# BERLI JUCKER PLC

No. 125/2019
9 August 2019

## CORPORATES

| | |
|---|---|
| **Company Rating:** | A+ |
| **Issue Ratings:** | |
| Senior unsecured | A+ |
| **Outlook:** | Negative |

**Last Review Date:** 30/01/19

**Company Rating History:**

| Date | Rating | Outlook/Alert |
|---|---|---|
| 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 |

**Contacts:**

Sarinthorn Sosukpaibul

sarinthorn@trisrating.com

Pramuansap Phonprasert

pramuansap@trisrating.com

Wajee Pitakpaibulkij

wajee@trisrating.com

Sasiporn Vajarodaya

sasiporn@trisrating.com



## RATIONALE

TRIS Rating affirms the company rating on Berli Jucker PLC (BJC) and the ratings on BJC's outstanding senior unsecured debentures at "A+", but revises the outlook to "negative" from "stable". At the same time, TRIS Rating also assigns the rating of "A+" to BJC's proposed issue of up to Bt22.00 billion in senior unsecured debentures. The company will use the proceeds from the debenture issuance to refinance existing debts.

The ratings continue to reflect BJC's strong competitive positions and proven track records in its core businesses. However, the ratings are partly constrained by its high leverage and the intense competitions its businesses are facing. The "negative" outlook reflects the slower-than-expected progress of BJC's deleveraging plan.

## KEY RATING CONSIDERATIONS

### Slower-than-expected deleveraging

BJC's financial leverage surged following the partially-debt-funded acquisition of Big C Supercenter PLC (BIGC) in 2016, costing around Bt210.00 billion. The company subsequently acquired White Group PLC, a chemical product distributor, in the last quarter of 2018, for an investment cost of around Bt3.00 billion. Net debt rose to around Bt154.00 billion at the end of 2018 through March 2019, up from around Bt152.50 billion at the end of 2017.

BJC's deleveraging plan has been hindered by weak domestic demand and intense marketplace competition. Earning growth and profitability were below targets. Consequently, BJC's deleveraging plan has not progressed in accordance with the previous forecast. BJC's ratio of net debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) stood at over 7 times during 2017 and 2018, and was 7.3 times at the end of March 2019. We project outstanding debt and the ratio of net debt to EBITDA to remain high over the next two years, at around 7.2 times at the end of 2019, and 6 times at the end of 2020.

### Shift expansion focus to small retail format

BIGC is the second-largest modern trade retailer in the hypermarket segment in Thailand. BIGC owns 147 hypermarkets, or around 40% of all hypermarket outlets in Thailand, as of March 2019. It also operates 61 supermarkets and 793 mini BIGC stores (convenience stores). TRIS Rating expects BIGC will maintain its strong position in the modern trade retail segment.

We expect BIGC will continue expanding its retail network nationwide. In 2019, BIGC plans to add four new hypermarkets and one supermarket in Thailand. BIGC is adding new hypermarkets at a slower pace than last year as the company is shifting its focus to small-format shops, to match with consumer lifestyles and penetrate into communities in urban and provincial areas. In addition, small format requires less investment. BIGC plans to open about 300-350 new convenience stores per year.

BIGC is also seeking growth opportunities in neighboring countries including Cambodia and the Lao People's Democratic Republic (Lao PDR). BIGC will open one hypermarket in Poipet, Cambodia, in the fourth quarter of 2019. In addition, the company has granted mini BIGC franchise to M-Point Mart, a chain of convenience stores in the Lao PDR.

### Solid competitive positions in packaging and consumer products

BJC's strong business profile is supported by its strong market positions in its major lines of business. BJC is one of the top two manufacturers and distributors of glass bottles, aluminum cans, tissue paper, and snacks in Thailand.

Based on sales volume, BJC is the market leader in Thailand for aluminum beverage cans, with a 42% market share in 2018. BJC has the second-largest market share (37.7%) in glass containers, close to the share held by the market leader. Currently, BJC has a combined annual capacity of over 1.15 million tonnes of glass. BJC can produce up to 3,400 million aluminum cans per year. The utilization rates of the packaging plants remain high, running at over 80%. We expect both large production and established customer bases will secure the company's market position against its peers.

For the consumer products, BJC is the second-largest producer of tissue paper and snacks, as measured by the sales value. BJC's consumer product brands, such as "Cellox", "Zilk", "Tasto", "Dozo", and "Party", are well known in the Thai market. We expect the company to continue strengthening its brand equity as a way to counter the intense competition in the market.

