

10 March 2020

Consumer Cyclical | Retailing

## CP ALL (CPALL TB)

## Buy (Maintained)

### Tesco Deal Goes To CP Group; Keep BUY

Target Price (Return):	THB84.00 (32%)
Price:	THB63.75
Market Cap:	USD18,172m
Avg Daily Turnover (THB/USD)	1,943m/63.1m

- **Keep BUY and THB84.00 TP, 32% upside.** CP Group's acquisition of Tesco Thailand and Tesco Malaysia is not surprising, and it has lower valuations vs past deals. It may deliver some downside to CP All's earnings, but could strengthen its store network and long-term business outlook.
- **Tesco deal finalised.** On Monday, CP All's board resolved to approve investment of c.USD3bn (c.TH95.98bn) for up to 40% of total issued shares in Tesco's Thailand and Malaysia operations. It would be an indirect investment through CP Retail Holding and CP Retail Development, in which the latter would spend c.USD10.58bn-11.4bn for the total acquisition amount. The transactions are expected to close in 2H20.
- **Benefits.** CP All would acquire the biggest hypermarket chain in Thailand and Malaysia, and be able to offer a complete range of grocery retailing formats (CVS, supermarkets, hypermarkets and cash-and-carry stores). It would also own a mall rental business operator in both countries with attractive operating profit margins and consistent returns. We expect the acquiring entity to continue holding stakes in Tesco Lotus Retail Growth Freehold and Leasehold Property Fund (TLGF TB, NR) and assign it to support further asset monetisation going forward.
- **Cheaper valuations than past deals.** The transaction amount may be equivalent to 2.3x-2.5x P/BV, materially lower than previous deals for Thai retailers (ie c.4x P/BV for Big C Supercenter's acquisition of Carrefour in 2010 and c.16x P/BV for CP All's purchase of Siam Makro (MAKRO TB, NR) in 2013). The Tesco deal also implies 12.5x EV/EBITDA, below other previous retailing M&As of 13x-17x, including Berli Jucker's (BJC TB, BUY, TP: THB61.00) acquisition of Big C in 2016 at 14x EV/EBITDA.
- **Impact analysis.** CP All would recognise the share of profits from equity investments in Tesco. Our scenario analysis applies Tesco's FY19 net profit of THB7.48bn for Thailand and Malaysia throughout our forecast timeline. We assume CP All's 100% debt financing with a 3% cost for bridging loans in the first year and 3.8% from the second year onwards. The matter may contribute no earnings accretion to CP All in 2020F but a minimal 1% downside to 2021F-2022F. Nonetheless, higher debt may lower our DCF-derived TP by 8% to THB77.50, from THB84.00. Our sensitivity analysis found that every 5% increase/decline in Tesco's net profit would affect CP All's earnings and TP by a modest 0.3-0.4%. Its 2020F net D/E may go up to 1.6x vs our current estimation of 0.8x, but still below the 2.0x covenant.
- **Some concerns raised.** We expect a small possibility that the deal may not be approved by related regulators. Meanwhile, in order to meet 7-Eleven franchisor requirements, it is more likely that CP All may have to restructure 1,574 Tesco Lotus Express outlets' small store format, which we estimate contribute c.15% of Tesco's sales. This may affect the short-term outlook of the acquired assets. A mix of local and foreign currency loans yet to be announced may cause FX uncertainty on interest expense.

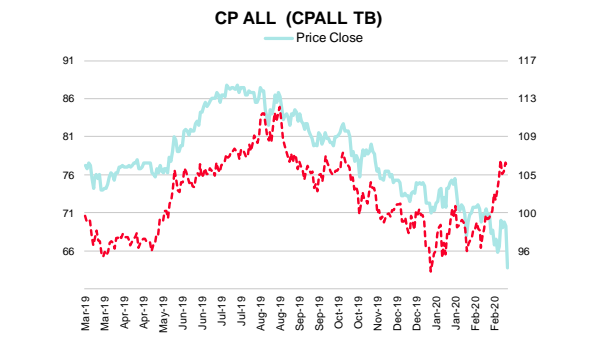
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.8)	(11.2)	(13.0)	(24.3)	(17.5)
Relative	8.7	7.0	6.1	0.6	5.5
52-wk Price low/high (THB)	63.8 – 87.8				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	508,212	550,901	591,412	643,399	695,829
Recurring net profit (THBm)	21,203	23,049	24,340	27,871	31,636
Recurring net profit growth (%)	6.5	8.7	5.6	14.5	13.5
Recurring P/E (x)	27.01	24.85	23.53	20.55	18.10
P/B (x)	8.5	7.4	6.1	5.2	4.5
P/CF (x)	11.19	15.09	12.82	12.58	11.35
Dividend Yield (%)	1.9	2.0	2.1	2.4	2.8
EV/EBITDA (x)	16.49	15.70	14.37	12.86	11.52
Return on average equity (%)	33.2	29.9	28.5	27.5	26.8
Net debt to equity (%)	118.3	105.7	80.0	61.8	45.9

