

SIAM MAKRO PLC

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CORPORATES

Company Rating: A+
Outlook: Stable

Contacts:

Nauwarut Temwattanangkul
nauwarut@trisrating.com

Sarinthorn Sosukpaibul
sarinthorn@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Sasiporn Vajarodaya
sasiporn@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating assigns a company rating of “A+” to Siam Makro PLC (MAKRO) with a “stable” rating outlook. The rating incorporates our view on the company’s status as a highly strategically important affiliate of CP All PLC (CPALL, rated “A+/Stable” by TRIS Rating), as well as our assessment on MAKRO’s stand-alone credit profile (SACP) of “a+”. MAKRO’s group status under CPALL reflects our view on MAKRO’s strategic importance in cementing the group’s leading position in wholesale and retail businesses, and its significant earnings contribution to CPALL.

The SACP of MAKRO reflects its position as the market leader in the wholesaler market, the success of effective cost management and product assortments to capture the demand of hotels, restaurants, and catering business operators (HORECA). The competitive edge is further strengthened by its subsidiaries as leading grocery retailing and rental property operators in Thailand and Malaysia. However, these strengths are held back by stiff competition in the retailing industry, secular changes in consumer behavior toward online shopping, as well as the economic uncertainty.

KEY RATING CONSIDERATIONS

Leading position in wholesaler market

MAKRO’s strong business profile is anchored by its leading position in the wholesale business. With the strategy of focusing on fresh products and effective cost management, MAKRO has been able to capture the growing demand of its key customers, food retailers, and HORECA. The company’s revenue from wholesaling business increased steadily over the past nine years. Revenue edged up to THB225 billion in 2021 from THB114 billion in 2012, a compound annual growth rate of 7.8%.

MAKRO also offers a variety of private-label branded products to enhance value for customers by offering quality products at reasonable prices. Presently, private-label brands and solutions comprise around 14% of total sales, while the company plans to improve the number and quality of private-label brands products with the target calls of 20% of total sales over the next few years.

Expanding overseas footprint

Apart from Thailand, MAKRO has expanded its footprint abroad since 2017. Presently, the company operates two stores in Cambodia, three in India, one in China, and one in Myanmar.

Revenue contribution from stores overseas has been minimal so far, accounting for 3% of total sales from wholesaling business. However, MAKRO continues its positive view on growth opportunities abroad with the target of opening three to eight new stores overseas annually.

Broadened scope to retailing business following Lotus’s acquisition

MAKRO has broadened its revenue and customer base to the retailing business following the acquisition of C.P.Retail Development Co., Ltd.(CPRD), which holds 100% stakes in Ek-Chai Distribution System Co., Ltd. (EKCHAI) and Lotus’s Stores (Malaysia) Sdn. Bhd., the operator of Lotus’s hypermarkets in Thailand and Malaysia in October 2021.

Lotus's is a leading grocery retailer and rental property operator in Thailand and Malaysia. The integration with Lotus's will enable MAKRO to expand customer bases through Lotus's nationwide coverage and diversify toward a business-to-customer (B2C) sale model that targets end-users. MAKRO should also benefit from the sharing of ecosystem with Lotus's.

Growth driver from omnichannel

With its strong fundamental and expertise in the business-to-business (B2B) market, together with sizable information technology (IT) investment, MAKRO's omnichannel and new online application for the marketplace aims to be a growth driver over the next few years. MAKRO has developed its "maknet" online application to further strengthen its position in the B2B marketplace. Presently, MAKRO's contribution from online sales, accounts for 13% of total sales. The company targets to increase the contribution to 15% over the next few years.

Resilient operating results but strong growth expected

MAKRO's operation has performed well and proved to be resilient against the lingering effects of the COVID-19 pandemic and economic fallout. We expect the sound momentum of the wholesaling business to continue, while Lotus's operation will likely improve substantially following post-COVID recovery.

