

# EK-CHAI DISTRIBUTION SYSTEM CO., LTD.

No. 117/2024  
5 July 2024

## CORPORATES

<b>Company Rating:</b>	AA-
<b>Issue Ratings:</b>	
Senior unsecured	AA-
<b>Outlook:</b>	Stable

**Last Review Date:** 29/02/24

### Company Rating History:

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

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## RATIONALE

TRIS Rating upgrades the company rating on Ek-Chai Distribution System Co., Ltd. (LOTUSS) and the ratings on its senior unsecured debentures to “AA-” from “A+” and revises the rating outlook to “stable” from “positive”.

The upgrade follows the same rating action of CP All PLC (CPALL) on 5 July 2024. The ratings reflect LOTUSS’s status as a core subsidiary of CPALL “AA-/Stable”. The upgrades reflect CPALL’s strengthening operating performance and improved financial leverage. LOTUSS’s group status under CPALL reflects our view of LOTUSS’s importance in cementing the group’s leading position in the grocery retail and rental property businesses, coupled with its significant earnings contribution to CPALL.

## KEY RATING CONSIDERATIONS

### Core subsidiary of CPALL

TRIS Rating views LOTUSS as a core subsidiary of CPALL owing to its role as a flagship entity for the grocery retail business of the group. As of March 2024, CPALL, through CP Axtra PLC (CPAXT), held 59.9% equity interest in LOTUSS.

LOTUSS’s operating revenue accounted for 20% of CPALL’s total operating revenue in 2023, while its EBITDA contributed 21% of CPALL’s EBITDA.

### Leader in hypermarket segment with nationwide network

LOTUSS operates a hypermarket chain under the “Lotus’s” brand in Thailand. LOTUSS’s competitive edge is underpinned by its position as the largest modern trade retailer in the domestic hypermarket segment. The company owns 225 hypermarkets, or around 40% of all hypermarkets in Thailand.

Besides hypermarkets, the company also operates medium- and small-sized store network -- “Go Fresh” supermarkets and mini-supermarkets to penetrate the target markets. The large-store format provides an extensive range of food and non-food products, while the medium and small formats focus on fresh food products offering convenience to communities.

### Retail sale recovery expected to continue

We expect LOTUSS’s retail sales continue to improve, supported by the ongoing recovery of tourism and economic activity. Despite the threats of economic slowdown and competition in the retail industry, LOTUSS’s operating revenue is expected to grow by a low-single digit per annum over the next few years. Also, we expect the company to increase the revenue contribution from omnichannel by leveraging its digital platforms as well as utilizing its multi-format stores nationwide and large membership base.

LOTUSS reported marginal same-store-sale growth at 2% in 2023, owing to the heightened competition and closure of several underperforming mini-stores. However, its same-store-sales rose substantially to 6.9% year-on-year (y-o-y) in the first quarter of 2024. The improvement was attributed to better fine-tune of its product mix with greater focus on fresh products, along with an increased contribution from online channels, following the expansion of delivery services and greater area coverage.

### Rental income to improve despite challenges

Despite intensified competition from new supply, we anticipate the company to further improve rental space utilization and revitalize the hypermarket to attract more traffic and ultimately boost overall performance. Rental rate and occupancy rate are expected to increase marginally over the next few years.

LOTUSS has long experience and a proven track record in the rental property management with a portfolio of 225 hypermarket stores nationwide. At the end of March 2024, LOTUSS had a total permanent net leasable retail area of 0.78 million square meters (sq.m.) with an occupancy rate of about 93%. Revenue from rental income, accounting for 6% of LOTUSS's total revenue, edged up by 6.6% y-o-y to THB11.5 billion in 2023, but the revenue declined by 0.9% y-o-y to THB2.8 billion in the first quarter of 2024. The recent drop in rental income was largely due to a sluggish economic recovery and dynamic competitive environments on the back of increased industry supply of retail rental spaces. Looking forward, in order to attract more traffic and accommodate more tenants, the company has earmarked its investments for revitalizing and expanding its rental spaces for 20-30 stores per year.

### Operating results expected to improve

We expect LOTUSS's profitability to improve steadily in tandem with the economic and business recovery. The company's strategies that focus on product mix, store developments, and online channels as well as synergies with parent companies, should help the company achieve a gradual performance recovery. The reviving tourism industry is also a key supporting factor for the performance improvement.

