

THAI BEVERAGE PLC

No. 106/2016

4 October 2016

Company Rating: AA+
Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
05/10/15	AA	Stable
21/08/14	AA-	Stable
28/05/13	AA-	Stable
20/07/12	AA	Alert Negative
04/03/10	AA	Stable
09/01/07	AA-	Stable
17/01/06	A+	Stable

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Rating Rationale

TRIS Rating upgrades the company rating of Thai Beverage PLC (ThaiBev) to “AA+” from “AA” with “stable” outlook. The upgrade reflects further improvement in ThaiBev’s financial profile, supported by its ongoing debt reduction efforts, better-than-expected cash flow, and healthier balance sheet. ThaiBev’s rating continues to reflect its robust competitive position in the Thai alcoholic beverages industry and its strong market positions in a number of segments in the non-alcoholic beverages market. These strengths are partially offset by an intensely competitive environment as well as stricter regulations and a potential rise in excise taxes for the beverage industry.

ThaiBev was founded in 2003 and listed on the Singapore Exchange (SGX) in 2006. At the end of April 2016, the Sirivadhanabhakdi family was the major shareholder, controlling about 68% of ThaiBev’s outstanding shares. ThaiBev is a leading beverage and food company in Thailand. ThaiBev has expanded its presence in the Southeast Asian region through merger and acquisition, including Fraser and Neave, Limited (F&N) acquisition which ThaiBev controls a 28.5% interest in F&N.

ThaiBev’s strong business profile is derived from leading positions in each business segment in Thailand and a diversified portfolio of products. In the brown spirits segment, ThaiBev has about 95% market share, in terms of sales volume through the Thai off-trade channel. ThaiBev is one of two major brewers in Thailand. ThaiBev’s beer market share rose to roughly 40% as of June 2016, compared with about 30% at the same period last year, thanks to the re-launch of *Chang* beer in late 2015. For non-alcoholic beverages, ThaiBev is the market leader in the ready-to-drink (RTD) tea segment and is a major producer of carbonated drinks in Thailand. Besides beverages, Oishi Group PLC (OISHI), ThaiBev’s subsidiary, is responsible for the food service segment which spans Japanese restaurants, chilled and frozen foods, and food delivery. As of June 2016, OISHI had 242 outlets, half of which were *Shabushi* restaurants.

ThaiBev’s production facilities in Thailand comprise 18 distilleries, three breweries, more than 10 non-alcoholic beverages plants, and one central kitchen. Moreover, ThaiBev owns Scotch whisky distilleries in Scotland and a distillery in China. ThaiBev has an extensive distribution network which serves more than 400,000 retail outlets nationwide. F&N’s business, mainly focusing on non-alcoholic beverages, strengthens ThaiBev’s product portfolio and enhances market coverage, particularly in Singapore and Malaysia. Cooperative efforts with F&N could provide synergies, cost reductions, and increased efficiency for ThaiBev in terms of higher plant utilization, more efficient marketing spending, plus shorter lead times for new products.

ThaiBev’s total revenue was Bt172,049 million in 2015 and Bt100,625 million for the first six months of 2016, up by 6% in 2015 and 19% in the first six months of 2016. Spirits remains the largest contributor, generating about 55% of ThaiBev’s total sales for the first six months of 2016, and nearly 80% of earnings before interest, tax, depreciation and amortization (EBITDA). Revenue from the beer segment soared by about 70% in the first six months of 2016. The re-launch of *Chang* beer with new look for the package and lighter degree of alcohol level received a good response from customers. Sales of *Oishi* RTD tea grew strongly while sales of *est* carbonated drinks gradually improved. The operating margin

(operating income before depreciation and amortization as a percentage of sales) improved to 18% in the first six months of 2016, compared with 16%-17% during the last three years. The rise came because of higher volumes sales and higher plant efficiencies in the beer and non-alcoholic beverages segments and the company's ongoing cost control efforts.

ThaiBev's financial profile has strengthened, reflecting the improvement in cash flow, ongoing deleveraging efforts, and sufficient liquidity. Funds from operations (FFO) was Bt22,342 million in 2015 and grew by more than 30% year-on-year (y-o-y) to 15,066 million for the first six months of 2016. The rise was strong profits from the spirits segment plus higher sales and profit in the beer segment. The FFO to total debt ratio rose from 50% to 62% during the same period. ThaiBev has long-term debt obligations of about Bt10,000 million due in 2016 and Bt19,500 million due in 2017. ThaiBev's liquidity is further enhanced by a cash balance of Bt2,931 million, plus Bt11,713 million worth of finished goods inventory of spirits products at the end of June 2016. ThaiBev had about Bt60,000 million in undrawn credit lines as of June 2016.

During the next three years, TRIS Rating expects ThaiBev's revenue will grow at a mid-single digit rates per annum. Demand for alcoholic beverages is expected to be resilient, beer operations are expected to remain sound, and revenue from the non-alcoholic beverages segment will continue improving. The operating margin is expected to stay over 16%, as ThaiBev continues cost control efforts, despite maintaining high level of marketing expenditures in the non-alcoholic beverage segment. FFO is expected to grow, exceeding Bt30,000 million per annum in the next three years.

Total interest bearing debt outstanding was Bt42,039 million as of June 2016, down from Bt49,772 million at the end of 2014. The debt to capitalization ratio improved to 25% at the end of June 2016, compared with 32% in 2014. TRIS Rating expects ThaiBev to have Bt14,000 million in capital expenditures during the next three years. The capital expenditures are mainly for an expansion of an alcoholic beverages plant, production efficiency improvements, as well as an expansion of the distribution network. Without any large acquisitions, ThaiBev's debt to capitalization ratio will stay below 30% during the next three years.

Rating Outlook

The "stable" outlook reflects TRIS Rating's expectation that ThaiBev will be able to maintain its strong position in the Thai alcoholic beverages market and to deliver sound financial performance.

The rating downside may occur if ThaiBev's financial profile weakens for an extended period, caused by either deterioration in profitability or more aggressive use of debt as a source of funds. ThaiBev's rating could be upgraded, should its larger presence in markets outside Thailand and neighboring countries contributes greater sales, earnings, and larger cash flows.

Thai Beverage PLC (ThaiBev)

Company Rating:	AA+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----				
	Jan-Jun 2016	2015	2014	2013	2012
Sales	100,625	172,049	162,040	155,771	161,044
Gross interest expense	537	1,363	1,553	2,319	1,401
Net income from operations	14,334	22,426	21,460	18,694	17,685
Funds from operations (FFO)	15,066	22,342	22,013	18,743	18,949
Total capital expenditures	1,909	4,065	4,763	4,824	4,821
Total assets	181,743	182,017	171,987	183,329	207,686
Total debt	42,039	44,529	49,772	67,700	104,153
Shareholders' equity	122,119	119,266	104,676	97,993	84,971
Operating income before depreciation and amortization as % of sales	17.8	16.0	16.9	16.0	16.6
Pretax return on permanent capital (%)	19.3 **	17.8	17.1	14.2	18.1
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	37.4	24.0	20.1	12.5	20.3
FFO/total debt (%)	62.1 **	50.2	44.2	27.7	18.2
Total debt/capitalization (%)	25.6	27.2	32.2	40.9	55.1

* Consolidated financial statements

** Annualized with trailing 12 months

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