

BERLI JUCKER PLC

No. 125/2020
25 August 2020

CORPORATES

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

Last Review Date: 30/04/20

Company Rating History:

Date	Rating	Outlook/Alert
09/08/19	A+	Negative
08/08/16	A+	Stable
17/02/16	A+	Alert Developing
25/11/14	A+	Stable
13/08/14	A+	Alert Developing
15/06/07	A+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Berli Jucker PLC (BJC) and the ratings on BJC's outstanding senior unsecured debentures at "A+", with a "negative" outlook. The ratings continue to reflect BJC's strong competitive positions and proven track records in its core businesses. Nonetheless, the ratings are constrained by the company's high leverage, intense competition in the retail sector, and a weak economy induced by the Coronavirus Disease 2019 (COVID-19) pandemic.

The "negative" outlook reflects the prospect of BJC being unable to attain its deleveraging target by end of 2021.

KEY RATING CONSIDERATIONS

Strong intention to deleverage

BJC's financial leverage has remained at high levels following the acquisition of Big C Supercenter PLC (BIGC) in 2016. The acquisition cost was around THB210 billion, followed by large amounts of annual capital expenditures needed to expand its retail outlet network and production capacities over the past five years.

The ratio of adjusted debt to earnings before interest, tax, depreciation and amortization (EBITDA) was about 7.8 times at the end of June 2020. We forecast the debt to EBITDA ratio of BJC to be about 7.8 times at the end of 2020, before gradually declining over the next two years.

BJC intends to deleverage its capital structure by bringing down its net debt to EBITDA ratio to a level below 5 times by end of 2021. The company has implemented various cost-cutting measures along with more disciplined capital expenditure and investment, released working capital, and explored deleveraging exercises to improve capital structure.

We do not expect the company's currently high leverage to be permanent, based on the company's stated intention to improve its capital structure. However, the operating challenges amid the lingering effect of the COVID-19 fallout may prevent the company from attaining its deleveraging target in the next 12-16 months.

Impact of COVID-19

We project BJC's total operating revenue to decline in 2020 and then rebound with a growth of 5%-7% per annum in 2021-2022. We expect BIGC's same-store sales to decline substantially in 2020 and gradually ramp up during the following two years. In 2020, we expect the imposed travel restrictions to contain COVID-19 will cause a drastic decline in tourist arrivals which will affect BIGC's sales, particularly at stores located in tourist destinations. Domestic economic fallout from the pandemic resulting in weakened consumer confidence, is another factor dampening same-store sales in 2020.

We expect BJC's packaging product as well as healthcare and technical product businesses will also be affected by the COVID-19. However, we expect BJC's consumer product business, particularly tissue-paper and personal-care products, will be less affected during the lockdown.

On the rental income side, although BIGC's retail sales space was opened during the social distancing measures, many tenants occupying BIGC's rental space temporarily closed their stores. We expect the closure of tenant stores

and concessions on rental fees granted to some tenants during the lockdown period from March to May 2020 will have significant impact on BIGC's rental income in 2020.

In the first six months of 2020, BJC's operating revenue was THB80.7 billion, down by about 7% year-on-year (y-o-y). In the first six months of 2020, same-store sales of BIGC contracted by 11.3% as a result of the closure of non-food areas and the reduction of opening hours during the curfew period. We hold the view that BJC's performance has reached its low in the second quarter of 2020. Overall revenue should gradually recover during the remainder of the year.

Small-format stores to drive retail growth

BIGC is the second-largest modern trade retailer in the hypermarket segment in Thailand. As of June 2020, BIGC owns 150 hypermarkets, or around 40% of all hypermarket outlets in Thailand.

Going forward, we expect the growth of the Thai retail industry will be driven by small-format stores or convenience stores. As of June 2020, BIGC's convenience stores numbered 1,094 shops, up from 1,016 shops at the end of 2019, and 783 shops in 2018. We expect BIGC will continue expanding its small-format retail outlet network nationwide, to reach consumers in both urban and provincial areas. The convenience-store format requires less capital investment but can create higher sales per square meter than large-format outlets.

During the next three years, BIGC plans to open about 240-300 new small format stores per year, with a capital expenditure of around 15% less than average per annum recorded in the past three years.

New customers and products in the packaging business

BJC receives sizable orders from Thai Beverage PLC (ThaiBev), the flagship beverage company of TCC Corporation Limited (TCC) and its affiliates (TCC Group). Sales to ThaiBev represent about half of the glass bottles and around 24% of the aluminum cans sold by BJC. Besides supplying packaging products to the TCC Group, BJC also has good relationships with a broad base of customers which helps maximize plant utilization.