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Regional	Recurring EPS	2.36	2.57	2.71	3.10	3.52
Consumer Cyclical	DPS	1.20	1.25	1.35	1.55	1.76
<b>CP ALL</b>	BVPS	7.49	8.62	10.41	12.16	14.13
CPALL TB	Return on average equity (%)	33.2	29.9	28.5	27.5	26.8
Buy						
	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Valuation basis</b>	Recurring P/E (x)	27.01	24.85	23.53	20.55	18.10
DCF-based.	P/B (x)	8.5	7.4	6.1	5.2	4.5
	FCF Yield (%)	6.4	4.0	4.7	4.5	5.0
<b>Key drivers</b>	Dividend Yield (%)	1.9	2.0	2.1	2.4	2.8
i. Opening of new stores in both Thailand and overseas;	EV/EBITDA (x)	16.49	15.70	14.37	12.86	11.52
ii. Launches of new and exclusive products;	EV/EBIT (x)	21.82	20.96	19.19	17.17	15.40
iii. Rising sales contributed from high-GPM ready-to-eat and private label products.						
	<b>Income statement (THBm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Key risks</b>	Total turnover	508,212	550,901	591,412	643,399	695,829
i. Slowdown in domestic consumption;	Gross profit	113,581	124,838	134,546	147,342	160,358
ii. Intense competition in hypermarkets that may squeeze profit margins of cash-and-carry retail stores;	EBITDA	42,792	44,705	47,800	52,413	57,250
iii. Increasing leverage.	Depreciation and amortisation	(10,444)	(11,220)	(12,012)	(13,154)	(14,408)
	Operating profit	32,347	33,485	35,788	39,260	42,842
<b>Company Profile</b>	Net interest	(7,196)	(6,721)	(6,461)	(5,678)	(4,725)
CP ALL is the sole operator of 7-Eleven stores in Thailand with 53% market share. The company has more than 8,500 stores across the country and plans to expand to 10,000 stores by 2018. In 2013, the group acquired the country's biggest cash-and-carry retailer, Siam Makro.	Pre-tax profit	24,878	26,058	29,327	33,582	38,118
	Taxation	(3,969)	(4,070)	(4,692)	(5,373)	(6,099)
	Reported net profit	20,656	21,638	24,340	27,871	31,636
	Recurring net profit	21,203	23,049	24,340	27,871	31,636
	<b>Cash flow (THBm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Change in working capital	(4,991)	(5,788)	12,187	(794)	(87)
	Cash flow from operations	51,175	37,939	44,674	45,527	50,458
	Capex	(14,327)	(15,121)	(17,976)	(20,019)	(21,974)
	Cash flow from investing activities	(15,707)	(15,519)	(20,952)	(23,143)	(25,255)
	Dividends paid	(9,881)	(10,780)	(11,229)	(12,170)	(13,936)
	Cash flow from financing activities	(30,324)	(26,583)	(21,827)	(27,152)	(27,960)
	Cash at beginning of period	28,879	34,023	29,861	31,755	26,986
	Net change in cash	5,144	(4,163)	1,895	(4,769)	(2,757)
	Ending balance cash	34,023	29,861	31,755	26,986	24,229
	<b>Balance sheet (THBm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total cash and equivalents	35,490	30,519	32,414	27,645	24,888
	Tangible fixed assets	111,287	116,082	122,047	128,912	136,478
	Total assets	373,742	375,617	389,554	398,491	410,067
	Short-term debt	26,671	15,855	34,687	29,000	28,559
	Total long-term debt	126,893	129,193	97,304	85,304	68,745
	Total liabilities	273,923	267,250	265,048	258,284	252,160
	Total equity	99,819	108,368	124,506	140,207	157,907
	Total liabilities & equity	373,742	375,617	389,554	398,491	410,067
	<b>Key metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Revenue growth (%)	7.9	8.4	7.4	8.8	8.1
	Recurrent EPS growth (%)	6.5	8.7	5.6	14.5	13.5
	Gross margin (%)	22.3	22.7	22.8	22.9	23.0
	Operating EBITDA margin (%)	8.4	8.1	8.1	8.1	8.2
	Net profit margin (%)	4.1	3.9	4.1	4.3	4.5
	Dividend payout ratio (%)	47.8	49.8	0.0	0.0	0.0
	Capex/sales (%)	2.8	2.7	3.0	3.1	3.2
	Interest cover (x)	4.50	4.98	5.54	6.91	9.07

