Thai Beverage Public Company Limited (/gws/en/esp/issr/96338429)

FitchRatings

Fitch Downgrades ThaiBev to 'BBB-/AA(tha)'; off RWN; Outlook Stable

Fitch Ratings-Bangkok/Singapore-07 February 2018: Fitch Ratings (Thailand) Limited has downgraded Thai Beverage Public Company Limited's (ThaiBev) Long-Term Foreign-Currency Issuer Default Rating to 'BBB-' from 'BBB', and its National Long-Term Rating to 'AA(tha)' from 'AA+(tha)'. The ratings have been removed from Rating Watch Negative (RWN), and a Stable Outlook has been assigned.

ThaiBev's ratings have been downgraded by one notch following the debt-funded acquisition of Vietnam's Saigon Beer - Alcohol - Beverage Corporation (Sabeco) on 27 December 2017. Fitch expects ThaiBev's leverage, defined as FFO adjusted net leverage, to increase to 5.7x by the end of the fiscal year to 30 September 2018 (FYE18), from 1.2x at FYE17. However, leverage should decline to around 4x by FYE20, which will be in line with its 'BBB-' rating.

The Stable Outlook reflects our expectation that ThaiBev will deleverage, which stems from its ability and willingness to maintain a conservative capital structure after its 2012 acquisition of Fraser and Neave, Limited (F&N). This willingness may be manifested, among other measures, in a lower dividend payout. The ratings also reflect Thaibev's improved business risk profile from the expanded reach in Vietnam's fast-growing beer sector, and the company's leading position in Thailand's spirits market.

KEY RATING DRIVERS

High Leverage to Moderate: Fitch expects Thaibev's leverage to reduce to around 4.0x by FYE20, from our estimate of 4.7x at FYE19 and 5.7x at FYE18. The company has prioritised debt reduction and it has done so previously when leverage rose to 5x in 2012 after it acquired F&N. The company trimmed leverage to 2.0x in 2014, supported by a capital reduction at F&N. ThaiBev may deleverage faster than we currently expect if it can achieve the synergies it has estimated, for example by increasing product distribution channels, efficiencies, and market share. Fitch believes that these synergies will take time to materialise and therefore has not included these in our assumptions.

Improved Business Risk Profile: ThaiBev's new acquisitions in Vietnam and Myanmar significantly expand its operating scale. Fitch expects EBITDA to rise by 40% and geographic diversification to improve so that Thailand's share of EBITDA will fall to less than 80% by FY19, from more than 90% in FY17. ThaiBev's ratings are underpinned by its leading positions in the alcoholic beverage industries in Thailand, Myanmar, and Vietnam. ThaiBev's domestic spirits segment is a key strength; with over 90% market share and EBITDA margins (to net revenue excluding excise tax) of over 50%. The company benefits from its established brands, strong distribution network, and high entry barriers in Thailand.

Strong Market Positions of Acquisitions: Sabeco is the dominant beer producer in Vietnam, with a 41% market share by sales volume in 2016. Vietnam is the largest beer market in south-east Asia and one of the five largest beer consumers in Asia-Pacific. We believe Vietnam has high growth potential for beer, due to the popularity of the beverage and its young population.

Myanmar Supply Chain and Marketing Services Co.,Ltd (MSC) and Myanmar Distillery Co.,Ltd. (MDC), collectively called the Grand Royal Group (GRG), which Thaibev acquired in October 2017, is the leader in Myanmar's whisky market with above 65% market share as of March 2017. Although, whisky consumption still lags that of white spirits in Myanmar, competition in the market is moderate among the three main producers.

Significant Minority Interests in Sabeco: The ratings of ThaiBev factor in our expectation of strong operational and strategic ties with Sabeco. Fitch has fully consolidated Sabeco's financials when assessing ThaiBev, but excludes dividends paid to minorities in arriving at consolidated FFO, and treated the minority share of Sabceo's cash balance, estimated at about THB12 billion at FYE18, as restricted cash. ThaiBev effectively controls 53.6% of Sabeco, supported by its 26.3% equity stake and a shareholder agreement that gives ThaiBev control over all major operational and strategic decisions of Sabeco's direct shareholder, a ThaiBev indirect subsidiary.

