

BERLI JUCKER PLC

No. 142/2022
22 August 2022

CORPORATES

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

Last Review Date: 08/04/22

Company Rating History:

Date	Rating	Outlook/Alert
16/08/21	A	Stable
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

Contacts:

Sarinthorn Sosukpaibul
sarinthorn@trisrating.com

Pramuansap Phonprasert
pramuansap@trisrating.com

Wajee Pitakpaibulkij
wajee@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 BJC's senior unsecured debentures at "A", with a "stable" rating outlook. The ratings reflect BJC's strong market positions in its core businesses, diverse sources of income, and broad market coverage. The ratings also take into consideration the expected recovery of its operating performance following the easing of the Coronavirus Disease 2019 (COVID-19) restrictions. Nonetheless, the ratings are constrained by the company's highly leveraged balance sheet, intense competition in the retail and consumer products sectors, as well as challenges from rising commodity prices and surging inflation which could affect consumer spending.

KEY RATING CONSIDERATIONS

Modern trade business to rebound

We view BJC's modern trade retail sales through Big C Supercenter PLC (BIGC) is poised to rebound strongly after the decline during the past two pandemic years.

In 2021, BJC reported retail sales of THB91.3 billion, an 8.8% year-on-year (y-o-y) decline, compared with THB111.4 billion in 2019 before COVID-19. In the first six months of 2022, retail sales rose 8.5% y-o-y to THB48.2 billion. Sales have been boosted by the easing concerns over COVID-19, the resumption of normal activities, and the recovery in same-store-sales growth (SSSG). In the second quarter of 2022, BIGC's same-store sales grew by 5.2% y-o-y.

Going forward, we expect the recovery in BJC's retail business to be driven by both SSSG and outlet expansion. SSSG will be supported by normal store operating hours and the prospects of post-COVID economic recovery. Revenue receipts from BIGC's stores in tourist destinations are starting to improve as the numbers of Thai and foreign tourists increase. The company also intends to expand its network of retail outlets in various formats. BIGC plans to open a few hypermarkets, five fresh food supermarkets, and 300 convenience stores per year, as well as expand its footprint in neighboring countries. BIGC's outlet expansion focuses on small formats in new locations, which requires less investment and better captures demand in local communities. The company continues to develop its online and delivery platforms to respond to changing customer behaviors while increasing private-label products to help improve profitability. Our base-case projection forecasts BIGC's sales to continue to rise substantially, growing by high single-digit to mid-teen percentages annually during 2022-2024.

Sound prospects for rental income

At the end of June 2022, BIGC had a total leasable area of 0.98 million square meters with an occupancy rate of about 89%. Rental income is recurring and generates considerable profits for BIGC. Rental and service income amounted to about THB7.8-THB11.5 billion annually over the past three years, accounting for around 8%-10% of BIGC's total revenue.

During the next three years, we expect better rental rates resulting from lower discounts and a rebounding occupancy rate, supported by the resumed full operating hours and economic recovery. In addition, the company has improved its outlets by making them more appealing and functional for

customers, encouraging people to engage in more leisure activities beyond just shopping. BIGC is also focusing more on its tenant mix, adding more food outlets, delivery service shops, as well as health and wellness stores. We expect rental service income to gradually increase to THB9-THB12 billion per annum in the period 2022-2024. The occupancy rate is expected to continuously improve in the 90%-95% range annually.

Resilient non-retail businesses

BJC's performance in non-retail businesses (including packaging, consumer goods, and healthcare and technical products) has been strong. The diversified businesses and offering of new products have helped mitigate the negative effects of the pandemic and the economic downturn. We expect these businesses to grow strongly in 2022.

Revenue from the packaging business will likely rise in tandem with market recovery and on the back of the company's strong competitive position in the market. Sales in the packaging business totaled THB19.9 billion in 2021 and rose by 26% y-o-y to THB11.9 billion in the first half of 2022. Growth was bolstered by higher sales of both glass containers and aluminum cans, following the relaxation of restrictions on alcoholic beverage consumption and the resumption of social activities.