Source: Company data, RHB

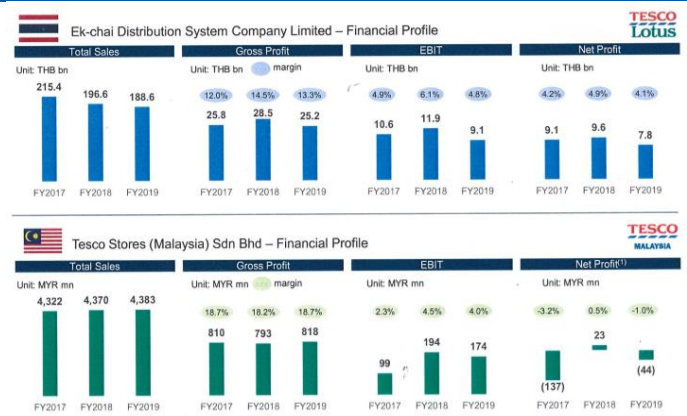
Figure 1: Overview of Tesco Thailand and Malaysia



Note: (1) Tesco Thailand and Tesco Malaysia financials based on audited financial statements of Ek-Chai Distribution System Company Limited and Tesco Stores (Malaysia) Sdn Bhd respectively. (2) Store outlets and mail outlets based on August 2019.

Source: Company data

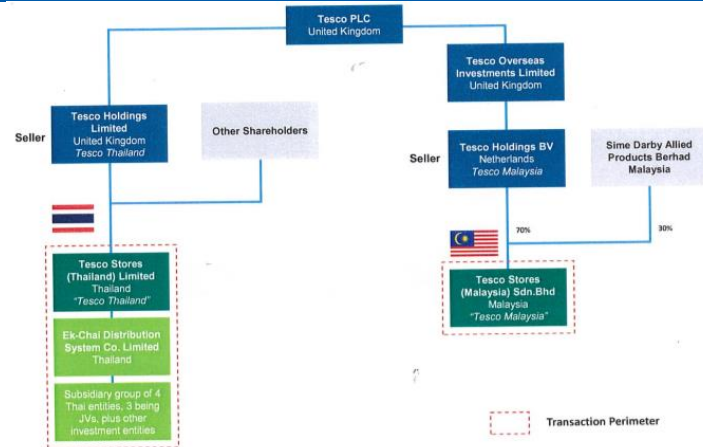
Figure 2: Tesco Thailand and Malaysia's financials



Note: (1) Includes interest expense from loans from a related company of MYR 152mn, MYR 185mn and MYR 156mn in FY17, FY18 and FY19 respectively. Fiscal year ending 28 February. Source: Company audited financial statements.

