

BERLI JUCKER PLC

No. 8/2020
14 February 2020

CORPORATES

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

Last Review Date: 09/08/19

Company Rating History:

Date	Rating	Outlook/Alert
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 outstanding senior unsecured debentures at "A+" with a "negative" outlook. At the same time, TRIS Rating assigns the rating of "A+" to BJC's proposed issue of up to Bt12 billion in senior unsecured debentures. The proceeds from the new debentures will be used to refinance existing debts, fund new investments, and/or for general corporate purposes.

The ratings reflect BJC's strong competitive positions in its core businesses, its diverse portfolio of businesses and sources of income, and wide geographic coverage. However, the ratings are partly constrained by the company's high level of financial leverage and the intense competition its businesses are facing.

BJC's operating results for the first nine months of 2019 were in line with TRIS Rating's expectations. BJC's total operating revenue, including sales and rental income, rose by 2.1% year-on-year (y-o-y), to Bt129.5 billion. Revenue from sales was Bt117.4 billion, up by 2.2% y-o-y. Rental service income and others was about Bt12 billion. The growth of revenue was driven mainly by growth in consumer products and healthcare and technical products, plus the expansion of retail outlets in the modern trade retail business. However, revenue from the packaging products business came under pressure as a result of the decreasing order of aluminum cans in the energy drinks segment.

Big C Supercenter PLC (BIGC), BJC's hypermarket retail company, is the second-largest modern trade retailer in the hypermarket segment, holding around 40% of all hypermarket outlets in Thailand. BIGC is expanding its outlet network nationwide to maintain its competitive edge. During January through September 2019, the company opened one hypermarket store, one supermarket, and 151 convenience stores. The outlet expansion has been the major factor driving sales growth in 2019 since the same-store sales continued to be pressured by the slowdown in the Thai economy. The company's same-store sales declined 0.3% and 4.9% y-o-y in the second and third quarters of 2019 respectively, when comparing the high-base in 2018 due to the 2018 FIFA World Cup. However, BIGC's gross profit margin improved during the year as a result of more careful control of promotional spending and lowers logistic costs.

Moreover, China's travel restrictions amid new coronavirus (COVID-19) outbreak recently could kneecap Thai's tourism, transportation, and retail sales businesses. BIGC's sales, particularly stores located in the tourist destinations, may be affected to some degree from the drop in numbers of Chinese tourists.

Overall, BJC's financial performance is reasonably profitable with acceptable balance sheet and liquidity. For the first nine months of 2019, BJC generated Bt15.4 billion of EBITDA (earnings before interest, taxes, depreciation, and amortization) and Bt11.8 billion of funds from operations (FFO). However, BJC's leverage remains high. The company's net debt was Bt153.6 billion. The adjusted ratio of debt to EBITDA was 7.2 times. The ratio of the FFO to net debt was at 9.7% as of September 2019.

As Tesco is considering a sale of its Asia businesses, if BJC decides to bid, this could cost around US\$9 billion, or about Bt300 billion. In its bid for the acquisition, BJC aims to attain strategic objectives in synergies with BIGC, cost savings, and enhanced competitiveness. Given the potentially huge acquisition

cost, a successful bidding will likely require substantial new loans to finance the acquisition. Thus, the scenario of a large debt-funded acquisition could materially deteriorate BJC's financial profile and credit ratings.

RATING OUTLOOK

The "negative" outlook reflects the slow progress of BJC's deleveraging plan. The company's financial leverage has stayed persistently high since the BIGC acquisition in 2016.

RATING SENSITIVITIES

BJC's ratings could be downgraded if the company is unable to lower its leverage with the net debt to EBITDA ratio staying above 5 times by 2020. A downgrade could also be triggered by weakening market positions in key businesses, leading to weak sales growth and profit margins. Large debt-funded investments and/or acquisitions will be additional negative factors weighing on BJC's credit quality. The outlook could be revised back to "stable" if BJC is able to lower its leverage with the net debt to EBITDA ratio staying below 5 times.

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Berli Jucker PLC (BJC)

Company Rating:	A+
Issue Ratings:	
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+
BJC223B: Bt3,000 million senior unsecured debentures due 2022	A+
BJC233A: Bt5,000 million senior unsecured debentures due 2023	A+
BJC239A: Bt3,000 million senior unsecured debentures due 2023	A+
BJC239B: Bt4,000 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+
BJC249A: Bt7,000 million senior unsecured debentures due 2024	A+
BJC259A: Bt3,000 million senior unsecured debentures due 2025	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+
BJC273B: Bt3,000 million senior unsecured debentures due 2027	A+
BJC279A: Bt1,000 million senior unsecured debentures due 2027	A+
BJC293A: Bt5,000 million senior unsecured debentures due 2029	A+
BJC299A: Bt7,000 million senior unsecured debentures due 2029	A+
Up to Bt12,000 million senior unsecured debentures due within 12 years	A+
Rating Outlook:	Negative

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