

EK-CHAI DISTRIBUTION SYSTEM CO., LTD.

No. 118/2022

18 November 2022

CORPORATES

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

Last Review Date: 19/08/22

Company Rating History:

Date	Rating	Outlook/Alert
11/07/22	A+	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 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+" with a "Stable" rating outlook. At the same time, TRIS Rating assigns the rating of "A+/Stable" to LOTUSS's proposed issue of up to THB35 billion in senior unsecured debentures due within 10 years. The proceeds from the debenture issuance will be used for debt refinancing and working capital needs.

The ratings incorporate our view on the company's group status as a highly strategically important affiliate of CP All PLC (CPALL, rated "A+/Stable" by TRIS Rating), and our assessment on LOTUSS's stand-alone credit profile (SACP) of "a+".

LOTUSS operates a hypermarket chain under the "Lotus's" brand in Thailand. The company rating reflects its position as a leading operator of hypermarket in Thailand. Its competitive edge is underpinned by large leasable areas in prime locations as well as the cash generating nature of the grocery retailing business. However, the business risk profile is constrained by intense competition in the modern-trade retail industry, secular changes in consumer behavior toward online shopping, as well as challenges from rising inflation and economic uncertainty.

LOTUSS's operating performances were in line with our expectations. In the first half of 2022, the company reported THB91.3 billion of total operating revenue, a 7.3% year-on-year (y-o-y) increase. Earnings before interest, taxes, depreciation, and amortization (EBITDA) rose by 14% y-o-y to THB9.5 billion in the first half of 2022. The ratio of adjusted net debt to EBITDA was 4.9 times in the first half of 2022, improved from 5.4 times in 2021.

We expect LOTUSS's operating performance to recover in both the retail sale and rental income. Our forecast projects LOTUSS's revenue to escalate by 7%-8% per annum to reach THB183-THB213 billion in 2022-2024, driven by better product mix, new stores opening, and rising contribution from rental income. However, the company's profitability will likely remain under pressure from the rebranding and information technology expenses over the next few years. We project LOTUSS's EBITDA to hover around THB20-THB26 billion in 2022-2024, while its debt to EBITDA ratio to improve gradually and fall below 4 times by 2024.

The debenture covenant requires the company's net interest-bearing debt to equity ratio (excluding lease liability) to remain below 2.5 times. As of September 2022, LOTUSS's net interest-bearing debt to equity ratio was 2.1 times. We expect the company will remain in compliance with this covenant over the forecast period.

RATING OUTLOOK

The "stable" outlook reflects our expectation that LOTUSS will maintain its leading position in the retailing industry in Thailand despite the challenging business conditions and intense competition. We expect the company's leverage to remain at an acceptable level even as the company continues to pursue growth.

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

RATING SENSITIVITIES

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

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

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios 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, formerly EKCHAI)

Company Rating:	A+
Issue Ratings:	
LOTUSS244A: THB9,848 million senior unsecured debentures due 2024	A+
LOTUSS250A: THB8,533.8 million senior unsecured debentures due 2025	A+
LOTUSS270A: THB1,179.7 million senior unsecured debentures due 2027	A+
LOTUSS290A: THB3,931.1 million senior unsecured debentures due 2029	A+
Up to THB35,000 million senior unsecured debentures due within 10 years	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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