

# CP AXTRA PLC

No. 175/2024  
1 October 2024

## CORPORATES

|                        |        |
|------------------------|--------|
| <b>Company Rating:</b> | AA-    |
| <b>Issue Ratings:</b>  |        |
| Senior unsecured       | AA-    |
| <b>Outlook:</b>        | Stable |

### Contacts:

Nauwarut Temwattanangkul  
nauwarut@trisrating.com

Sarinthorn Sosukpaibul  
sarinthorn@trisrating.com

Wajee Pitakpaibulkij  
wajee@trisrating.com

Sasiporn Vajarodaya  
sasiporn@trisrating.com



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## RATIONALE

TRIS Rating assigns a company rating of “AA-” to CP Axtra PLC (CPAXT) and assigns a “AA-” rating to CPAXT’s senior unsecured debentures, with a “stable” rating outlook. CPAXT is the newly formed entity as the result of the amalgamation between the former CP Axtra PLC (CPAXTT) and Ek-Chai Distribution System Co., Ltd. (LOTUSS).

The ratings reflect CPAXT’s status as a core subsidiary of CPALL PLC (CPALL, rated at “AA-/Stable”). The group status reflects our view on CPAXT’s vital role in cementing the group’s leading position in the wholesale and grocery retail businesses, together with CPAXT’s significant earnings contribution to CPALL. However, these strengths are partially constrained by intense competition in the retailing industry, as well as a slow economic recovery, declining consumer confidence, and low purchasing power.

## KEY RATING CONSIDERATIONS

### Core subsidiary of CPALL

TRIS Rating considers CPAXT as a core subsidiary of CPALL owing to its role as a flagship entity for the wholesale and grocery retail businesses of the group, coupled with its significant earnings contribution to CPALL.

CPALL, directly and indirectly holds approximately 60% equity interest in CPAXT. CPAXT’s operating performance and strategies are aligned with CPALL’s business direction. Based on proforma statement, CPAXT’s operating revenue contributed around 53% of CPALL’s total operating revenue in 2023, while its EBITDA accounted for 44% of CPALL’s EBITDA.

### Leader in wholesaler market

CPAXT’s strong business position reflects its leading status in the wholesale business under the “Makro” brand. Makro has a proven record of success for more than three decades in Thailand. With the strategy of focusing on fresh products and effective cost management, Makro has captured the growing demand of the business-to-business (B2B) market, particularly in hotels, restaurants, as well as catering business operators (HORECA) and food retailers.

As of June 2024, CPAXT owned 161 multi-format Makro stores in Thailand. The company has expanded its presence into overseas markets, operating three stores in Cambodia, five in India, and one in Myanmar. CPAXT’s total revenue from wholesale business amounted to THB266 billion in 2023 and THB138 billion in the first half of 2024, with Thailand contributing about 96%, and the remaining 4% from overseas.

### Strong market position in hypermarkets

CPAXT’s competitive edge is also supported by its prominent status and successful track record in the grocery retailer market, together with its nationwide store network. The company operates a hypermarket chain under the “Lotus’s” brand in Thailand and Malaysia.

In Thailand, Lotus’s is the largest modern trade retailer in the domestic hypermarket segment. The company owns 225 hypermarkets, representing over 40% of the total hypermarkets and large-format grocery retail stores in Thailand. Also, to penetrate market and serve demand in communities across the country, the company operates 178 supermarket stores and 2,048 mini

supermarket stores nationwide. In Malaysia, the company has a significant market presence, operating 43 hypermarket stores and 26 supermarket stores.

### **Recurring income from rental properties**

The company's credit profile is also underpinned by a diversified portfolio of rental properties enclosed in Lotus's stores in Thailand and Malaysia. As of June 2024, the company had a permanent net leasable retail area of 0.8 million square meters (sq.m.) in Thailand and 0.3 million sq.m. in Malaysia with an occupancy rate of about 93%. Revenue from mall income amounted to THB13-THB14 billion per year, accounting for 3% of CPAXT's total revenue.

Looking forward, we expect the contribution from rental properties to improve steadily along with the post-COVID-19 recovery and revival of the tourism sector. Despite competition from the new supply, we anticipate the company to further improve rental space utilization and revitalize the hypermarket to attract more traffic and ultimately boost overall performance. With know-how and extensive experience in managing rental space within Lotus's stores, we expect the company to further explore opportunities and optimize space utilization under the merged company.