In 2021, sales of glass containers amounted to THB11.7 billion, a 3% increase from 2020. BJC's glass sales continued to grow by 8% y-o-y to THB6.1 billion in the first six months of 2022, driven by solid growth in alcoholic beverages, functional drinks, energy drinks, and food categories. For the aluminum can business, sales increased significantly by 53% y-o-y to THB5.8 billion in the first half of 2022, boosted by pent-up demand in the Vietnamese beer market. The company also continues to develop new products to tap customer demand in new segments such as healthy drinks, new-size packaging, and light-weight packaging products.

BJC's consumer product business proved resilient during the COVID-19 pandemic, growing by 9%-10% annually in 2020 and 2021, reaching THB22.7 billion of revenue. In the first six months of 2022, the company reported flat revenue of THB10.5 billion due to declining sales in the logistic business segment after BJC moved BIGC's logistic management from the logistic business segment back to BIGC at the beginning of 2022. However, consumer goods in the snacks and tissue paper segments showed solid growth. Snacks sales have rebounded by 2% since 2021 and grew by 11% y-o-y in the first half of 2022. We expect snacks sales to resume a growth trajectory in 2022 after more children return to school. Meanwhile, the total revenue of the tissue paper business has grown more than 30% y-o-y in the first half of 2022, from the growth of kitchen and multipurpose towels, which are popular in many households, and increased sales of private-label products. In addition, BJC's role as a distributor of "Unicharm" products is also strengthening its performance in the tissue paper business.

Revenue of healthcare and technical products experienced a 14% growth rate in 2021 and 6% y-o-y in the first six months of 2022, driven by strong growth in the specialties, graphic, and engineering divisions, as well as pandemic-related medical products and equipment.

Recovery expected, but profits under pressure

Our base-case forecast projects BJC's total operating revenue to escalate by 7%-12% per annum in 2022-2024, supported by growth in same-store sales of BIGC, the addition of new retail outlets, a rising contribution from rental income, and increased sales across BJC's major lines of business. In 2021, BJC reported THB19.5 billion in earnings before interest, taxes, depreciation, and amortization (EBITDA), down from THB23 billion before COVID-19.

We expect BJC's profits in the consumer products and packaging businesses to come under pressure over the next one to two years as prices of key raw materials increase. Since the last quarter of 2021, the cost of paper pulp, palm oil, and packaging films for snacks have been rising and surged in 2022.

In the packaging business, BJC also faces challenges from higher prices of natural gas, soda ash, and aluminum. Despite these challenges, BJC has implemented cost-based pricing, using a formula to determine selling price. The company is able to adjust prices of packaging products to a certain extent to cover the higher costs.

BJC is focusing on tightening expenses, adopting technology in its processes, adjusting the mix of key raw materials, and increasing selling prices. The company also plans to introduce new products, including premium products, to widen profit margins. In effect, we project BJC's EBITDA margin to remain in the 12.5%-13.0% range, with EBITDA of around THB20-THB26 billion annually in 2022-2024.

Cashflow protection ratio to improve

As of June 2022, BJC's interest-bearing debt totaled THB151 billion. As its EBITDA declined during the pandemic period, the debt to EBITDA ratio reached 8.4 times at the end of 2021 and about 8.1 times as of June 2022, up from 7.2 times in 2019.

Looking ahead, we expect the company's debt level to remain high but gradually decline, considering the capital expenditures needed to expand its retail outlets and production capacities. However, we expect BJC's profitability to

gradually improve. We forecast BJC's adjusted debt to EBITDA ratio to be about 8 times in 2022, before falling to about 6 times in 2024. The ratio of funds from operations (FFO) to adjusted net debt is likely to be 9%-12% during 2022-2024.