### ThaiBev as an anchored customer of 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 sold and around 15% 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 in order to help maximize plant utilization. However, in 2018, one key customer opened its own aluminum can factory and reduced its order from BJC. As a result, sales in the packaging segment in the first quarter of 2019 dropped by 8% year-on-year (y-o-y). BJC expects its packaging revenue to rebound within 2019 to cover the loss of a key customer.

### Slower growth in profitability

BJC's revenue has grown consistently during the last three years. The diverse range of business helps mitigate the negative effects of an economic downturn. BJC generated Bt156.14 billion of sales in 2018. Sales in 2018 grew by 5% compared with 2017, and rose by 4% y-o-y in the first three months of 2019.

Looking ahead, TRIS Rating forecasts the operating revenue of BJC will grow at a mid-single-digit rate over the next three years. The growth drivers are the additional retailing outlets, growth in same store sales, and higher revenue contributions from sales of consumer, healthcare, and technical products. Sales in the packaging business are expected to ramp up within 2020. We project BIGC's same store sales to grow at a low single-digit rate over the next three years.

BJC reported Bt21.20 billion of EBITDA in 2018. EBITDA for the first three months of 2019 was around Bt5.00 billion, down by 4% y-o-y. The EBITDA in 2019 is likely to fall below TRIS Rating's previous forecast, owing to a combination of the slip in packaging sales, uncertainties surrounding economic and political conditions, which impact consumer confidence, and high selling general and administrative expenses (SG&A). Over the next three years, we project the operating profit margin to stay at around 13.0% per annum, reflecting cost control initiatives, new product introductions, and group-wide synergies in logistics. However, we forecast SG&A to remain high, to support advertising and promotional expenses and to expand new retail outlets nationwide.

### Refinancing needs

BJC will need to refinance a portion of its existing debts due over the next 24 months. Sources of funds comprise Bt6.36 billion of cash at the end of March 2019, and funds from operations (FFO) of Bt16.00-Bt19.00 billion per annum. Uses of funds are planned capital expenditures, estimated at about Bt26.50 billion in aggregate during 2019-2021. About Bt30.00 billion in long-term debts and debentures will come due in 2019 while about Bt36.00 billion will due in 2020. We forecast operating cash flow will be sufficient to fund planned capital expenditures.

A key financial covenant for the debentures and bank loans is an interest-bearing debt to equity ratio below 2 times. The debt to equity ratio of BJC at the end of 2018 was about 1.3 times. Going forward, TRIS Rating expects the company will stay in compliance with this covenant.

## BASE-CASE ASSUMPTIONS

- Revenues will grow at a mid-single-digit rate over the next three years.
- The operating margin to stay around 13.0% during 2019-2021.
- Total capital spending to be Bt26.50 billion in aggregate, excluding acquisitions, during the next three years.

## RATING OUTLOOK

The "negative" outlook reflects slow progress of BJC's deleveraging plan. The company's financial leverage has stayed persistently high since the BIGC acquisition in 2016.

## RATING SENSITIVITIES

BJC's ratings could be downgraded if the company is not able to lower its leverage with the net debt to EBITDA ratio staying above 5 times by 2020. A downgrade could also be triggered by weakening market positions in key businesses, leading to weak sales growth and profit margins. The outlook could be revised back to "stable" if BJC is able to lower its leverage with the net debt to EBITDA ratio to stay below 5 times.

## 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 March 2019, TCC, one of the largest business conglomerates in Thailand, held directly 66.8% 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 Bt210.00 billion. The acquisition was funded by two rights offerings and new bank loans.

In 2018, total sales were Bt156.14 billion. The largest revenue contribution was from the retail business or BIGC, accounting for about 70% of total sales, followed by the packaging business 14%, and the consumer products business 11%. In addition, BIGC generated Bt11.30 billion of rental and service incomes.

