

# CP ALL PLC

No. 108/2019  
10 July 2019

## CORPORATES

Company Rating:	AA-
Issue Ratings:	
Senior unsecured	AA-
Outlook:	Stable

Last Review Date: 12/12/18

### Company Rating History:

Date	Rating	Outlook/Alert
09/10/17	A+	Stable

### Contacts:

Nauwarut Temwattanangkul

nauwarut@trisrating.com

Jutatip Chitphromphan

jutatip@trisrating.com

Sasiporn Vajarodaya

sasiporn@trisrating.com



WWW.TRISRATING.COM

## RATIONALE

TRIS Rating upgrades the company rating on CP All PLC (CPALL) to “AA-” from “A+”, with a “stable” outlook. The upgrade reflects an improved capital structure and strong cash flow of CPALL.

At the same time, TRIS Rating also upgrades the ratings on CPALL’s senior unsecured debentures to “AA-” from “A”. The upgrades of the issue ratings reflect TRIS Rating’s expectation that CPALL’s secured debts to total assets will stay below the 20% threshold. Accordingly, CPALL’s senior unsecured debentures are assigned the same ratings as the company rating of CPALL.

The ratings continue to reflect CPALL’s strong business profile, supported by its proven record as the dominant operator of convenience stores in Thailand, the cash-based nature of its business, strength of nationwide store network, and well-established support facilities. However, the ratings also take into consideration the intense competition and the slow pace of the economic recovery in Thailand, which affects consumer spending.

## KEY RATING CONSIDERATIONS

### Improved financial results and outlook

Success in improving efficiencies and rising revenue contribution from high margin products attributed to the satisfactory profit margin, despite the drag of sizable pre-operating expenses from Siam Makro PLC’s (MAKRO) operation abroad. CPALL’s operating margin ranged between 9.3%-9.5% during 2017 through the first quarter of 2019. Earnings before interest, tax, depreciation and amortization (EBITDA) increased steadily to Bt49.3 billion in 2018 and Bt13.2 billion in the first quarter of 2019 from Bt46.6 billion in 2017. Additionally, CPALL has new sources of revenue and profit from new service offerings (such as banking agent service and parcel delivery service). In our base case scenario, CPALL’s EBITDA will grow to Bt56.1 billion in 2021.

### Steady decline in leverage

We expect CPALL’s capital structure to improve gradually despite ongoing expansions of 7-Eleven and MAKRO. CPALL’s leverage shot up as a result of the sizable debt-funded acquisition of MAKRO in late-2013. Thanks to the strong operating cash flows generated over the past five years and the proceeds from partial disposals of MAKRO’s shares, the ratio of adjusted debt to EBITDA has declined considerably. The ratio slipped to 3.4 times in 2018 and 3.3 times (annualized, from the trailing 12 months) during the first quarter of 2019 from 5.5 times in 2014.

Over the next three years, we expect CPALL’s capital expenditures to be around Bt20 billion per year, including the expansion of 700 stores of 7-Eleven and 8-10 branches of MAKRO per year, domestically and overseas. CPALL’s projected operating cash flow will likely be sufficient to fund the capital spending plans. We forecast the adjusted debt to EBITDA to improve to around 2.4 times in 2021, assuming that CPALL does not divest its equity holding in MAKRO.

### Repayments of secured debts

Previously, TRIS Rating rated CPALL’s outstanding senior unsecured debentures, worth Bt33.0 billion, one notch below its company rating to reflect the debentures’ inferior position on asset claims. The secured debts

have dropped from Bt92.1 billion in 2017 (25.6% of total assets) to Bt74.8 billion at the end of March 2019 (19.9% of total assets), and are expected to decline to Bt68.8 billion at the end of 2019 (18.0% of total assets).

### Moderate sales growth

We forecast CPALL's operating revenue to grow at a rate of 6%-7% per year over the next three years. The key driver of growth will be from continuing store expansion.

Operating revenue climbed by 7.8% year-on-year (y-o-y) to Bt527.5 billion in 2018, slightly lower than the growth rate of 8%-11% achieved in 2015-2017. New store opening has been the key growth driver, while same-store sales grew at a lower rate. Same-store sales of 7-Eleven grew by 3.2% in 2018, while that of MAKRO declined by 0.1% as a result of drops in the prices of food items.

