

CP ALL PLC

No. 84/2020
17 June 2020

CORPORATES

Company Rating:	AA-
Issue Ratings:	
Senior unsecured	AA-
CreditAlert:	Negative

Last Review Date: 08/05/20

Company Rating History:

Date	Rating	Outlook/Alert
13/03/20	AA-	Alert Negative
10/07/19	AA-	Stable
09/10/17	A+	Stable

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RATIONALE

TRIS Rating maintains CreditAlert with a “negative” implication on the “AA-” company rating and issue ratings of CP All PLC (CPALL). We expect to resolve the “negative” CreditAlert once the impact of the acquisition of Tesco Stores (Thailand) Ltd. and Tesco Stores (Malaysia) Sdn. Bhd., collectively referred to as “Tesco Asia Group” on CPALL’s creditworthiness has been thoroughly analyzed.

The ratings continue to reflect CPALL’s strong business profile, 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 take into consideration concerns over the weakening purchasing power of domestic consumers, as well as impacts on retail sectors, following the economic fallout from the coronavirus (COVID-19) pandemic.

CREDIT ALERT

TRIS Rating has placed CreditAlert with a “negative” implication on the company rating and all issue ratings of CPALL since 13 March 2020. The CreditAlert followed CPALL’s announcement that the company had entered into an agreement to acquire up to 40% of total issued shares in the Tesco Asia Group. The acquisition cost for the 40% interest is approximately US\$3 billion (or equivalent to Bt96 billion), which CPALL intends to fund with 100% debt financing.

The transaction is subjected to conditions precedent which include the approval from the relevant regulators including, the Office of Trade Competition Commission of Thailand, Ministry of Domestic Trade and Consumers Affairs of Malaysia, as well as the shareholders of Tesco PLC. CPALL expects to complete the transaction by end of 2020.

The “negative” CreditAlert reflects TRIS Rating’s view that the ratings on CPALL could be downgraded or remain unchanged from the current level. TRIS Rating views that the acquisition will strengthen CPALL’s position in the retail business through the acquired leading hypermarket stores in Thailand and Malaysia. However, we expect the debt funded acquisition, if successfully completed, will elevate CPALL’s leverage significantly and materially impact its financial risk profile.

KEY RATING CONSIDERATIONS

The impact of COVID-19

The retail sector has been under pressure from the impact of the COVID-19 pandemic as the number of customers fell substantially amid lockdown measures to contain the spread of the virus.

TRIS Rating revises down CPALL’s growth prospect from our previous projection to reflect the economic uncertainty caused by the pandemic fallout. We projects CPALL’s operating revenue to drop by 1% in 2020 before bouncing back with a growth of 6% per year in 2021-2022. Sales growth is driven by new store openings, while same-store sales are expected to decline substantially in 2020 and gradually ramp up in 2021-2022.

During the first quarter of 2020, CPALL’s operating revenue rose merely 5.2% year-on-year (y-o-y) to Bt145.8 billion, lower than the growth rate of 8%-11%

during the past few years. Same-store sales of “7-Eleven” stores contracted by 4% as a result of the government measures to contain the virus spread, including travel bans and the reduction of open hours during the curfew period. Despite this, “MAKRO” performed better than peers with a 7% of same-store-sales growth. The windfall from consumers’ panic buying of necessary products during the peak of the virus spread more than offset the contraction of the food service segment. The impact of the COVID-19 will likely be heightened for both the 7-Eleven and MAKRO stores in the second quarter. But we expect the situation to improve gradually over the remainder of the year.

Satisfactory profit margin

The success in improving efficiencies and rising contribution from high margin products contributed to the satisfactory profit margin. CPALL’s earnings before interest, tax, depreciation and amortization (EBITDA) margin ranged 9.2%-9.5% during the period from 2016 through the first quarter of 2020. EBITDA increased to Bt52.3 billion in 2019 and Bt13.7 billion in the first quarter of 2020 from Bt42 billion in 2016. Additionally, CPALL has new sources of revenue and profit from new service offerings (such as banking agent, parcel delivery, and home delivery services). Under TRIS Rating’s base-case scenario, CPALL’s EBITDA is projected to grow to Bt56.4 billion in 2022 from Bt52.3 billion in 2019.

Leverage likely to increase significantly

CPALL’s leverage has improved during the past few years. Owing to strong operating cash flows and proceeds from the partial disposals of Siam Makro PLC’s (MAKRO) shares, the ratio of adjusted debt to EBITDA has declined considerably. The ratio slipped to 3.6 times (annualized, from the trailing 12 months) during the first quarter of 2020, from 5.5 times in 2014.