MAKRO's revenue increased steadily at 3%-4% per annum in 2020-2021, while earnings before interest, taxes, depreciation, and amortization (EBITDA) margin hovered around 5%-6%. Despite the decrease in revenue and profits from food service operators, MAKRO's operations performed well and benefited from pantry loading and home-cooking trends during the pandemic.

The acquisition of Lotus's is a springboard for MAKRO's growth in terms of operating scale, revenue, and profit expansion. Post integration, MAKRO's revenue will double to THB460 billion in 2022 from THB220 billion, while EBITDA is projected to stand at THB33 billion in 2022 from THB12 billion. Our base-case forecast projects MAKRO's revenue to surge by 73% in 2022 on the back of full-year consolidation and to further escalate by 7%-9% per annum in 2023-2024, driven by increasing sales volume from omnichannel, new store openings, coupled with rising contributions from rental income.

Despite facing imminent challenges from rising inflation, and sizable rebranding and IT expenses, we anticipate that the company's strategies to focus on fresh food products, omnichannel, as well as synergies from Lotus's integration, should help the company improve operating performance over the next few years. EBITDA margin is projected to stay at 7%-8%, while EBITDA will likely hover around THB33-43 billion in 2022-2024.

Leverage surged from Lotus's acquisition

MAKRO's leverage has risen substantially following the financial consolidation of CPRD and the operation of Lotus's in Thailand and Malaysia in 2021.

The adjusted net debt stood at THB124.9 billion as of March 2022 from THB6.7 billion in 2020, while the adjusted debt to EBITDA increased to 5.7 times (annualized, from the trailing 12 months) in the first quarter of 2022 from 0.5 times in 2020.

Projected capital expenditures over the next three years include THB10-THB15 billion per year of MAKRO, and THB11-THB13 billion of Lotus's in Thailand and Malaysia. Despite sizable capital expenditures lying ahead, we expect MAKRO's debt to EBITDA ratio to stay between 3-4 times in 2022-2024, while the debt to capitalization ratio is projected to hover around 30%-32% due to its enhanced operating scale and synergy benefits.

Ample liquidity

We assess MAKRO's liquidity to be at an adequate level over the next 12 months. At the end of March 2022, MAKRO had cash on hand of THB57.4 billion. We forecast the company's funds from operations (FFO) to be around THB25 billion in 2022. The company's cash on hand plus FFO should be sufficient to cover scheduled debt repayments and capital spending totaling THB33 billion.

BASE CASE ASSUMPTIONS

- MAKRO's operating revenue to surge by 73% in 2022 on the back of the full year consolidation of Lotus's and to increase by 7%-9% annually in 2023-2024.
- The adjusted EBITDA margin to stay in the range of 7%-8% in 2022-2024.
- Total capital spending of around THB23-THB26 billion per year in 2022-2024.

RATING OUTLOOK

The “stable” outlook reflects TRIS Rating’s expectation that MAKRO will maintain its strong market position with sound operating performance despite the challenging business conditions. We expect the company’s leverage to remain at an acceptable level even as the company continues to grow.

RATING SENSITIVITIES

As a highly strategically important affiliate of CPALL, the rating on MAKRO is subject to the cap of the company rating assigned to CPALL. However, in the scenario MAKRO’s SACP falls below CPALL group credit profile, the rating on MAKRO would be one-notch below the company rating assigned to CPALL. A rating change on CPALL could trigger a rating change on MAKRO.

MAKRO’s SACP could be revised downward if its operating performance fell significantly below anticipated levels, or any debt-funded investments materially weaken the company’s balance sheet and cash flow protection, such that the ratio of adjusted debt to EBITDA rises above 8 times for a sustained period.

COMPANY OVERVIEW

MAKRO, founded by SHV Netherlands B.V. and the Charoen Pokphand Group, was established in 1988 and listed on the Stock Exchange of Thailand (SET) in 1994. Charoen Pokphand Group sold its entire stakes in MAKRO, following the 1997 crisis. Later in 2013, CPALL acquired nearly all (98%) of MAKRO’s shares for THB188 billion from SHV Netherlands B.V., the former majority shareholder of MAKRO.