Adequate liquidity

We assess BJC to have adequate liquidity over the next 12 months. Its primary sources of funds are cash on hand of THB4.7 billion at the end of June 2022, with an undrawn bank facility of THB54.8 billion. FFO are forecast at about THB14.5 billion in 2022. The primary uses of funds are the maturing long-term debt repayment of THB12 billion in 2022 and capital spending of about THB10 billion. We expect the company to continue to maintain sufficient liquidity to withstand any adverse operating conditions.

BASE-CASE ASSUMPTIONS

- Revenues to rebound to a level of THB160-THB200 billion per annum during 2022-2024.
- EBITDA margin at around 12.5%-13.0%.
- Capital spending of about THB10-THB14 billion per year during the forecast period.

RATING OUTLOOK

The "stable" outlook reflects our expectation that BJC will maintain its strong market position in its key businesses. We also expect BJC to deliver improving operating results. Its financial leverage ratio should be gradually declining in the medium term, with its debt to EBITDA ratio not edging above the forecast levels.

RATING SENSITIVITIES

The ratings and/or outlook could be revised downward if BJC's operating performance is significantly worse than forecast, or if the company undertakes sizable debt-funded investments and/or acquisitions that result in the debt to EBITDA ratio staying over 8 times for a sustained period. A rating upgrade scenario could develop if there is significant improvement in cashflow protection and a substantial reduction in financial leverage, leading to a drop in the debt to EBITDA ratio 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 May 2022, TCC Corporation Limited (TCC Group), one of the largest business conglomerates in Thailand, held 74.4% 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 2021, BJC's total sales were THB138.5 billion. The largest revenue contribution came from the retail business, or BIGC, accounting for about 66% of total sales, followed by the consumer product business with 16.4% and the packaging business with 14.4%. In addition, BIGC generated THB7.8 billion in rental and service income.

KEY OPERATING PERFORMANCE

Table 1: BJC's Sales Breakdown

Line of Business	2019		2020		2021		Jan-Jun 2022	
	Mil. THB	%	Mil. THB	%	Mil. THB	%	Mil. THB	%
Packaging	20,360	12.9	19,787	13.7	19,937	14.4	11,893	16.0
Consumer	18,896	12.0	20,670	14.3	22,685	16.4	10,510	14.1
Healthcare and technical	8,843	5.6	7,949	5.5	9,064	6.5	4,368	5.9
Modern retail (BIGC)	111,389	70.5	100,072	69.1	91,302	65.9	48,198	64.8
Others	1,297	0.8	721	0.5	615	0.4	346	0.5
Intra-group eliminations	(2,776)	(1.8)	(4,467)	(3.1)	(5,138)	(3.7)	(980)	(1.3)
Total sales	158,009	100.0	144,732	100.0	138,465	100.0	74,335	100.0