DERIVATION SUMMARY

ThaiBev's ratings reflect its leading market position in spirits and beer in its key markets of Thailand, Vietnam and Myanmar, which are counterbalanced by a narrower geographic diversity and a smaller operating scale. ThaiBev has a financial risk profile that is comparable to those of its global peers in the alcoholic beverages industry. Key peers include Pernod Ricard S.A. (BBB/Positive), Anheuser Busch InBev NV/SA (BBB/Stable), and Carlsberg Breweries A/S (BBB/Stable). ThaiBev has substantially larger operating scale compared to Becle, S.A.B. de C.V. (BBB+/Stable), but the latter's higher rating is supported by its geographic diversification as the producer of the world's leading tequila brand by sales volume, and substantially lower leverage compared to Thaibev.

Compared with peers on the National Ratings scale, ThaiBev's credit profile is weaker than that of Advanced Info Service Public Company Limited (AIS, AA+(tha)/Stable), which has a similar business risk profile. They are both dominant market leaders in their respective industries. However, Thaibev has higher leverage, which drives its lower 'AA(tha)' rating.

Compared to Total Access Communication Public Company Limited (DTAC, Standalone AA-(tha)/Stable) and PTT Global Chemical Public Company Limited (PTTGC, Standalone AA-(tha)/Stable), Thaibev has a substantially stronger business risk profile. ThaiBev has a dominant market position, robust free cash flow (FCF) generation with FCF margins of 8%-11% (to net revenue), and limited competition. DTAC faces high competition in the Thai telco market while PTTGC's operating cash flows tend to be considerably more cyclical than Thaibev's, given its exposure to commodity prices and refining margins. Both DTAC and PTTGC generate mostly negative FCF across economic cycles, stemming from the high capex requirements in telecoms and working capital swings in the petrochemical industry. Therefore Thaibev is rated one notch higher, even though we expect it to maintain higher leverage than DTAC and PTTGC.

KEY ASSUMPTIONS

Fitch's key assumptions within our rating case for the issuer include:
- Net revenue (excluding excise tax) for existing businesses in Thailand to organically grow in the mid-single-digits in FY18-FY20
- Net revenue from new businesses of about THB45 billion-50 billion in FY18, following by high growth of more than 30% due to full-year consolidation in FY19
- EBITDA margin (as a proportion of net revenue) for existing businesses in Thailand to remain strong at 54%-55% for spirits, 20%-22% for beer, 1%-3% for non-alcoholic beverages, and 10% for food in FY18-FY20
- EBITDA margin (as a proportion of net revenue) for new businesses to remain stable at about 20% in FY18-FY20
- Capex of about THB6 billion-8 billion per year in FY18-FY20, excluding acquisitions
- Dividend payout ratio to be reduced in FY18-FY20

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action
Fitch does not anticipate any positive rating action in the next 24 months in view of the current high leverage. However, we may consider positive rating action if :
- FFO-adjusted net leverage reduces to below 3.0x on a sustained basis
- FCF margins (to net revenue) sustained above 3.5%

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action
-Inability to reduce FFO-adjusted net leverage to 4.0x by FY20
-Evidence of weakening market position, operating efficiency and/or pricing power resulting in sustained weak sales growth and profit margins
-An expansion into non-core investments that results in a deterioration in the business risk profile

LIQUIDITY

Refinancing Required: ThaiBev had THB30.8 billion of debt maturing within the next 12 months at FYE17, including short-term and long-term loans and working capital facilities. However, this amount does not include around THB189 billion of short-term bridge loans used for its acquisitions, which the company expects to term out. Refinancing risk should be low, given the company's strong ability to borrow at competitive rates and its track record of strong access to domestic and international capital markets. For example, ThaiBev is currently the largest consumer staples company and one of the top-10 largest companies by market capitalisation listed on the Singapore Exchange.

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Summary of Financial Statement Adjustments
- Cash and cash equivalents of Sabeco consolidated on proportional basis

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Applicable Criteria
Corporate Rating Criteria (pub. 07 Aug 2017) (https://www.fitchratings.com/site/re/901296)
National Scale Ratings Criteria (pub. 07 Mar 2017) (https://www.fitchratings.com/site/re/895106)

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