During the first quarter of 2019, CPALL's operating revenue rose by 8.5% y-o-y to Bt138.8 billion. The growth drivers were attributed to the expansion of 7-Eleven new stores, rising sales volume of drinking products, and the increased prices of pork products that pushed up sales volume of MAKRO's food items.

### Sound liquidity

CPALL's liquidity profile is strong. Cash flow from operations, plus cash on hand, is sufficient to cover scheduled debt repayments, planned capital expenditures, and make regular dividend payments. Cash flow protection has improved gradually as operating performance improved. The ratio of funds from operations (FFO) to total debt improved to 21.4% in 2018 and 22.1% (annualized, from the trailing 12 months) during the first quarter of 2019 from 18.4% in 2017. The EBITDA interest coverage ratio was 5.1 times in 2018 and 5.5 times in the first quarter of 2019, improving from 4.7 times in 2017.

### Dominant market position

CPALL's strong business profile is underpinned by its status as the leading operator of convenience stores in Thailand. The company operates a nationwide convenience store chain under the well-known international brand, "7-Eleven". The 7-Eleven stores make up around two-thirds of all convenience stores in Thailand. As of March 2019, there were 11,299 7-Eleven stores nationwide. Nearly half (44%) of the stores are in Bangkok and vicinity, while the remaining 56% are in provincial areas. Additionally, CPALL is one of the most successful operators of 7-Eleven stores globally. Thailand is the nation with the second-largest number of 7-Eleven stores, trailing only Japan.

### BASE CASE ASSUMPTIONS

- CPALL's operating revenue will grow by 6%-7% annually.
- Gross profit margin is forecast at 22.4%-23.0%; the adjusted operating margin will stay around 8.7%-9.2%.
- Total capital spending will be around Bt20 billion per annum during 2019-2021.

### 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. Its high cash balance and stable cash flow will provide financial strength to support future expansion plans.

### RATING SENSITIVITIES

Any rating upside is limited in the short term due to the current upgrade. On the contrary, the outlook could be revised downward if the financial performance of CPALL is weaker than expected or if leverage is significantly higher, so that the ratio of adjusted debt to EBITDA exceeds 5 times on a sustained period.

### COMPANY OVERVIEW

CPALL was established in 1988 by the Charoen Pokphand Group. CPALL has been granted the exclusive right 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 2019, Charoen Pokphand Group Co., Ltd. (CPG) and its affiliates held approximately 36% of CPALL's shares.

Presently, CPALL has 11,299 of 7-Eleven stores nationwide. An average of 1,199 customers visit each store each day and daily sales per store averages Bt82,380. CPALL's competitive edge is enhanced by its supportive facilities that 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 is in the negotiation process of securing licenses for 7-Eleven stores in Cambodia and the Lao People's Democratic Republic (Lao PDR).

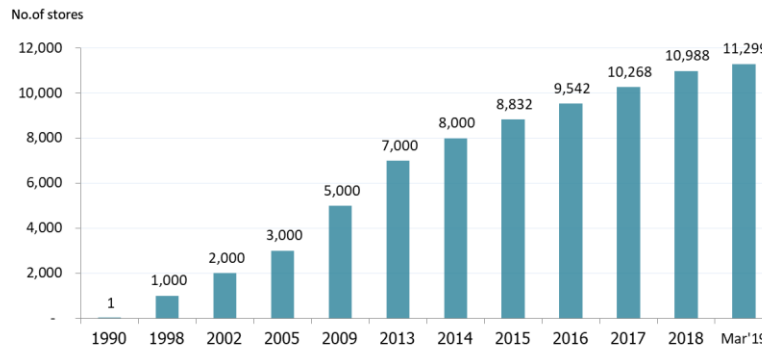
CPALL acquired nearly all (98%) of MAKRO's shares for Bt188 billion in 2013. MAKRO is a food wholesaler with five store

formats: Classic, Food service, Eco plus, Food shop, and Frozen shop. At the end of March 2019, 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. Presently, MAKRO owns two stores in Cambodia and three stores in India. The company plans to open 1-2 stores abroad in 2019.

