CENTRAL RETAIL CORPORATION PLC

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CORPORATES

Company Rating:	AA-
Outlook:	Stable

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RATIONALE

TRIS Rating assigns a company rating of "AA-" to Central Retail Corporation PLC (CRC), with a "stable" rating outlook. The rating reflects the company's solid and proven track record in the retail industry, along with its strong market presence and formidable market position. The rating also incorporates the company's strengths of extensive network of stores, widely recognized store brands, well-established support facilities, and anticipated post-pandemic performance recovery.

However, these strengths are weighed by the intense competition in the industry, the country and regulatory risks associated with CRC's overseas operations, and the company's moderate financial leverage. We also take into consideration the potential threats of an economic slowdown.

KEY RATING CONSIDERATIONS

Proven track record in multi-format retail operations

CRC has a proven record in the Thai retail industry, with about seven decades of experience in the retail business. The company has demonstrated expertise in managing retail operations in diverse retail store formats, including department stores, brand shops, hypermarkets, supermarkets, and various specialty stores. We view the company's strategic approach for merchandising, inventory management, distribution logistics, and enhancing customer engagement as the key factor contributing to its continued success in the retail industry.

CRC possesses an extensive retail store network in Thailand, encompassing more than 1,700 shops across the country. In addition, the company has expanded its reach into overseas markets, operating nine department stores in Italy and building up a strong presence in Vietnam, with 129 stores in the food and electrical appliance segments. CRC's total sales amounted to about THB212 billion in 2022, with Thailand contributing about 70%, Vietnam 24%, and the remainder coming from Italy.

In addition, CRC has gained expertise in omni-channel retail, leveraging its digital and offline to online (O2O) platforms to drive revenue and enhance customer reach. CRC has been successful in boosting sales through its omni-channel platforms, accelerated by the store closures and limited operating hours during the pandemic periods. CRC's revenue from omni-channel platform has increased considerably, accounting for 18%-20% of total sales from 2021 through the first six months of 2023, a significant increase from just 3% in 2019.

Dominant position in the department store segment with established brands

CRC is the market leader in the department stores retail segment in Thailand. The company operates an extensive network of 75 department stores across the country and over 450 brand shops and specialty stores, strategically covering 59 provinces. CRC generated THB55 billion in sales from the fashion business in 2022. In comparison, the scale of CRC's department stores operation is far ahead of those of other distantly trailing operators in Thailand, both in terms of the number of stores and retail spaces.

CRC continues to invest and expand its store network to further penetrate the market with constantly widening geographical coverage. CRC has two well-established department store brands: "Central", and "Robinson". The "Central" brand caters to upper middle- to high-income customers, particularly in provinces with strong purchasing power, such as Bangkok and tourist provinces. The "Robinson" brand targets middle-income customers in both Bangkok and upcountry. CRC also operates "Robinson Lifestyle" mall, where an emphasis is placed on rental spaces. The company has also capitalized the demand in niche markets, with the opening of brand shops and specialty stores. The company also operates its flagship department stores in Italy, under "La Rinascente" brand.

In our view, CRC's competitive advantages stem mainly from its well-maintained department stores and malls, and prime store locations nationwide. These factors contribute to a strong physical presence and the ability to attract traffic. The company has a large loyal customer base backed by its well-established loyalty program, "The 1 Card". Furthermore, the company's portfolio of widely recognized brands and diverse product categories enable the company to cater to various customer groups.

CRC is also the leading modern-trade retailer in the home improvement segment in Thailand. CRC's hardline stores, including "Thai Watsadu", "BnB Home", "B2S", "Power Buy", and "OfficeMate", all have strong market presence in Thailand. Moreover, CRC has a sound presence in the food segment, with a focus on supermarket platforms, leveraging "Tops" supermarkets and "GO!" hypermarkets and supermarkets in both Thailand and Vietnam.

Revival of rental income

CRC has a competitive position in the rental property market with a portfolio of 32 malls in Thailand and 39 malls in Vietnam. At the end of June 2023, CRC reported a net leasable retail area of 0.74 million square meters, with an occupancy rate of about 87%. The reopening of countries in the region has gradually led a recovery of its mall income, with rental income improving by 37% to THB8 billion in 2022 and a further 23% year-on-year (y-o-y) increase in the first six months of 2023.

Looking ahead, we expect a continuous improvement in CRC's rental income as the economy recovers. We project its rental and service income to reach THB9.0-TH11.0 billion per annum with occupancy rates reaching 90%-92% during 2023-2025. CRC's strategic plans, which include mall renovations and the expansion of new stores, are expected to revitalize rental spaces, and attract more traffic.

