

CP AXTRA PLC

No. 116/2024
5 July 2024

CORPORATES

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

Last Review Date: 05/07/23

Company Rating History:

Date	Rating	Outlook/Alert
05/07/23	A+	Positive
11/07/22	A+	Stable

Contacts:

Nauwarut Temwattanangkul
nauwarut@trisrating.com

Sarinthorn Sosukpaibul
sarinthorn@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Sasiporn Vajarodaya
sasiporn@trisrating.com



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RATIONALE

TRIS Rating upgrades the company rating on CP Aextra PLC (CPAXT) and the ratings on CPAXT's senior unsecured debentures to "AA-" from "A+" and revises the rating outlook to "stable" from "positive".

The upgrade follows the same rating action on CP All PLC (CPALL) on 5 July 2024. The ratings reflect CPAXT's status as a core subsidiary of CPALL (rated "AA-/Stable"). The upgrades reflect CPALL's strengthening operating performance and improved financial leverage.

The group status reflects our view on CPAXT's vital role in cementing the group's leading position in the wholesale and grocery retail businesses, together with CPAXT's significant earnings contribution to CPALL. The revision of the rating follows the credit rating on CPALL.

KEY RATING CONSIDERATIONS

Core subsidiary of CPALL

TRIS Rating views CPAXT as a core subsidiary of CPALL owing to its role as a flagship entity for the wholesale and grocery retail businesses of the group, coupled with its significant earnings contribution to CPALL.

As of March 2024, CPALL, directly and indirectly held a 59.9% equity interest in CPAXT. CPAXT is the market leader in the Thai wholesale market. The company's competitive edge is fortified by its subsidiaries, Ek-Chai Distribution System Co., Ltd. (LOTUSS) and Lotus's Stores (Malaysia) Sdn. Bhd., leading grocery retail and rental property operators in Thailand and Malaysia.

CPAXT's performance has been satisfactory and aligned with CPALL's business direction. CPAXT's operating revenue contributed around 53% of CPALL's total operating revenue in 2023, while its EBITDA accounted for 44% of CPALL's EBITDA.

Resilient, favorable wholesale business results

We expect the company to maintain its leading status in the food wholesaling business, despite facing heightened competition from new players. We anticipate revenue from the wholesale business will continue to grow at a mid-single digit rate over the next three years. The driver will come from the growing demand of its key customers, food retailers, as well as hotels, restaurants, and catering (HORECA) business operators. The growth prospect is also driven by more contributions from omnichannel on the back of continued expansion in online shopping, supported by the company's focus on information technology (IT) investments and strengthening its business-to-business (B2B) sales team.

CPAXT's wholesale business has demonstrated resilient and satisfactory operating results. With a record of success in the B2B market and a strategy of focusing on fresh food products, the company's revenue from the wholesale business has grown steadily during the past decade. Revenue edged up to THB266 billion in 2023 from THB129 billion in 2013, a compound annual growth rate of 7.5%.

During 2023 through the first quarter of 2024, the company's wholesale business continued to grow at 6%-7% year-on-year (y-o-y), despite facing food price deflation. CPAXT's wholesale business under the "Makro" stores has

consistently delivered strong same-store-sales at the rate of 5.3% since 2023 and 3.4% since the first quarter of 2024.

Gradual recovery from retail business

We expect CPAXT's retail business in Thailand and Malaysia will improve steadily following the ongoing recovery of the tourism industry. Revenue from the retail business is likely to grow at a low-single digit rate over the next three years, supported by improving product mix and contribution from omnichannel, as well as more synergy gain with parent companies.

In 2023, CPAXT's retail business under "Lotus's" stores reported marginal same-store-sale growth in Thailand and negative growth in Malaysia. This was due to heightened competition and the closures of underperforming mini-stores. However, the situation improved in the first quarter of 2024. Thanks to its success in omnichannel platforms, product mix strategy, and marketing campaigns, same-store sales growth of Lotus's stores in Thailand and Malaysia during the first three months of 2024 was 6.9% and 8.4%, respectively.

Profit margin dropped, but improvement expected

During 2023 and the first quarter of 2024, CPAXT's profitability slightly softened. This was mainly caused by the pre-operating costs of new distribution centers and additional expenses of omnichannel platforms. CPAXT's EBITDA margin was 7.1% in 2023 through the first quarter of 2024, down from 7.4% in 2022. Combined with a mid-single digit growth in operating revenue, CPAXT's EBITDA remained flat at THB35 billion in 2023 and THB9 billion in the first quarter of 2024.