### **Growth engine from omnichannel**

To enhance customer reach and seamless customer experiences, CPAXT's omnichannel strategy integrates online and offline platforms. In addition to physical stores, CPAXT has made significant investments in e-commerce, developing infrastructures and online applications (Lotus's Online and Makro Pro), as well as strengthened its B2B sales team. Given its extensive network and multi-fulfillment strategy, CPAXT can expand its service area and efficiently offer delivery services to meet the diverse customer demands nationwide.

As a result, CPAXT's omnichannel sales have grown substantially with a double-digit growth rate over the past few years. The contribution from the omnichannel platform accounted for 17% of total sales in the first half of 2024, a significant increase from around 10% in 2021.

### **Anticipated synergies following amalgamation**

Being the market leader in the wholesale and grocery retail businesses, combined with the large base of memberships and diversified store networks nationwide, CPAXT's competitive edge is expected to further strengthen following the amalgamation.

We anticipate the company to expand market reach by leveraging know-how, sharing information and technology to improve products and services, as well as providing optimal marketing activities to better serve customers' demand. CPAXT's cost advantage is expected to improve following the economies of scale and greater negotiating power, particularly in imported products. The company can enhance margins by pooling amounts and offering a wider range of products under private label brands. Operating expense is also expected to decline gradually following the improved utilization of shared assets, eliminated redundancies, streamlined operations, as well as optimizing supply chain management.

However, we view the anticipated synergies will take a few years to materialize. CPAXT will need time to manage integration risks, including integration of working process and unexpected costs. In our base-case projection, we forecast CPAXT's EBITDA to be THB34-THB42 billion per annum in 2024-2026, with an EBITDA margin of 6.7%-7.6%. Funds from operations (FFO) are forecast to range between THB26-THB32 billion annually.

### **Expected financial leverage to improve**

As of June 2024, based on pro forma financial statements, CPAXT's adjusted debt totaled THB135.3 billion, while the adjusted debt to EBITDA ratio was 3.8 times.

Going forward, in pursuing the growth strategy in omnichannel and multi-format stores, CPAXT's capital expenditures are expected to be around THB23-THB25 billion per year over the next three years. The investment includes THB10-THB11 billion per year in Makro stores, and THB12-THB13 billion per year in Lotus's stores in Thailand and Malaysia. Despite sizable capital expenditures, we expect CPAXT's financial leverage to decline gradually, given the growing revenue base and expected synergy improvements. Under our base case scenario, we forecast CPAXT's adjusted debt to EBITDA ratio to be around 3.8 times in 2024, before gradually declining to about 3.3-3.5 times in 2025-2026, and the FFO to adjusted net debt ratio to be 20%-23% during 2024-2026.

### **Adequate liquidity profile**

As of June 2024, its sources of funds comprised cash on hand and cash equivalents of THB23 billion, plus undrawn bank facilities of about THB34 billion. We forecast FFO to be around THB26 billion in 2024. Sources of funding should be sufficient to cover scheduled long-term debt repayments and capital spending in the next 12 months of THB15 billion and THB23 billion, respectively.

The financial covenant on CPAXT's new debenture issues requires the company's net interest-bearing debt to equity ratio to stay below 2.5 times. As of June 2024, the ratio was 0.24 times. We believe the company should be able to comply with the financial covenant over the forecast period.

#### Debt structure

We estimate CPAXT to have priority debt far below 50%. As the ratio is under the 50% priority debt threshold, we rate CPAXT's senior unsecured debentures at the same level as the assigned company rating.

#### BASE CASE ASSUMPTIONS

- CPAXT's operating revenue to increase by 4%-5% annually in 2024-2026.
- The adjusted EBITDA margin to stay in the 6.7%-7.6% range in 2024-2026.
- Total capital spending of around THB23-THB25 billion per year in 2024-2026.

#### RATING OUTLOOK

The "stable" outlook follows the rating outlook on CPALL and our expectation that CPAXT will maintain its group status as a core subsidiary of CPALL. We expect CPAXT will continue to represent a core component of CPALL's revenue and business profile.

#### RATING SENSITIVITIES

As a core subsidiary of CPALL, the ratings on CPAXT are tied to the rating on CPALL. Any change in the rating on CPALL, or CPAXT's group status, will affect the ratings on CPAXT accordingly.

