

CP ALL PLC

No. 62/2021
25 August 2021

CORPORATES

Company Rating:	A+
Issue Ratings:	
Senior unsecured	A+
Hybrid	A-
Outlook:	Stable

Last Review Date: 01/06/21

Company Rating History:

Date	Rating	Outlook/Alert
08/12/20	A+	Stable
13/03/20	AA-	Alert Negative
10/07/19	AA-	Stable
09/10/17	A+	Stable

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RATIONALE

TRIS Rating affirms the company rating on CP All PLC (CPALL) and the ratings on its outstanding senior unsecured debentures at "A+". At the same time, TRIS Rating assigns the rating of "A-" to CPALL's proposed issue of up to THB10 billion subordinated perpetual debentures (hybrid debentures). The rating on CPALL's hybrid debentures is two notches below the company rating. This rating differential reflects the subordinated nature of the hybrid debentures and the option of the issuer to defer coupons on a cumulative basis. The proceeds from the new debentures are intended to be used to refinance its outstanding hybrid debentures.

The features of the proposed hybrid debentures include the debenture holders' subordinated rights, the issuer's right to defer interest payments, a five-year non-call period, and sufficiently permanent nature of the received capital. These features qualify the hybrid debentures for the treatment of "intermediate" equity content according to TRIS Rating's criteria. TRIS Rating will treat 50% of the outstanding amount of the hybrid debentures as equity and the other 50% as debt when calculating financial ratios. The equity content will change from "intermediate" to "nil" (or 0% of equity treatment for this issue) at the end of the fifth year from the issuance date. This is because, five years after issuance, the remaining effective tenor of the issue will be less than 20 years. According to TRIS Rating's criteria, the effective maturity date of the issue is defined as the date when there is a material step up of the coupon rate (equal to or more than 100 basis points or bps). In this case, the interest spread of the hybrid debentures will step up by 100 bps at the end of the 25th year after issuing date.

Except for certain events as specified in the terms and conditions (e.g. changes in the tax and accounting treatments of hybrid securities or a change in the rating agency's criteria used to assess the equity content of the issue), CPALL intends (but is not obliged) to replace, redeem, or repurchase the hybrid debentures with an instrument that has similar or higher equity content. TRIS Rating could lower the equity content of the proposed hybrid debentures, to "nil" from "intermediate" if we believe that the company has an intention to deviate from the replacement capital covenant (RCC).

The prolonged COVID-19 pandemic has weakened CPALL's operating revenue and profitability. During the first half of 2021, CPALL reported total operating revenue of THB273.7 billion, down by 1.1% year-on-year (y-o-y). Earnings before interest, taxes, depreciation, and amortization (EBITDA) decreased by 5.2% y-o-y to THB23.0 billion in the first half of 2021. The EBITDA margin was 8.5% in the first half of 2021, compared with 8.8% during the same period of 2020.

CPALL's financial leverage has continued its rise, following its weakened operating results and ongoing expansions. Adjusted debt was THB292.7 billion at the end of June 2021, compared with THB279.0 billion in 2020. The ratio of debt to capitalization ratio rose to 76.7% from 75.3% in 2020, while the adjusted debt to EBITDA increased to 6.2 times from 5.7 times in 2020.

For the remainder of 2021, we expect CPALL's operations will continue to face several challenges. The ongoing surge in COVID-19 infection cases and slow pace of vaccine rollouts in Thailand continue to cloud the prospects of tourism and economic recovery. We expect significant recovery to begin in late-2022 after a certain threshold of public vaccinations has been achieved, with the easing of cross-border travel restrictions as well as the return of social and economic normality. Nevertheless, we believe the company's strategies of focusing on omni-channels, together with new service offerings should help sustain its strong operating performance over the next few years.

We revised our projection downward to reflect the slower-than-previously expected recovery following the escalation of the COVID-19 situation. Under this revised projection, CPALL's EBITDA is projected to decrease by 3% y-o-y to THB47 billion in 2021, before climbing to THB53-THB59 billion in 2022-2023, while its debt to EBITDA ratio to surge to 6.2 times in 2021 before gradually improving to stay below 5.0 times in 2023.

We assess CPALL's liquidity to be manageable over the next 12 months. At the end of June 2021, CPALL had cash on hand of THB31.0 billion. We forecast the company's funds from operations (FFO) to be around THB32 billion in 2021. We assess the company's cash on hand plus FFO as sufficient to cover scheduled debt repayments of approximately THB11.2 billion, and capital spending of around THB18 billion.

The financial covenant on CPALL's debentures requires the company's net interest-bearing debt to equity ratio (excluding lease liability) to remain below 2 times. As of June 2021, CPALL'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 TRIS Rating's expectation that CPALL will sustain its leading position and competitive edge and continue to deliver sound financial results. We expect its high level of cash balance and stable cash flow will continue to provide sufficient financial strength to support its future expansion plans.

RATING SENSITIVITIES

CPALL's ratings and/or outlook could be revised upward should the company materially improve its capital structure and cash flow protection. However, the ratings and/or outlook would be revised downward if the operating performance is materially weaker than expected or there are sizable debt-funded investments, which are expected to result in the material weakening of capital structure and debt serviceability.

RELATED CRITERIA

- Hybrid Securities Rating Criteria, 28 June 2021
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

CP AII PLC (CPALL)

Company Rating:	A+
Issue Ratings:	
CPALL221A: THB5,000 million senior unsecured debentures due 2022	A+
CPALL22NA: THB9,000 million senior unsecured debentures due 2022	A+
CPALL233B: THB6,000 million senior unsecured debentures due 2023	A+
CPALL236A: THB3,000 million senior unsecured debentures due 2023	A+
CPALL246A: THB3,000 million senior unsecured debentures due 2024	A+
CPALL256B: THB13,200 million senior unsecured debentures due 2025	A+
CPALL256C: THB6,500 million senior unsecured debentures due 2025	A+
CPALL263B: THB10,000 million senior unsecured debentures due 2026	A+
CPALL266A: THB17,773 million senior unsecured debentures due 2026	A+
CPALL271A: THB2,466 million senior unsecured debentures due 2027	A+
CPALL275A: THB1,698.7 million senior unsecured debentures due 2027	A+
CPALL27NA: THB9,000 million senior unsecured debentures due 2027	A+
CPALL283B: THB6,800 million senior unsecured debentures due 2028	A+
CPALL286A: THB7,376 million senior unsecured debentures due 2028	A+
CPALL291A: THB1,920 million senior unsecured debentures due 2029	A+
CPALL305A: THB2,169.3 million senior unsecured debentures due 2030	A+
CPALL305B: THB2,350 million senior unsecured debentures due 2030	A+
CPALL311A: THB5,614 million senior unsecured debentures due 2031	A+
CPALL313A: THB3,600 million senior unsecured debentures due 2031	A+
CPALL316A: THB21,351 million senior unsecured debentures due 2031	A+
CPALL325A: THB3,632 million senior unsecured debentures due 2032	A+
CPALL336A: THB7,000 million senior unsecured debentures due 2033	A+
CPALL359A: THB3,450 million senior unsecured debentures due 2035	A+
CPALL363A: THB1,500 million senior unsecured debentures due 2036	A+
Up to THB 10,000 million subordinated capital debentures	A-
Rating Outlook:	Stable

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