

## Fitch Affirms ThaiBev at 'BBB-'/AA(th)'; Outlook Stable

Fitch Ratings-Bangkok/Singapore-02 August 2018: Fitch Ratings has affirmed Thai Beverage Public Company Limited's (ThaiBev) Long-Term Foreign-Currency Issuer Default Rating at 'BBB-', and its National Long-Term Rating at 'AA(th)'. The Outlook is Stable.

ThaiBev experienced challenges in its domestic beverages segment in the first half of the fiscal year to 30 September 2018 (1HFY18). As a result, the company is behind Fitch's expectation in terms of its pace of deleveraging. Fitch has nevertheless maintained a Stable Outlook as we continue to believe that ThaiBev will deleverage to a level consistent with its rating.

ThaiBev also incurred some one-off unexpected costs, amongst the challenges of a slow recovery in domestic demand and rising competition in its domestic and international beverage segment. We believe this will begin to be reversed from 2HFY18, and expect a recovery in profitability. This will drive the deleveraging, together with ThaiBev's commitment to prioritise debt reduction and maintain a conservative capital structure after large debt-funded acquisitions. This commitment may be manifested, among other measures, in a lower dividend payout and accelerated turnaround process of the acquired entities, if needed. Any material deviation from our current deleveraging expectations over the next 12 months could result in negative rating action.

### KEY RATING DRIVERS

**Domestic Challenges; but Profitability to Improve:** Higher advertising and promotional spend to ward off competition and one-off costs, associated with bottling, were additional factors which magnified the impact of these challenges. Fitch, however, expects the profitability from existing business to recover due to improving demand and lower raw material costs in FY19, which should enable ThaiBev to reduce leverage.

ThaiBev's EBITDA, with the contribution from its newly acquired entities, is likely to grow to about THB40 billion-45 billion in FY18-FY19, from THB32 billion in FY17. Net revenue from the existing beverages business (excluding its regional operations in Vietnam and Myanmar) dropped by about 2% and EBITDA dropped by about 20% in 1HFY18, from 1HFY17.

**Improved Business Risk Profile:** Acquisitions in Vietnam and Myanmar have expanded ThaiBev's operating scale significantly. Fitch expects EBITDA to rise by 40% and geographic diversification to broaden 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. The domestic spirits segment is a key strength, with a market share of over 90% and EBITDA margins (to net revenue excluding excise tax) of over 50%. The company benefits from its established brands, a strong distribution network, and high entry barriers in Thailand.

**Strong Market Position of Acquisitions:** Saigon Beer - Alcohol - Beverage Corporation (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 a market share of above 65% as of March 2017. Whisky consumption still lags "white spirits" in Myanmar, while competition 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 we have treated the minority share of Sabeco'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's business profile is comparable with those of Molson Coors Brewing Company (Molson Coors, BBB-/Stable), even though Molson Coors has a larger operating scale and greater diversification but concentrated in North America. ThaiBev has a comparable financial profile with Molson Coors, both of which have heightened leverage by large debt-funded acquisitions.

Pernod Ricard S.A. (Pernod, BBB/Positive) owns a strong spirits brands portfolio with a global presence, which is matched by ThaiBev's strong domestic market position and a growing international presence. The one-notch difference with Pernod is therefore on account of ThaiBev's higher leverage. Both ThaiBev and Anheuser Busch InBev NV/SA (ABI, BBB/Stable) have relatively high leverage due to acquisitions. However, ABI, the largest brewer in the world, has a very strong business profile and operating profitability that positions the group in the upper 'A' category, and hence it is rated one notch higher.

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+(th)/Stable), which has a similar business risk profile. They are both strong market leaders in their respective

industries. However, ThaiBev has higher leverage, which drives its lower 'AA(thai)' rating.

ThaiBev has a substantially stronger business risk profile than Total Access Communication Public Company Limited (DTAC, AA(thai)/Stable, Standalone credit profile AA-(tha)) and PTT Global Chemical Public Company Limited (PTTGC, AA(thai)/Stable, Standalone credit profile AA-(tha)). ThaiBev has a strong 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 those of ThaiBev, 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.

#### 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 be flat in FY18 and to grow organically in the mid-single-digits in FY19-FY20
- Net revenue from new businesses of about THB45 billion-50 billion in FY18, to be followed 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 narrow in FY18 relative to FY17, and recover gradually in FY19-FY20; EBITDA margin of 48%-54% for spirits, 15%-21% for beer, below 3% for non-alcoholic beverages, and 10%-13% for food in FY18-FY20
- EBITDA margin (as a proportion of net revenue) for new businesses to remain stable at about 20%-23% in FY18-FY20
- Capex of about THB5 billion-7 billion per year in FY18-FY20, excluding acquisitions
- Dividend payout ratio to be reduced in FY18-FY20

#### RATING SENSITIVITIES

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 eases to below 3.0x on a sustained basis
- FCF margins (to net revenue) sustained above 3.5%

Developments That May, Individually or Collectively, Lead to Negative Rating Action

- Failure to reduce FFO adjusted net leverage to 4.0x by FY20
- Evidence of a 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 THB16.8 billion of debt maturing within the next 12 months at end-March 2018, including short-term and long-term loans and working-capital facilities. However, this amount does not include around THB158 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. 23 Mar 2018) (<https://www.fitchratings.com/site/re/10023785>)

National Scale Ratings Criteria (pub. 18 Jul 2018) (<https://www.fitchratings.com/site/re/10038626>)

Sector Navigators (pub. 23 Mar 2018) (<https://www.fitchratings.com/site/re/10023790>)

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