

BERLI JUCKER PLC

No. 157/2023
22 August 2023

CORPORATES

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

Last Review Date: 26/01/23

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

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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 income streams, and wide market coverage. The ratings also take into consideration an anticipated post-pandemic performance recovery, particularly in the retail and rental property businesses.

However, these strengths are tempered by BJC's heavily leveraged balance sheet, intense competition in the retail and consumer products sectors, as well as potential hurdles arising from high raw material costs which could impact profit margins. We also take into consideration the escalating cost of living and inflationary pressures that could affect consumer purchasing power.

KEY RATING CONSIDERATIONS

Modern trade retail to continue rebounding

The rebound in BJC's modern trade retail sales through Big C Supercenter PLC (BIGC) will likely continue over the next 12 months. We expect the recovery of customer traffic and spending after the pandemic, as well as a revival in tourism, to boost BJC's retail sales and same-store sales growth (SSSG). The opening of new outlets should be another factor driving sales growth.

In 2022, the company experienced a 6% annual increase in retail sales, reaching a total sale of nearly THB97 billion. This positive trend continued in the first half of 2023, with the company maintaining a 4% sales growth. The improving economic conditions, resumption of social activities, and tourism played major roles in driving demand, resulting in a positive SSSG of 2% in 2022 and 4.3% during the second quarter of 2023. Sales have rebounded to approximately 90% of the pre-pandemic levels observed in 2019.

The company's branch expansion strategy emphasizes a stronger presence in supermarkets through enhanced fresh food offerings and further extending its small-format outlets to reach a broader customer base. Additionally, the company aims to expand hypermarkets both in Thailand and overseas and plans to renovate its large format stores by introducing more modern store designs. We expect an increase in BIGC's sales, with a projected annual growth rate spanning from a mid-single-digit to low-teen percentages during 2023-2025.

Revival of rental and service income

During the next three years, we expect a continued improvement in BIGC's rental income, driven by higher occupancy rates and lower discounts offered to tenants. We project BIGC's total rental service income to reach THB9.6-THB11.5 billion per annum, with an occupancy rate of 88%-93% during 2023-2025. BIGC's property strategy going forward is to focus on revitalizing and upgrading its existing stores, expanding rental space to accommodate more tenants, and emphasizing its tenant mix to meet the needs of customers, aiming to attract more traffic.

At the end of June 2023, BIGC had net leasable rental space of about 1 million square meters. Revenue from rental property increased by 15% to THB9 billion in 2022 and continued with a 7% year-on-year (y-o-y) rise in the first half of 2023. The growth was primarily supported by a rising occupancy rate of nearly 87% and higher average monthly rental rates.

Continued improvement in performance

We expect BJC to deliver improving performance over the next three years, with projected annual total operating revenue growth in the mid- to high-single-digit rates. The key growth factors are increased modern trade retail sales, higher rental and service income, and rising sales in the major lines of business.

In 2022, BJC's sales reached THB150.3 billion, a 9% increase from the previous year. During the first six months of 2023, its sales experienced a 3.5% growth, mainly propelled by increased sales in the retail, packaging, and healthcare segments.

Looking ahead, we anticipate expansion in packaging sales driven by the growing beverage sector, innovative products, and enhanced capacity over the next three years. Increased numbers of foreign tourists are expected to boost sales of lightweight bottled and canned beverages. However, sales of aluminum cans in Vietnam, especially in 2023, could be impacted by the sluggish economy there. The packaging business exhibited remarkable growth, with sales up 24% in 2022 and a further 3% y-o-y increase in the first half of 2023.

The company's healthcare segment is tapping into the growing beauty and wellness market as well as capitalizing the potential growth in the portable medical equipment segment. This segment grew by 9% y-o-y in the first half of 2023. Nonetheless, concerns arise regarding the potential impacts of delays in government formation, particularly in terms of budget allocation for the forthcoming fiscal year. Such delays could potentially hinder the allocation of funds for the purchase of critical medical equipment and medications required by government hospitals.

