

CP ALL PLC

No. 115/2024
5 July 2024

CORPORATES

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

Last Review Date: 04/06/24

Company Rating History:

Date	Rating	Outlook/Alert
05/07/23	A+	Positive
08/12/20	A+	Stable
13/03/20	AA-	Alert Negative
10/07/19	AA-	Stable
09/10/17	A+	Stable

Contacts:

Nauwarut Temwattanangkul

nauwarut@trisrating.com

Sarinthorn Sosukpaibul

sarinthorn@trisrating.com

Wajee Pitakpaibulkij

wajee@trisrating.com

Sasiporn Vajarodaya

sasiporn@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating upgrades the company rating on CP All PLC (CPALL) and the ratings on its senior secured debentures and senior unsecured debentures to “AA-” from “A+”. At the same time, TRIS Rating upgrades the rating on CPALL’s subordinated capital debentures (hybrid debentures) to “A” from “A-”. The rating outlook revises to “stable” from “positive”.

The upgrades reflect CPALL’s strengthening financial profile, bolstered by its solid earnings and lower leverage. CPALL is expected to further deliver sound operating performance and maintain its debt to EBITDA ratio to below 5 times on a sustained basis, despite pressure from uncertain economic conditions. The ratings continue to reflect CPALL’s strong business profile, underpinned by its nationwide store network and well-established support facilities. CPALL’s competitive edge is also strengthened by its subsidiaries and leading positions in the wholesale and grocery retail markets. However, the ratings are held back by intense competition in the retail industry as well as shifts in consumer preferences toward online shopping.

KEY RATING CONSIDERATIONS

Leading position in Thailand’s retail sector

CPALL's strong business profile is underpinned by its dominant status in the convenience store business under the well-known brand “7-Eleven” and the wholesale business “Makro” stores through its subsidiary, CP Axtra PLC (CPAXT). Also, the company’s position is reinforced through the acquisition of Ek-Chai Distribution System Co., Ltd. (LOTUSS) and Lotus’s Stores (Malaysia) Sdn. Bhd., the operator of Lotus’s hypermarkets in Thailand and Malaysia. Through the integration of its subsidiaries, CPALL’s market position is further entrenched with a comprehensive market coverage and substantially enlarged customer bases and channel diversifications.

Satisfactory growth in operating revenue

TRIS Rating views CPALL as sustaining its growth momentum over the next three years. The driver will come from the continuing rebound in the tourism sector, combined with the company’s successful omni-channel and marketing strategies. Growth is further supported by the company’s ongoing expansion plan in various store formats.

During 2023 through the first quarter of 2024, CPALL reported solid revenue growth at 8%-8.5% year-on-year (y-o-y). Growth came from the 12% growth of 7-Eleven convenience stores following strong post-COVID recovery, coupled with new product offerings and marketing campaigns. Thanks to the contribution from the e-commerce channel and business-to-business (B2B) sales team, revenue from the wholesale and retail businesses continued to grow at mid-single digits despite negative impact from price deflation in fresh food products and stiff competitions.

Our base-case scenario forecasts CPALL’s operating revenue to grow by 5% per annum in 2024-2026, derived from mid-single digit growth from convenience stores and the wholesale business, together with low-single digit growth from the retail business.

Sustained satisfactory margin expected

With better product mix and cost controls, the company's EBITDA margin improved to 8.7% in 2023 and 9.1% in the first quarter of 2024, compared with 8.6% in 2022. Combined with favorable revenue growth, EBITDA grew by 8.7% y-o-y to THB79.7 billion in 2023 and up by 13.6% y-o-y to THB22 billion in the first quarter of 2024.

Looking forward, we anticipate CPALL's profitability to improve gradually. CPALL has the agility to well respond to the shift in customers' demand through new product and service offerings as well as leveraging its omni-channel integration and technology investments. Cost reductions and synergy improvements from the amalgamation of its subsidiaries will also come to profit enhancement. Under our base case scenario, we expect CPALL's EBITDA margin to hover around 8.4% in 2024-2026, placing EBITDA in the THB80-THB90 billion per annum range in 2024-2026.

Financial leverage ratio to improve

Given earnings and cashflow expansion, CPALL's leverage ratio improved steadily. The debt to EBITDA ratio decreased substantially from 5.3 times in 2022 to 4.6-4.7 times in 2023 through the first quarter of 2024. Despite sizable capital expenditures, we expect CPALL's leverage ratio to continue declining, driven by a growing earning base following the revival of the tourism sector.

