TRIS RATING

CreditNews ข่าวเครดิต

BERLI JUCKER PLC

No. 82/2016

8 August 2016

Company Rating: A+

Issue Rating:
Senior unsecured A+

Outlook: Stable

Company Rating History:

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

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Rating Rationale

TRIS Rating affirms the company rating of Berli Jucker PLC (BJC) at "A+". At the same time, TRIS Rating removes the CreditAlert with "developing" implication placed on the company and issue ratings of BJC since 17 February 2016 and assigns a "stable" outlook instead. TRIS Rating also assigns a rating of "A+" to BJC's proposed issue of up to Bt50,000 million in senior unsecured debentures. The proceeds from the new debentures will be used for debt repayment. The ratings reflect BJC's strong competitive positions in its major business lines, diverse range of businesses and sources of income, wide market coverage, and portfolio of strong brand names. The ratings also take into consideration BJC's latest move to acquire 97.9% of the equity of Big C Supercenter PLC (BIGC) and the synergies that may arise from integration of BJC's existing businesses with the newly-acquired retail outlets of BIGC. These factors are partly offset by intense competition, the current economic slowdown which has crimped consumer spending, and the rise in leverage needed to support BJC's growth strategy.

BJC's range of business covers the production and distribution of glass bottles, aluminum cans, consumer products, and medicine and medical equipments. As of March 2016, TCC Corporation Limited (TCCC), a large Thai conglomerate, owned a 73.8% stake in BJC. BJC's strong business profile reflects its diverse portfolio of businesses, sources of income, and geographic coverage. BJC's market coverage is wide, extending most of Southeast Asia. BJC's products in its major lines of business have solid competitive positions, an important source of strength. BJC is one of the leading producers and distributors in the Thai packaging industry (glass bottles and aluminum cans) and the consumer product industry (tissue, snacks, and personal care products). The strength of BJC's consumer products portfolio is attributed to its flagship brands, such as Cellox, Zilk, Tasto, Dozo, and Parrot. In 2015, BJC generated Bt42,893 million in revenue. The packaging supply chain segment generated 41% of the company's total revenue. The consumer supply chain segment was the second-largest (38%), followed by healthcare and technical supply chain segment (17%).

In March 2016, BJC acquired a 58.6% interest in BIGC, a leading retailer of food, consumer goods, and other products in Thailand. At the same time, BJC purchased a 60% stake in C-Distribution Asia Pte., Ltd. (C-Distribution Asia). BJC then made a tender offer to purchase all the remaining shares of BIGC. After the tender offer, BJC controls a 97.9% interest in BIGC. The investment was nearly Bt210,000 million, funded initially by bridge loans.

BJC is now recapitalizing through a combination of newly-issued shares and refinancing of long-term loans. The company received more than Bt80,000 million in cash from two rights offerings. BJC plans to draw down the long-term loans and/or issue new debentures totaling Bt130,000 million. The recapitalization will reduce the amount of outstanding debts and the interest burden and BJC will mitigate the financial risks arising from the sizable acquisition-related loans it took on. BJC is expected to strengthen its operating performance and deleverage in the medium term, in order to restore its financial profile to be closer to its pre-acquisition profile.

The newly-acquired retail business will strengthen BJC's profile and competitive position. BIGC currently operates 126 hypermarkets and a number of small-format stores. BIGC's competitive position is strong as it is one of two major hypermarket operators in Thailand. In 2015, BIGC's revenues was about Bt129,000 million and earnings before interest, tax, depreciation, and amortization (EBITDA) was nearly Bt13,000 million. BJC's total consolidated revenue (annualized) in 2016 is expected to reach about Bt170,000 million. The annualized EBITDA in 2016 will reach nearly Bt20,000 million. After the consolidation of BIGC, the modern retail trade segment will generate about 75% of BJC's total revenue. Operating margin (operating income before depreciation and amortization as a percentage of sales) is expected to stay around 10%-11%. Funds from operations (FFO) will rise from about Bt5,000 million in 2015 to more than Bt14,000 million in 2016. The debt to capitalization ratio is likely to stay around 60% in 2016.