In the consumer product business, we anticipate resilience and gradual growth over the next three years in tandem with the economic recovery. This business expanded by 6% in 2022 and was relatively flat in the first half of 2023. The snack sector notably drives growth, leveraging its competitive advantages in widely recognized snack brands and new product offerings. On the other hand, the tissue segment is facing intense competition from both domestic and foreign players.

Cost management to maintain profit margins

The recovery in sales, particularly in retail sales, has led to an improvement in profitability. BJC's earnings before interest, taxes, depreciation, and amortization (EBITDA) for 2022 reached THB20.4 billion, a rise from THB19.5 billion in 2021. Despite the improvement in retail sales profit, the company has encountered earnings pressure in its packaging and consumer product businesses due to the escalating costs of key raw materials during 2022 through the first half 2023, such as soda ash, natural gas, electricity, aluminum, and paper pulp. To mitigate the impact on its profit margin, the company has enhanced its operational efficiency, controlled expenses, and made certain adjustments to product prices to offset the heightened costs. Consequently, the company's overall EBITDA margin experienced a slight decline, to 12.5% from 2022 through the first half of 2023, in comparison to 13% recorded in 2021.

Looking ahead, we expect BJC to deliver sustained profitability. The company's strategy going forward is to focus on adopting modern technologies in its operating processes to enhance productivity and rationalize expenses. In our forecast, we project BJC's EBITDA margin to remain in the 12.5%-13.0% range, with EBITDA of around THB21.5-THB25.5 billion annually during the next three years.

Highly leveraged balance sheet despite expected improvement in cash flow protection ratio

As of June 2023, BJC's adjusted net debt amounted to nearly THB164 billion. The debt to EBITDA ratio remained high at 7.9 times. Looking ahead, we expect the company's debt level to remain relatively high but gradually decline over time, considering the capital expenditures required to expand its retail outlets and production capacities. We estimate the company will invest about THB14-TH15 billion per annum. With the expected improvement in profitability, we forecast the adjusted debt to EBITDA ratio to gradually decline to about 6.5 times by 2025, while the ratio of funds from operations (FFO) to adjusted net debt to be 9%-10%.

Adequate liquidity

The company's primary sources of funds are cash on hand of THB5 billion at the end of June 2023, with an undrawn bank facility of about THB66 billion. FFO is forecast to be around THB15 billion in 2023. The primary uses of funds are a scheduled long-term debt repayment of THB9.1 billion in the second half of 2023 and capital spending of about THB14 billion in 2023. We expect the company to continue maintaining sufficient liquidity to withstand any adverse operating conditions.

BJC plans to spin off its subsidiary, Big C Retail Corporation PLC (BRC), and list the company on the Stock Exchange of Thailand (SET). BRC represents BJC's flagship operation in the retail sector, with its revenue derived mainly from retail sales, wholesales, and the rental property of BIGC centers. The company intends to utilize the proceeds raised from its initial public offering (IPO) primarily towards supporting its expansion plans, repaying existing debts, and fulfilling working capital needs. The IPO is expected to reinforce BJC's capital base, strengthening its financial position.

BASE-CASE ASSUMPTIONS

- Revenues to grow by mid- to high-single-digit rates annually during 2023-2025.
- EBITDA margin at 12.5%-13.0%.
- Capital spending of about THB14-THB15 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 improved operating results. BJC’s financial leverage ratio should gradually decline in the medium term, with its debt to EBITDA ratio remaining in line with our forecast.

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 embarks on substantial debt-funded investments or acquisitions that result in a debt to EBITDA ratio of over 8 times for an extended period. A rating upgrade scenario could materialize if there is a significant improvement in BJC’s cashflow protection and a substantial reduction in financial leverage, with the debt to EBITDA ratio remaining below 5 times on a sustained basis.

COMPANY OVERVIEW

BJC was founded in 1882 as a trading and service company and listed on the SET in 1975. As of May 2023, TCC Corporation Limited (TCC Group), one of the largest business conglomerates in Thailand, held about 76% 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, for an acquisition cost of nearly THB210 billion. The acquisition was funded by two rights offerings and new bank loans.

In 2022, BJC’s total sales were THB150.3 billion. The largest revenue contribution came from the retail business, or BIGC, accounting for about 64% of total sales, followed by the packaging business of 16%, the consumer product business of 14%, and the healthcare and technical product business of 6%. In addition, BIGC generated THB9 billion in rental and service income.