Diverse range of businesses drive multiple income sources

During 2023-2025, we expect CRC to achieve healthy growth with its sales projected to increase by low- to mid-teen rates annually, backed by the fashion segment benefiting from pent-up demand, the food segment growing in line with economic recovery, and the hardline segment demonstrating resilience. The opening of new outlets should be another factor driving sales growth. Such a diverse range of businesses provides the company with multiple income sources and enhances its resilience in a dynamic market environment.

In the first half of 2023, fashion sales recorded an impressive 22% y-o-y growth. With customers are keen to experience in-store shopping for fashion products, fashion sales are expected to soar. To maintain this momentum, CRC plans to continue offering attractive promotions and introducing new collections, to further seize growth opportunities.

We expect the hardline business to remain resilient over the next three years. This segment demonstrated greater resistance to economic fluctuations compared with other retail categories during the pandemic. In the first half of 2023, the hardline segment grew by 3% y-o-y. CRC plans to further boost sales through investments in new stores, renovations, product range expansion, and capitalizing on digital channels. However, the electrical appliance store business in Vietnam may face challenges due to declining demand amid the current fragile economic situation.

We expect the food business to remain solid, even in an inflationary environment. In the first half of 2023, the food segment grew by 5% y-o-y. The company plans to strengthen its competitive position in the supermarket segment, by expanding more outlets both in the Thai and Vietnamese markets. CRC's strategic focus is on enhancing product assortments, optimizing supply chain efficiency, and reinforcing e-commerce and delivery services.

Strong presence in Vietnam with increasing sales contribution expected

We expect the company's Vietnam-based sales to increase, driven by store expansion, the company's strong competitive position, and market opportunities particularly in the food segment. Over the next three years, we expect sales in Vietnam to continue to rise steadily, contributing around 24%-28% of the total sales.

As of 2022, CRC operated 75 hypermarkets and supermarkets, along with 52 electrical appliance stores in Vietnam, generating nearly THB52 billion in sales, or about 24% of its total sales in 2022. The company recognizes the significant growth opportunities in the Vietnamese market and plans to expand more outlets. However, we view the Vietnamese market to be exposed to higher levels of country risk compared to Thailand, in terms of economic volatility, regulatory risk, and ease of doing business. These risk factors pose challenges that require cautious consideration during the expansion.

Growing earnings

We expect CRC's profitability to improve steadily as sales rebound post-pandemic. In 2022, its earnings before interest, taxes, depreciation, and amortization (EBITDA) increased to THB29 billion, compared with THB18-THB20 billion during 2020-2021. The EBITDA margin also rose, reaching 12.3% in 2022, from 10.0%-10.5% during the pandemic years.

During 2023-2025, we expect the EBITDA margin to be in the range of 12.5%-13.0%, with projected EBITDA of THB32-THB42 billion per annum. We expect the company's profit margins to widen through enhanced efficiency, including inventory reduction, effective marketing promotions, the implementation of operating cost control measures, and the integration of artificial intelligence (AI) technologies. In addition, the improvement in the rental property business is expected to further boost overall earnings growth.

Financial leverage ratio to improve

As of June 2023, CRC's adjusted debt, including financial liabilities arising from lease liability, totaled THB129.5 billion. As its EBITDA rebounded after the pandemic, the adjusted debt to EBITDA ratio improved to around 4.2 times, compared with 5-6 times during 2020-2021.

Looking ahead, we expect the company's debt level to remain high due to the capital expenditures required for retail outlet expansion and renovations. We estimate capital expenditures and investment to be around THB25-THB27 billion per annum during 2023-2025. Nevertheless, with the expected improvement in profitability, we forecast CRC's adjusted debt to EBITDA ratio to be around 4 times in 2023, before gradually declining to about 3.5 times within 2025, and the ratio of funds from operations (FFO) to adjusted net debt should be 20%-23% during 2023-2025.

Around 12% of CRC's debts were priority debts, including debts at the subsidiary level and secured debts. As the ratio is well below the 50% priority debt threshold, we view that CRC's unsecured creditors are not significantly disadvantaged to priority debt holders with respect to claims against the company's assets.

Ample liquidity

We assess CRC to have ample liquidity over the next 12 months. As of June 2023, its sources of funds comprised cash on hand and cash equivalents of THB11.3 billion, with an undrawn bank facility of THB44 billion. We forecast FFO to be nearly THB26 billion in 2023. Funds will be used for capital expenditures and scheduled debt repayments. CRC has about THB1.65 billion in long-term debt payment obligations maturing in the second half of 2023. We estimate the company's capital expenditures of about THB25 billion for 2023.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for CRC's operations in 2023-2025 are as follows:

- Revenues to grow by low- to mid-teen rates per annum.
- EBITDA margin at 12.5%-13.0%.
- Total capital spending of around THB80 billion during the next three years.

RATING OUTLOOK

The "stable" outlook reflects our expectation that CRC will be able to maintain its leading position in the Thai retail market and demonstrate improving performance. We expect its financial status and operating performance to be in line with our forecast.