We expect CPAXT's profitability to improve gradually on the back of improved product mix strategy and cost savings. The savings will come from the efficiency improvement from new centralized distribution centers and better utilization of omnichannel infrastructures. Also, we expect the profit margin to grow from the business synergy with its subsidiaries in terms of procurements, leveraging technology for in-depth data analysis. We expect CPAXT's EBITDA to hover around THB35-THB42 billion, an EBITDA margin of 6.8%-7.6% over the next three years.

Amalgamation with LOTUSS

In February 2024, CPAXT announced a business restructuring plan that involves the amalgamation of CPAXT and LOTUSS that operates Lotus's stores in Thailand. The amalgamation, expected to be completed by the fourth quarter of 2024, will merge CPAXT and LOTUSS into a new legal entity (NEWCO) that will assume all assets, liabilities, rights, duties, and responsibilities of CPAXT and LOTUSS. NEWCO will operate both the wholesale business under the "Makro" brand and the retail business under the "Lotus's" brand in Thailand.

We view the reorganization as having no impact on the financial risk profile of CPAXT, since CPAXT currently indirectly holds a 99.99% stake in LOTUSS. Thus, our assessment of the group status of CPAXT as a core subsidiary of CPALL remains unchanged. The new legal entity will be the market leader in the wholesale and grocery retail businesses. With the amalgamation, we see the company's competitive edge to be further enhanced by leveraging a wide range of customer bases in both wholesale and retail businesses, as well as the benefit from shared resources and investment planning, resulting in the effective utilization of assets and cost savings.

Leverage to be maintained despite rapid expansion

Given the successful consolidation of Lotus's stores in Thailand and Malaysia, combined with cashflow expansion over the past few years, CPAXT's balance sheet has improved steadily. CPAXT's debt to EBITDA ratio decreased to 3.4 times in 2023 and 3.7 times in the first quarter of 2024, from 7.1 times in 2021.

Looking forward, in pursuing the growth strategy in omnichannel and multi-format stores, CPAXT's capital expenditures are expected to be around THB23-THB25 billion per year over the next three years. The investment includes THB10-THB11 billion per year in Makro stores, and THB12-THB13 billion per year in Lotus's stores in Thailand and Malaysia. Despite sizable capital expenditures, we expect CPAXT's financial leverage to remain steady, given the growing revenue base and expected synergy improvements. We anticipate CPAXT's debt to EBITDA ratio to hover around 3.5-3.7 times in 2024-2026, while the debt to capitalization ratio to be around 30%.

Adequate liquidity profile

As of March 2024, its sources of funds comprised cash on hand and cash equivalents of THB24 billion, plus undrawn bank facilities of about THB20 billion. We forecast funds from operations (FFO) to be around THB26 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 THB15 billion and THB23 billion, respectively.

The financial covenant on CPAXT's new debenture issues requires the company's net interest-bearing debt to equity ratio to stay below 2.5 times. As of March 2024, the ratio was 0.25 times. We believe the company should be able to comply with the financial covenant over the forecast period.

Debt structure

At the end of March 2024, CPAXT's total outstanding debt, excluding financial leases, was THB97.3 billion, of which about THB73.5 billion was debt at subsidiary level which is considered priority debt. This translates to a priority debt to total debt ratio of 76%, exceeding our 50% threshold. However, given CPAXT's significant cash generation, we consider the senior unsecured debenture holders of CPAXT are not significantly disadvantaged compared with the unsecured debt holders at subsidiary level. As a result, we assign the issue rating at the same level as the company rating. Furthermore, we project the priority debt ratio to decline to a level far below 50%, following the amalgamation.

BASE CASE ASSUMPTIONS

CPAXT will remain a core subsidiary of CPALL.

RATING OUTLOOK

The "stable" outlook follows the rating outlook on CPALL and our expectation that CPAXT will maintain its group status as a core subsidiary of CPALL. We expect CPAXT will continue to represent a core component of CPALL's revenue and business profile.

RATING SENSITIVITIES

As a core subsidiary of CPALL, the ratings on CPAXT are tied to the rating on CPALL. Any change in the rating on CPALL, or CPAXT's group status, will affect the ratings on CPAXT accordingly.