In 2023, LOTUSS's profitability was pressured by price competitions and high administrative expenses. EBITDA margin declined to 8.8% in 2023, compared with 10%-12% in 2021-2022. EBITDA declined by 13.6% y-o-y to THB16.4 billion in 2023. However, thanks to improved product mix and more stringent cost controls, the company's profit margin improved marginally in the first quarter of 2024. EBITDA increased by 8.1% y-o-y to THB4.6 billion in the first quarter of 2024.

### Amalgamation with CPAXT

In February 2024, CPAXT announced a business restructuring plan that involves the amalgamation of CPAXT and LOTUSS. 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. With the amalgamation, we see the company's competitive edge growing by leveraging a wide range of customer bases in both the wholesale and retail businesses, as well as the benefit from shared resources, resulting in the effective utilization of assets and cost savings.

### Financial leverage expected to remain stable

LOTUSS's leverage has declined substantially on the back of debt repayment from its parent company and its policy to scale down investment in 2023. As of March 2024, adjusted debt was THB78.3 billion down from THB103.7 billion in 2022. The adjusted debt to EBITDA ratio decreased to 4.5-4.7 times in 2023 through the first quarter of 2024 compared with 5.5 times in 2022.

Looking forward, we project LOTUSS to spend THB10-THB11 billion per annum for its capital expenditures to pursue its growth strategy both in omni-channel and multi-format stores. The company plans to launch a hypermarket store, 3 medium-sized stores, and 100 mini stores per year. Despite the large capital expenditures required for business expansion over the next three years, we expect the debt to EBITDA ratio to be maintained at 4-5 times.

### Adequate liquidity

As of March 2024, its sources of funds comprised cash on hand and cash equivalents of THB13 billion, plus undrawn bank loan facilities of about THB7 billion. Given funds from operations (FFO) of about THB12 billion per year, sources of funds should be sufficient to cover scheduled long-term debt repayments and capital spending in the next 12 months of THB8 billion and THB11 billion, respectively.

The financial covenant on LOTUSS'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 1.1 times. We believe the company should be able to comply with the financial covenant over the next 12 to 18 months

### Debt structure

At the end of March 2024, LOTUSS's total outstanding debt, excluding financial leases, was THB54.9 billion. Since all the company's debts were unsecured debts at the company level, LOTUSS has no priority debt.

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**BASE CASE ASSUMPTIONS**

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LOTUSS will remain a core subsidiary of CPALL.

**RATING OUTLOOK**

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The “stable” outlook follows CPALL’s rating outlook and our expectation that LOTUSS will maintain its group status as a core subsidiary of CPALL. We believe LOTUSS will continue to represent a core component of CPALL’s revenue and business profile.