## KEY OPERATING PERFORMANCE

**Table 1: BJC's Sales Breakdown**

| Line of Business | 2016 | | 2017 | | 2018 | | Jan-Mar 2019 | |
|---|---|---|---|---|---|---|---|---|
| | Bt Mil. | % | Bt Mil. | % | Bt Mil. | % | Bt Mil. | % |
| Packaging | 18,948 | 15 | 19,447 | 13 | 21,093 | 14 | 4,896 | 13 |
| Consumer | 16,340 | 13 | 16,966 | 11 | 17,694 | 11 | 4,728 | 12 |
| Healthcare and technical | 7,406 | 6 | 8,141 | 5 | 8,422 | 5 | 1,998 | 5 |
| Modern retail (BIGC) | 81,393 | 65 | 103,962 | 70 | 109,847 | 70 | 27,047 | 70 |
| Others | 2,452 | 2 | 2,548 | 2 | 1,687 | 1 | 388 | 1 |
| Intra-group eliminations | (1,209) | (1) | (1,906) | (1) | (2,601) | (1) | (667) | (1) |
| **Total sales** | **125,330** | **100** | **149,158** | **100** | **156,142** | **100** | **38,390** | **100** |

*Source: BJC*

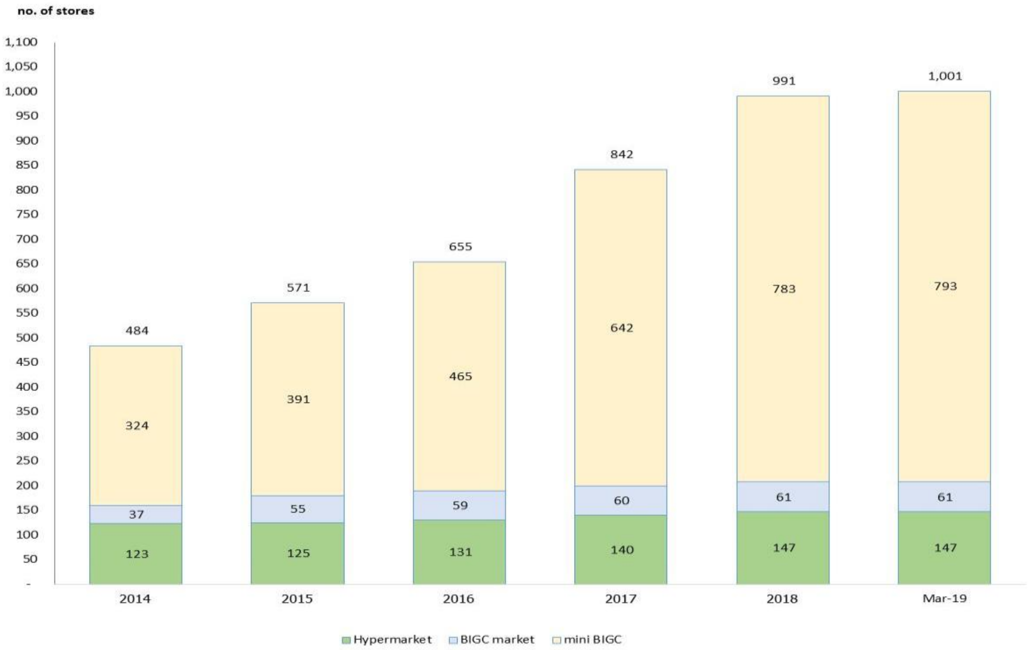
**Table2: BIGC's Rental Service Income**

*Unit: Bt million*

| BIGC | 2016 | 2017 | 2018 | Jan-Mar 2019 |
|---|---|---|---|---|
| Rental service income | 10,101 | 10,671 | 11,302 | 2,868 |

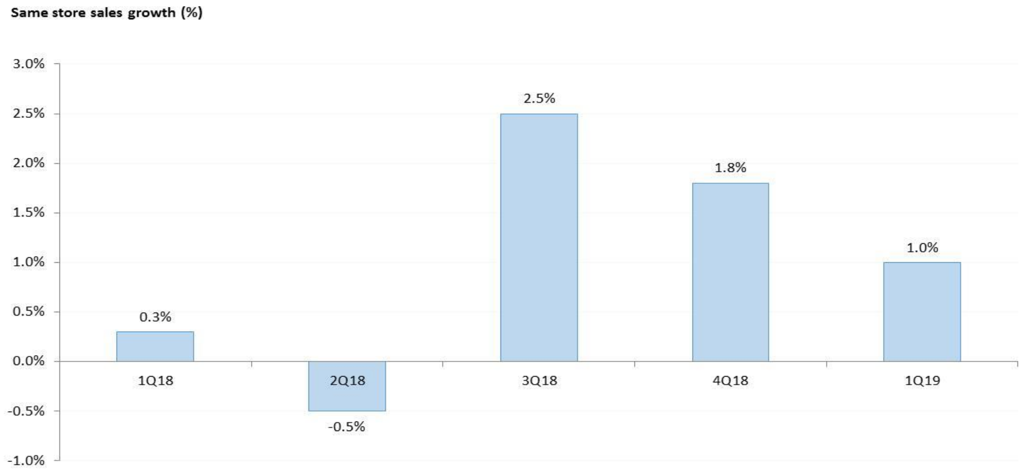
*Source: BJC*

**Chart 1: BIGC's Expansion**




*Note: The above chart excludes 140 outlets of Pure drug store, as of March 2019.*
*Source: BJC*

