

THAI BEVERAGE PLC

No. 5/2018

2 February 2018

CORPORATES

Company Rating: AA
Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
20/12/17	AA+	Alert Negative
04/10/16	AA+	Stable
05/10/15	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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RATIONALE

TRIS Rating removes the “negative” CreditAlert implication placed on the company rating of Thai Beverage PLC (ThaiBev) since 20 December 2017. At the same time, TRIS Rating downgrades ThaiBev’s company rating to “AA” from “AA+”, with a “stable” outlook. The rating action reflects the recent increase in ThaiBev’s financial leverage in relation to its acquisition of a 53.59% equity interest in Saigon Beer-Alcohol-Beverage Joint Stock Corporation (Sabeco), the largest beer producer in Vietnam. The acquisition was wholly funded by new borrowing.

ThaiBev aims to gradually reduce the newly elevated leverage by internally generated cash over the next few years. Based on its business strengths, we expect ThaiBev will be able to significantly reduce its leverage in the next three to four years.

The rating continues to reflect ThaiBev’s robust competitive position in the domestic beverage market, extensive distribution network, and ongoing efforts to diversify its sources of income.

KEY RATING CONSIDERATIONS

Strong position in domestic beverage market

ThaiBev is the largest beverage company in Thailand. It has dominated the alcoholic beverage industry for years, with a market share exceeding 90% for spirits and nearly 40% for beer, based on sales volume. It is also the market leader in the ready-to-drink (RTD) tea segment, and is a major producer of carbonated drinks and other beverages.

Extensive distribution network

ThaiBev has an extensive distribution network, which covers more than 400,000 retail outlets in Thailand, using four large distribution centers and 7,300 delivery vehicles. ThaiBev’s sales are also channeled through about 300 active agents and more than 1,300 salespersons. Through its affiliated companies, ThaiBev extends its market coverage across the ASEAN region. Fraser and Neave Ltd. (F&N), an important affiliate, has strong position in its home market in Malaysia and Singapore. The recent other acquisitions further extend its distribution network to Myanmar and Vietnam.

Potential growth in domestic market is constrained by government regulations

The sale of alcoholic beverages is subject to the strict government oversight and control. Regulations abound, such as limits on advertising and promotional activities, restricted hours for sale alcoholic beverage, and minimum age requirements. The regulations make it difficult to boost sales or penetrate new market segments, despite numerous marketing campaigns. Excise taxes are another measure imposed by the government to discourage the consumption

of alcoholic beverages. Hikes in the excise tax rates are frequent. For example, the Thai government has raised the excise taxes on alcoholic beverages five times over the past 10 years. In the past, ThaiBev could maintain its profit margin by passing on the higher taxes to consumers, with only temporary decline in sales volume. However, given the relatively low price elasticity of demand, either ThaiBev's profit margin or its sales volume could potentially be higher than it should be if there were less frequent hikes in excise taxes.

Ongoing efforts to diversify sources of income

ThaiBev has made a series of strategic acquisitions over the past decade. One key objective of the acquisitions is to diversify ThaiBev's sources of income in two dimensions: product mix and geography. In 2017, ThaiBev made three major investments in Thailand and other ASEAN countries. The company acquired 252 KFC outlets in Thailand from Yum Restaurants International (Thailand) Co., Ltd. Next, ThaiBev bought a 75% stake in the Grand Royal Group, the largest maker and distributor of spirits in Myanmar. The most recent transaction is the acquisition of a 53.59% stake in Sabeco, the largest beer producer in Vietnam.

The acquisitions yield a number of benefits such as higher cash flow, a broader brand portfolio, and an expanded market presence in ASEAN. Revenue from abroad is expected to increase from 3% of sales in fiscal year (FY) 2017 to around 20% in FY2018. These strategic moves help ThaiBev reduce business concentration risk tied to the domestic market and make its operating performance less susceptible to event risk.

Recent acquisitions raise leverage

ThaiBev's total debt is expected to peak at approximately Bt200 billion in FY2018, compared with Bt40.6 billion in FY2017. The ratio of total debt to earnings before interest, tax, depreciation and amortization (EBITDA) is projected to increase to 4.5 times in FY2018, from 1.1 times in FY2017.

The base case assumptions in TRIS Rating's forecast have not yet factored in potential synergies from the recent acquisitions or efficiency improvements presumed to be achieved at Sabeco. Nonetheless, ThaiBev's EBITDA is projected to rise above Bt50 billion in FY2020, compared with Bt36.6 billion in FY2017. Our projection assumes no additional, large, debt-funded acquisitions over the next three years as the company's management has indicated its commitment to deleveraging. The total debt to EBITDA ratio is projected to decline to around 3 times by FY2020.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that ThaiBev will maintain its dominant position in the Thai alcoholic beverage market and continue to deliver strong cash generation, which will be applied to bring down financial leverage over the next three to four years.

RATING SENSITIVITIES

ThaiBev's rating and/or outlook could be revised upward, should the total debt to EBITDA ratio fall below 2.5 times on a sustained basis. On the contrary, the rating and/or outlook could be revised downward if ThaiBev's financial profile weakens further, caused by either a significant deterioration in profitability or a significant further rise in financial leverage.

COMPANY OVERVIEW

ThaiBev was founded in 2003 and listed on the Singapore Exchange (SGX) in 2006. At the end of May 2017, 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 mergers and acquisitions.

ThaiBev's total revenues were Bt190 billion in FY2017. Spirits were the key revenue contributor, comprising 57% of total revenue and over 80% of EBITDA.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Bt million

	Oct-Sep 2017	Jan-Sep 2016	---- Year Ended 31 December ---		
			2015	2014	2013
Sales	189,997	139,153	172,049	162,040	155,771
Gross interest expense	981	813	1,363	1,553	2,319
Net income from operations	25,978	18,870	21,980	21,460	18,720
Funds from operations (FFO)	30,998	20,680	24,637	24,558	20,462
Total capital expenditures	5,507	2,954	4,065	4,763	4,824
Total assets	194,240	187,653	182,017	171,987	183,329
Total debt	40,654	46,085	44,257	49,502	67,700
Shareholders' equity	132,513	123,712	119,266	104,676	97,993
Operating income before depreciation and amortization as % of sales	16.8	16.3	16.0	16.9	16.0
Pretax return on permanent capital (%)	18.8	16.2 **	17.5	17.1	14.2
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	37.3	32.9	23.7	20.1	12.5
FFO/total debt (%)	76.2	61.0 **	55.7	49.6	30.2
Total debt/capitalization (%)	23.5	27.1	27.1	32.1	40.9

* Consolidated financial statements

** Annualized with trailing 12 months

Thai Beverage PLC (ThaiBev)

Company Rating:	AA
Rating Outlook:	Stable

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