To pursue its growth strategy in omni-channel and multi-format stores, CPALL's capital expenditures are projected to be around THB36-THB38 billion per year over the next three years. The investments include THB13 billion per year in 7-Eleven stores, THB10-THB11 billion per year in Makro's cash and carry stores, and THB12-THB13 billion per year in Lotus's hypermarket outlets in Thailand and Malaysia. Given the growing revenue and earning bases, we project CPALL's debt to EBITDA ratio to hover around 4.7 times in 2024 and 4.5 times in 2025-2026, and the debt to capitalization ratio to be around 55%.

Ample liquidity

As of March 2024, its sources of funds comprised cash on hand and cash equivalents of THB56 billion, plus undrawn bank facility of about TH28 billion. We forecast funds from operations (FFO) to be around THB60 billion in 2024. Sources of funds should be sufficient to cover scheduled long-term debt repayments and capital spending in the next 12 months of THB38 billion and THB36 billion, respectively.

The financial covenant on CPALL's debenture obligations requires the company's net interest-bearing debt to equity ratio to stay below 2.0 times. As of March 2024, the ratio was 0.8 times. We expect CPALL to remain in compliance with the financial covenants over the next 12 to 18 months.

Debt structure

At the end of March 2024, CPALL's total outstanding debt, excluding financial leases, was THB333.1 billion, of which about THB108.6 billion was priority debt. This translates to a priority debt to total debt ratio of 33%.

BASE CASE ASSUMPTIONS

- CPALL's operating revenue to grow by 5% in 2024-2026.
- The adjusted EBITDA margin to hover around 8.4% in 2024-2026.
- Total capital spending of around THB36-THB38 billion per year in 2024-2026.

RATING OUTLOOK

The "stable" outlook reflects our expectation that CPALL will be able to maintain its leading position in Thai retail market and sustain its competitive edges 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

The ratings on CPALL could be revised upward should the company further improve its capital structure and cash flow protection such that the adjusted debt to EBITDA ratio falls below 3.5 times over a sustained period. Conversely, a downgrade could occur if its operating performance is materially weaker than expected or if CPALL makes any sizable debt-funded investments that materially weaken its balance sheet, such that the adjusted debt to EBITDA ratio sustained above 5 times.

COMPANY OVERVIEW

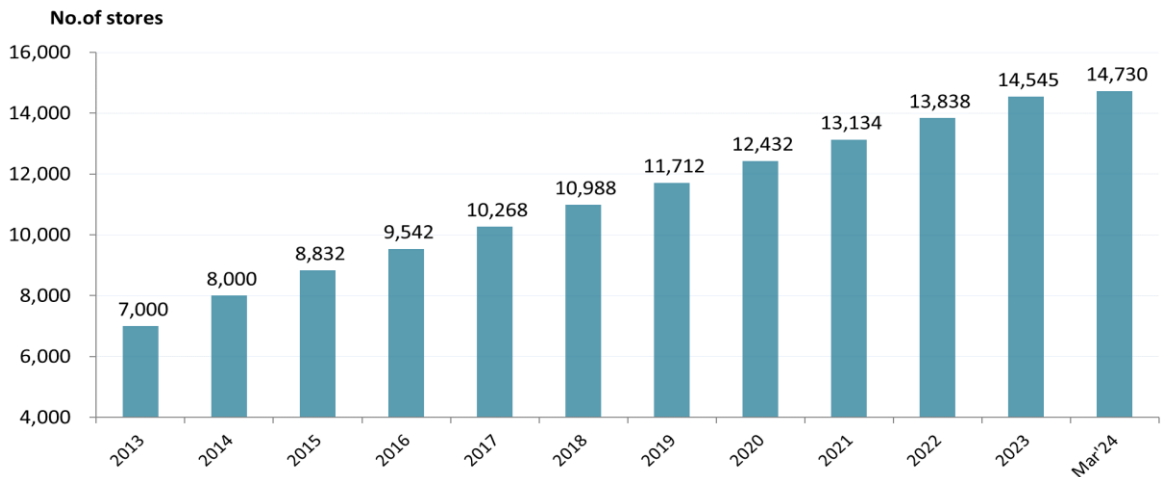
CPALL was established in 1988 by the Charoen Pokphand Group. CPALL has been granted exclusive rights from 7-Eleven, Inc., USA, under an Area License Agreement, to be the sole operator of 7-Eleven convenience stores in Thailand. As of March 2024, Charoen Pokphand Foods PLC (CPF) and its affiliates held approximately 34.5% of CPALL’s shares.