BJC has striven to expand packaging products sales into neighboring countries such as Vietnam and has launched new product categories, such as glass bottles for healthy drinks, aluminum cans for coffee and fruit juices, as well as new can sizes for the aluminum can business. The new product categories and wider geographic coverage are expected to create additional growth.

The stocking up and panic buying of alcoholic beverages by some customers at the beginning of the COVID-19 crisis resulted in a y-o-y growth in BJC's revenue from the packaging business in the first quarter of 2020. However, revenue in the first six months of 2020 dropped by 4.2% y-o-y due to the ban on alcoholic beverage sales during the national lockdown. With the gradual lifting of social-distancing measures, BJC expects sales to rebound to relatively normal levels in the second half of 2020. In addition, as most of the company's contracts with customers are long-term contracts, we expect packaging products to be little affected by the COVID-19 pandemic in 2020.

Acceptable profit margin

BJC's profitability has remained satisfactory. The company's EBITDA amounted to about THB21.2 billion per annum during the last two years, and stood at THB9.3 billion for the first half of 2020. The EBITDA margin was 12.5% for the first six months of 2020, dropping slightly from the 13%-13.5% range during the last two years. However, stripping out one-time items, the recurring EBITDA margin was at 13.2%, generally in-line with the past two year performance.

We project the profit margin to decline in 2020 because of the dipping sales due to the COVID-19, but to gradually improve to a level of about 13% during 2021-2022. BJC has implemented cost-control initiatives across its business units, and aims to reduce its selling general and administrative expenses. The company is also focusing more on inventory assortment during the market downturn. Heightened cost effectiveness is expected to yield some improvement in profitability during the next two to three years.

Tight but manageable liquidity

BJC will need to refinance a portion of its existing debts due over the next 12-18 months. As of June 2020, sources of funds comprised cash on hand, cash equivalents, and short-term investments of about THB4.5 billion. TRIS Rating forecasts funds from operations (FFO) to be the THB15-THB16 billion range over the next 12 months. Uses of funds will include planned capital expenditures of about THB19.3 billion in total during the next three years. About THB20.1 billion in long-term debts and debentures will come due in 2021 while about THB20.7 billion will come due in 2022. We expect operating cash flow will be sufficient to fund planned capital expenditures.

A key financial covenant on the debentures and bank loans is an interest-bearing debt to equity ratio below 2 times. BJC's debt to equity ratio at the end of 2019 was about 1.3 times. Going forward, TRIS Rating expects the company will remain in

compliance with this covenant.

BASE-CASE ASSUMPTIONS

- Revenues to come under pressure in 2020, and then rebound to a level of THB172-THB179 billion per annum during 2021-2022.
- EBITDA margin to drop in 2020 and then bounce back to around 13% during 2021-2022.
- Capital spending of about THB19.3 billion in total, during 2020-2022.

RATING OUTLOOK

The “negative” outlook reflects BJC’s high leverage and the prospect of BJC being unable to attain its deleveraging target by bringing down its net debt to EBITDA ratio below 5 times by end of 2021.

RATING SENSITIVITIES

BJC’s ratings could be downgraded if the company is unable to attain its deleveraging target such that its net debt to EBITDA ratio stays above 5 times by end of 2021. The outlook could be revised back to “stable” if BJC is able to lower its leverage with its net debt to EBITDA ratio staying below 5 times on a sustained basis.

COMPANY OVERVIEW

BJC was founded in 1882 as a trading and service company and listed on the Stock Exchange of Thailand (SET) in 1975. As of May 2020, TCC, one of the largest business conglomerates in Thailand, held directly about 66% of BJC’s outstanding shares.

BJC’s original businesses included the production and distribution of glass bottles, aluminum cans, consumer products, medicine and medical equipment, and technical products. In 2016, BJC acquired BIGC, one of the two major operators of hypermarket retail networks in Thailand, for an acquisition cost of nearly THB210 billion. The acquisition was funded by two rights offerings and new bank loans.

In 2019, BJC’s total sales were THB158 billion. The largest revenue contribution came from the retail business or BIGC, accounting for about 70% of total sales, followed by the packaging business with 13%, and the consumer product business with 12%. In addition, BIGC generated THB11.5 billion in rental and service incomes.

