CP ALL PLC

No. 71/2017 25 October 2017

Company Rating: A+

Issue Rating:
Senior unsecured A

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
9/10/17	A+	Stable

Contacts:

Nauwarut Temwattanangkul
nauwarut@trisrating.com

Jutatip Chitphromphan
jutatip@trisrating.com

Rungrat Suntornpagasit
rungrat@trisrating.com

WWW.TRISRATING.COM

Rating Rationale

TRIS Rating affirms the company rating of CP All PLC (CPALL) at "A+". At the same time, TRIS Rating assigns the rating of "A" to CPALL's proposed issue of up to Bt18,000 million in senior unsecured debentures. The proceeds from the debentures will be used to repay its debt and for working capital.

The company's rating "A+" reflects CPALL's market position and proven record as a dominant convenience store operator in Thailand, cash generating nature of retailing business, its nationwide store network, and well-established support facilities. However, these strengths are partially offset by high financial leverage and intense competition in the retailing industry. The ratings take into consideration slow economic recovery in Thailand, which negatively affects consumer spending.

CPALL, a leading retailer in Thailand, operates a convenience store chain under the well-accepted international brand, "7-Eleven". The company was established in 1988 by the Charoen Pokphand Group. CPALL has been granted the exclusive right from 7-Eleven, Inc., USA, under an Area License Agreement, to be the sole operator of 7-Eleven convenience stores in Thailand.

CPALL's business profile is solid, underpinned by its leading market position in the convenience store business in Thailand. Its leading position is supported by successful merchandising, along with the product and store developments. In Thailand, 7-Eleven stores make up around two-thirds of all convenience stores. As of June 2017, CPALL had 10,007 stores nationwide. Nearly half (45%) of the stores are in Bangkok and its vicinities while the remaining 55% are in provincial areas. CPALL is one of the most successful operators of 7-Eleven stores globally. Presently, Thailand is the nation with the second-largest number of 7-Eleven stores, trailing only Japan.

The competitive advantage of CPALL is strengthened by its well established supporting facilities, such as food and bakery production, the logistics network, and colleges to provide staff training and other educational services.

CPALL enhanced growth opportunities by acquiring Siam Makro PLC (MAKRO). In late 2013, CPALL and its subsidiaries acquired nearly all (97.9%) of the equity of MAKRO at a cost of Bt188,800 million. MAKRO is the leading cash and carry operator in Thailand. The focus on food product helps MAKRO's sales more resilient than most retailers. In addition, its sales growth was satisfactory, driven by the expansion of its key customers, which are hotels, restaurants, and caterers, on top of increasing number of stores. CPALL can also leverage MAKRO's brand equity and expertise to expand abroad.

The credit ratings are also supported by CPALL's strong operating performance. Sales rose from Bt188,702 million in 2012 to Bt434,712 million in 2016. CPALL grew rapidly during 2012-2014, as sales surged by 22%-44% per year. The robust growth was driven by store expansions, a trend toward greater urbanization, plus the consolidation of MAKRO in late 2013. In 2015 and 2016, sales grew at a slower pace but still averaged about 10% per year. The lower growth rate was due mainly to an economic slowdown. Same-store sales of 7-Eleven grew at the rates in low-single digits in 2015 and 2016, compared with the growth rates in high-single digits in earlier years. However, same store sales of

CPALL still outperformed peers, which reported negative number or minimal same store sales growth in the same period. On top of satisfactory sales growth, CPALL's profitability has gradually improved. The earnings before interest, tax, depreciation, and amortization (EBITDA) margin, including adjustments for operating lease as a percentage of total revenue, gradually rose from 9% in 2013 to 9.8% in the first half of 2017. More bargaining power, success in improving efficiencies, and increasing sales of high margin product attributed to the widening margin.

CPALL's EBITDA has continued to grow moderately over the past three years, rising from Bt27,040 million in 2014 to Bt36,822 million in 2016, a compound annual growth rate (CAGR) of 16.7%. Funds from operations (FFO) also improved, increasing at a CAGR of 22.1% from Bt17,045 million in 2014 to Bt25,392 million in 2016.

During the first half of 2017, CPALL reported total sales of Bt229,463 million, up by 6.7% year-on-year (y-o-y). The growth was mainly driven by new store openings. EBITDA edged up by 10.2% y-o-y to Bt20,020 million in the first half of 2017, while FFO rose by 15.2% y-o-y to Bt14,311 million.

