

BERLI JUCKER PLC

No. 122/2018
23 August 2018

CORPORATES

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

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

Sasiporn Vajarodaya
sasiporn@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Berli Jucker PLC (BJC) and the ratings on its outstanding senior unsecured debentures at “A+”, with stable outlook. The ratings reflect BJC’s strong competitive positions and proven record in its core business lines, sound and resilient operational results, and our expectation that BJC is likely to have an improvement in its operating results and capital structure positions over the next three years.

The ratings are, however, constrained by BJC’s high financial leverage resulting from the debt financing for the Big C Supercenter PLC (BIGC) acquisition in 2016.

KEY RATING CONSIDERATIONS

Diverse range of business and broad market coverage

BJC’s business profile is strong. BJC has four major lines of business: retailing, packaging products (glass bottles and aluminum cans), food and non-food consumer products, and healthcare and technical products. Apart from the home market in Thailand, BJC has a significant presence in other countries in Southeast Asia including Vietnam, Malaysia, and the Lao People’s Democratic Republic. TRIS Rating expects BJC’s size, scale, and presence in South East Asia countries, will keep its strong business status.

Revenues and profits have grown consistently. The diverse range of business helps mitigate the negative effects of an economic downturn. Sales grew by 4.5% year-on-year (y-o-y) in the first six months of 2018, to Bt76,093 million. Excluding the retail segment, sales grew by 2.0%-3.0% per annum during the last three years. For the first six months of 2018, the earnings before interest, tax, depreciation, and amortization (EBITDA) rose by 11.4% y-o-y to around Bt10,300 million.

Strong competitive positions in key businesses

TRIS Rating believes BJC will be able to maintain its competitive strengths, driven by its lengthy track records, economies of scale, and well established logistics network.

BIGC is the second-largest modern trade retailer in the hypermarket segment in Thailand. BIGC owns 143 hypermarkets, or around 40% of all hypermarket outlets in Thailand, as of June 2018. It also operates 60 supermarkets and 691 mini BIGC stores (convenience stores).

BJC is one of the major manufacturers and distributors for glass containers, aluminum cans, tissue paper, and snacks. Based on sales volume, BJC is the largest maker of aluminum cans for beverages in Thailand, with a 41% market share in 2017. BJC has the second-largest market share in glass containers, with a 36% market share in 2017.

In terms of revenue, BJC is the second-largest producers of tissue paper and snacks. BJC’s consumer product brands, such as Cellox, Zilk, Tasto, Dozo, and Party, have strong brand recognition in the Thai market. Its nationwide distribution networks help counter the intense competition in the consumer products industry.

Expansion in modern trade retailing

BJC entered the modern trade retailing segment in 2016 when it acquired BIGC.

TRIS Rating expects the company to maintain its strong position in the modern retail trade segment in Thailand. We expect BIGC will continue expanding its footprint nationwide. In 2018, BIGC plans to add eight new hypermarkets and 150 convenience stores.

Steady growth

TRIS Rating's base-case forecast assumes revenue to grow at a single-digit rate annually over the next three years. The growth drivers are the addition of modern trade retailing outlets, growth in the packaging and consumer products segments, as well as a gradual rebound in the Thai economy. We expect BIGC's same store sales to grow at a low single-digit rate over the next three years. Same store sales growth turned positive in the third quarter of 2017 and had a flat rate for the first six months of 2018.

BJC adds two new glass furnaces during 2017-2018, to serve demand growth. These two new furnaces will boost capacity by an additional 700 tonnes per day, or about 25% of its existing glass production capacity in Thailand. Our forecast also includes more sales to Thai Beverage PLC (ThaiBev), BJC's major customer in the packaging segment. ThaiBev is expanding in Vietnam, which means BJC will receive more large orders of packaging products.

Improving operating margin

We project the company's operating profit margin to rise gradually to about 13.5% within the next three years, from 10.8% for the first six months of 2018. Cost saving efforts, new product introductions, and group-wide synergies will drive the improvement. TRIS Rating expects BJC to realize more cost efficiency in production due to economies of scale, high utilization rates, and its cost saving initiatives. On the other hand, we forecast selling general and administrative expenses to remain high in an effort to counter competition and to expand new retail outlets nationwide.

High financial leverage

High financial leverage constrains the ratings. BJC's high level of debt is a direct consequence of the acquisition of BIGC. Total debt was Bt157,453 million as of June 2018. The debt to capitalization ratio was 59.7%.

TRIS Rating projects the company's outstanding debt to decline over the next three years, with the debt to capitalization ratio to fall to around 50.0% by 2020, assuming BJC does not make any other large debt-funded acquisitions or investments. We expect BJC to reduce the net debt to EBITDA ratio to around 4 times by 2020.

Funds needed to refinance existing debts

BJC will need to refinance a significant portion of its existing debts over the next 24 months. Sources of fund comprised cash and cash equivalents of Bt3,422 million at the end of June 2018, plus funds from operations (FFO) at Bt15,000-Bt18,000 million per annum. Uses of funds are planned capital expenditures, estimated at roughly Bt24,000 million in aggregate during 2018-2020. About Bt2,100 million in long-term debts is due in 2018 while about Bt46,000 million in long-term loans and debentures will come due in 2019. We forecast operating cash flow will be sufficient to fund planned capital expenditures.