As of March 2024, CPALL had 14,730 stores nationwide. 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). As of March 2024, there were 84 stores in Cambodia and 4 stores in the Lao PDR.

CPALL’s strong market presence is supported by the acquisition of CPAXT, formerly named Siam Makro PLC (MAKRO) in 2013 and the acquisition of Lotus’s stores in Thailand and Malaysia during late-2020. CPAXT, a leading wholesaler in Thailand, operates wholesale business under the “Makro” brand. As of March 2024, CPAXT owned 160 stores in Thailand, and 9 stores overseas (Cambodia, India and Myanmar). Lotus’s is a leading grocery retailer and mall operator in Thailand and Malaysia. As of March 2024, Lotus’s owned 2,448 stores with 0.8 million square meters (sq.m.) of permanent leasable area in Thailand, and 69 stores with 0.3 million sq.m. of leasable area in Malaysia.

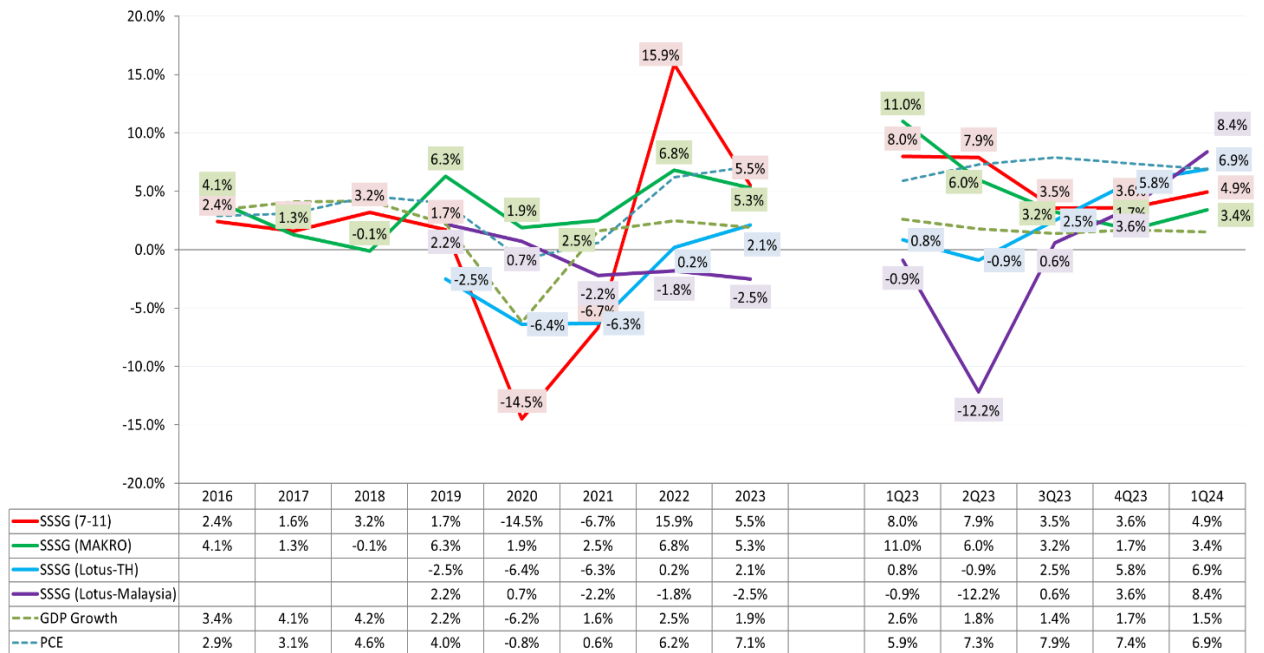
KEY OPERATING PERFORMANCE

Chart 1: 7-Eleven’s Expansion



Source: CPALL

Chart 2: 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-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	240,840	920,373	852,322	585,676	546,207
Earnings before interest and taxes (EBIT)	12,850	43,182	37,029	24,422	27,857
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	21,978	79,655	73,301	49,216	48,571
Funds from operations (FFO)	16,373	58,111	51,803	32,837	36,051
Adjusted interest expense	3,962	16,956	17,176	13,589	9,590
Capital expenditures	9,469	29,218	31,520	17,757	17,389
Total assets	921,361	926,491	924,061	931,893	523,354
Adjusted debt	380,148	377,505	392,122	391,723	278,993
Adjusted equity	303,362	296,618	285,324	277,874	91,686
Adjusted Ratios					
EBITDA margin (%)	9.1	8.7	8.6	8.4	8.9
Pretax return on permanent capital (%)	6.2	5.8	4.9	4.1	7.8
EBITDA interest coverage (times)	5.5	4.7	4.3	3.6	5.1
Debt to EBITDA (times)	4.6	4.7	5.3	8.0	5.7
FFO to debt (%)	16.0	15.4	13.2	8.4	12.9
Debt to capitalization (%)	55.6	56.0	57.9	58.5	75.3

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

CP AII PLC (CPALL)

Company Rating:	AA-
Issue Ratings:	
CPALL248B: THB10,439 million senior secured debentures due 2024	AA-
CPALL256B: THB13,200 million senior unsecured debentures due 2025	AA-
CPALL256C: THB6,500 million senior unsecured debentures due 2025	AA-
CPALL263A: THB2,074 million senior unsecured debentures due 2026	AA-
CPALL263B: THB10,000 million senior unsecured debentures due 2026	AA-
CPALL266A: THB17,773 million senior unsecured debentures due 2026	AA-
CPALL268A: THB748 million senior unsecured debentures due 2026	AA-
CPALL271A: THB2,466 million senior unsecured debentures due 2027	AA-