CPALL's ratings are partially constrained by the high level of financial leverage. Total debt increased considerably from debt-free financial position in 2012 to Bt185,337 million in 2013, as a result of sizable debt-funded acquisition of MAKRO. Despite the significant rise in cash flow generation over the past few years, CPALL's total debt remains high, owing to large capital expenditures for new store openings, both 7-Eleven and MAKRO stores. Including subordinated perpetual debentures, total debt was Bt199,059 million in 2016 and Bt195,683 million as of June 2017. During the same period, the total debt to capitalization ratio (including adjustments for operating leases) was 81.3% in 2016 and 81% at the end of June 2017, down modestly from 86.1% in 2013. Despite high leverage level, CPALL's liquidity profile is considered good. Cash flow from operations plus cash on hand are sufficient to cover the scheduled debt repayments, planned capital expenditures, and normal dividend payments.

Cash flow protection has improved gradually, mainly due to improved operating performance. The FFO to total debt ratio improved from 10.2% in 2013 to 13.5% in 2016 and 14.2% (annualized, from the trailing 12 months) during the first half of 2017. The EBITDA interest coverage ratio was 3.9 times in 2016 and 4 times in the first half of 2017, improving from 2.9 times in 2014.

Looking forward, the Bank of Thailand (BOT) projects gross domestic product (GDP) will rise by 3.5% in 2017 and 3.7% in 2018. The key drivers are export and tourism sectors. Domestic consumption is expected to recover, but at a slow pace. Under TRIS Rating's base case scenario, same-store sales of CPALL will grow at a low single digit rate. The store expansion will remain the sales growth driver. CPALL's revenue is projected to increase, rising from Bt434,712 million in 2016 to Bt540,000 million in 2019. EBITDA is forecast to rise from Bt36,822 million in 2016 to Bt45,000 million in 2019.

Over the next three years, CPALL plans capital expenditures of about Bt17,000-Bt18,000 million per year. The company will add about 700 convenience 7-Eleven stores, and six to eight MAKRO stores per year in Thailand and abroad. CPALL's capital structure is forecast to improve, but at a slow rate given the unrelenting pace of store expansions. The total debt to capitalization ratio is expected to decline gradually to about 70% in 2019, given no divestment of MAKRO shares.

Rating Outlook

The "stable" outlook reflects the expectation that CPALL will sustain its leading position and competitive edge in the retailing industry and continue to deliver sound financial results. Its high cash balances and the stability of its cash flow generation will provide financial flexibility while expanding.

CPALL's ratings and/or outlook could be revised upward should the company noticeably improve its capital structure and cash flow protection over a sustained period. On the contrary, the ratings and/or outlook would be revised downward if the operating performance is weaker than expected or there are huge investments, which will result in the deteriorations of capital structure and debt serviceability.

CP All PLC (CPALL)

Company Rating:	A+
Issue Rating:	
Up to Bt18,000 million senior unsecured debentures due within 10 years	A
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		-------------------- Year Ended 31 December ----------------				
	Jan-Jun 2017	**2016**	**2015**	**2014**	**2013**	**2012**
Sales	229,463	434,712	391,817	357,766	272,286	188,702
Gross interest expense	4,054	8,442	8,586	8,518	2,214	-
Net income from operations	9,426	16,599	13,687	9,823	11,001	11,010
Funds from operations (FFO)	14,311	25,392	21,597	17,045	17,323	14,839
Total capital expenditures	8,223	18,228	16,990	15,146	11,664	6,449
Total assets	341,435	352,268	329,083	326,410	304,008	72,168
Total debt	185,730	189,106	189,486	198,480	185,337	-
Shareholders' equity	59,959	59,603	41,676	35,058	32,970	27,355
Operating income before depreciation and amortization as % of sales ***	9.81	9.62	9.88	9.08	9.00	10.99
Pretax return on permanent capital (%)	12.04 **	11.56	10.71	9.03	12.11	42.21
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.96	3.94	3.50	2.92	6.74	25.23
FFO/total debt (%)	14.23 **	13.51	12.81	9.84	10.23	174.30
Total debt/capitalization (%)	80.99	81.34	83.15	86.10	85.95	26.90

Note: All ratios are adjusted with operating lease
* *Consolidated financial statements*
** *Annualized from trailing 12 months*
*** *Including other income*

TRIS Rating Co., Ltd.
Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com