Currently, CPALL owns a 93.01% stake in MAKRO. The market capitalization of MAKRO held by CPALL was approximately Bt166 billion as of June 2019. CPALL plans to reduce its stake in MAKRO steadily to 80%-85%, in order to comply with a regulation of the Stock Exchange of Thailand (SET).

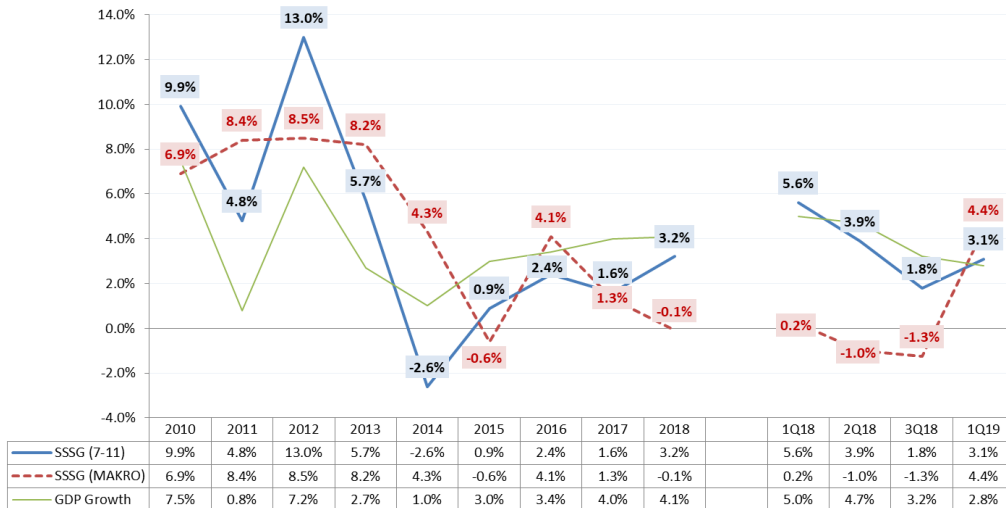
**KEY OPERATING PERFORMANCE**

**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  
 4) MAKRO

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Jan-Mar 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	138,783	527,540	489,165	451,632	405,689
Operating income	13,117	49,017	46,365	41,642	37,357
Earnings before interest and taxes (EBIT)	9,223	33,860	32,754	29,693	26,481
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	13,228	49,337	46,603	41,949	37,558
Funds from operations (FFO)	9,602	35,664	33,121	28,578	24,894
Adjusted interest expense	2,394	9,704	9,995	10,048	9,597
Capital expenditures	5,117	15,771	18,104	19,308	17,661
Total assets	375,794	373,741	360,299	352,268	329,083
Adjusted debt	163,964	166,545	179,832	184,592	184,918
Adjusted equity	85,016	79,910	60,320	49,650	41,676
<b>Adjusted Ratios</b>					
Operating income as % of total operating revenues (%)	9.45	9.29	9.48	9.22	9.21
Pretax return on permanent capital (%)	12.07	12.28	12.16	11.47	10.62
EBITDA interest coverage (times)	5.53	5.08	4.66	4.17	3.91
Debt to EBITDA (times)	3.28	3.38	3.86	4.40	4.92
FFO to debt (%)	22.13	21.41	18.42	15.48	13.46
Debt to capitalization (%)	65.85	67.58	74.88	78.80	81.61

## RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

**CP AII PLC (CPALL)**

<b>Company Rating:</b>	AA-
<b>Issue Ratings:</b>	
CPALL221A: Bt5,000 million senior unsecured debentures due 2022	AA-
CPALL22NA: Bt9,000 million senior unsecured debentures due 2022	AA-
CPALL271A: Bt2,466 million senior unsecured debentures due 2027	AA-
CPALL27NA: Bt9,000 million senior unsecured debentures due 2027	AA-
CPALL291A: Bt1,920 million senior unsecured debentures due 2029	AA-
CPALL311A: Bt5,614 million senior unsecured debentures due 2031	AA-
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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