However, we expect CPALL’s capital expenditures to be around Bt16-Bt20 billion per year, including the expansion of 700 7-Eleven stores and 6-8 MAKRO branches per year, domestically and overseas. CPALL also has sizable debt funded investments planned ahead. If the Tesco acquisition is successfully completed, we expect it will materially impact CPALL’s financial risk profile. TRIS Rating estimates the transaction could raise the company’s total debt to capitalization ratio to around 76%, from 67.5% in 2019, while the ratio of adjusted debt to EBITDA could jump to 5.8 times, from 3.5 times in 2019.

Sufficient liquidity

CPALL has a strong liquidity profile. Cash flow from operations, plus cash on hand, is sufficient to cover scheduled debt repayments, planned capital expenditures, and regular dividend payments. The ratio of funds from operations (FFO) to total debt improved to 20.5% in 2019 and 20.3% (annualized, from the trailing 12 months) during the first quarter of 2020, from 19.4% in 2018. The EBITDA interest coverage ratio was 4.9 times in 2019 and 6.5 times in the first quarter of 2020, improving from 4.8 times in 2018.

Dominant market position

CPALL’s strong business profile is underpinned by its market position as the leading operator of convenience stores in Thailand. The company operates a nationwide convenience store chain under the well-known international brand, “7-Eleven”. The 7-Eleven stores make up around two-thirds of all convenience stores in Thailand. As of March 2020, there were 11,983 7-Eleven stores nationwide. Nearly half (44%) of the stores are in Bangkok and vicinity, while the remaining 56% are in provincial areas. CPALL is one of the most successful operators of 7-Eleven stores globally. Thailand has the second-largest number of 7-Eleven stores, trailing only Japan.

BASE CASE ASSUMPTIONS

- CPALL’s operating revenue to decline by 1% in 2020 and increase 6% annually in 2021-2022.
- Gross profit margin of around 25%; the adjusted EBITDA margin to stay around 9%.
- Total capital spending of around Bt16-Bt21 billion per year during 2020-2022, excluding capital spending in the Tesco Asia Group.

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 2019, Charoen Pokphand Group Co., Ltd. (CPG) and its affiliates held approximately 36% of CPALL’s shares.

Presently, CPALL has 11,983 7-Eleven stores nationwide. An average of 1,122 customers visit each store each day and daily sales per store average Bt78,872. 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.

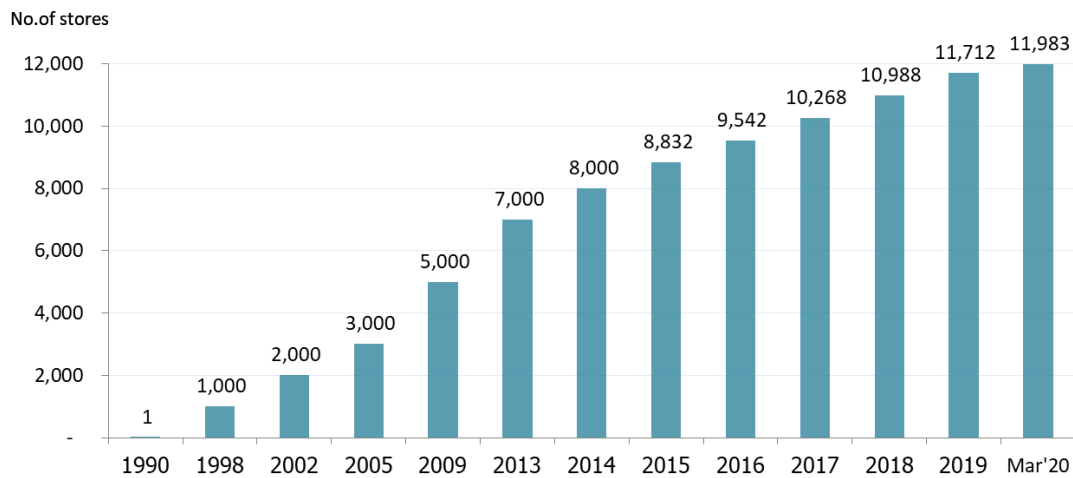
Apart from Thailand, CPALL has been granted franchising rights in the establishment and operation of 7-Eleven stores in Cambodia. Additionally, CPALL is in the negotiation process of securing licenses for 7-Eleven stores in the Lao People's Democratic Republic (Lao PDR).

CPALL acquired nearly all (98%) of MAKRO's shares for Bt188 billion in 2013. MAKRO is a food wholesaler with five store formats: classic, food service, eco plus, food shop, and frozen shop. At the end of March 2019, MAKRO owned 129 stores in Thailand, comprising 79 large stores (classic format), 38 medium-sized stores (food service and eco plus), and 12 small stores (food shop and frozen shop). MAKRO has expanded abroad since 2017. Presently, MAKRO owns two stores in Cambodia and three stores in India.

