITDA ratio to stay below 5 times in 2023, while the debt to capitalization ratio is projected to hover around 70% during the same period.

Sufficient liquidity

We assess CPALL's liquidity to be at an adequate level over the next 12 months. At the end of March 2021, CPALL's had cash on hand of THB36.5 billion. We forecast the company's funds from operations (FFO) to be around THB33 billion in 2021. We assess the company's cash on hand plus FFO is sufficient to cover scheduled debt repayments of approximately THB24 billion, capital spending of around THB18 billion, and dividend payments of THB8 billion. Additionally, CPALL has bridge loans outstanding of THB61 billion maturing in mid-2022, which the company intends to refinance by debentures issuance in June 2021.

The financial covenant on CPALL's debentures requires the company's net interest-bearing debt to equity ratio (excluding lease liability) to remain below 2 times. As of March 2021, CPALL's net interest-bearing debt to equity ratio was 1.6 times. We expect the company will remain in compliance with this covenant over the forecast period.

BASE CASE ASSUMPTIONS

- CPALL's operating revenue to edge up by 1% in 2021 and increase by 7%-8% annually in 2022-2023.
- The adjusted EBITDA margin to stay in the range of 8.9%-9.5% in 2021-2023.
- Total capital spending of around THB18-THB21 billion per year during 2021-2023.

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 cash balance and stable cash flow will provide financial strength to support its future expansion plans.

RATING SENSITIVITIES

CPALL's ratings and/or outlook could be revised upward should the company materially improve its capital structure and cash flow protection. However, the ratings and/or outlook would be revised downward if the operating performance is weaker than expected or there are sizable debt-funded investments, which are expected to result in material weakening of capital structure and debt serviceability.

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 2021, Charoen Pokphand Foods PLC (CPF) and its affiliates held approximately 35% of CPALL’s shares.

Presently, CPALL has 12,587 7-Eleven stores nationwide. An average of 845 customers visits each store each day and daily sales per store average THB65,024. 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).

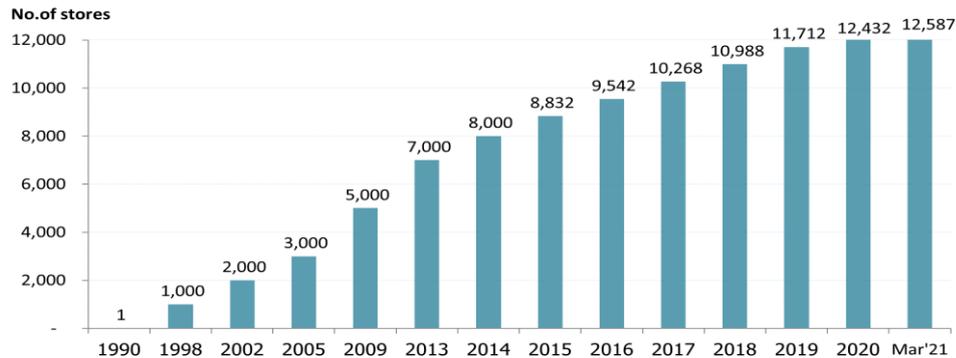
CPALL acquired nearly all (98%) of MAKRO’s shares for THB188 billion in 2013. MAKRO is a food wholesaler with six store formats: classic, food service, eco plus, food shop, frozen shop and Fresh@Makro. As of March 2021, MAKRO owned 138 stores in Thailand, comprising 79 large stores (classic format), 46 medium-sized stores (food service and eco plus), and 13 small stores (food shop, frozen shop and Fresh@Makro). MAKRO has expanded abroad since 2017. Presently, MAKRO owns two stores in Cambodia, three stores in India, and a store each in China and Myanmar.

Currently, CPALL owns a 93.01% stake in MAKRO. The market capitalization of MAKRO held by CPALL was approximately THB160 billion as of June 2020. CPALL plans to reduce its stake in MAKRO to 80%-85%, in order to comply with a regulation by the Stock Exchange of Thailand (SET).

In December 2020, CPALL completed the major acquisition of Tesco Asia Group. CPALL acquired 40% of total issued shares in Tesco Stores (Thailand) Ltd. and Tesco Stores (Malaysia) Sdn. Bhd, while the remainder stakes are held by Charoen Pokphand Holdings Co., Ltd. (40% stakes) and CPF’s wholly-owned subsidiary (20%). The acquisition cost for the 40% interest is approximately USD2.6 billion (or approximately THB86 billion). CPALL funded this transaction by 100% debt financing.

KEY OPERATING 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) Office of National Economic and Social Development Council (NESDC)
3) CPALL
4) MAKRO

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Mar 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	133,339	546,207	570,712	526,855	489,165
Earnings before interest and taxes (EBIT)	5,980	27,857	36,397	34,428	32,779
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	11,314	48,571	52,264	49,519	46,654
Funds from operations (FFO)	7,794	36,221	37,566	35,278	33,147
Adjusted interest expense	3,150	9,590	10,628	10,272	10,020
Capital expenditures	3,520	17,389	17,902	15,771	18,104
Total assets	518,917	523,355	375,617	373,741	360,299
Adjusted debt	284,097	278,993	183,563	182,311	180,293
Adjusted equity	94,700	91,686	88,459	79,910	60,320
Adjusted Ratios					
EBITDA margin (%)	8.48	8.89	9.16	9.40	9.54
Pretax return on permanent capital (%)	6.89	7.81	12.14	12.13	12.15
EBITDA interest coverage (times)	3.59	5.06	4.92	4.82	4.66
Debt to EBITDA (times)	6.16	5.74	3.51	3.68	3.86
FFO to debt (%)	11.80	12.98	20.46	19.35	18.39
Debt to capitalization (%)	75.00	75.27	67.48	69.53	74.93

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

CP AII PLC (CPALL)

Company Rating:	A+
Issue Ratings:	
CPALL221A: THB5,000 million senior unsecured debentures due 2022	A+
CPALL22NA: THB9,000 million senior unsecured debentures due 2022	A+
CPALL233B: THB6,000 million senior unsecured debentures due 2023	A+
CPALL256B: THB13,200 million senior unsecured debentures due 2025	A+
CPALL263B: THB10,000 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+
CPALL27NA: THB9,000 million senior unsecured debentures due 2027	A+
CPALL283B: THB6,800 million senior unsecured debentures due 2028	A+
CPALL291A: THB1,920 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+
CPALL325A: THB3,632 million senior unsecured debentures due 2032	A+
CPALL359A: THB3,450 million senior unsecured debentures due 2035	A+
CPALL363A: THB1,500 million senior unsecured debentures due 2036	A+
Up to THB66,000 million senior unsecured debentures due within 15 years	A+
Rating Outlook:	Stable

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