CP ALL PLC

No. 88/2020
8 December 2020

CORPORATES

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

Last Review Date: 21/07/20

Company Rating History:

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

Contacts:

Nauwarut Temwattanangkul
nauwarut@trisrating.com

Jutatip Chitphromphan
jutatip@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Sasiporn Vajarodaya
sasiporn@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating removes the CreditAlert with "negative" implication placed on the company rating and issue ratings on CP All PLC (CPALL) since 13 March 2020. At the same time, TRIS Rating downgrades the company rating and the ratings on CPALL's outstanding senior unsecured debentures to "A+" from "AA-" with a "stable" outlook.

The downgrade reflects CPALL's weakened capital structure in relation to its sizable debt-funded acquisition of a 40% equity interest in Tesco Stores (Thailand) Ltd. and Tesco Stores (Malaysia) Sdn. Bhd. The acquisition cost is up to USD3 billion (equivalent to approximately THB96 billion) is expected to be funded by mainly debt financing. We project the new debt to result in a surge in CPALL's adjusted debt to interest, tax, depreciation, and amortization (EBITDA) ratio from 4.1 times to around 6 times, and the company's total debt to capitalization ratio to rise to around 76%, from 70% as of September 2020.

CPALL's operation has been affected materially by the COVID-19 pandemic with a significant drop in revenue from its 7-Eleven stores. During the first nine months of 2020, CPALL's operating revenue declined by 3.2% year-on-year (y-o-y) to THB409.2 billion, compared with the growth rate of 8%-11% over the past few years.

The 7-Eleven stores posted negative same-store-sales for three consecutive quarters. The number of customers, especially in tourist areas, fell considerably as COVID-19 induced cross-border travel restrictions have caused a drastic decline in tourist arrivals. In contrast, MAKRO delivered an acceptable operating performance. Same-store sales of MAKRO were negative in the second quarter, but bounced back with a 3.9% growth in the third quarter.

Profitability has weakened. EBITDA decreased by 5.9% y-o-y to THB36.2 billion during the first nine months of 2020, while funds from operations (FFO) dropped by 2.0% y-o-y to THB27.3 billion. The EBITDA margin was 8.8% in the first nine months of 2020, down from 9.2%-9.5% during the past few years. In our view, the impact of COVID-19 that has weakened consumer purchasing power and held back tourist arrivals, will likely linger for most of 2021. We expect the situation to gradually improve, helped by the government's stimulus package and widely available vaccination.

We continue to hold our view on CPALL's strong business profile, underpinned by its market position as the dominant operator of convenience stores in Thailand, the cash-base nature of its business, the strength of its nationwide store network, and its well-established support facilities.

RATING OUTLOOK

The "stable" outlook reflects our expectation that CPALL will be able to maintain its market position and competitive edge and continue to deliver sound financial results in the foreseeable future.

Our base-case forecast has not yet factored in potential synergies from the acquisition. We expect the company's source of debt repayment to come from its operating cashflow over the next few years. We project the company's total debt to EBITDA ratio, post-acquisition, to decline to below 5 times in 2023.

RATING SENSITIVITIES

CPALL's ratings and/or outlook could be revised upward should the company noticeably improve its capital structure and cash flow protection, so that the ratio of adjusted debt to EBITDA falls below 5 times for a sustained period. On the contrary, the ratings and/or outlook would be revised downward if the operating performance is weaker than expected or there are sizable debt-funded investments that result in further weakening of capital structure and debt serviceability.

COMPANY OVERVIEW

CPALL was established in 1988 by the Charoen Pokphand Group. CPALL has been granted exclusive rights from 7-Eleven, Inc., USA, under an Area License Agreement, to be the sole operator of 7-Eleven convenience stores in Thailand. As of December 2019, Charoen Pokphand Group Co., Ltd. (CPG) and its affiliates held approximately 36% of CPALL's shares.

As of September 2020, CPALL has 12,225 7-Eleven stores nationwide. An average of 917 customers visit each store each day and daily sales per store average THB69,068. CPALL's competitive edge is enhanced by its supportive facilities run by its subsidiaries, such as food and bakery production, the logistics network, nationwide distribution centers, as well as colleges to provide staff training and other educational services.

Apart from Thailand, CPALL has been granted franchising rights in the establishment and operation of 7-Eleven stores in Cambodia and the Lao People's Democratic Republic (Lao PDR).

CPALL acquired nearly all (98%) of MAKRO's shares for THB188 billion in 2013. MAKRO is a food wholesaler with five store formats: classic, food service, eco plus, food shop, and frozen shop. At the end of March 2020, MAKRO owned 129 stores in Thailand, comprising 79 large stores (classic format), 38 medium-sized stores (food service and eco plus), and 12 small stores (food shop and frozen shop). MAKRO has expanded abroad since 2017. At present, MAKRO owns two stores in Cambodia, three stores in India, a store in China and a store in Myanmar.

In March 2020, CPALL entered into an agreement to acquire up to 40% of total issued shares in Tesco Stores (Thailand) Limited and Tesco Stores (Malaysia) Sdn. Bhd. The acquisition cost for the 40% interest is up to USD3 billion (equivalent to approximately THB96.0 billion), which CPALL intends to fund via 100% debt financing. This acquisition meets the conditions precedent, which are approval from the relevant regulators, the Office of Trade Competition Commission of Thailand, and the Ministry of Domestic Trade and Consumers Affairs of Malaysia, in November 2020.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

		----------------Year Ended 31 December --------------			
	Jan-Sep 2020	2019	2018	2017	2016
Total operating revenues	409,203	570,712	526,855	489,165	451,632
Earnings before interest and taxes (EBIT)	20,883	36,397	34,428	32,779	29,712
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	36,165	52,264	49,519	46,654	42,080
Funds from operations (FFO)	27,321	37,566	35,278	33,147	28,689
Adjusted interest expense	6,595	10,628	10,272	10,020	10,067
Capital expenditures	13,187	17,902	15,771	18,104	19,308
Total assets	443,650	375,617	373,741	360,299	352,268
Adjusted debt	204,911	183,563	182,311	180,293	184,839
Adjusted equity	87,857	88,459	79,910	60,320	49,650
Adjusted Ratios					
EBITDA margin (%)	8.84	9.16	9.40	9.54	9.32
Pretax return on permanent capital (%)	9.97	12.14	12.13	12.15	11.46
EBITDA interest coverage (times)	5.48	4.92	4.82	4.66	4.18
Debt to EBITDA (times)	4.10	3.51	3.68	3.86	4.39
FFO to debt (%)	18.06	20.46	19.35	18.39	15.52
Debt to capitalization (%)	69.99	67.48	69.53	74.93	78.83

RELATED CRITERIA

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

CP All 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+
CPALL256B: THB13,200 million senior unsecured debentures due 2025	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+
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+
CPALL325A: THB3,632 million senior unsecured debentures due 2032	A+
CPALL359A: THB3,450 million senior unsecured debentures due 2035	A+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000