KEY OPERATING PERFORMANCE

Table 1: BJC's Sales Breakdown

Line of Business	2020		2021		2022		Jan-Jun 2023	
	Mil. THB	%	Mil. THB	%	Mil. THB	%	Mil. THB	%
Packaging	19,787	13.7	19,937	14.4	24,821	16.5	12,275	16.0
Consumer	20,670	14.3	22,685	16.4	21,410	14.2	10,522	13.7
Healthcare and technical	7,949	5.5	9,064	6.5	8,880	5.9	4,558	6.0
Modern retail (BIGC)	100,072	69.1	91,302	65.9	96,490	64.2	50,408	65.5
Others	721	0.5	615	0.4	712	0.5	45	0.1
Intra-group eliminations	(4,467)	(3.1)	(5,138)	(3.7)	(1,975)	(1.3)	(886)	(1.2)
Total sales	144,732	100.0	138,465	100.0	150,338	100.0	76,922	100.0

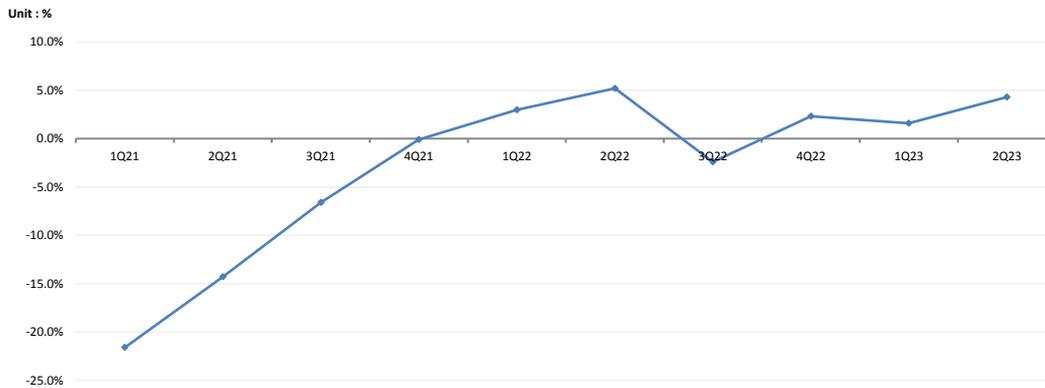
Source: BJC

Table 2: BIGC's Modern Trade Retail Outlets as of Jun 2023

Type of Store	Number of Outlet
Hypermarket (Including 1 store in Cambodia)	154
Supermarket (Including BIGC market, foodplace, depot, and food service)	61
Convenience store	1,471
Pure	146

Source: BJC

Chart 1: BIGC's Same-Store-Sales Growth (y-o-y)



Source: BJC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	83,518	163,521	149,886	157,536	173,944
Earnings before interest and taxes (EBIT)	5,795	11,134	9,918	10,779	14,313
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	10,463	20,419	19,482	20,086	22,992
Funds from operations (FFO)	7,535	14,682	13,390	13,795	16,159
Adjusted interest expense	2,595	4,908	5,282	5,453	5,730
Capital expenditures	3,001	5,601	3,355	6,106	8,417
Total assets	335,024	336,045	329,879	326,883	325,804
Adjusted debt	163,868	164,973	163,850	166,710	166,514
Adjusted equity	124,318	124,149	121,304	119,683	119,736
Adjusted Ratios					
EBITDA margin (%)	12.53	12.49	13.00	12.75	13.22
Pretax return on permanent capital (%)	3.89 **	3.82	3.43	3.70	4.94
EBITDA interest coverage (times)	4.03	4.16	3.69	3.68	4.01
Debt to EBITDA (times)	7.93 **	8.08	8.41	8.30	7.24
FFO to debt (%)	8.98 **	8.90	8.17	8.27	9.70
Debt to capitalization (%)	56.86	57.06	57.46	58.21	58.17

* 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:	
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: THB12,256.60 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
BJC272A: TH2,000 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: THB4,003.40 million senior unsecured debentures due 2030	A
Rating Outlook:	Stable

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