**RATING SENSITIVITIES**

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

**COMPANY OVERVIEW**

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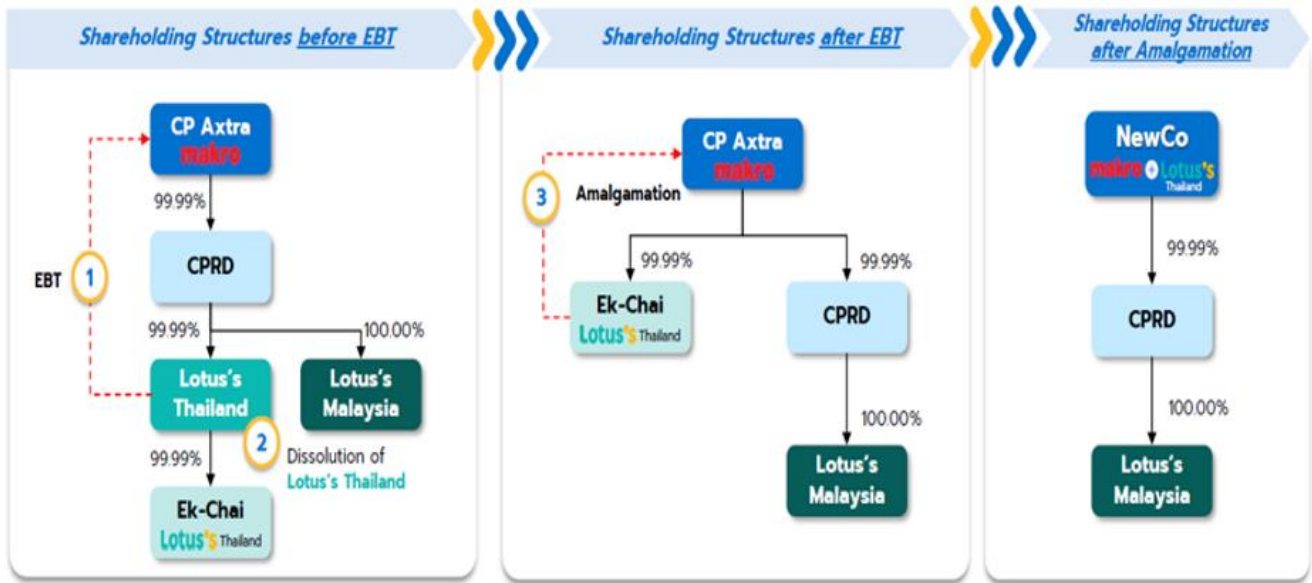
Established in 1994, LOTUSS is a leading retailer, operating a hypermarket chain under the name “Lotus’s” stores in Thailand. Initially, the company was founded by Charoen Pokphand Group and was acquired by Tesco PLC, the UK’s largest grocery retailer during 1998-2003. Later in late-2020, Charoen Pokphand Group and its affiliates acquired 100% of Lotus’s stores in Thailand and in Malaysia. Since October 2021, CPAXT has been a major shareholder, holding 99.99% of LOTUSS’s stakes, following the shareholding restructuring under the Charoen Pokphand Group.

As of March 2024, LOTUSS owned 2,448 stores in Thailand, comprising 225 large stores (Hypermarkets), 178 supermarket stores (Go Fresh supermarket), and 2,045 small stores (Lotus’s Go Fresh mini supermarket). Apart from retail sales, the company has rental space enclosed in its stores nationwide with a net leasable area of 1.11 million sq.m., including a permanent net leasable area of 0.78 million sq.m. LOTUSS also holds a 25% stake in Lotus’s Retail Growth Freehold and Leasehold Property Fund (LPF), which operates 23 malls in Thailand with a net leasable area of around 0.34 million sq.m.

In February 2024, CPAXT announced a business restructuring plan that involves the amalgamation of CPAXT and LOTUSS, operating 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.