A key financial covenant for the bonds and bank loans is an interest-bearing debt to equity ratio below 2 times. The debt to equity ratio at the end of 2017 was about 1.4 times. TRIS Rating believes that the company will stay in compliance with this key covenant.

RATING OUTLOOK

The "stable" outlook reflects the expectation that BJC will maintain its competitive positions in the major business segments. TRIS Rating also assumes the company to quickly make sustainable improvements in its financial profile.

RATING SENSITIVITIES

The potential for a rating upgrade is likely limited, given BJC's sizable debt burden. BJC's ratings and/or outlook could be revised downward if the deleveraging efforts proceed more slowly than expected or if the operating results are significantly worse than our forecast over an extended period. Any huge investment or acquisition that would cause the capital structure and the debt service ability to deteriorate would also trigger a downgrade.

COMPANY OVERVIEW

BJC was founded in 1882 as a trading and service company. BJC was listed on the Stock Exchange of Thailand (SET) in 1975. As of March 2018, TCC Corporation Limited (TCCC), a large Thai conglomerate, held directly 66% of BJC's outstanding

shares.

BJC's product lines cover the production and distribution of glass bottles, aluminum cans, consumer products, and medicine and medical equipment. In 2016, BJC acquired BIGC, one of two major operators of hypermarket in Thailand, for nearly Bt210,000 million. The acquisition was funded by two rights offerings and new bank loans.

Revenue from sales plus rental and service income in 2017 was Bt159,829 million. The biggest segment was the modern retailing segment or BIGC. This segment provided about 72% of total revenue, followed by the packaging segment (12%), and the consumer segment (11%). For the first six months of 2018, revenue reached Bt81,691 million.

KEY OPERATING PERFORMANCE

Table 1: BJC's Sales Breakdown

Line of Business	2015		2016		2017		Jan-Jun 2018	
	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%
Packaging	17,692	41	18,948	15	19,447	13	10,202	13
Consumer	16,322	38	16,340	13	16,966	11	8,775	12
Healthcare and technical	7,204	17	7,406	6	8,141	5	3,797	5
Modern retail (BIGC)			81,393	65	103,962	70	53,660	70
Others	2,042	5	2,452	2	2,548	2	792	1
Intra-group eliminations	(367)	(1)	(1,209)	(1)	(1,906)	(1)	(1,133)	(1)
Total sales	42,893	100	125,330	100	149,158	100	76,093	100