RATING SENSITIVITIES

The ratings and/or outlook could be revised upward if CRC's operating performance and financial status improve materially, with the adjusted debt to EBITDA ratio below 2.5 times on a sustained basis. Conversely, the rating could be downgraded if CRC's operating performance deteriorates materially, pushing the adjusted debt to EBITDA ratio over 5 times on a sustained basis. Any large debt-funded investments and/or acquisitions that significantly weaken the company's balance sheet could also pressure the rating.

COMPANY OVERVIEW

CRC, a leading retailer in Thailand, offers a diverse range of product categories and operates a multi-platform approach with various store formats, including department stores, specialty stores, supermarkets, and more. CRC's store brands such as "Central" and "Robinson" department stores, "Supersports" sporting goods stores, "Thai Watsadu" and "BnB Home" home improvement specialty stores, "B2S" stationery and bookstores, "Power Buy" electrical appliance and electronics product stores, and "Tops" supermarkets, are widely accepted and highly regarded among customers.

The company was established by the Chirathivat Family. The business originated when the founder, Mr. Tiang Chirathivat, commenced operation of a small shop in Bangkok in 1947. “Central Trading Store”, a single-unit shophouse that sold a wide variety of local and international newspapers and magazines, was established in 1950. “Central Department Store Wangburapha”, its first department store, commenced operations in 1956. During 1995-2001, the company spun off Tops Supermarket, Supersports, Power Buy, B2S, and Homeworks. CRC expanded into the international markets in Italy in 2011 and Vietnam in 2012. Specialty stores, “Thai Watsadu” and “Baan & Beyond” were opened in 2010 and 2013, respectively. In 2020, the company acquired COL PLC (COL), a leading provider of office supply solutions.

CRC was listed on the Stock Exchange of Thailand (SET) in 2020. As of June 2023, the major shareholder of CRC was Harng Central Department Store Ltd., with a shareholding of 35.0%.

As of June 2023, CRC had more than 1,700 stores and 32 malls in Thailand. Moreover, the company operates 129 stores and 39 malls in Vietnam, and nine department stores in Italy. In 2022, the company recorded total operating revenue of THB253.4 billion. Sales were distributed among three major segments: food, fashion, and hardline. Approximately 70% of the total sales were derived from Thailand, 24% from Vietnam, and 6% from Italy.

KEY OPERATING PERFORMANCE

Table 1: Sales Breakdown

Business	2020		2021		2022		Jan-Jun 2023	
	Mil. THB	%	Mil. THB	%	Mil. THB	%	Mil. THB	%
Fashion	46,222	26.7	42,810	24.3	55,496	26.2	29,627	26.9
Hardline	52,232	30.2	63,566	36.1	72,852	34.4	37,561	34.1
Food	74,683	43.1	69,600	39.6	83,556	39.4	43,046	39.0
Total sales	**173,137**	**100.0**	**175,976**	**100.0**	**211,904**	**100.0**	**110,233**	**100.0**

Source: CRC

Table 2: Same-store Sales Growth (Y-O-Y)

Unit: %

Business	2019	2020	2021	2022	Q1/23	Q2/23
Fashion	(2.6)	(33.7)	(6.0)	38.0	31.0	14.0
Hardline	(2.1)	(12.5)	3.0	5.0	0.3	(2.0)
Food	2.3	(9.9)	(12.0)	15.0	8.0	(2.0)

Source: CRC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2023		-------------Year Ended 31 December --------- 2022	2021	2020	2019
Total operating revenues	123,055		235,425	195,433	193,350	218,662
Earnings before interest and taxes (EBIT)	7,120		12,274	3,022	2,407	14,810
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	15,428		28,952	20,110	18,928	28,237
Funds from operations (FFO)	12,310		23,670	15,809	15,262	21,789
Adjusted interest expense	2,148		3,492	3,149	2,958	3,737
Capital expenditures	7,717		15,593	8,482	9,183	12,139
Total assets	276,534		275,984	263,228	239,180	183,506
Adjusted debt	129,481		123,923	119,919	106,927	94,427
Adjusted equity	69,708		64,885	59,081	55,715	37,519
Adjusted Ratios						
EBITDA margin (%)	12.54		12.30	10.29	9.79	12.91
Pretax return on permanent capital (%)	7.00	**	6.12	1.60	1.49	10.30
EBITDA interest coverage (times)	7.18		8.29	6.39	6.40	7.56
Debt to EBITDA (times)	4.17	**	4.28	5.96	5.65	3.34
FFO to debt (%)	19.22	**	19.10	13.18	14.27	23.07
Debt to capitalization (%)	65.00		65.63	66.99	65.74	71.56

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

RELATED CRITERIA

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

Central Retail Corporation PLC (CRC)

Company Rating:	AA-
Rating Outlook:	Stable

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