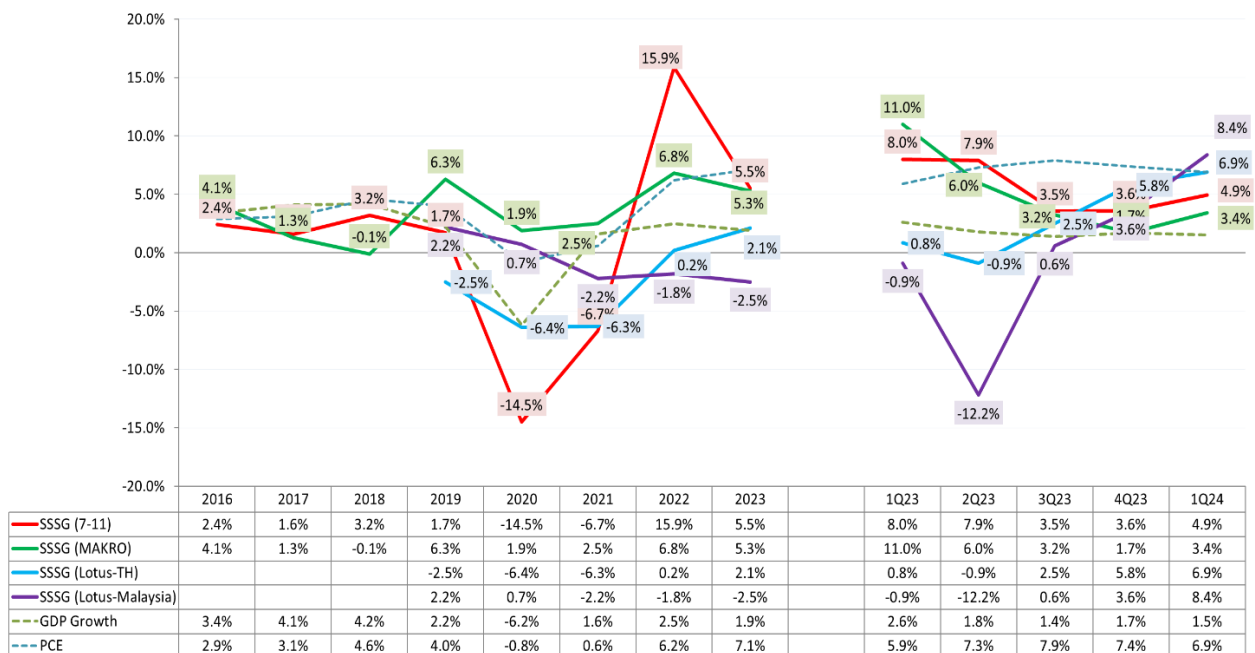
KEY OPERATING PERFORMANCE

Chart 1: Chart 1: Shareholding Structure before/ after amalgamation



- Note: 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

**Table 1: LOTUSS's Revenue Breakdown**

Unit: %

By Business	Year Ended Feb 2020	Year Ended Feb 2021	Year Ended Dec 2021	Year Ended Dec 2022	Year Ended Dec 2023	3M24 (Jan-Mar 2024)
Retail sale	93	94	94	94	94	94
Rental income	7	6	6	6	6	6
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Sales (mil. THB)</b>	<b>184,061</b>	<b>172,629</b>	<b>168,616</b>	<b>180,585</b>	<b>184,638</b>	<b>46,323</b>

Note: Year Ended Dec 2021 based on Management account

Source: LOTUSS

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Mar 2024	Year ended 31 Dec 2023	Year ended 31 Dec 2022	Mar-Dec 2021*	Year ended 28 Feb 2021
Total operating revenues	46,844	186,823	182,626	143,396	174,236
Earnings before interest and taxes (EBIT)	1,742	4,646	7,067	7,329	9,418
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,612	16,367	18,937	16,868	21,509
Funds from operations (FFO)	3,636	12,170	13,028	14,139	18,145
Adjusted interest expense	772	3,979	5,003	1,927	1,601
Capital expenditures	4,325	6,390	11,716	11,695	6,301
Total assets	166,720	169,680	203,362	200,039	184,938
Adjusted debt	78,312	74,078	103,724	108,424	18,687
Adjusted equity	39,484	38,707	40,193	39,462	117,938
<b>Adjusted Ratios</b>					
EBITDA margin (%)	9.85	8.76	10.37	11.76	12.34
Pretax return on permanent capital (%)	3.86	3.17	4.32	4.53 *	6.84
EBITDA interest coverage (times)	5.97	4.11	3.79	8.75	13.44
Debt to EBITDA (times)	4.69	4.53	5.48	6.43 *	0.87
FFO to debt (%)	16.52	16.43	12.56	13.04 *	97.10
Debt to capitalization (%)	66.48	65.68	72.07	73.32	13.68

\* Based on consolidated financial statements for 10 months period ended December 2021

## RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019

## Ek-Chai Distribution System Co., Ltd. (LOTUSS)

<b>Company Rating:</b>	AA-
<b>Issue Ratings:</b>	
LOTUSS240A: THB7,454.7 million senior unsecured debentures due 2024	AA-
LOTUSS240B: THB350 million senior unsecured debentures due 2024	AA-
LOTUSS250A: THB8,533.8 million senior unsecured debentures due 2025	AA-
LOTUSS250B: THB1,500 million senior unsecured debentures due 2025	AA-
LOTUSS264A: THB10,374.7 million senior unsecured debentures due 2026	AA-
LOTUSS270A: THB1,179.7 million senior unsecured debentures due 2027	AA-
LOTUSS270B: THB3,500 million senior unsecured debentures due 2027	AA-
LOTUSS284A: THB5,356 million senior unsecured debentures due 2028	AA-
LOTUSS280A: THB3,000 million senior unsecured debentures due 2028	AA-
LOTUSS290A: THB3,931.1 million senior unsecured debentures due 2029	AA-
LOTUSS314A: THB1,111.4 million senior unsecured debentures due 2031	AA-
LOTUSS310A: THB1,000 million senior unsecured debentures due 2031	AA-
LOTUSS334A: THB5,803.2 million senior unsecured debentures due 2033	AA-
LOTUSS334B: THB1,050 million senior unsecured debentures due 2033	AA-
<b>Rating Outlook:</b>	Stable

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