

EK-CHAI DISTRIBUTION SYSTEM CO., LTD.

No. 124/2023
5 July 2023

CORPORATES

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

Last Review Date: 18/11/22

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on Ek-Chai Distribution System Co., Ltd. (LOTUSS, formerly EKCHAI) and the ratings on LOTUSS's senior unsecured debentures at "A+", and revises the rating outlook to "positive" from "stable".

The ratings incorporate our view on the company's status as a core subsidiary of CP All PLC (CPALL, rated "A+/positive"). LOTUSS's group status under CPALL reflects our view of LOTUSS's importance in cementing the group's leading position in the grocery retail and rental property businesses, coupled with its significant earnings contribution to CPALL.

KEY RATING CONSIDERATIONS

Core subsidiary of CPALL

TRIS Rating views LOTUSS as a core subsidiary of CPALL owing to its role as a flagship entity for the grocery retail business of the group. As of March 2023, CPALL, through CP Axtra PLC (CPAXT), holds 59.9% equity interest in LOTUSS.

LOTUSS's operating revenue accounted for 21% of CPALL's total operating revenue in 2022, while its earnings before interest, taxes, depreciation, and amortization (EBITDA) contributed 26% of CPALL's EBITDA.

Leader in hypermarket segment with nationwide store network

LOTUSS operates a hypermarket chain under the "Lotus's" brand in Thailand. Lotus's is the largest modern trade retailer in the domestic hypermarket segment. The company owns 225 hypermarkets, or approximately 40% of all hypermarkets in Thailand.

Besides hypermarkets, the company also operates medium- and small-sized store network -- "Go Fresh" supermarkets and mini-supermarkets to penetrate the target markets. The large-store format provides an extensive range of food and non-food products, while the medium and small formats focus on fresh food products offering convenience to communities.

Operation recovers at a slow pace

LOTUSS's operating revenue improved gradually. Its operating revenue increased by 7.3% year-on-year (y-o-y) to THB182.6 billion in 2022 and edged up by 3.9% y-o-y to TH44.5 billion in the first quarter of 2023.

Gross margin slightly improved to 21.8% in 2022 through the first quarter of 2023 from 21.2% in 2021. The improvement was due mainly to a recovery in rental business following a shift in rental rate. However, the company's profitability has been squeezed from escalating expenses relating to rebranding, information technology (IT), and omnichannel sales as well as utility expenses. As a result, EBITDA was THB18.9 billion in 2022 and THB 4.3 billion in the first quarter of 2023, compared with THB20.2 billion in 2021.

TRIS Rating anticipates pressure on LOTUSS's profitability to remain in 2023 owing mainly to its high utility cost, and administration expenses, while competition in the retailer business remains intense. Nevertheless, the company's strategies that focus on product mix, store developments, and online channels as well as synergies from parent companies, combined with the prospect of reviving tourism industry, should help the company achieve a gradual performance recovery.

Competitive position in rental property market

LOTUSS has expertise and proven track record in rental property management. At the end of March 2023, LOTUSS had a total permanent net leasable retail area of 0.7 million square meters (sq.m.) with an occupancy rate (OR) of about 90%.

Revenue from rental income has accounted for 6%-7% of LOTUSS's total revenue over the past three years. After facing the fallout from store closures and rental rate discount during the Coronavirus Disease 2019 (COVID-19) pandemic, the operation of mall income recovered gradually. Rental income improved by 15.4% y-o-y to THB10.8 billion in 2022 and edged up by 10.7% y-o-y to THB2.8 billion in the first quarter of 2023. We expect the rental income to further improve following the post COVID-19 economic recovery. Mall renovation and new store formats should revitalize rental spaces to attract traffic, as well as improve occupancy and rental rates.

Financial leverage decreased significantly from intercompany loan repayment

LOTUSS's leverage surged owing to the sizable dividend payment to its shareholders in 2021, as part of the recapitalization under the group policy. However, the leverage decreased substantially in the first quarter of 2023, owing to the substantial amount of debt repayment of THB27 billion from its parent company. As of March 2023, an adjusted debt was THB83.5 billion down from THB103.7 billion in 2022. The adjusted debt to EBITDA ratio decreased to 4.5 times in the first quarter of 2023 compared with 5.4-5.5 times in 2021-2022.

Adequate liquidity

We assess LOTUSS's liquidity to be sufficient over the next 12 months considering its sources and uses of funds. Cash on hand plus cash flow from operations should be sufficient to cover capital spending and interest expense of around THB14 billion. At the end of March 2023, the company has a liquidity buffer with cash on hand of around THB8 billion and numerous credit facilities from commercial banks.

The financial covenant on LOTUSS's debentures obligations requires the company's net interest-bearing debt to equity ratio (excluding lease liability) to remain below 2.5 times. As of March 2023, LOTUSS's net interest-bearing debt to equity ratio was 1.2 times. We expect the company will remain in compliance with this covenant over the forecast period.

BASE CASE ASSUMPTIONS

LOTUSS will remain a core subsidiary of CPALL.

RATING OUTLOOK

The "positive" outlook follows CPALL's rating outlook and our expectation that LOTUSS will maintain its group status as a core subsidiary of CPALL. We believe LOTUSS 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 LOTUSS are tied to the rating on CPALL. Any change in the rating on CPALL, or LOTUSS's group status, will affect the ratings on LOTUSS accordingly.

COMPANY OVERVIEW

LOTUSS, a leading retailer in Thailand, operates a hypermarket chain under the name "Lotus's", formerly "Tesco Lotus". LOTUSS was established in 1994 by Charoen Pokphand Group. During 1998 through 2003, Charoen Pokphand Group sold its entire stakes in LOTUSS to Tesco PLC., the UK's largest grocery retailer and one of the world's largest retailers.