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




*Source: BJC*

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

*Unit: Bt million*

| | | ----------------Year Ended 31 December ------------ | | | |
|---|---|---|---|---|---|
| | **Jan-Mar 2019** | **2018** | **2017** | **2016** | **2015** |
| Total operating revenues | 42,307 | 171,875 | 164,004 | 136,489 | 43,439 |
| Operating income | 5,388 | 22,546 | 21,495 | 16,461 | 5,689 |
| Earnings before interest and taxes (EBIT) | 3,285 | 14,008 | 13,228 | 11,090 | 3,511 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 5,407 | 22,634 | 21,498 | 17,605 | 5,871 |
| Funds from operations (FFO) | 3,772 | 15,631 | 14,069 | 10,829 | 4,881 |
| Adjusted interest expense | 1,346 | 5,356 | 5,169 | 5,580 | 591 |
| Capital expenditures | 2,317 | 9,627 | 11,177 | 5,739 | 1,912 |
| Total assets | 322,775 | 323,021 | 315,059 | 308,701 | 44,701 |
| Adjusted debt | 163,951 | 163,702 | 162,599 | 158,835 | 15,584 |
| Adjusted equity | 116,416 | 115,084 | 111,173 | 111,148 | 20,750 |
| **Adjusted Ratios** | | | | | |
| Operating income as % of total operating revenues (%) | 12.74 | 13.12 | 13.11 | 12.06 | 13.10 |
| Pretax return on permanent capital (%) | 4.87 | 4.98 | 4.80 | 7.13 | 9.57 |
| EBITDA interest coverage (times) | 4.02 | 4.23 | 4.16 | 3.16 | 9.94 |
| Debt to EBITDA (times) | 7.31 | 7.23 | 7.56 | 9.02 | 2.65 |
| FFO to debt (%) | 9.56 | 9.55 | 8.65 | 6.82 | 31.32 |
| Debt to capitalization (%) | 58.48 | 58.72 | 59.39 | 58.83 | 42.89 |

## 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:** | |
| BJC199A: Bt22,000 million senior unsecured debentures due 2019 | A+ |
| BJC219A: Bt9,000 million senior unsecured debentures due 2021 | A+ |
| BJC239A: Bt3,000 million senior unsecured debentures due 2023 | A+ |
| BJC269A: Bt20,000 million senior unsecured debentures due 2026 | A+ |
| BJC206A: Bt17,920 million senior unsecured debentures due 2020 | A+ |
| BJC21DA: Bt3,050 million senior unsecured debentures due 2021 | A+ |
| BJC23DA: Bt2,100 million senior unsecured debentures due 2023 | A+ |
| BJC25DA: Bt1,200 million senior unsecured debentures due 2025 | A+ |
| BJC26DA: Bt3,730 million senior unsecured debentures due 2026 | A+ |
| BJC203A: Bt12,000 million senior unsecured debentures due 2020 | A+ |
| BJC213A: Bt300 million senior unsecured debentures due 2021 | A+ |
| BJC223A: Bt2,500 million senior unsecured debentures due 2022 | A+ |
| BJC243A: Bt4,000 million senior unsecured debentures due 2024 | A+ |
| BJC273A: Bt5,000 million senior unsecured debentures due 2027 | A+ |
| BJC223B: Bt3,000 million senior unsecured debentures due 2022 | A+ |
| BJC233A: Bt5,000 million senior unsecured debentures due 2023 | A+ |
| BJC273B: Bt3,000 million senior unsecured debentures due 2027 | A+ |
| BJC293A: Bt5,000 million senior unsecured debentures due 2029 | A+ |
| Up to Bt22,000 million senior unsecured debentures due within 12 years | A+ |
| **Rating Outlook:** | Negative |

**TRIS Rating Co., Ltd.**
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000