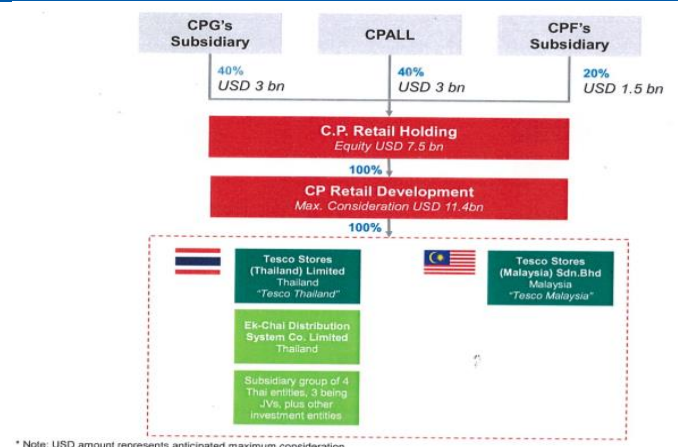
Source: Company data

Figure 3: Pre-transaction: Overview of Tesco



Source: Company data

Figure 4: Post-acquisition transaction structure



\* Note: USD amount represents anticipated maximum consideration

Source: Company data

Figure 5: CP ALL's DCF valuation

THBm	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
EBIT	35,788	39,260	42,842	48,409	54,717	61,871	69,068	76,822	85,173	94,167
EBIT (1-t)	30,062	32,978	35,988	40,664	45,962	51,971	58,017	64,530	71,545	79,100
Depreciation & amortisation	12,012	13,154	14,408	15,783	17,327	19,060	20,966	23,063	25,374	27,918
Change in net working capital	12,187	(794)	(87)	339	(246)	325	(95)	652	296	348
Capex	(17,976)	(20,019)	(21,974)	(24,079)	(27,596)	(30,390)	(33,429)	(36,772)	(40,617)	(44,557)
Net free cash flow to firm	36,285	25,319	28,334	32,707	35,447	40,966	45,459	51,473	56,598	62,810
Terminal value										1,305,337
PV	33,605	21,716	22,507	24,061	24,150	25,848	26,564	27,856	28,367	635,062
Terminal growth	3.0%									
WACC	8.0%									
Total discounted firm value	869,737									
Less: Net debt	100,236									
Less: Minority interest	14,629									
Equity value	754,873									
Number of shares (m)	8,983									
Equity value per share (THB)	84									

Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-02-26	Buy	84.0	66.8
2019-11-13	Buy	95.0	79.0
2019-08-14	Buy	95.0	83.5
2019-02-27	Buy	90.0	78.5
2019-02-22	Buy	88.0	78.8

Source: RHB, Bloomberg



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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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90 - 100		ดีเลิศ	Excellent
80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		ดีพอใช้	Satisfactory
50 - 59		ผ่าน	Pass
ต่ำกว่า 50	No logo give	N/A	N/A

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### IOD (IOD Disclaimer)

ผลสำรวจการกำกับดูแลกิจการบริษัทจดทะเบียนที่แสดงไว้นี้ เป็นผลที่ได้จากการสำรวจและประเมินข้อมูลของบริษัทจดทะเบียนในตลาดหลักทรัพย์แห่งประเทศไทย และตลาดหลักทรัพย์ เอ็ม เอ ไอ (“บริษัทจดทะเบียน”) เปิดเผยต่อสาธารณะและเป็นข้อมูลให้ผู้ลงทุนทั่วไปสามารถเข้าถึงได้ ผลสำรวจดังกล่าวจึงเป็นการนำเสนอข้อมูลในมุมมองของบุคคลภายนอกต่อมาตรฐานการกำกับดูแลกิจการของบริษัทจดทะเบียน โดยไม่ได้เป็นการประเมินผลการปฏิบัติงานหรือการดำเนินการของบริษัทจดทะเบียนอื่นทั้งมิได้ใช้ข้อมูลภายในของบริษัทจดทะเบียนในการประเมิน ดังนั้นผลสำรวจที่แสดงนี้จึงไม่ได้เป็นการรับรองถึงผลการปฏิบัติงานหรือการดำเนินการของบริษัทจดทะเบียนและไม่ถือเป็นการให้คำแนะนำในการลงทุนในหลักทรัพย์ของบริษัทจดทะเบียนหรือคำแนะนำใดๆ ผู้ใช้ข้อมูลจึงควรใช้วิจารณญาณของตนเองในการวิเคราะห์และตัดสินใจในการใช้ข้อมูลใดๆ ที่เกี่ยวกับบริษัทจดทะเบียนที่แสดงในผลสำรวจนี้

ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี (ประเทศไทย) จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความครบถ้วนและถูกต้องของผลสำรวจดังกล่าวแต่อย่างใด

ข้อมูล Anti-Corruption Progress Indicator 2560

ประกาศเจตนาธรรม CAC

A	ASK	CHG	FC	GREEN	JUTHA	MATCH	NINE	PIMO	RWI	SPPT	TFI	TU	VNT
AI	AU	CHOTI	FER	GSTEL	KASET	MATI	NMG	PK	SANKO	SPRC	THE	TVD	WAVE
AIE	BCH	CHOW	FPI	GUNKUL	KBS	MBAX	NNCL	PL	SAUCE	SR	TICON	TVO	WHA
AIRA	BJC	CIG	FSMART	HARN	KCAR	MC	NTV	PLANB	SC	SRICHA	TIP	TVT	WICE
AJ	BJCHI	COL	GEL	IFS	KTECH	MFEC	NUSA	POST	SCCC	SST	TKN	TWPC	WIJK
ALUCON	BLAND	COM7	GFPT	ILINK	KWC	MIDA	NWR	PRINC	SCN	STA	TLUXE	U	TRUE
AMATAV	BR	CPALL	GGC	INET	KYE	MILL	OGC	PRO	SEAOIL	SUPER	TMILL	UPA	
AOT	BROCK	CPF	GIFT	IRC	L&E	ML	PACE	PSTC	SE-ED	SUSCO	TMT	UREKA	
APCO	BRR	CPR	GJS	J	LEE	MTLS	PAF	PYLON	SENA	SWC	TNP	UWC	
AQUA	CEN	CSC	GLOBAL	JMART	LIT	NBC	PAP	QTC	SIRI	SYMC	TPA	VGI	
ARROW	CGH	EKH	GOLD	JMT	LVT	NCL	PATO	ROH	SMART	TAKUNI	TSE	VIBHA	
ASIA	CHEWA	EPCO	GPSC	JUBILE	MAKRO	NEP	PCSGH	ROJNA	SPACK	TBSP	TTI	VIH	

ได้รับการรับรอง CAC

ADVANC	BKI	CPN	FE	INTUCH	LANNA	MSC	PLAT	PTT	SAT	SNP	TCMC	TMD	UOBKH
AKP	BLA	CSL	FNS	IRPC	LHBANK	MTI	PM	PTTEP	SCB	SORKON	TFG	TNITY	WACOAL
AMANAH	BROOK	DCC	FSS	IVL	LHK	NKI	PPP	PTTGC	SCC	SPC	TGCI	TNL	
AP	BTS	DEMCO	GBX	K	LPN	NSI	PPS	Q-CON	SCG	SPI	THANI	TOG	
ASP	BWG	DIMET	GCAP	KBANK	MBK	OCC	PRANDA	QH	SGP	SSF	THCOM	TOP	
AYUD	CENTEL	DRT	GLOW	KCE	MBKET	OCEAN	PREB	QLT	SINGER	SSI	THRE	TPCORP	
BAFS	CFRESH	DTAC	HANA	KGI	MCOT	PB	PRG	RATCH	SIS	SSSC	THREL	TRU	
BANPU	CIMBT	DTC	HMPRO	KKP	MFC	PDI	PSH	RML	SITHAI	SVI	TIPCO	TSC	
BAY	CM	EASTW	HTC	KSL	MINT	PE	PSL	ROBINS	SMIT	SYNTEC	TISCO	TSSTH	
BBL	CNS	ECL	ICC	KTB	MONO	PG	PT	S & J	SMPC	TAE	TKT	TTCL	
BCP	CPI	EGCO	IFEC	KTC	MOONG	PHOL	PTG	SABINA	SNC	TCAP	TMB	TVI	