#### COMPANY OVERVIEW

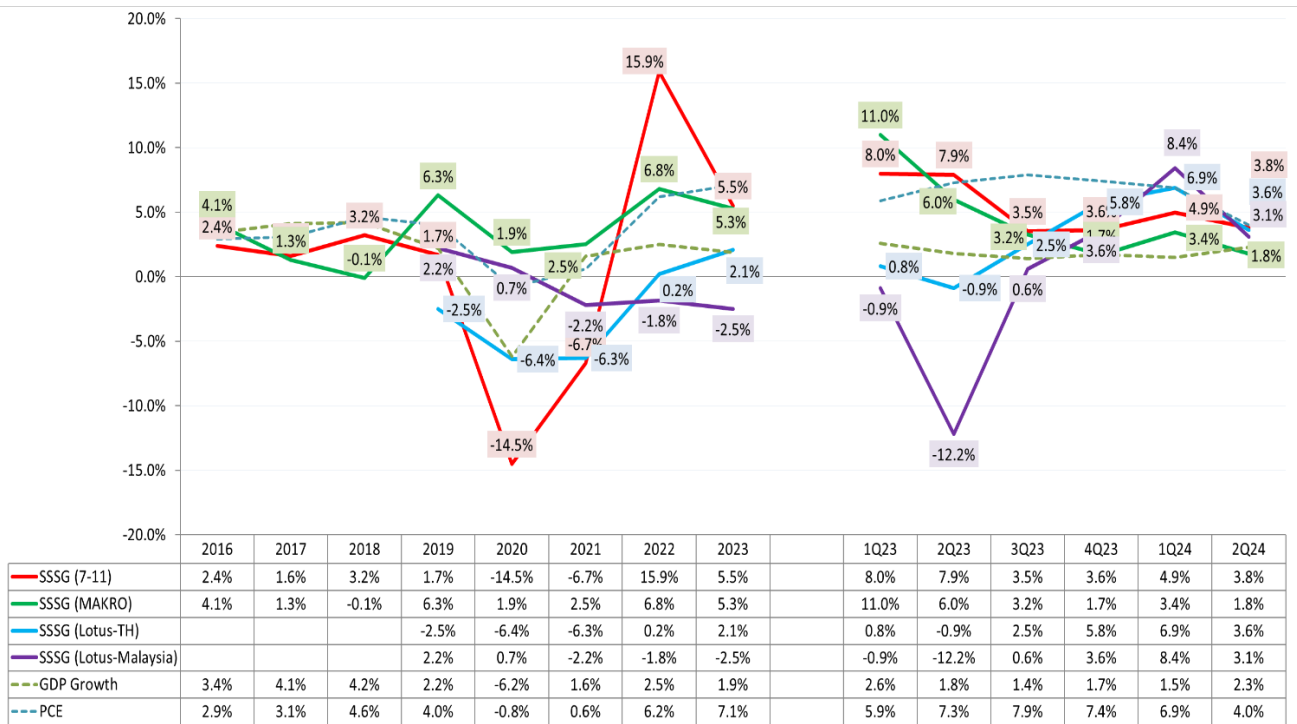
CPAXT was established on 1 October 2024 following the merger of CPAXTT, a leader in the wholesale business in Thailand operating stores under the Makro brand and LOTUSS, a leading retailer operating a hypermarket chain under the name Lotus's stores in Thailand. CPAXT's major shareholder consisted of CPALL (60%), Charoen Pokphand Holding Co., Ltd. (CPH) (16%), and Charoen Pokphand Foods PLC's (CPF) subsidiary (9%).

CPAXT operates both the wholesale business under the Makro brand and the retail business under the Lotus's brand in Thailand. Under the wholesale business, the company owned 161 stores in Thailand and 9 stores overseas (3 stores in Cambodia, 5 stores in India, and 1 store in Myanmar) at the end of June 2024.

For the retail business, as of June 2024, the company owned 2,451 stores in Thailand, comprising 225 large stores (Hypermarkets), 178 supermarket stores ("Go Fresh" supermarket), and 2048 small stores ("Lotus's Go Fresh" mini supermarket). In Malaysia, the company owned 69 stores in Malaysia, comprising 43 hypermarkets, and 26 supermarket stores. Apart from retail sales, the company has rental space enclosed in its stores, including a permanent net leasable area of 0.8 million sq.m. in Thailand and 0.3 million sq.m. in Malaysia. CPAXT also holds a 25% stake in Lotus's Retail Growth Freehold and Leasehold Property Fund (LPF), which operates 23 malls in Thailand with a net leasable area of around 0.34 million sq.m.