CPALL272A: THB3,500 million senior unsecured debentures due 2027	AA-
CPALL275A: THB1,698.7 million senior unsecured debentures due 2027	AA-
CPALL275B: THB8,000 million senior unsecured debentures due 2027	AA-
CPALL278A: THB3,000 million senior unsecured debentures due 2027	AA-
CPALL278B: THB2,548.2 million senior unsecured debentures due 2027	AA-
CPALL27NA: THB9,000 million senior unsecured debentures due 2027	AA-
CPALL283A: THB2,607 million senior unsecured debentures due 2028	AA-
CPALL283B: THB6,800 million senior unsecured debentures due 2028	AA-
CPALL286A: THB7,376 million senior unsecured debentures due 2028	AA-
CPALL288A: THB4,851 million senior unsecured debentures due 2028	AA-
CPALL28OA: THB6,119.2 million senior unsecured debentures due 2028	AA-
CPALL291A: THB1,920 million senior unsecured debentures due 2029	AA-
CPALL293A: THB4,500 million senior unsecured debentures due 2029	AA-
CPALL293B: THB8,640 million senior unsecured debentures due 2029	AA-
CPALL298A: THB9,738.6 million senior unsecured debentures due 2029	AA-
CPALL302A: THB3,930 million senior unsecured debentures due 2030	AA-
CPALL305A: THB2,169.3 million senior unsecured debentures due 2030	AA-
CPALL305B: THB2,350 million senior unsecured debentures due 2030	AA-
CPALL30OA: THB1,493.5 million senior unsecured debentures due 2030	AA-
CPALL311A: THB5,614 million senior unsecured debentures due 2031	AA-
CPALL313A: THB3,600 million senior unsecured debentures due 2031	AA-
CPALL316A: THB21,351 million senior unsecured debentures due 2031	AA-
CPALL325A: THB3,632 million senior unsecured debentures due 2032	AA-
CPALL325B: THB960 million senior unsecured debentures due 2032	AA-
CPALL328A: THB899.8 million senior unsecured debentures due 2032	AA-
CPALL336A: THB7,000 million senior unsecured debentures due 2033	AA-
CPALL33OA: THB5,387.3 million senior unsecured debentures due 2033	AA-
CPALL343A: THB3,200 million senior unsecured debentures due 2034	AA-
CPALL352A: THB4,570 million senior unsecured debentures due 2035	AA-
CPALL359A: THB3,450 million senior unsecured debentures due 2035	AA-
CPALL363A: THB1,500 million senior unsecured debentures due 2036	AA-
CPALL363B: THB2,200 million senior unsecured debentures due 2036	AA-
CPALL378A: THB1,386.5 million senior unsecured debentures due 2037	AA-
CPALL21PA: THB10,000 million subordinated capital debentures	A
Up to THB13,000 million senior unsecured debentures due within 12 years	AA-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 02-098-3000

© Copyright 2024, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria