

BERLI JUCKER PLC

No. 130/2021
16 August 2021

CORPORATES

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

Last Review Date: 25/08/20

Company Rating History:

Date	Rating	Outlook/Alert
09/08/19	A+	Negative
08/08/16	A+	Stable
17/02/16	A+	Alert Developing
25/11/14	A+	Stable
13/08/14	A+	Alert Developing
15/06/07	A+	Stable

Contacts:

Sarinthorn Sosukpaibul
sarinthorn@trisrating.com

Pramuansap Phonprasert
pramuansap@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Sasiporn Vajarodaya
sasiporn@trisrating.com



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RATIONALE

TRIS Rating downgrades the company rating on Berli Jucker PLC (BJC) and the ratings on BJC's senior unsecured debentures to "A" from "A+", and revises the outlook to "stable" from "negative". The downgrade reflects BJC's delay in executing debt reduction, and likely to have persistently high debt level over the next few years, making it no longer commensurate with the previously assigned ratings.

The ratings continue to reflect BJC's strong competitive positions and proven track records in its core businesses. Nonetheless, the ratings are weighed down by the company's softened operating performance, particularly in the retail business and rental service income, and a weak economy induced by the Coronavirus Disease 2019 (COVID-19) pandemic.

KEY RATING CONSIDERATIONS

Delayed deleveraging, persistently high financial leverage

The ratings on BJC have been constrained by its highly leveraged financial risk profile. As of June 2021, BJC's interest-bearing debt, together with financial liabilities arising from lease liability totaled nearly THB163 billion. BJC has held high debt level since the acquisition of Big C Supercenter PLC (BIGC) in 2016. The ratio of debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) was at 8.3 times at the end of 2020 and 8.1 times as of June 2021.

BJC intended to reduce its debt level by 2021. However, the debt reduction plan that the company was exploring has been postponed due to the unfavorable environment.

Looking ahead, we expect BJC's debt level to stay in the THB155-THB160 billion range during the next three years, taking into account sizable capital expenditures needed to expand its retail outlets and production capacities. At the same time, we project the company's profitability to weaken in 2021, due to the protracted impact of the COVID-19 pandemic, before rebounding in 2022-2023. We forecast the net adjusted debt to EBITDA ratio to be at 8-9 times during 2021-2022, then declining to below 7 times in 2023.

Retail business and rental income hurt by COVID-19

In 2020, BIGC's operating performance was materially impacted by the drawn-out COVID-19 outbreak, absence of foreign tourists, and fragile economic conditions. This was evidenced by negative same-store sales which contracted by 15.3% from 2019 and continued to drop by 17.9% year-on-year (y-o-y) in the first half of 2021. At the same time, BIGC's rental service income was affected by the government's tightening restrictions to contain the spread of virus. Many tenants occupying BIGC's rental space temporarily closed their stores during the national lockdown. BIGC's rental service income in 2020 dropped by 23% from the previous year. BIGC had to grant concessions on rental fees to some tenants during the lockdowns, while the closures of some tenants' shops led to drops in occupancy rates.

In our view, the outlook for the retail business in 2021 is likely to remain weak. Our base-case projection forecasts BIGC's same-store sales to continue to decline in 2021, while rental income will be affected substantially due to tightened restrictions amid waves of COVID-19 outbreaks.

We expect consumer sentiment and spending to rebound in 2022, supported by wider vaccine distribution and the easing of social-distancing measures. In addition, we expect growth to continue to be driven by its outlet expansion. BIGC continues focusing on small format expansion to tap customers in communities and improving its retail outlet-formats mix. During the next three years, BIGC plans to open 150-300 convenience stores per year, 2-3 hypermarket outlets, and expand its footprints in neighboring countries.

Packaging products to be resilient amid COVID-19 pandemic

We anticipate BJC will continue to maintain the leading positions in the glass and aluminum can packaging markets, backed by large orders from its major customers, good relationships with a broad base of customers, high product quality, and new product innovation. Based on sales volume, BJC is the market leader of packaging products in Thailand, with a 40%-50% market share for aluminum beverage cans and a 30%-40% market share for glass containers in 2020.

BJC receives sizable orders from Thai Beverage PLC (ThaiBev), the flagship beverage company of TCC Corporation Limited (TCC) and its affiliates (TCC Group). Sales to ThaiBev represent about half of the glass bottles and around 20% of the aluminum cans sold by BJC. BJC also sells its packaging products to other companies outside the TCC Group. Most of them are long-term contract customers.

The COVID-19 pandemic has impacted consumer behavior, with the shift toward at-home consumption. Consequently, the demand for beverages has shifted from on-premise to at-home consumption. However, sales of BJC's packaging products in 2020 were affected by the ban on alcoholic beverage sales during the national lockdown, causing revenue in 2020 to decline slightly by 3% from 2019. In our view, the prospect of the packaging business in 2021 is more resilient, compared with the retail businesses, to the impacts of the pandemic induced economic fallouts.

BJC has created additional sales growth by launching new product categories such as glass bottles for vitamin drinks, light-weight glass bottles for food, and developing aluminum cans for coffee and fruit juices and new slim-size cans, to tap new customers, and gain wider coverage.

Weakened operating performance but expected to rebound in coming years

BJC's operating revenue in 2020 was THB157.5 billion, down by about 9.4% y-o-y. Revenue dropped in the first six months of 2021, declining by 10% y-o-y to about THB72.6 billion. Profitability has also weakened. BJC generated THB19.5 billion of EBITDA in 2020, down from about THB21.2 billion in 2019. EBITDA for the first six months of 2021 was about THB9.3 billion, relatively flat compared to the same period of the previous year.

Our base-case forecast projects BJC's total operating revenue in 2021 to decline by about 10% from 2020, reflecting weak performance in the retail business and rental services resulting from the government's outbreak containment measures and softened consumer spending. However, we expect revenue from the packaging and healthcare businesses in 2021 to be relatively unscathed by the multiple waves of outbreaks. BJC's diverse range of businesses should serve to mitigate the severe negative effects during the economic downturn. We project BJC's overall operation to recover in 2022, based on our assessment on the timeline for a high level of vaccine dissemination to be achieved, regaining its pre-COVID-19 revenues of THB160-THB180 billion per annum during 2022-2023.

During 2021-2023, the EBITDA margin should stay in the 12.5%-13% range. BJC has adopted cost reduction measures, group-wide logistics synergies, as well as efficiency improvements. New product launches and profitable product assortment and/or product mix, as well as increasing the proportion of house brand products will help improve profitability. However, earnings have been held back by its high fixed operating costs and selling general and administrative expenses (SG&A) to support the retail business. We expect SG&A to gradually decline during the next two years. In our forecast, we project the company's EBITDA to be about THB18 billion in 2021, before rising to THB20-THB23 billion per year in 2022-2023.

Manageable liquidity

We assess BJC's liquidity to be manageable. A large part of the debt coming due in the next 12-18 months is expected to be refinanced. About THB15.3 billion in debentures and long-term bank loans will come due in 2021 while about THB25.6 billion will come due in 2022. During 2021-2023, we forecast BJC's capital spending for its retail network and production facility expansion of about THB7-THB10 billion per annum. The company's earnings are also weighed down by interest expenses. Meanwhile, sources of funds comprised cash and cash equivalents of THB3.4 billion as of June 2021 and expected funds from operations (FFO) of nearly THB12 billion in 2021. Given BJC's strong access to the capital markets, we view the refinancing risk is significantly mitigated.

As of June 2021, as most of BJC's total debt was at company level and was unsecured, TRIS Rating considers BJC's senior unsecured creditors to have low subordination risks. In effect, we maintain the ratings on BJC's senior unsecured

debentures at the same level as the company rating assigned to BJC.

A key financial covenant on the debentures and bank loans is an interest-bearing debt to equity ratio below 2 times. BJC's debt to equity ratio at the end of 2020 was about 1.3 times. We expect the company will remain in compliance with this covenant over the forecast period.

BASE-CASE ASSUMPTIONS

- Revenues to decline in 2021, and then rebound to a level of THB160-THB180 billion per annum during 2022-2023.
- EBITDA margin at around 12.5%-13% during 2021-2023.
- Capital spending of about THB7-THB10 billion per year, during 2021-2023.

RATING OUTLOOK

The "stable" outlook reflects our expectation of BJC's ability to sustain its strong market position in its key businesses, with its revenue and profitability to gradually rebound during the next two years. We also expect BJC's financial leverage to decline in the medium term, with its debt to EBITDA ratio not edging up above the forecast levels.

RATING SENSITIVITIES

The ratings and/or outlook could be revised downward if BJC's operating performance is substantially weaker than expected, or if the company has sizable debt-funded investment and/or acquisitions. A rating upgrade scenario could develop if there is a significant improvement in cash flow protection and substantial reduction in financial leverage.

COMPANY OVERVIEW

BJC was founded in 1882 as a trading and service company and listed on the Stock Exchange of Thailand (SET) in 1975. As of May 2021, the TCC Group, one of the largest business conglomerates in Thailand, held directly 74.4% of BJC's outstanding shares.

BJC's original businesses included the production and distribution of glass bottles, aluminum cans, consumer products, medicine and medical equipment, and technical products. In 2016, BJC acquired BIGC, one of the two major operators of hypermarket retail networks in Thailand, for an acquisition cost of nearly THB210 billion. The acquisition was funded by two rights offerings and new bank loans.

As of June 2021, BIGC owned 151 hypermarkets in Thailand. BIGC also operates several types of retail outlets nationwide: 61 outlets of BIGC markets (supermarket and wholesales stores) and 1,259 mini BIGC stores (convenience stores). BIGC has a total retail space of 1.26 million square meters (sq.m.) and 0.97 million sq.m. of rentable space.

In 2020, BJC's total sales were THB144.7 billion. The largest revenue contribution came from the retail business or BIGC, accounting for nearly 70% of total sales, followed by the packaging business with 14%, and the consumer product business with 14%. In addition, BIGC generated THB8.9 billion in rental and service incomes.

KEY OPERATING PERFORMANCE

Table 1: BJC's Sales Breakdown

Line of Business	2018		2019		2020		Jan-Jun 2021	
	Mil. THB	%	Mil. THB	%	Mil. THB	%	Mil. THB	%
Packaging	21,093	14	20,360	13	19,787	14	9,456	14
Consumer	17,694	11	18,896	12	20,670	14	10,650	16
Healthcare and technical	8,422	5	8,843	6	7,949	6	4,115	6
Modern retail (BIGC)	109,847	70	111,389	70	100,072	69	44,425	67
Others	1,687	1	1,297	1	721	0	315	0
Intra-group eliminations	(2,601)	(1)	(2,776)	(2)	(4,467)	(3)	(2,279)	(3)
Total sales	156,142	100	158,009	100	144,732	100	66,682	100

Source: BJC

Table 2: BIGC's Rental Service Income

Unit: Mil. THB

BIGC	2018	2019	2020	Jan-Jun 2021
Rental service income	11,302	11,515	8,867	4,153

Source: BJC

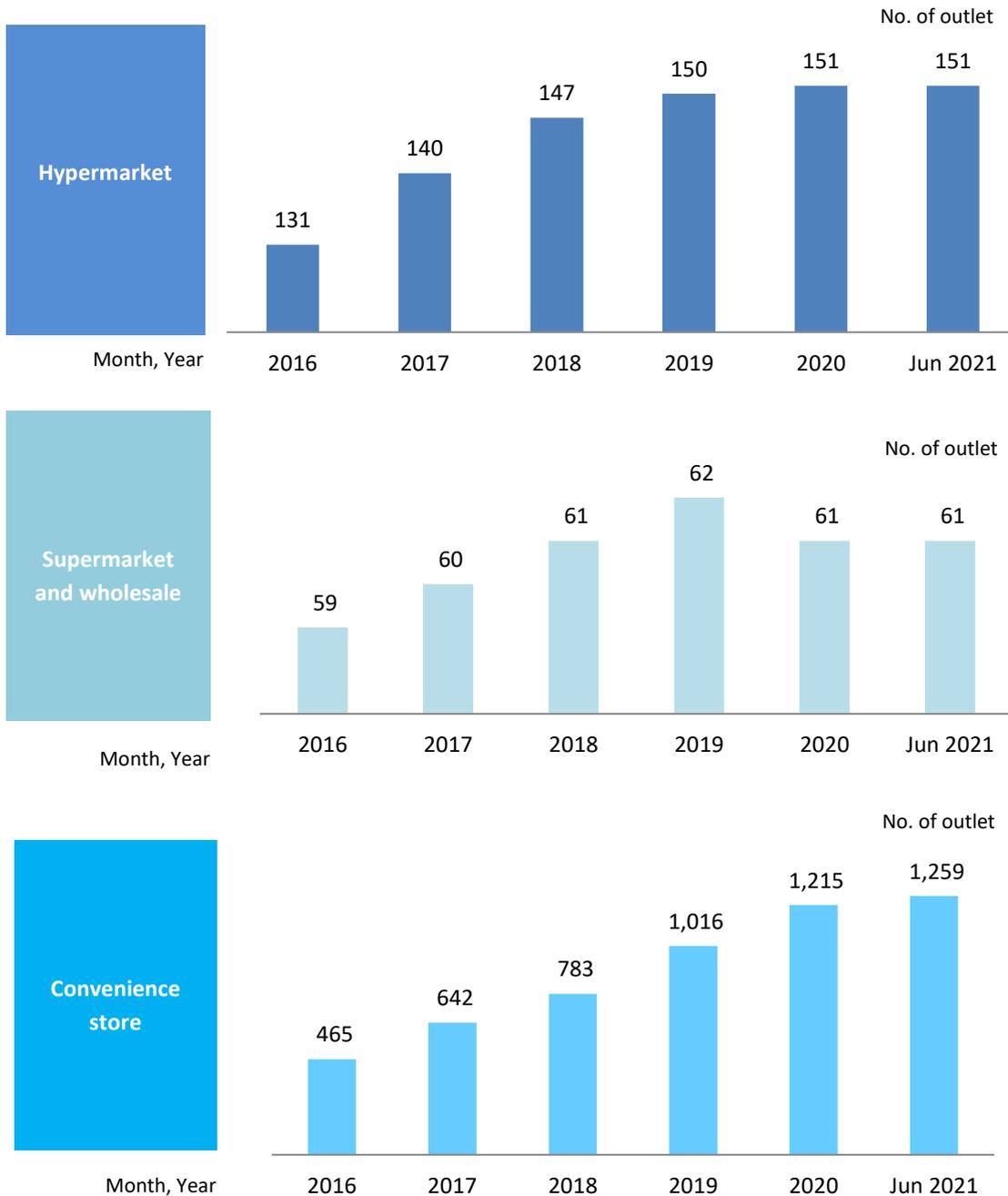
Chart 1: BIGC's Same-Store-Sales Growth (Y-O-Y)

Same store sales growth (%)



Source: BJC

Chart 2: BIGC's Expansion in Thailand



Note: The above chart excludes 144 outlets of "Pure" drug store, as of June 2021.

Source: BJC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	72,627	157,536	173,944	171,875	164,004
Earnings before interest and taxes (EBIT)	4,938	10,779	14,313	14,008	13,228
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	9,594	20,086	22,992	22,634	21,498
Funds from operations (FFO)	6,820	13,845	16,441	15,631	14,069
Adjusted interest expense	2,583	5,453	5,730	5,356	5,169
Capital expenditures	1,230	6,106	8,417	9,627	11,177
Total assets	324,274	326,157	325,804	324,060	315,059
Adjusted debt	163,046	166,155	166,514	164,675	163,581
Adjusted equity	119,508	119,536	119,736	115,774	111,173
Adjusted Ratios					
EBITDA margin (%)	13.21	12.75	13.22	13.17	13.11
Pretax return on permanent capital (%)	3.70 **	3.71	4.94	4.95	4.79
EBITDA interest coverage (times)	3.71	3.68	4.01	4.23	4.16
Debt to EBITDA (times)	8.14 **	8.27	7.24	7.28	7.61
FFO to debt (%)	8.69 **	8.33	9.87	9.49	8.60
Debt to capitalization (%)	57.70	58.16	58.17	58.72	59.54

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Berli Jucker PLC (BJC)

Company Rating:	A
Issue Ratings:	
BJC219A: THB9,000 million senior unsecured debentures due 2021	A
BJC21DA: THB3,050 million senior unsecured debentures due 2021	A
BJC223A: THB2,500 million senior unsecured debentures due 2022	A
BJC223B: THB3,000 million senior unsecured debentures due 2022	A
BJC226A: THB1,740 million senior unsecured debentures due 2022	A
BJC233A: THB5,000 million senior unsecured debentures due 2023	A
BJC233B: THB1,000 million senior unsecured debentures due 2023	A
BJC239A: THB3,000 million senior unsecured debentures due 2023	A
BJC239B: THB4,000 million senior unsecured debentures due 2023	A
BJC23DA: THB2,100 million senior unsecured debentures due 2023	A
BJC243A: THB4,000 million senior unsecured debentures due 2024	A
BJC246A: THB12,256.6 million senior unsecured debentures due 2024	A
BJC249A: THB7,000 million senior unsecured debentures due 2024	A
BJC253A: THB1,000 million senior unsecured debentures due 2025	A
BJC259A: THB3,000 million senior unsecured debentures due 2025	A
BJC25DA: THB1,200 million senior unsecured debentures due 2025	A
BJC269A: THB20,000 million senior unsecured debentures due 2026	A
BJC26DA: THB3,730 million senior unsecured debentures due 2026	A
BJC273A: THB5,000 million senior unsecured debentures due 2027	A
BJC273B: THB3,000 million senior unsecured debentures due 2027	A
BJC279A: THB1,000 million senior unsecured debentures due 2027	A
BJC283A: THB7,000 million senior unsecured debentures due 2028	A
BJC293A: THB5,000 million senior unsecured debentures due 2029	A
BJC299A: THB7,000 million senior unsecured debentures due 2029	A
BJC303A: THB3,000 million senior unsecured debentures due 2030	A
BJC306A: THB4,003.4 million senior unsecured debentures due 2030	A
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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

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