

C.P. All - CPALL

Limited potential upside

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Phillip Securities Research Pte Ltd
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Report type: Company Update

Company Overview

CPALL is Thailand's biggest convenience store chain operator under the '7-Eleven' brand. It also operates other businesses related to its core convenience store business such as CPRAM which produces and distributes frozen food products and bakery.

- 4QCY11 net profit dropped q-q but full-year CY11 profit rose 20.2% y-y as (1) sales grew 15.1% thanks to the addition of 486 new outlets and a 5.9% rise in spending per visit to Bt54 and (2) SG&A expenses to sales ratio dropped 0.38%.
- CPALL has set a capex budget of Bt5-5.5bn for CY12, accounting for 50-55% of CY12 net profit target. The investment would largely be financed by its operating profits.
- Demand for ready-to-eat food products appears to remain in strong growth mode. CPALL aims to double the number of stores that sell chilled food products in Bangkok to 3,000 this year. Chonburi Province will be the first province outside Bangkok that CPALL plans to start selling chilled food products at its 7-Eleven stores next year.
- We expect CPALL to deliver CY12 earnings growth of 28.5% y-y.
- CPALL declared a one-for-one stock dividend and a cash dividend of Bt1.25/share for its 2HCY11 performance. The stock will trade XD on May 3, 2012.
- Due to limited upside, we maintain a 'NEUTRAL' rating on CPALL with pre-XD price target of Bt65.50/share and post-XD target of Bt32.75/share.

What is the news?

CPALL posted a net profit drop of 27.3% q-q in 4QCY11 due to the impact from floods but full-year CY11 profit grew 20.2% y-y.

CPALL has a capex plan of Bt5-5.5bn for CY12, accounting for 50-55% of CY12 net profit target. The investment would largely be financed by its operating profits without borrowings. Much of the investment budget would be used to fund branch expansion, construction of its fifth distribution center in Lampang Province, which will serve 1,000 stores in the North and a chilled food factory.

Demand for ready-to-eat food products appears to remain in strong growth mode. CPALL aims to double the number of stores that sell chilled food products in Bangkok to 3,000 this year.

How do we view this?

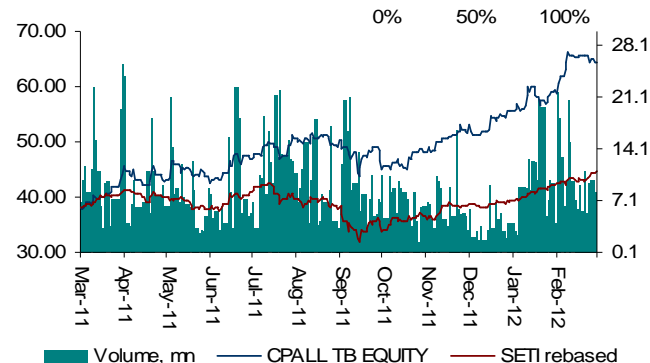
We expect CPALL to deliver CY12 earnings growth of 28.5% y-y. Gross margin expansion and lower effective tax rate would be the main drivers of earnings growth for CPALL in CY12.

Investment Actions?

Due to limited upside, we maintain a 'NEUTRAL' rating on CPALL with pre-XD CY12 price target of Bt65.50/share and post-XD target of Bt32.75/share.

C.P. All

Rating	3.00	Neutral
- Previous Rating	3.00	Neutral
Target Price (Bt)	65.50	
- Previous Target Price (Bt)	56.50	
Closing Price (Bt)	64.25	
Expected Capital Gains (%)	1.9%	
Expected Dividend Yield (%)	2.8%	
Expected Total Return (%)	4.7%	
Raw Beta (Past 2yrs weekly data)	0.79	
Market Cap. (USD mn)	9,380	
Enterprise Value (USD mn)	8,624	
Market Cap. (Bt mn)	288,685	
Enterprise Value (Bt mn)	264,800	
3MAverage Daily T/O (mn)	7.4	
52 week range	37.5 - 66.5	
Closing Price in 52 w week range		



Major Shareholders

	(%)
1. CP Merchandising	30.0
2. Charoen Pokphand Group	17.0
3. AIA Company Limited Di-Life	4.5

Key Financial Summary

FYE	12/10	12/11	12/12F	12/13F
Revenue (Btrm)	140,738	161,890	189,053	218,166
Net Profit (Btrm)	6,662	8,007	10,290	12,084
EPS (Bt)	1.48	1.78	2.29	2.69
Net Profit, adj. (Btrm)	6,662	8,007	10,290	12,084
EPS, adj. (Bt)	1.48	1.78	2.29	2.69
P/E (X),adj.	43.4	36.1	28.1	23.9
BVPS (Bt)	4.00	4.83	4.47	5.36
P/B (X)	16.1	13.3	14.4	12.0
DPS (Bt)	1.40	2.75	1.80	2.20
Div. Yield (%)	2.2	4.3	2.8	3.4

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

P/E12 (28.50x)

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4QCY11 net profit down q-q but CY11 profit up 20.2% y-y

CPALL generated 4QCY11 sales of Bt39,160mn, up 7.3% y-y but down 2.2% q-q as severe floods forced it to shut 10% of its total stores and a distribution center at Bang Bua Thong for one month, which disrupted its supply chain. Net profit for the quarter came in at Bt1,580mn or Bt0.35 a share, up 2.1% y-y but down 27.3% q-q. In this period, gross margin shrank 0.3% y-y and 1% q-q to 24.28%.

For all of CY11, sales rose 15% y-y to Bt155,953mn thanks to the addition of 486 new outlets, bringing its store portfolio to 6,276 at end-2011. SSSG contracted to 4.8% from 9.9% a year ago due chiefly to unusually cold weather in 1HCY11 and the impact from floods in 2HCY11 but spending per visit grew 5.4% y-y to Bt54. For the year, gross margin held steady at 24.78% but full-year profit jumped 20.2% y-y to Bt8,007mn or Bt1.78 a share as SG&A expenses to sales ratio slipped 0.38% to 21.91%.

Capex budget of Bt5-5.5bn for CY12, accounting for 50-55% of CY12 profit target

To continue its expansion plan, CPALL has set a capex budget of Bt5-5.5bn this year, accounting for 50-55% of CY12 net profit target. The investment would largely be financed by its operating profits. Of the total investment budget, (1) Bt2bn and Bt1.4bn would be used to fund the opening of 500 new outlets and the renovation of existing stores respectively, (2) Bt1.1bn would be used to finance the construction of a new fifth distribution center in Lampang Province, which will serve 1,000 stores in the North and a chilled food factory to support the expansion of stores that sell chilled food products, and (3) the remaining Bt1bn would be used to fund other investments i.e. IT system and fixed assets.

Demand for ready-to-eat food products in strong growth mode, plan to double number of stores selling chilled food products to 3,000 this year

CPALL rolled out chilled food products at its stores in Bangkok three years ago in 2009. The number of stores that sell chilled food products rose from about 1000 to 1,500 in 2011. CPALL aims to double the number of stores that sell chilled food products to 3,000 this year and it plans to build a new chilled food factory at Lat Lum Kaeo. Chonburi Province will be the first province outside Bangkok that CPALL plans to start selling chilled food products at its 7-Eleven stores next year. In our view, demand for ready-to-eat food products appears to remain in strong growth mode.

CY12 earnings growth outlook of 28.5% y-y

We expect CPALL to achieve CY12 sales of Bt181,176mn, up 16.6% y-y. The forecast is based on (i) the addition of 520 new outlets, bringing its store portfolio to 6,796 at end-2002 and (ii) SSSG of 5%. With profitability likely to return back to normal after last year's floods, we assume gross margin will expand 0.48% to 25.26% in CY12. Coupled with the benefit from corporate income tax cuts, we estimate CPALL will deliver a CY12 net profit of Bt10,290mn or Bt2.29 a share, up 28.5% y-y.

Cash and stock dividend for 2HCY11 performance, XD on May 3, 2012

CPALL declared a one-for-one stock dividend and a cash dividend of Bt1.25/share for its 2HCY11 performance. The stock will trade ex-dividend (XD) on May 3 and the dividend is scheduled to be paid on May 22, 2012.