Source: BJC

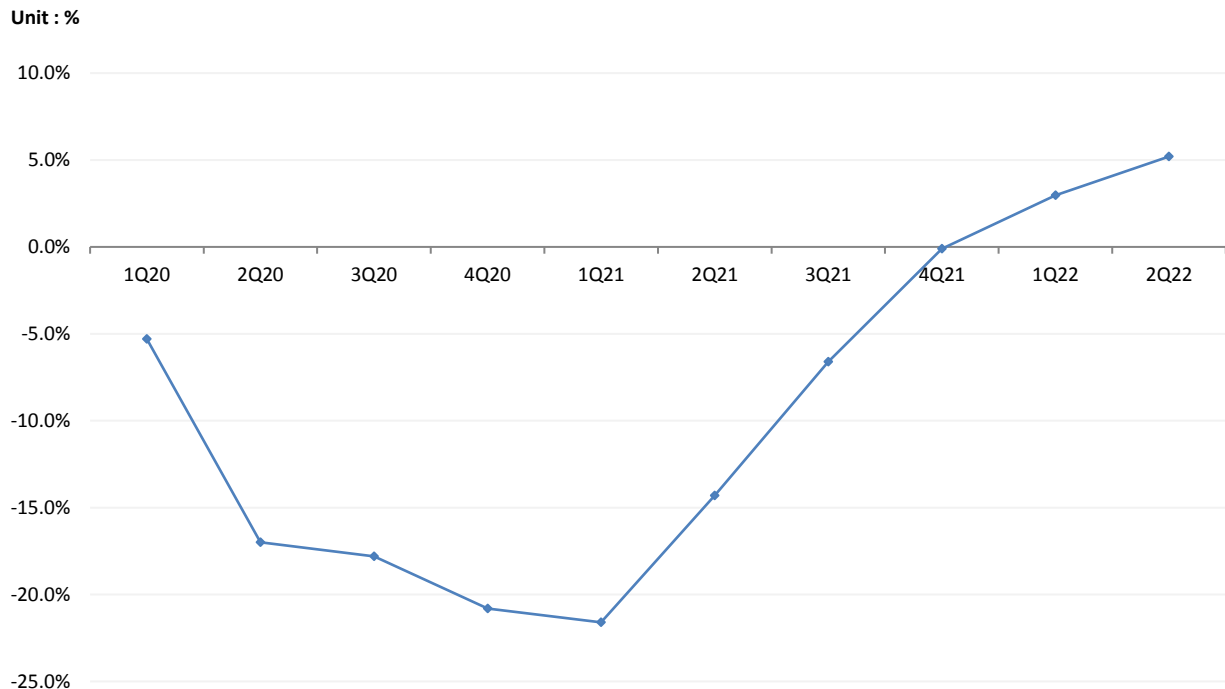
Table2: BIGC's Rental Service Income

Unit: Mil. THB

BIGC	2019	2020	2021	Jan-Jun 2022
Rental service income	11,515	8,867	7,753	4,463

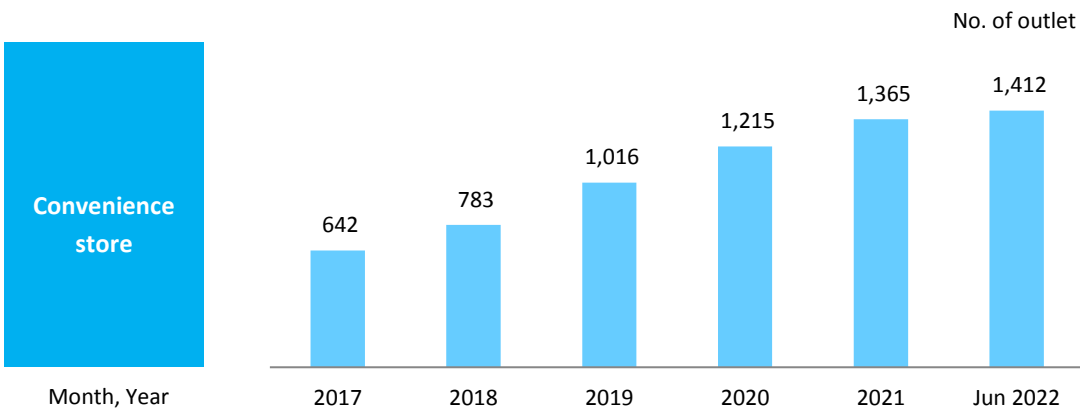
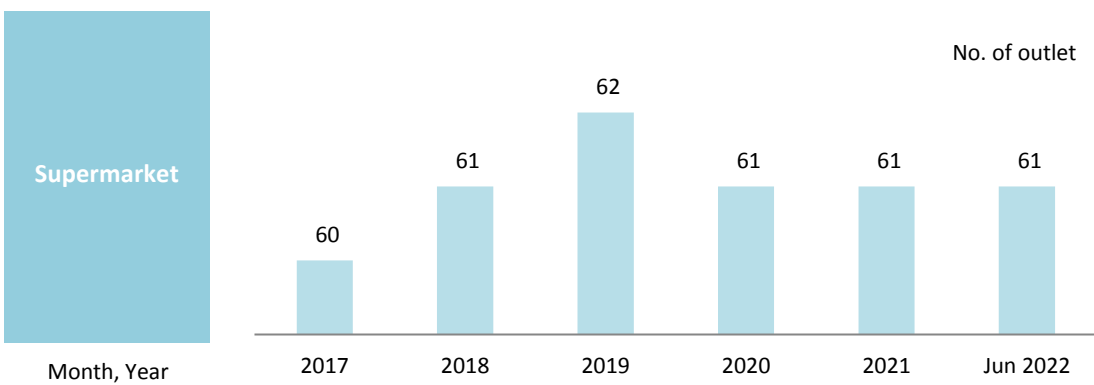
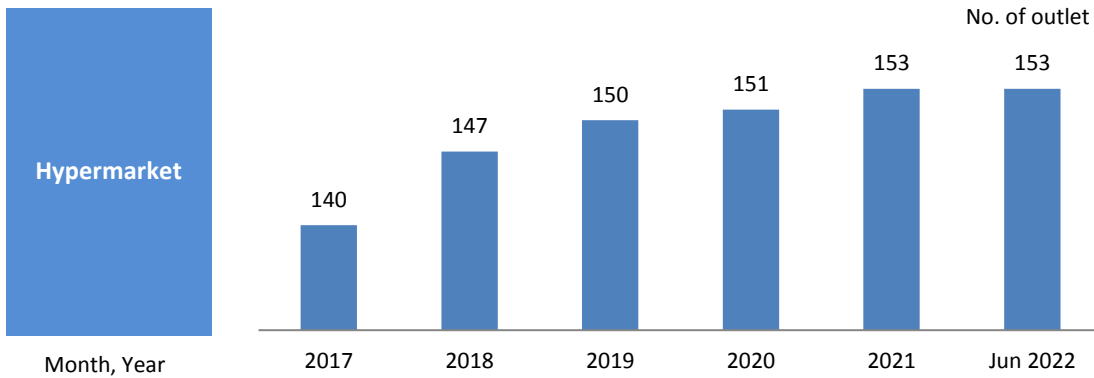
Source: BJC

Chart 1: BIGC's Same-Store-Sales Growth (Y-O-Y)



Source: BJC

Chart 2: BIGC's Expansion in Thailand



Note: The above chart excludes 146 outlets of "Pure" drug store, as of June 2022.

Source: BJC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	80,757	149,851	157,536	173,944	171,875
Earnings before interest and taxes (EBIT)	5,624	9,943	10,779	14,313	14,008
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	10,210	19,475	20,086	22,992	22,634
Funds from operations (FFO)	7,504	13,409	13,795	16,159	15,301
Adjusted interest expense	2,416	5,256	5,453	5,730	5,356
Capital expenditures	2,634	3,349	6,106	8,417	9,627
Total assets	330,372	329,183	326,157	325,804	324,060
Adjusted debt	161,822	163,268	166,156	166,514	164,675
Adjusted equity	122,615	121,206	119,536	119,736	115,774
Adjusted Ratios					
EBITDA margin (%)	12.64	13.00	12.75	13.22	13.17
Pretax return on permanent capital (%)	3.70 **	3.44	3.71	4.94	4.95
EBITDA interest coverage (times)	4.23	3.71	3.68	4.01	4.23
Debt to EBITDA (times)	8.05 **	8.38	8.27	7.24	7.28
FFO to debt (%)	8.71 **	8.21	8.30	9.70	9.29
Debt to capitalization (%)	56.89	57.39	58.16	58.17	58.72

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Berli Jucker PLC (BJC)

Company Rating:	A
Issue Ratings:	
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
BJC269A: THB20,000 million senior unsecured debentures due 2026	A
BJC271A: TH5,000 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:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2022, 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