Currently, CPALL owns a 93.01% stake in MAKRO. The market capitalization of MAKRO held by CPALL was approximately Bt160 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).

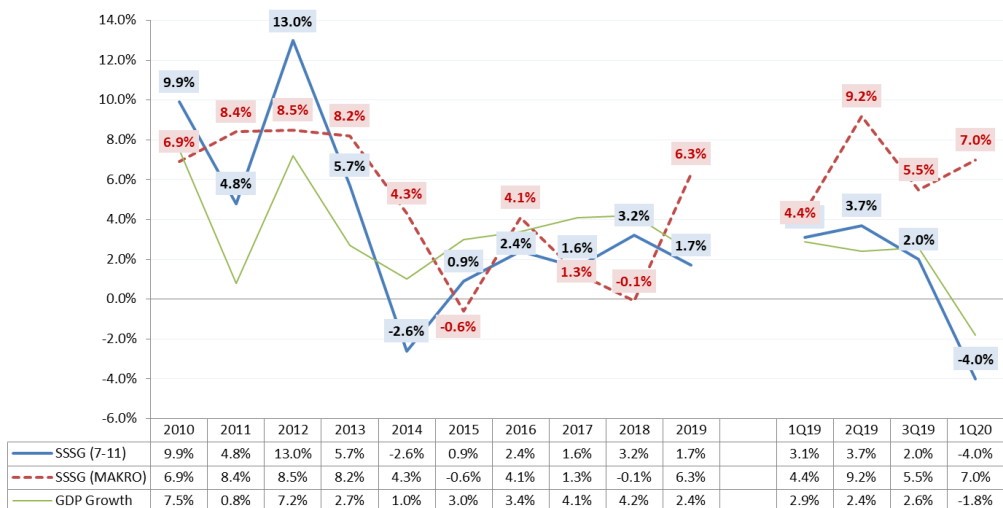
KEY OPERATING PERFORMANCE

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: Bt million

	Jan-Mar 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	145,758	570,712	526,855	489,165	451,632
Earnings before interest and taxes (EBIT)	8,760	36,397	34,428	32,779	29,712
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	13,741	52,264	49,519	46,654	42,080
Funds from operations (FFO)	10,479	37,566	35,278	33,147	28,689
Adjusted interest expense	2,129	10,628	10,272	10,020	10,067
Capital expenditures	4,441	17,902	15,771	18,104	19,308
Total assets	422,589	375,617	373,741	360,299	352,268
Adjusted debt	189,624	183,563	182,311	180,293	184,839
Adjusted equity	93,301	88,459	79,910	60,320	49,650
Adjusted Ratios					
EBITDA margin (%)	9.43	9.16	9.40	9.54	9.32
Pretax return on permanent capital (%)	11.96	12.14	12.13	12.15	11.46
EBITDA interest coverage (times)	6.45	4.92	4.82	4.66	4.18
Debt to EBITDA (times)	3.60	3.51	3.68	3.86	4.39
FFO to debt (%)	20.27	20.46	19.35	18.39	15.52
Debt to capitalization (%)	67.02	67.48	69.53	74.93	78.83

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

NOTE FOR “CREDIT ALERT”

CreditAlert, as part of TRIS Rating's monitoring process as a public warning when there is insufficient information to fully assess and reconsider a debt instrument's current rating or when significant events have occurred that may affect the company's rating already assigned by TRIS Rating. Credit Alert designations may be "positive" or "negative" or "developing", depending on the likely impact of a particular situation. The existing rating continues unchanged for the present. Monitoring is done until the debt instrument matures or the company's rating contract expires.

CP All PLC (CPALL)

Company Rating:	AA-
Issue Ratings:	
CPALL221A: Bt5,000 million senior unsecured debentures due 2022	AA-
CPALL22NA: Bt9,000 million senior unsecured debentures due 2022	AA-
CPALL271A: Bt2,466 million senior unsecured debentures due 2027	AA-
CPALL275A: Bt1,698.7 million senior unsecured debentures due 2027	AA-
CPALL27NA: Bt9,000 million senior unsecured debentures due 2027	AA-
CPALL291A: Bt1,920 million senior unsecured debentures due 2029	AA-
CPALL305A: Bt2,169.3 million senior unsecured debentures due 2030	AA-
CPALL311A: Bt5,614 million senior unsecured debentures due 2031	AA-
CPALL325A: Bt3,632 million senior unsecured debentures due 2032	AA-
CREDIT ALERT:	Negative

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