'NEUTRAL' rating due to limited upside with pre-XD target price of Bt65.50/share and post-XD target of Bt32.75/ share

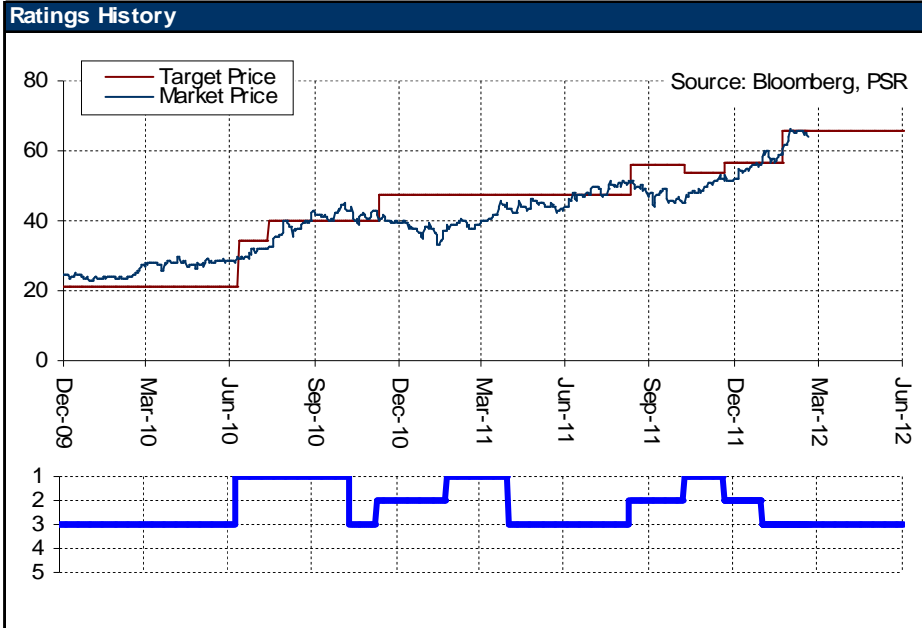
At Bt64.25/share, CPALL trades at a P/E of 28.2x, leaving limited upside to our pre-XD CY12 target price of Bt65.50/share. Our post-XD target for CPALL is Bt32.75/share. We maintain a 'NEUTRAL' rating on CPALL.

FYEDec	FY09	FY10	FY11	FY12F	FY13F
Valuation Ratios					
P/E (X), adj.	57.9	43.4	36.1	28.1	23.9
P/B (X)	15.2	16.1	13.3	14.4	12.0
EV/EBITDA (X), adj.	28.0	22.0	18.8	15.8	14.2
Dividend Yield (%)	1.2	2.2	4.3	2.8	3.4
Per share data (Bt)					
EPS, reported	1.11	1.48	1.78	2.29	2.69
EPS, adj.	1.11	1.48	1.78	2.29	2.69
DPS	0.80	1.40	2.75	1.80	2.20
BVPS	4.21	4.00	4.83	4.47	5.36
Growth & Margins (%)					
Growth					
Revenue	-9.0	19.5	15.0	16.8	15.4
EBITDA	39.1	27.3	17.1	18.4	12.0
EBIT	69.8	34.9	20.1	21.4	13.0
Net Income, adj.	51.2	33.5	20.2	28.5	17.4
Margins					
EBITDA margin	8.0	8.6	8.7	8.8	8.6
EBIT margin	5.8	6.5	6.8	7.1	6.9
Net Profit Margin	4.3	4.7	4.9	5.4	5.5
Key Ratios					
ROE (%)	27.1	33.6	38.3	46.6	50.2
ROA (%)	10.8	12.9	14.1	16.4	18.0
Net Debt-Cash	(12,672)	(15,716)	(14,200)	(14,288)	(18,073)
Net Gearing(X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Income Statement (Bt mn)					
Revenue	117,761	140,738	161,890	189,053	218,166
EBITDA	9,473	12,057	14,117	16,714	18,711
Depreciation & Amortisation	2,684	2,900	3,123	3,362	3,619
EBIT	6,789	9,156	10,994	13,352	15,092
Net Finance (Expense)/Income	(2)	(0)	(0)	(3)	(3)
Other items	0	0	0	0	0
Associates & JVs	0	0	0	0	0
Profit Before Tax	6,787	9,156	10,994	13,349	15,089
Taxation	(1,774)	(2,487)	(2,981)	(3,070)	(3,018)
Profit After Tax	5,013	6,669	8,013	10,279	12,071
Non-controlling Interest	(21)	(6)	(6)	11	13
Net Income, reported	4,992	6,662	8,007	10,290	12,084
Net Income, adj.	4,992	6,662	8,007	10,290	12,084

Source: PSR est.

FYE Dec	FY09	FY10	FY11	FY12F	FY13F
Balance Sheet (Bt mn)					
Cash	12,682	15,716	14,202	14,290	18,075
ST Investments	1,196	4,436	9,893	9,893	10,388
Accounts Receivables	925	1,226	977	1,056	1,466
Inventories	5,900	6,518	8,642	10,014	12,350
Others	2,422	2,818	2,690	2,827	2,937
Total current assets	23,125	30,713	36,404	38,080	45,216
PPE	13,491	14,525	14,994	15,943	17,460
Intangibles	1,114	1,083	1,132	1,356	1,612
Associates & JVs	0	0	0	0	0
Investments	5,871	691	1,741	1,741	1,741
Others	840	892	1,051	1,105	1,148
Total non-current assets	21,316	17,191	18,919	20,145	21,961
Total Assets	44,441	47,904	55,323	58,225	67,176
Short term loans	10	0	2	2	2
Accounts Payables	19,189	21,613	24,393	28,265	32,577
Others	4,371	5,757	6,084	6,495	6,848
Total current liabilities	23,570	27,369	30,479	34,761	39,428
Long term loans	0	0	0	0	0
Others	1,935	2,577	3,163	3,430	3,713
Total liabilities	1,935	2,577	3,163	3,430	3,713
Non-controlling interest	196	203	208	208	208
Shareholder Equity	18,937	17,958	21,699	20,065	24,061
Cashflow Statements (Bt mn)					
CFO					
PBT	6,787	9,156	10,994	13,349	15,089
Adjustments	2,859	3,093	3,302	3,541	3,799
Cash from ops before WC changes	6,744	9,253	10,602	12,906	14,674
WC changes	882	2,077	1,621	2,755	1,951
Cash generated from ops	17,271	23,579	26,520	32,551	35,513
Taxes paid, net	(1,492)	(2,083)	(2,935)	(3,070)	(3,018)
Interest paid	0	0	0	0	0
Cashflow from ops	8,992	12,340	12,590	16,132	17,406
CFI					
CAPEX, net	(3,552)	(3,869)	(3,688)	(4,077)	(4,903)
Dividends from associates & JVs	0	0	0	0	0
Dividends/Interest from Investments	150	183	395	568	572
Purchase/sale of investments	(446)	(3,172)	(5,053)	0	(495)
Investments in subs & associates	0	0	0	0	0
Others	(1,492)	2,986	(1,324)	(4,673)	(710)
Cashflow from investments	(5,339)	(3,873)	(9,670)	(8,182)	(5,536)
CFF					
Share issuance	0	0	0	0	0
Purchase of treasury shares	0	0	0	0	0
Loans, net of repayments	(144)	(10)	2	2	2
Dividends to minority interests	0	0	0	0	0
Dividends to shareholders & capital reduction	(2,696)	(5,392)	(4,493)	(7,863)	(8,088)
Others	0	0	0	0	0
Cashflow from financing	(2,840)	(5,402)	(4,491)	(7,861)	(8,085)
Net change in cash	813	3,065	(1,571)	89	3,785
Effects of exchange rates	(24)	(32)	25	25	25
CCE, end	12,682	15,716	14,202	14,290	18,075

Source: PSR est.



Phillip Group Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate/Trading Buy	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce/Trading Sell	4
> -20%	Sell	5

Remarks
 We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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