COMPANY OVERVIEW

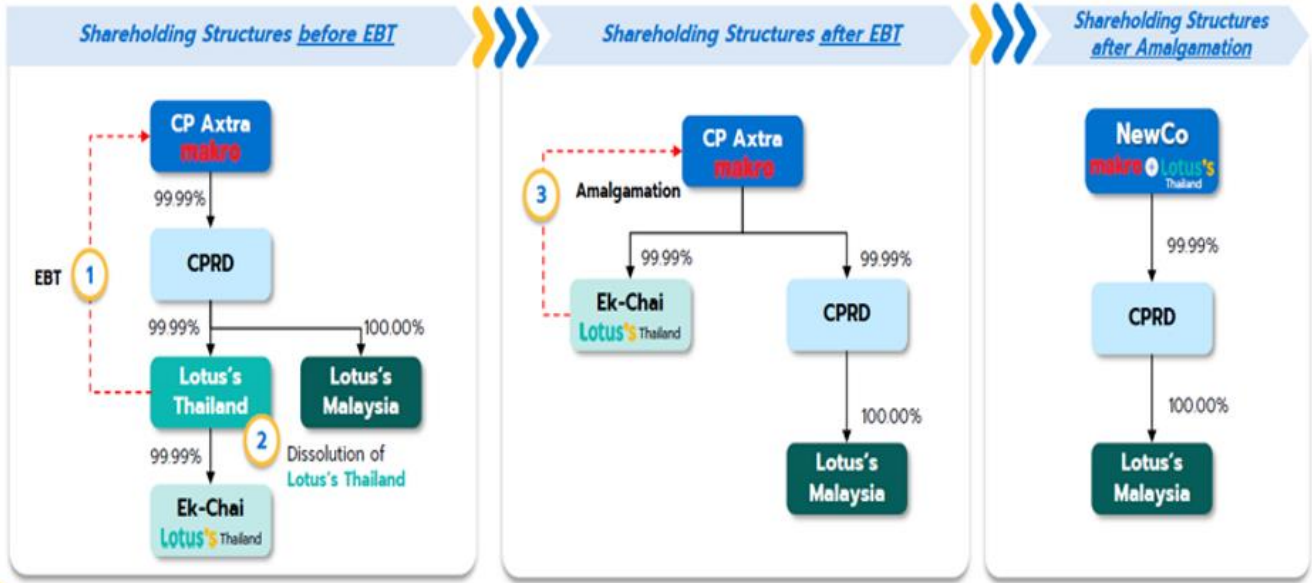
Established in 1988, CPAXT is a leader in the wholesale business in Thailand, operating stores under the "Makro" brand. Besides Thailand, the company has expanded its presence overseas since 2017. As of March 2024, the company owned 160 stores in Thailand and nine stores overseas (three stores in Cambodia, five stores in India, and one store in Myanmar).

In 2021, CPAXT acquired 99.99% stakes in Lotus's stores in Thailand and Malaysia by allocating its newly issued shares to existing Lotus's stores' shareholders, comprising CPALL, a subsidiary of Charoen Pokphand Food PLC (CPF) and Charoen Pokphand Holdings Co., Ltd. (CPH), following the shareholding restructuring of Charoen Pokphand Group. As of March 2024, CPAXT's major shareholder consisted of CPALL (59.9% stakes), CPH (16.2%), and CPF's subsidiary (8.9%).

In February 2024, CPAXT announced a business restructuring plan that involves the amalgamation of CPAXT and LOTUSS, the operator of Lotus's stores in Thailand. This transaction is expected to be completed by the fourth quarter of 2024. Following this transaction, CPAXT and LOTUSS will be merged into a new legal entity (NEWCO) that will assume all assets, liabilities, rights, duties, and responsibilities of CPAXT and LOTUSS. NEWCO will operate both the wholesale business under the "Makro" brand and the retail business under the "Lotus's" brand in Thailand.