KEY OPERATING PERFORMANCE

Table 1: BJC’s Sales Breakdown

Line of Business	2017		2018		2019		Jan-Jun 2020	
	Mil. THB	%	Mil. THB	%	Mil. THB	%	Mil. THB	%
Packaging	19,447	13	21,093	14	20,360	13	9,471	13
Consumer	16,966	11	17,694	11	18,896	12	10,536	14
Healthcare and technical	8,141	5	8,422	5	8,843	6	3,838	5
Modern retail (BIGC)	103,962	70	109,847	70	111,389	70	52,668	71
Others	2,548	2	1,687	1	1,297	1	372	0
Intra-group eliminations	(1,906)	(1)	(2,601)	(1)	(2,776)	(2)	(2,283)	(3)
Total sales	149,158	100	156,142	100	158,009	100	74,602	100

Source: BJC

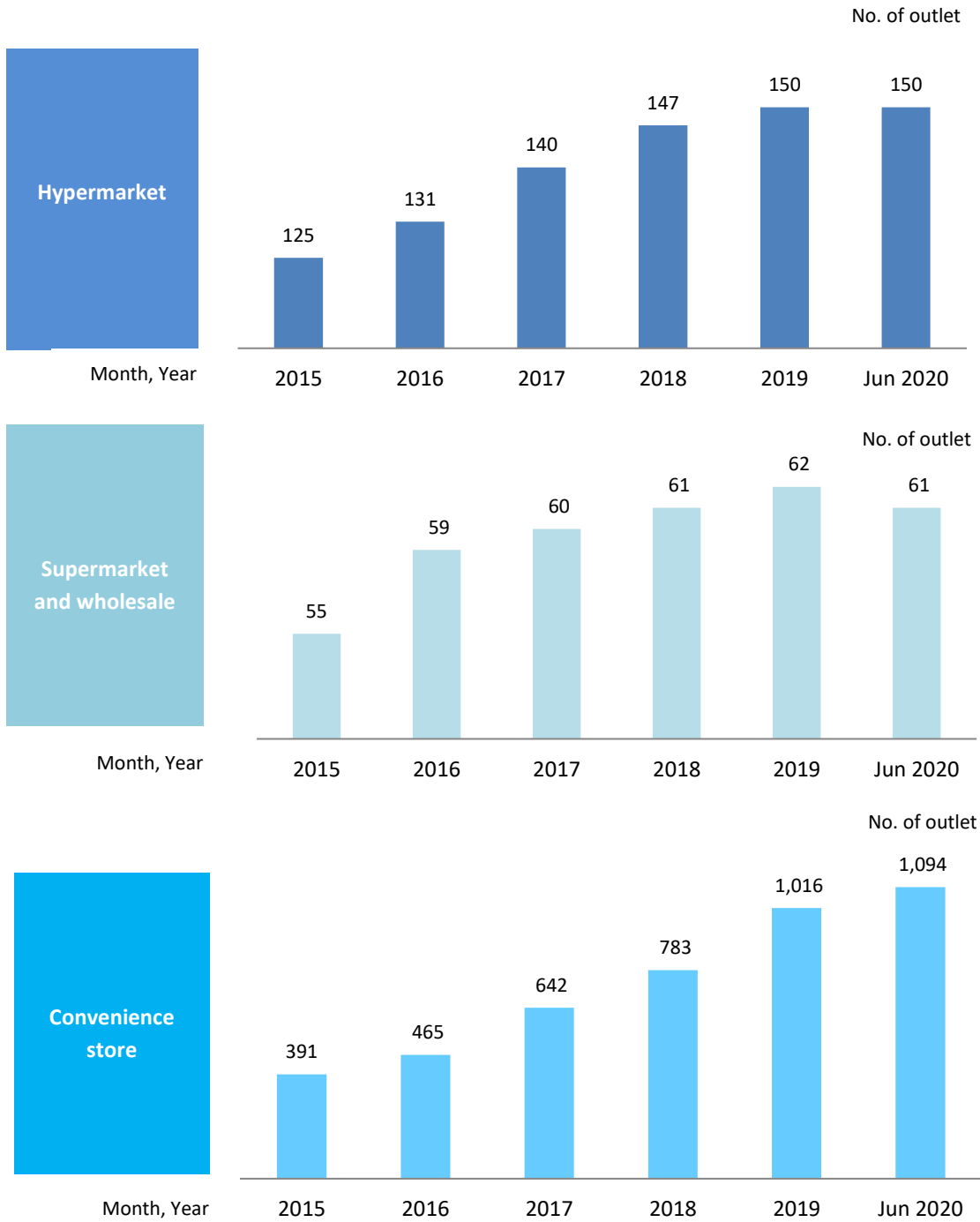
Table2: BIGC’s Rental Service Income

Unit: Mil. THB

BIGC	2017	2018	2019	Jan-Jun 2020
Rental service income	10,671	11,302	11,515	4,204