In December 2020, Charoen Pokphand Group and its affiliates completed an acquisition of 100% of Lotus's stores in Thailand and in Malaysia. Following this transaction, CPALL and Charoen Pokphand Holdings Co., Ltd. (CPH) held 40% each in CP Retail Holding Co., Ltd. (CPRH), an investment holding company, which holds 99.99% in LOTUSS and Lotus's operation in Malaysia. The remainder (20%) was held by Charoen Pokphand Foods PLC (CPF).

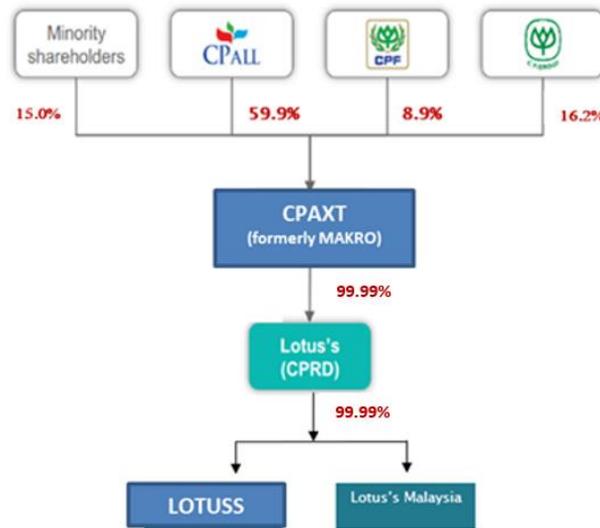
In October 2021, CPAXT acquired 99.9% of the shares of Lotus's stores in Thailand and in Malaysia through the entire business transfer (EBT) of CPRH by allocating CPAXT's newly issued shares to the group of CPRH's shareholder. As a result, CPAXT is a major shareholder, holding 99.99% LOTUSS's stakes.

In 2021, LOTUSS took out a new bank loan (US dollar and Thai baht loan) of approximately THB82 billion and paid dividend upstream to its parent company, C.P.Retail Development Co., Ltd. (CPRD). Later in 2022 through early 2023, LOTUSS successfully refinanced the whole amount of its bank loan by new issued debenture and internal cashflow.

As of March 2023, LOTUSS 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). Apart from retail sales, the company has rental space enclosed in its stores nationwide with a net leasable area of 1,099,840 sq.m., including a permanent net leasable area of 749,417 sq.m. LOTUSS also holds 25% stakes in Lotus’s Retail Growth Freehold and Leasehold Property Fund (LPF), which operates 23 malls in Thailand with a net leasable area of approximately 340,578 sq.m.

KEY OPERATING PERFORMANCE

Chart 1: Group Shareholding Structure



Source: CPALL

Table 1: LOTUSS’s Revenue Breakdown

Unit: %

By Business	Year Ended Feb 2020	Year Ended Feb 2021	Year Ended Dec 2021	Year Ended Dec 2022	3M23 (Jan-Mar 2023)
Retail sale	93	94	94	94	93
Rental income	7	6	6	6	7
Total	100	100	100	100	100
Sales (mil. THB)	184,061	172,629	168,616	180,585	43,853

Note: Year Ended Dec 2021 based on Management account

Source: LOTUSS

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Mar 2023	Year ended 31 Dec 2022	Mar-Dec 2021 *	Year ended 28 Feb 2021	Year ended 28 Feb 2020
Total operating revenues	44,485	182,626	143,396	174,236	186,633
Earnings before interest and taxes (EBIT)	1,330	7,067	7,329	9,418	15,707
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,267	18,937	16,868	21,509	26,337
Funds from operations (FFO)	2,873	13,028	14,139	18,145	22,663
Adjusted interest expense	1,393	5,003	1,927	1,601	805
Capital expenditures	2,263	11,716	11,695	6,301	4,845
Total assets	164,333	203,362	200,039	184,938	144,898
Adjusted debt	83,498	103,724	108,424	18,687	211
Adjusted equity	39,327	40,193	39,462	117,938	103,686
Adjusted Ratios					
EBITDA margin (%)	9.59	10.37	11.76	12.34	14.11
Pretax return on permanent capital (%)	5.16	4.32	4.53	6.84	13.62
EBITDA interest coverage (times)	3.06	3.79	8.75	13.44	32.73
Debt to EBITDA (times)	4.48	5.48	6.43	0.87	0.01
FFO to debt (%)	14.79	12.56	13.04	97.10	n.a.
Debt to capitalization (%)	67.98	72.07	73.32	13.68	0.20

* Based on consolidated financial statements for 10 months period ended December 2021

n.a.= Not available

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

Ek-Chai Distribution System Co., Ltd. (LOTUSS)

Company Rating:	A+
Issue Ratings:	
LOTUSS244A: THB9,848 million senior unsecured debentures due 2024	A+
LOTUSS240A: THB7,454.7 million senior unsecured debentures due 2024	A+
LOTUSS240B: THB350 million senior unsecured debentures due 2024	A+
LOTUSS250A: THB8,533.8 million senior unsecured debentures due 2025	A+
LOTUSS264A: THB10,374.7 million senior unsecured debentures due 2026	A+
LOTUSS270A: THB1,179.7 million senior unsecured debentures due 2027	A+
LOTUSS284A: THB5,356 million senior unsecured debentures due 2028	A+
LOTUSS290A: THB3,931.1 million senior unsecured debentures due 2029	A+
LOTUSS314A: THB1,111.4 million senior unsecured debentures due 2031	A+
LOTUSS334A: THB5,803.2 million senior unsecured debentures due 2033	A+
LOTUSS334B: THB1,050 million senior unsecured debentures due 2033	A+
Rating Outlook:	Positive

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