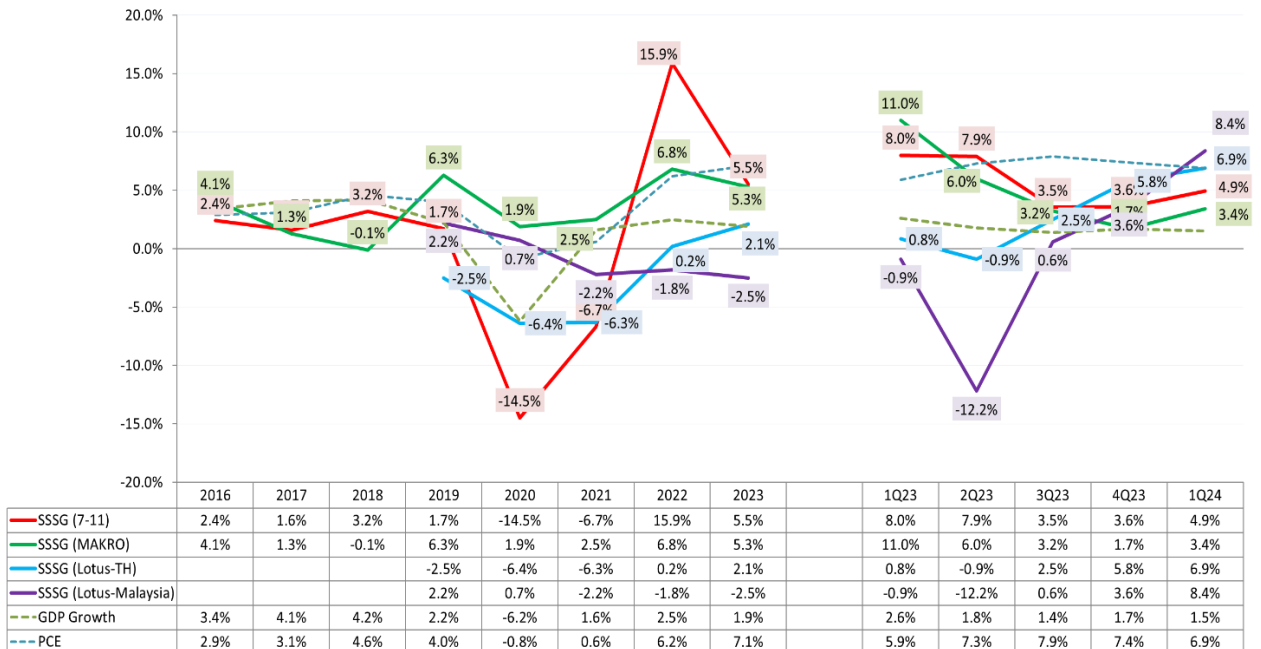
KEY OPERATING PERFORMANCE

Chart 1: Shareholding Structure before/after Amalgamation



- Notes: 1) CPAXT will acquire Lotus's Stores (Thailand) Co., Ltd. (Lotus's Thailand) through an entire business transfer (EBT) with the main assets including shares of Ek-Chai Distribution System Co., Ltd. (LOTUSS).
 2) Lotus's Thailand will be dissolved and liquidated following the EBT.
 3) CPAXT will amalgamate with LOTUSS resulting in a new public company (NEWCO,) operating both the wholesale under the "Makro" brand and the retail business under the "Lotus's" brand in Thailand.

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	127,020	489,949	469,131	266,367	218,760
Earnings before interest and taxes (EBIT)	4,653	17,509	17,566	10,284	8,908
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	8,968	34,886	34,744	16,719	12,549
Funds from operations (FFO)	6,789	25,852	24,122	13,054	10,098
Adjusted interest expense	1,414	6,375	7,155	1,573	634
Capital expenditures	6,268	14,753	17,604	4,027	2,314
Total assets	537,660	540,371	548,643	569,490	159,587
Adjusted debt	128,606	118,874	122,988	118,333	6,699
Adjusted equity	292,378	293,473	290,931	288,498	108,263
Adjusted Ratios					
EBITDA margin (%)	7.1	7.1	7.41	6.28	5.74
Pretax return on permanent capital (%)	3.9 *	3.9	3.78	3.42	10.92
EBITDA interest coverage (times)	6.3	5.5	4.86	10.63	19.78
Debt to EBITDA (times)	3.7 *	3.4	3.54	7.08	0.53
FFO to debt (%)	20.4 *	21.7	19.61	11.03	150.74
Debt to capitalization (%)	30.5	28.8	29.71	29.09	5.83

* Annualized with trailing 12 months

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

CP Aextra PLC (CPAXT)

Company Rating:	AA-
Issue Ratings:	
CPAXT253A: THB10,000 million senior unsecured debentures due 2025	AA-
CPAXT269A: THB3,000 million senior unsecured debentures due 2026	AA-
CPAXT289A: THB1,000 million senior unsecured debentures due 2028	AA-
CPAXT309A: THB1,000 million senior unsecured debentures due 2030	AA-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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