The merger with BIGC will benefit BJC in terms of economies of scale and cost effectiveness. Potential synergies involve pooling purchasing, cash management, logistics, data integration, as well as information technology resources. BJC also expects to increase its house brands for consumer products and food products in BIGC's stores. However, the expected cost savings from synergies and economies of scale may take time to materialize.

During the next three years, BJC's consolidated revenue is expected to grow at a rate in the mid-single digits, driven by growth in the packaging supply chain segment and group-wide synergies. The operating margin is expected to gradually improve, benefitting from cost savings derived from synergies and improved asset utilization. TRIS Rating expects BJC to make nearly Bt30,000 million in capital expenditures during 2016-2018. The major investments are expanding retail outlets as well as increasing production capacities in the packaging supply chain segment and the consumer supply chain segment. TRIS Rating does not expect BJC to make any other huge investments or large acquisitions during the next three years. The net debt to EBITDA ratio is expected to stay at about 7 times in 2016 and will decline below 4 times over the medium term.

Given the current balance sheet structure of BJC and its subsidiaries, BJC's liabilities are structurally subordinated to those of BIGC. However, BJC's board of directors resolved in July 2016 that BJC will be sourcing part of the external financing needs of its subsidiaries. Under this plan, BIGC's external borrowings will be partially refinanced with loans taken out by BJC. This move will mitigate the impact of the structural subordination on the issue rating of BJC's debentures. Accordingly, BJC's newest debenture issue is rated at the issuer's credit rating, based on this expectation.

Rating Outlook

The "stable" outlook reflects the expectation that BJC will maintain the competitive positions in its key business segments. TRIS Rating believes the integration of operations with BIGC will proceed smoothly, without pushing costs or capital expenditures higher than the expected levels. TRIS Rating also assumes BJC will quickly make sustained improvements in its financial profile.

Any downside pressure on the ratings would arise if the recapitalization and resultant deleveraging proceeds are more slower than expected or if BJC's operating performance is significantly weaker than expected, which can result in a weaken capital structure and deterioration of cash flow protection for a long period of time. The potential for a rating upgrade will likely be limited during the medium term, given BJC's sizable debt burden. However, the ratings could be upgraded should the post-merger integration provide meaningful synergies to the BJC Group.

Berli Jucker PLC (BJC)

Company Rating:	A+
Issue Rating:	
Up to Bt50,000 million senior unsecured debentures due within 2026	A+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Mar 2016		2015	2014 ***	2013	2012	2011
			------------------------- Year Ended 31 December			-----------------	
Sales	14,717		42,893	41,695	42,226	37,429	31,235
Gross interest expense	273		493	556	575	503	366
Net income from operations	552		1,743	1,574	2,315	2,322	2,097
Funds from operations (FFO)	1,883		5,334	4,530	4,801	4,281	4,251
Total capital expenditures	808		1,705	3,323	3,656	3,661	2,607
Total assets	240,876		44,701	43,428	44,503	38,260	32,999
Total debt	162,452		14,975	16,232	16,676	13,171	11,110
Shareholders' equity	40,273		20,750	18,017	17,699	16,284	14,530
Operating income before depreciation and amortization as % of sales	8.8		11.2	10.4	12.1	12.5	15.0
Pretax return on permanent capital (%)	3.1	**	9.4	8.4	11.4	12.7	14.5
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	6.9		11.0	8.8	9.9	10.5	14.1
FFO/total debt (%)	3.6	**	35.6	27.9	28.8	32.5	38.3
Total debt/capitalization (%)	80.1		41.9	47.4	48.5	44.7	43.3

* *Consolidated financial statements*
** *Annualized with trailing 12 months*
*** *Restate according to the accounting standard which has been enforced in 2015*

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