Source: BJC

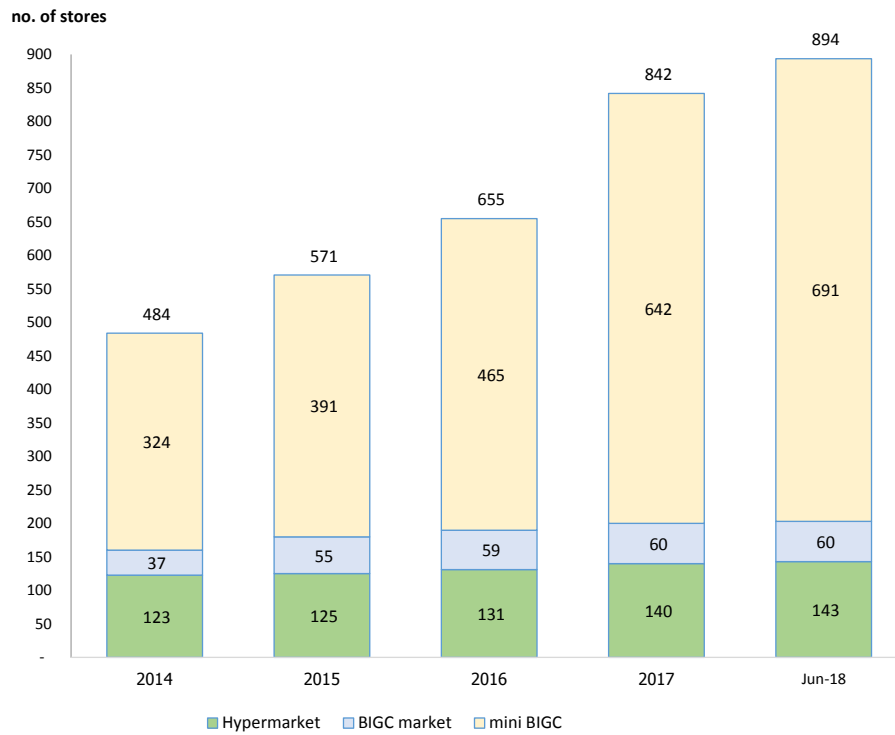
Table2: BIGC's rental service income

Unit: Bt million

BIGC	2015	2016	2017	Jan-Jun 2018
Rental service income	9,787	10,101	10,671	5,598

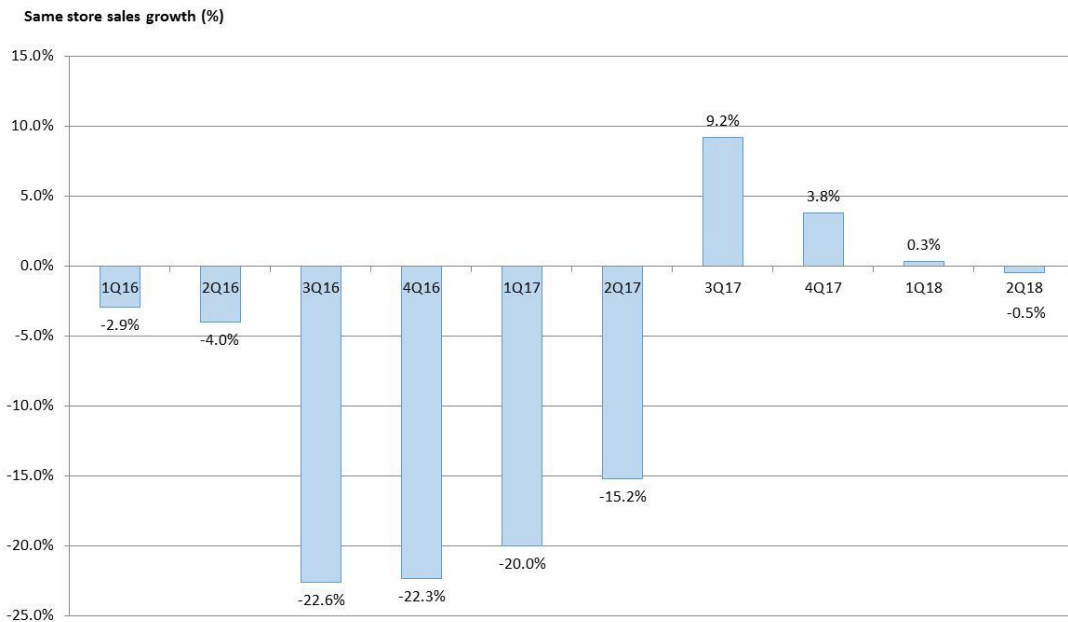
Source: BJC

Chart 1: BIGC's Expansion



The above chart excludes 137 outlets of Pure drug store, as of June 2018
Source: BJC

Chart 2: BIGC's Same-Store-Sales Growth (y-o-y)



Source: BJC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Jun 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014 ***
Revenues from sales and rental service income****	81,691	159,829	133,281	42,893	41,695
Gross interest expense	2,316	4,528	5,203	493	556
Net income from operations	2,819	5,256	2,236	1,743	1,574
Funds from operations (FFO)	7,315	14,780	11,188	5,334	4,530
Total capital expenditures	4,671	11,003	5,631	1,705	3,323
Total assets	315,159	315,059	308,701	44,701	43,428
Total debts	157,453	156,897	152,234	14,975	16,232
Shareholders' equity	112,239	111,173	111,148	20,750	18,017
Operating income before depreciation and amortization as % of sales	10.8	10.4	9.2	11.2	10.4
Pretax return on permanent capital (%)	5.2 **	4.9	6.5	9.4	8.4
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.2	4.2	3.0	11.0	8.8
FFO/total debt (%)	9.6 **	9.4	7.4	35.6	27.9
Total debt/capitalization (%)	59.7	59.8	57.8	41.9	47.4

Note: All ratios have been adjusted with operating lease since 2017

* Consolidated financial statements

** Annualized with trailing 12 months

*** Restated according to the accounting standard enforced in 2015

**** Including rental service income of modern retail supply chain segment since 2016

Berli Jucker PLC (BJC)

Company Rating:	A+
Issue Ratings:	
BJC193A: Bt16,200 million senior unsecured debentures due 2019	A+
BJC199A: Bt22,000 million senior unsecured debentures due 2019	A+
BJC203A: Bt12,000 million senior unsecured debentures due 2020	A+
BJC206A: Bt17,920 million senior unsecured debentures due 2020	A+
BJC213A: Bt300 million senior unsecured debentures due 2021	A+
BJC219A: Bt9,000 million senior unsecured debentures due 2021	A+
BJC21DA: Bt3,050 million senior unsecured debentures due 2021	A+
BJC223A: Bt2,500 million senior unsecured debentures due 2022	A+
BJC239A: Bt3,000 million senior unsecured debentures due 2023	A+
BJC23DA: Bt2,100 million senior unsecured debentures due 2023	A+
BJC243A: Bt4,000 million senior unsecured debentures due 2024	A+
BJC25DA: Bt1,200 million senior unsecured debentures due 2025	A+
BJC269A: Bt20,000 million senior unsecured debentures due 2026	A+
BJC26DA: Bt3,730 million senior unsecured debentures due 2026	A+
BJC273A: Bt5,000 million senior unsecured debentures due 2027	A+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

© Copyright 2018, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria