Media Release:

Uni-President Enterprises Corp. Ratings Affirmed At 'twAA/twA-1+; Outlook Stable

June 27, 2023

PRIMARY CREDIT ANALYST

Beatrice Chen
Taipei
+886-2-2175-6829
beatrice.chen
@spglobal.com
beatrice.chen
@taiwanratings.com.tw

SECONDARY CONTACT

David Hsu
Taipei
+886-2-2175-6828
david.hsu
@spglobal.com
david.hsu
@taiwanratings.com.tw

Rating Action Overview

- **Uni-President Enterprises Corp.** engages in food and beverage (F&B), as well as retail businesses in Taiwan, China, and southeast Asia with instant noodles and ready-to-drink teas. It operates the largest convenience chain store in Taiwan under the 7-ELEVEN brand. The company has revenue of NT$524.8 billion and EBITDA of NT$66.4 billion in 2022.
- Its competitive position is likely to enhance following the expansion of its convenience chain stores in Taiwan and Philippines over the past few years, and the potential acquisition of Carrefour's retailing business in Taiwan. Moreover, capital investment on three major logistic centers in Taiwan could enhance operating efficiency and deepen the entry barriers for its retailing business.
- However, the company's financial leverage could escalate over the next 24 months due to the acquisition of Carrefour and the aggressive capital spending on logistic centers.
- Accordingly, we have affirmed our 'twAA' long-term and 'twA-1+' short-term issuer credit ratings on the company.
- The long-term rating outlook is stable, which reflects our view that the company could maintain its ratio of debt to EBITDA slightly above 2x over the next two years, largely underpinned by its stable cash flow generation from its retailing business.

Rating Action Rationale

Expanding retailing business scale with heavy investment in its logistics system will amplify Uni-President's retailing strengths. We see several factors as enhancing the company's competitive position.

(1) continuous expansion of its convenience store chain in Taiwan and Philippines with the stores rising to 6,712 and 3,453, respectively, as of March 2023 up from 5,715 and 2,916 as of March 2020.

(2) The planned acquisition of Carrefour's Taiwan retailing business in the second half of 2023 will enable Uni-President to enhance its penetration in the domestic market with various types of retail stores across different spectrums that could serve the customer preferences more comprehensively.

(3) Bringing the three major logistic centers into full operation should support more extensive distribution systems in Taiwan and create higher entry barriers for new joiners as well as support higher operating efficiency compared to existing peers. Investment in the logistics centers will be

the main driver of capex spending over the next few years, with NT$37.7 billion in 2023, NT$34 billion in 2024, and NT$32.9 billion in 2025.

Large capex in logistics centers and acquisition of Carrefour (Taiwan) to raise debt leverage over the next 24 months. The company's financial flexibility could squeeze over the next 24 months due to the aggressive capital spending on logistic centers and acquisition of Carrefour. The ratio of debt to EBITDA could increase to 2.2x at the end of 2023 but decline slightly to 2.0x in 2024 compared with 1.6x at the end of 2022. Although the company could lower the debt leverage with positive discretionary cash flow over the next two years, the expansion of its retailing business which would raise its lease liability, as well as its appetite for potential overseas acquisitions could slow its debt reduction plan.

Outlook

The stable rating outlook reflects our view that Uni-President's strong market position across various products and markets, as well as its good business diversity, are likely to sustain the company's ratio of debt to EBITDA between 2x-3x over the next 24 months.

Upward scenario

We could raise the long-term rating on Uni-President if the company:

- Consistently generates positive discretionary cash flow, which helps to lower its debt and shifts the ratio of debt to EBITDA comfortably below 2x for an extended period; and
- The company demonstrates good progress in integrating Carrefour (Taiwan) by stronger performance than before.

Downward scenario

We could lower the long-term rating if the company fails to maintain the ratio of debt to EBITDA below 3x for an extended period. This could result from:

- Higher investments or acquisitions of a larger size than we currently expect such that the company's debt usage increases materially;
- More aggressive shareholder cash distributions;
- A material setback to its business development in China amid intense competition; or
- Weaker profitability in its Taiwan F&B or convenience store businesses due to significant loss of market share or weakening brand equity.

Our Base-Case Scenario

- S&P Global's projection for Taiwan's real GDP to grow 0.5% in 2023 and 2.5% in 2024. A slow-down in the growth rate could reflect slower demand recovery over the next one to two years.
- S&P Global believes cost pressures could begin to alleviate from the second half of 2023, as suppliers curtail price increases in response to falling volumes. The company's margins in retail and consumer products sectors should gradually benefit from stabilization in costs and improved supply chain and logistics.
- Revenue growth for Uni-President group in 2023 could increase by 11.2% mainly driven by the decent growth in all the major business and the half-year consolidation of Carrefour Taiwan. It could further nudge up by 9% in 2024 due to the full-year consolidation of Carrefour Taiwan. Organic sales growth for the Uni-President group of 4.9% in 2023 and 3.5% in 2024.
- Revenue growth for its retail business at 18.7% in 2023 and 13.7% in 2024 due to continued store expansion in Taiwan and Philippines. The higher growth in 2023 and 2024 also reflects half-year and full-year consolidation of Carrefour Taiwan.

- Taiwan's F&B business revenue to increase steadily at a low-single-digit percentage per year driven by the rising average selling price through continued product upgrades and portfolio optimization.
- China's F&B business revenues to raise faster with high-single-digits in 2023 and 2024, given consecutive sales channel expansion.
- Uni-President's overall gross margin (exclude Carrefour) is likely to remain at 38.5% over the next two years, mainly eroded by the raising food and material cost.
- Capital expenditure of about NT$37.7 billion in 2023 and NT$34.0 billion in 2024 for the logistic center in Taiwan, China's production facilities upgrade and distribution network investment, as well as retailing business for store renovation, equipment upgrade, and logistic investment.
- Carrefour acquisition totals NT$28.3 billion in 2023. Potential acquisitions totaling NT$8 billion in 2024.
- Cash dividend payout ratio of about 50% of previous year net income.

Uni-President Enterprises Corp.--Forecast summary

Industry sector: Packaged and branded food

(Mil. TWD)	2021a	2022a	2023e	2024f	2025f	2026f
Revenue	473,502	524,832	583,567	635,885	656,392	678,008
EBITDA (reported)	61,617	63,420	63,786	66,746	69,996	72,582
Plus/(less): Other	3,400	3,001	4,413	5,738	5,738	5,738
EBITDA	65,017	66,421	68,199	72,484	75,734	78,320
Less: Cash interest paid	(2,076)	(2,469)	(3,172)	(3,200)	(2,962)	(2,824)
Less: Cash taxes paid	(7,381)	(7,337)	(7,542)	(7,632)	(8,413)	(9,125)
Funds from operations (FFO)	55,560	56,615	57,485	61,652	64,359	66,371
Cash flow from operations (CFO)	56,576	58,090	62,761	67,840	70,759	73,042
Capital expenditure (capex)	16,785	20,570	37,668	33,987	32,987	25,987
Dividends	15,341	15,341	19,350	12,121	12,256	13,431
Discretionary cash flow (DCF)	24,450	22,179	5,742	21,732	25,516	33,625
Debt (reported)	109,198	120,343	146,608	138,578	127,545	127,545
Plus: Lease liabilities debt	79,748	88,502	96,467	105,149	114,613	124,928
Less: Accessible cash and liquid Investments	(92,953)	(102,660)	(109,699)	(111,735)	(114,357)	(131,335)
Plus/(less): Other	--	--	14,000	14,000	14,000	14,000
Debt	95,993	106,185	147,376	145,992	141,800	135,137
Cash and short-term investments (reported)	123,937	136,880	140,000	142,715	146,211	168,849
Adjusted ratios						
Debt/EBITDA (x)	1.5	1.6	2.2	2.0	1.9	1.7
FFO/debt (%)	57.9	53.3	39.0	42.2	45.4	49.1
DCF/debt (%)	25.5	20.9	3.9	14.9	18.0	24.9
Annual revenue growth (%)	5.9	10.8	11.2	9.0	3.2	3.3
EBITDA margin (%)	13.7	12.7	11.7	11.4	11.5	11.6

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast.

Liquidity: Strong

The short-term rating on Uni-President is 'twA-1+'. We believe the company has strong liquidity reflecting a ratio of liquidity sources to liquidity uses of 1.87x over the next 12 months and 2.05x over the next 12-24 months. We also believe the company will have positive liquidity sources minus uses, even if its EBITDA declined by 30%.

In our view, Uni-President can absorb high-impact, low-probability events without refinancing, given its high cash balance, stable cash flow, and a moderate level of capital expenditure. The company has well-established and solid relationship with banks as evidenced by the low interest rate on its bank loans. This view is also supported by the company's high standing in the credit markets, given its leadership in local F&B and convenience store markets. We view the company's risk management as generally prudent to ensure continued strong liquidity. Uni-President's sufficient undrawn bank credit lines and flexibility to increase bank facilities support this view. We also believe the company has sufficient headroom without breaching covenant limits due to low interest rates in Taiwan even if its EBITDA were to drop by 30%.

Principal liquidity sources

- Cash and short-term investment of about NT$136.8 billion at the end of 2022.
- Undrawn bank lines of NT$ 58.5 billion in 2023.
- Fund from operations of NT$58 billion in 2023 and NT$ 60 billion in 2024.

Principal liquidity uses

- Long-term debt due in one year plus short-term debt of NT$53.6 billion over the 12 months ending December 2023 and NT$8 billion in the following 12-24 months ending December 2024.
- Capex plus potential acquisition of NT$37.7 billion in 2023 and NT$34.0 billion in 2024.
- Acquisitions of NT$28.3 billion in 2023 remain subject to the approval of the Carrefour Taiwan transaction and NT$8 billion in 2024 for a further potential deal.
- Cash dividend of NT$17billion in 2023 and NT$ 11 billion in 2024.

Ratings Score Snapshot

Issuer Credit Rating: twAA/ Stable /twA-1+
Note: The descriptors below are on a global scale.

Business Risk: Strong

- Country risk: Intermediate
- Industry risk: Intermediate
- Competitive position: Strong

Financial Risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: twaa

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Strong (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: twaa

ESG credit indicators: E-2, S-2, G-2

Related Criteria & Research

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology, Thu Jun 08 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Sun Oct 10 2021
- General Criteria: Group Rating Methodology, Mon Jul 01 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Mon Apr 01 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Tue Dec 16 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Tue Nov 19 2013
- General Criteria: Methodology: Industry Risk, Tue Nov 19 2013
- Criteria | Corporates | General: Corporate Methodology, Tue Nov 19 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Tue Nov 13 2012
- General Criteria: Principles Of Credit Ratings, Wed Feb 16 2011

Related Research

- Taiwan Ratings' Ratings Definitions –November 11, 2021

(Unless otherwise stated, these articles are published on www.standardandpoors.com, access to which requires a registered account)

Ratings List

Ratings Affirmed

Uni-President Enterprises Corp.	
Issuer Credit Rating	twAA/Stable/twA-1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.taiwanratings.com for further information. Complete ratings information is available to subscribers of Rating Research Service at rrs.taiwanratings.com.tw. All ratings affected by this rating action can be found on Taiwan Ratings' public website at www.taiwanratings.com.