In October 2021, MAKRO acquired all of the shares of Lotus’s through the entire business transfer (EBT) by allocating its newly issued shares to the group of Lotus’s shareholders, comprising i) CPALL, ii) Charoen Pokphand Holdings Co., Ltd. (CPH) and iii) CPF’s wholly-owned subsidiary. Under the EBT Transaction, MAKRO issued and allocated up to 5,010 million new ordinary shares at the offering price of THB43.50 per share, totaling THB217.9 billion.

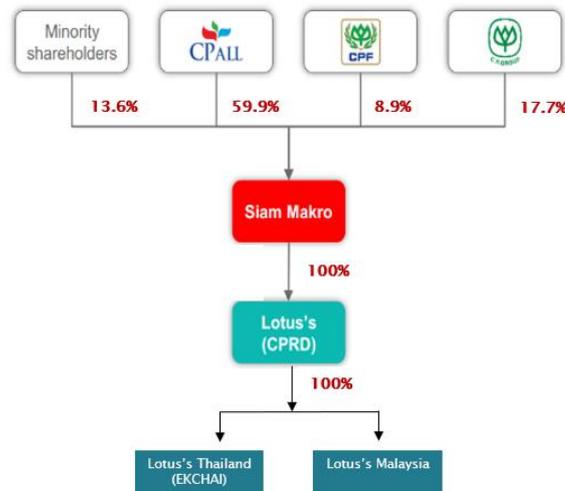
In late 2021, MAKRO also allocated up to 770 million newly issued ordinary shares to the public at the offering price of THB43.50 per share, totaling THB32.9 billion. As a result of EBT and MAKRO’s public offering, CPALL remains the MAKRO’s major shareholder, holding a 59.9% stake in MAKRO as of March 2022. CPH held 17.7%, while CPF’s subsidiary held 8.9%.

MAKRO is a leading food wholesaler with six store formats: classic, foodservice, eco plus, food shop, frozen shop and Fresh@Makro. As of March 2022, MAKRO owned 144 stores in Thailand, comprising 79 large stores (classic format), 52 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 2 stores in Cambodia, 3 stores in India, and a store each in China and Myanmar.

Lotus’s is a leading grocery and consumer goods retailer and mall operator in Thailand and Malaysia. As of March 2022, Lotus’s Thailand owned 2,600 stores in Thailand, comprising 224 large stores (Hypermarkets), 201 supermarket stores (Go Fresh Supermarket), and 2,175 small stores (Lotus’s Go Fresh Mini supermarket). Additionally, Lotus’s Malaysia owned 64 stores in Malaysia, comprising 46 hypermarkets, and 18 supermarket stores.

KEY OPERATING PERFORMANCE

Chart 1: Group Shareholding Structure



FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Mar 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	111,216	266,435	218,760	210,627	192,930
Earnings before interest and taxes (EBIT)	4,311	10,284	8,908	8,761	8,262
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	8,513	16,719	12,549	11,746	10,917
Funds from operations (FFO)	6,252	13,054	10,098	9,109	8,488
Adjusted interest expense	1,494	1,573	634	867	788
Capital expenditures	5,145	4,027	2,314	3,110	2,897
Total assets	564,486	569,490	159,587	62,641	62,065
Adjusted debt	124,874	119,327	6,699	12,103	14,593
Adjusted equity	290,218	288,498	108,263	20,734	19,257
Adjusted Ratios					
EBITDA margin (%)	7.65	6.28	5.74	5.58	5.66
Pretax return on permanent capital (%)	4.71 *	3.42	10.92	22.87	23.13
EBITDA interest coverage (times)	5.70	10.63	19.78	13.55	13.86
Debt to EBITDA (times)	5.67 *	7.14	0.53	1.03	1.34
FFO to debt (%)	13.37 *	10.94	150.74	75.26	58.16
Debt to capitalization (%)	30.08	29.26	5.83	36.86	43.11

* Annualized with trailing 12 months

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019

Siam Makro PLC (MAKRO)

Company Rating:	A+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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