N/A

2S	ARIP	BSM	CSS	FMT	INOX	LTX	NPK	RCL	SFP	SUC	TITLE	TSR	VPO
AAV	AS	BTC	CTW	FN	INSURE	M	NPP	RICH	SGF	SUN	TIW	TSTE	VTE
ABICO	ASAP	BTNC	CWT	FOCUS	IRCP	MACO	NVD	RICHY	SHANG	SUTHA	TK	TTA	WG
ACAP	ASEFA	BTW	D	FORTH	IT	MAJOR	NYT	RJH	SIAM	SVH	TKS	TTL	WHAUP
ACC	ASIAN	BUI	DCON	FTE	ITD	MALEE	OHTL	ROCK	SIMAT	SVOA	TM	TTTM	WIN
ADAM	ASIMAR	CBG	DCORP	FVC	ITEL	MANRIN	OISHI	RP	SKE	SYNEX	TMC	TTW	WINNER
ADB	ASN	CCET	DDD	GC	JAS	MAX	ORI	RPC	SKN	T	TMI	TUCC	WORK
AEC	ATP30	CCP	DELTA	GENCO	JCT	M-CHAI	OTO	RPH	SKR	TACC	TMW	TWP	WORLD
AEONTS	AUCT	CGD	DIGI	GL	JKN	MCS	PAE	RS	SKY	TAPAC	TNDT	TWZ	WP
AF	BA	CHARAN	DNA	GLAND	JSP	MDX	PDG	RSP	SLP	TASCO	TNH	TYCN	WPH
AFC	BAT-3K	CHO	DTCI	GPI	JTS	MEGA	PERM	S	SMK	TC	TNPC	UAC	WR
AGE	BCPG	CHUO	EA	GRAMMY	JWD	METCO	PF	S11	SMM	TCB	TNR	UBIS	XO
AH	BDMS	CI	EARTH	GRAND	KAMART	MGT	PICO	SAFARI	SMT	TCC	TOA	UEC	YCI
AHC	BEAUTY	CITY	EASON	GTB	KC	MJD	PJW	SALEE	SOLAR	TCCC	TOPP	UKEM	YNP
AIT	BEC	CK	ECF	GULF	KCM	MK	PLANET	SAM	SPA	TCJ	TPAC	UMI	YUASA
AJA	BEM	CKP	EE	GYT	KDH	MM	PLE	SAMART	SPALI	TCOAT	TPBI	UMS	ZIGA
AKR	BFIT	CMO	EFORL	HFT	KIAT	MODERN	PMTA	SAMCO	SPCG	TEAM	TPCH	UNIQU	ZMICO
ALLA	BGRIM	CMR	EIC	HOTPOT	KKC	MPG	POLAR	SAMTEL	SPG	TFD	TIPL	UP	
ALT	BGT	CNT	EMC	HPT	KOOL	MPIC	POMPUI	SAPPE	SPORT	TFMAMA	TIPIP	UPF	
AMA	BH	COLOR	EPG	HTECH	KTIS	NC	PORT	SAWAD	SPVI	TGPRO	TPOLY	UPOIC	
AMARIN	BIG	COMAN	ERW	HUMAN	KWG	NCH	PPM	SAWANG	SQ	TH	TPP	UT	
AMATA	BIZ	CPH	ESSO	HYDRO	LALIN	NDR	PRAKIT	SCI	SSC	THAI	TR	UTP	
AMC	BKD	CPL	ESTAR	ICHI	LDC	NETBAY	PRECHA	SCP	SSP	THANA	TRC	UV	
ANAN	BLISS	CPT	ETE	ICN	LH	NEW	PRIN	SDC	STANLY	THG	TRITN	UVAN	
APCS	BM	CRANE	EVER	IEC	LOXLEY	NEWS	PRM	SE	STAR	THIP	TRT	VARO	
APEX	BOL	CRD	F&D	IHL	LPH	NFC	PTL	SEAFCO	STEC	THL	TRUBB	VCOM	
APURE	BPP	CSP	FANCY	III	LRH	NOBLE	RAM	SELIC	STHAI	THMUI	TSF	VI	
AQ	BSBM	CSR	FLOYD	INGRS	LST	NOK	RCI	SF	STPI	TIC	TSI	VNG	

Source: Thai Institute of Directors

ข้อมูลบริษัทที่เข้าร่วมโครงการแนวร่วมปฏิบัติของภาคเอกชนไทยในการต่อต้านทุจริต (Thai CAC) ของสมาคมส่งเสริมสถาบันกรรมการบริษัทไทย (ข้อมูล ณ วันที่ 17 ต.ค.)

- ได้ประกาศเจตนาธรรมนี้เข้าร่วม CAC
- ได้รับการรับรอง CAC

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