Source: BJC

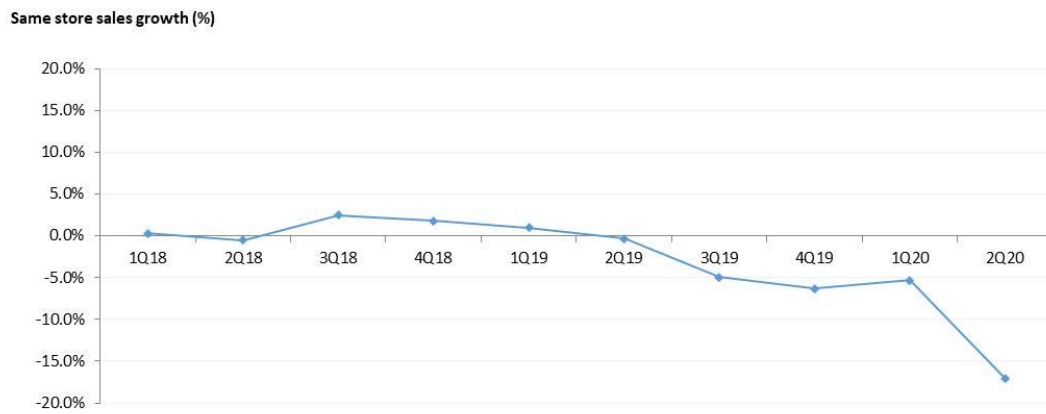
Chart 1: BIGC's Expansion



Note: The above chart excludes 142 outlets of "Pure" drug store, as of June 2020.

Source: BJC

Chart 2: BIC's Same-Store-Sales Growth (Y-O-Y)



Source: BIC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	80,743	173,944	171,875	164,004	136,489
Earnings before interest and taxes (EBIT)	5,022	14,313	14,008	13,228	11,090
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	9,644	22,992	22,634	21,498	17,605
Funds from operations (FFO)	6,489	16,441	15,631	14,069	10,829
Adjusted interest expense	2,725	5,730	5,356	5,169	5,580
Capital expenditures	3,221	8,417	9,627	11,177	5,739
Total assets	329,785	325,804	324,060	315,059	308,701
Adjusted debt	170,023	166,514	164,675	163,581	158,835
Adjusted equity	117,844	119,736	115,774	111,173	111,148
Adjusted Ratios					
EBITDA margin (%)	11.94	13.22	13.17	13.11	12.90
Pretax return on permanent capital (%)	4.44 **	4.94	4.95	4.79	7.13
EBITDA interest coverage (times)	3.54	4.01	4.23	4.16	3.16
Debt to EBITDA (times)	7.83 **	7.24	7.28	7.61	9.02
FFO to debt (%)	8.96 **	9.87	9.49	8.60	6.82
Debt to capitalization (%)	59.06	58.17	58.72	59.54	58.83

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Berli Jucker PLC (BJC)

Company Rating:	A+
Issue Ratings:	
BJC213A: THB300 million senior unsecured debentures due 2021	A+
BJC219A: THB9,000 million senior unsecured debentures due 2021	A+
BJC21DA: THB3,050 million senior unsecured debentures due 2021	A+
BJC223A: THB2,500 million senior unsecured debentures due 2022	A+
BJC223B: THB3,000 million senior unsecured debentures due 2022	A+
BJC226A: THB1,740 million senior unsecured debentures due 2022	A+
BJC233A: THB5,000 million senior unsecured debentures due 2023	A+
BJC233B: THB1,000 million senior unsecured debentures due 2023	A+
BJC239A: THB3,000 million senior unsecured debentures due 2023	A+
BJC239B: THB4,000 million senior unsecured debentures due 2023	A+
BJC23DA: THB2,100 million senior unsecured debentures due 2023	A+
BJC243A: THB4,000 million senior unsecured debentures due 2024	A+
BJC246A: THB12,256.6 million senior unsecured debentures due 2024	A+
BJC249A: THB7,000 million senior unsecured debentures due 2024	A+
BJC253A: THB1,000 million senior unsecured debentures due 2025	A+
BJC259A: THB3,000 million senior unsecured debentures due 2025	A+
BJC25DA: THB1,200 million senior unsecured debentures due 2025	A+
BJC269A: THB20,000 million senior unsecured debentures due 2026	A+
BJC26DA: THB3,730 million senior unsecured debentures due 2026	A+
BJC273A: THB5,000 million senior unsecured debentures due 2027	A+
BJC273B: THB3,000 million senior unsecured debentures due 2027	A+
BJC279A: THB1,000 million senior unsecured debentures due 2027	A+
BJC283A: THB7,000 million senior unsecured debentures due 2028	A+
BJC293A: THB5,000 million senior unsecured debentures due 2029	A+
BJC299A: THB7,000 million senior unsecured debentures due 2029	A+
BJC303A: THB3,000 million senior unsecured debentures due 2030	A+
BJC306A: THB4,003.4 million senior unsecured debentures due 2030	A+
Rating Outlook:	Negative

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