

EK-CHAI DISTRIBUTION SYSTEM CO., LTD.

No. 88/2022
19 August 2022

CORPORATES

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

Last Review Date: 11/07/22

Company Rating History:

Date	Rating	Outlook/Alert
11/07/22	A+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Ek-Chai Distribution System Co., Ltd. (EKCHAI) at “A+” with a “stable” rating outlook. At the same time, TRIS Rating assigns the rating of “A+” to EKCHAI’s proposed issue of up to THB30 billion in senior unsecured debentures. The proceeds from the debenture issuance will be used for debt refinancing and working capital needs.

The rating incorporates our view on the company’s group status as a highly strategically important affiliate of CP All PLC (CPALL, rated “A+/Stable” by TRIS Rating), and our assessment on EKCHAI’s stand-alone credit profile (SACP) of “a+”.

EKCHAI operates a hypermarket chain under the “Lotus’s” brand in Thailand. The company rating reflects its position as a leading operator of hypermarket in Thailand. Its competitive edge is underpinned by large leasable areas in prime locations as well as the cash generating nature of the grocery retailing business. However, the business risk profile is constrained by intense competition in the modern-trade retail industry, secular changes in consumer behavior toward online shopping, as well as challenges from rising inflation and economic uncertainty.

We expect EKCHAI’s operating performance to recover steadily in both the retail sale and rental income as the pandemic situation improves. Our base-case forecast projects EKCHAI’s revenue to escalate by 7%-8% per annum to reach THB183-THB213 billion in 2022-2024, driven by better product mix, new store opening, and rising contribution from rental income. However, the company’s profitability will likely remain under pressure from the rebranding and information technology (IT) expenses over the next few years. We project EKCHAI’s earnings before interest, taxes, depreciation, and amortization (EBITDA) to hover around THB20-THB26 billion in 2022-2024, while its debt to EBITDA ratio to improve gradually and fall below 4 times by 2024.

The debenture covenant requires the company’s net interest-bearing debt to equity ratio (excluding lease liability) to remain below 2.5 times. As of June 2022, EKCHAI’s net interest-bearing debt to equity ratio was 1.8 times. We expect the company will remain in compliance with this covenant over the forecast period.

RATING OUTLOOK

The “stable” outlook reflects our expectation that EKCHAI will maintain its leading position in the retailing industry in Thailand despite the challenging business conditions and intense competition. We expect the company’s leverage to remain at an acceptable level even as the company continues to pursue growth.

RATING SENSITIVITIES

As a highly strategically important affiliate of CPALL, the ratings on EKCHAI are subject to the cap of the company rating assigned to CPALL. However, in the scenario EKCHAI’s SACP falls below CPALL’s group credit profile, the ratings on EKCHAI would be one-notch below the company rating assigned to CPALL. A rating change on CPALL could trigger a rating change on EKCHAI.

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company’s current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been “upgraded,” “downgraded,” “affirmed” or “cancelled.” The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating’s monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

EKCHAI's SACP could be revised downward if its operating performance falls significantly below the anticipated levels, or any debt-funded investments materially weaken the company's balance sheet and cash flow protection, such that the adjusted debt to EBITDA ratio rises above 8 times for a sustained period.

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
- Group Rating Methodology, 13 January 2021

Ek-Chai Distribution System Co., Ltd. (EKCHAI)

Company Rating:	A+
Issue Rating:	
Up to THB30,000 million senior unsecured debentures due within 7 years	A+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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