

CP All Public Co Ltd (CPALL TB) - BUY

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News Update**Lotus's shareholding restructuring within CP Group**

- **CPRD (Lotus's) will be a 100% MAKRO's subsidiary.**
- **CPALL's stake in MAKRO will reduce to 51.63% post PO.**
- **Neutral impact to CPALL's EPS.**
- **MAKRO will suffer from EPS dilution.**
- C.P. Retail Holding (CPRH), an investment holding company, jointly owned by CPALL (40%), CPG (40%) and CPF (20%), holds a 99.99% in CP Retail Development (CPRD) which is the owner of Lotus stores in Thailand and Malaysia.
- CP Group is restructuring CPRH holding within the group by entire business transfer (EBT) of CPRH to MAKRO via a share swap (see Exhibit 1).
- CPALL holds 93.08% in MAKRO and 40% in CPRH. After the EBT, CPALL's stake in MAKRO will reduce to 65.97%. Post PO, stake will reduce further to 51.63%.
- We estimate neutral impact to CPALL's 2022F profit at -4% (Exhibit 2). If to include future business synergies and cost savings from business consolidation as CPALL will become the largest grocer in Asia ex-Japan operating CVS, cash & carry (B2B) and Lotus hypermarket (B2C), this restructuring could benefit CPALL in the long term.
- MAKRO (BUY, Bt46 TP), with dilution from newly issued shares, will suffer EPS dilution by 30% in 2022F (Exhibit 3). But it will become a much bigger company with multi retail formats. After capital increase, it will have better access to capital market with a larger market capitalization and free float goes above 15%.
- The CP Group is better off as PO will reduce the Group's debt burden and group's companies benefit from being shareholders of CPALL and MAKRO.

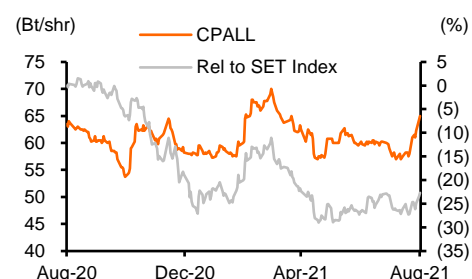
Key Valuations

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Revenue	546,207	557,846	613,546	679,744
Net profit	16,102	10,682	17,548	23,557
Norm net profit	15,876	10,682	17,548	23,557
Norm EPS (Bt)	1.7	1.1	1.8	2.5
Norm EPS gr (%)	(30.0)	(34.9)	70.9	36.3
Norm PE (x)	39.3	60.3	35.3	25.9
EV/EBITDA (x)	16.6	16.9	14.5	12.4
P/BV (x)	6.0	5.8	5.3	4.7
Div. yield (%)	1.4	0.8	1.4	1.9
ROE (%)	16.7	10.8	16.6	20.0
Net D/E (%)	180.8	168.9	144.9	118.5

Source: Thanachart estimates

Stock Data

Closing price (Bt)	65.00
Target price (Bt)	73.00
Market cap (US\$ m)	18,111
Avg daily turnover (US\$ m)	39.5
12M H/L price (Bt)	70.00/53.75

Price Performance

Source: Bloomberg

Ex 1: Transaction Summary**Details**

EBT transaction	MAKRO to issue 5,010.3235m new shares to CPALL, CPG, CPF for CPRH shares via share swap at Bt43.5. - CPALL for 2,004.1294m shares, CPG for 2,004.1294m shares, CPF for 1,002.0647m shares.
Expected completion	1-3 weeks after EGM on 12 Oct 2021.
MAKRO's shares post EBT	9,810.3235m shares
PO transaction	1,362m new shares (11,172.3235m shares post PO) - CPALL will offer its 363.2m shares (3.7%) for PO + 340.5m (3.47%) lent shares

Source: Company data, Thanachart estimates

Ex 2: Estimated Impact On CPALL's 2022F Profit

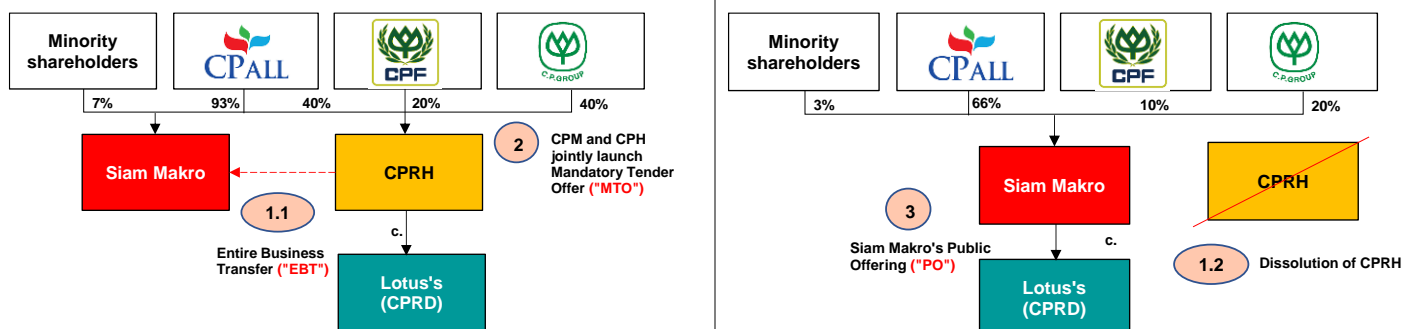
	Before	After
<u>Shareholding (%)</u>	93.08% in MAKRO 40% in CPRH (CPRH owns 100% in CPRD)	65.97% in MAKRO post EBT (MAKRO owns 100% in CPRD) 51.63% in MAKRO (post PO + green shoe)
<u>Profit contribution</u>	Bt7,273m from MAKRO Bt970m equity income from Lotus Total = Bt8,243m (MAKRO+Lotus)	Bt4,034m from MAKRO's cash&carry Bt1,252m from Lotus Total = Bt5,286m (cash&carry+Lotus)
<u>2022F Profit</u>	Bt17,548m	=Bt5,286m-Bt8,243m = -Bt2,957m (-17%) worse off
<u>Potential savings</u>	<ul style="list-style-type: none"> - CPALL's interest savings from debt repayment using PO+green shoe proceeds (assuming PO @ Bt42 CP) = Bt969m (after tax) - CPALL's interest savings from use of MAKRO's PO proceeds of Bt57bn to repay CPRD's debt = Bt992m (after tax) - Savings from refinancing of CPRD's remaining debt at cheaper rate = Bt315m (after tax) 	
<u>Net impact to CPALL's 2022F profit</u>		=-Bt681m (-3.9%)

Source: Company data, Thanachart estimates

Ex 3: Estimated Impact On MAKRO's 2022F EPS

	Before	After
2022F profit	Bt7,814m	Bt12,772m
# of shares	4800m	11,172.3235m
2022F EPS	1.63	1.14
EPS dilution		30%
2022F PE	26	37

Source: Company data, Thanachart estimates

Ex 4: Pre And Post Entire Business Transfer (EBT) of CPRH to MAKRO.

Source: Company data

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