**KEY OPERATING PERFORMANCE**

**Chart 1: Gross Domestic Product (GDP) Growth and Same-Store-Sales Growth, (Y-O-Y)**



Sources: 1) Bank of Thailand (BOT)  
 2) Office of National Economic and Social Development Council (NESDC)  
 3) CPALL, CPAXT, and LOTUSS

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

|  | Jan-Jun<br>2024 | -----Year Ended 31 December ----- |         |         |         |
|--|-----------------|-----------------------------------|---------|---------|---------|
|  |                 | 2023                              | 2022    | 2021    | 2020    |
| Total operating revenues   | 253,976         | 489,949                           | 469,131 | 266,367 | 218,760 |
| Earnings before interest and taxes (EBIT)                                | 8,932           | 17,509                            | 17,566  | 10,284  | 8,908   |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 17,519          | 34,886                            | 34,744  | 16,719  | 12,549  |
| Funds from operations (FFO)  | 13,227          | 25,852                            | 24,122  | 13,054  | 10,098  |
| Adjusted interest expense  | 2,864           | 6,375                             | 7,155   | 1,573   | 634     |
| Capital expenditures   | 9,520           | 14,753                            | 17,604  | 4,027   | 2,314   |
| Total assets   | 533,912         | 540,371                           | 548,643 | 569,490 | 159,587 |
| Adjusted debt  | 135,258         | 118,874                           | 122,988 | 118,333 | 6,699   |
| Adjusted equity  | 294,776         | 293,473                           | 290,931 | 288,498 | 108,263 |
| <b>Adjusted Ratios</b>   |                 |                                   |         |         |         |
| EBITDA margin (%)  | 6.9             | 7.1                               | 7.41    | 6.28    | 5.74    |
| Pretax return on permanent capital (%)                                   | 4.0 **          | 3.9                               | 3.78    | 3.42    | 10.92   |
| EBITDA interest coverage (times)   | 6.1             | 5.5                               | 4.86    | 10.63   | 19.78   |
| Debt to EBITDA (times)   | 3.8 **          | 3.4                               | 3.54    | 7.08    | 0.53    |
| FFO to debt (%)  | 19.8 **         | 21.7                              | 19.61   | 11.03   | 150.74  |
| Debt to capitalization (%)   | 31.5            | 28.8                              | 29.71   | 29.09   | 5.83    |

\* Pro forma consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

**CP Aextra PLC (CPAXT)**

|  |        |
|--|--------|
| <b>Company Rating:</b>   | AA-    |
| <b>Issue Ratings:</b>  |        |
| CPAXT253A: THB10,000 million senior unsecured debentures due 2025    | AA-    |
| CPAXT269A: THB3,000 million senior unsecured debentures due 2026     | AA-    |
| CPAXT289A: THB1,000 million senior unsecured debentures due 2028     | AA-    |
| CPAXT309A: THB1,000 million senior unsecured debentures due 2030     | AA-    |
| LOTUSS240A: THB7,454.3 million senior unsecured debentures due 2024  | AA-    |
| LOTUSS240B: THB350 million senior unsecured debentures due 2024      | AA-    |
| LOTUSS250A: THB8,533.8 million senior unsecured debentures due 2025  | AA-    |
| LOTUSS250B: THB1,500 million senior unsecured debentures due 2025    | AA-    |
| LOTUSS264A: THB10,374.7 million senior unsecured debentures due 2026 | AA-    |
| LOTUSS270A: THB1,179.7 million senior unsecured debentures due 2027  | AA-    |
| LOTUSS270B: THB3,500 million senior unsecured debentures due 2027    | AA-    |
| LOTUSS284A: THB5,356 million senior unsecured debentures due 2028    | AA-    |
| LOTUSS280A: THB3,000 million senior unsecured debentures due 2028    | AA-    |
| LOTUSS290A: THB3,931.1 million senior unsecured debentures due 2029  | AA-    |
| LOTUSS314A: THB1,111.4 million senior unsecured debentures due 2031  | AA-    |
| LOTUSS310A: THB1,000 million senior unsecured debentures due 2031    | AA-    |
| LOTUSS334A: THB5,803.2 million senior unsecured debentures due 2033  | AA-    |
| LOTUSS334B: THB1,050 million senior unsecured debentures due 2033    | AA-    |
| <b>Rating Outlook:</b>   | Stable |

**TRIS Rating Co., Ltd.**

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

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