

THAI BEVERAGE PLC

No. 186/2019
7 November 2019

CORPORATES

Company Rating:	AA
Issue Ratings:	
Senior unsecured	AA
Outlook:	Stable

Last Review Date: 21/02/19

Company Rating History:

Date	Rating	Outlook/Alert
02/02/18	AA	Stable
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 affirms the company rating on Thai Beverage PLC (ThaiBev) and the ratings on ThaiBev's outstanding senior unsecured debentures at "AA". The ratings reflect ThaiBev's dominant position in the alcoholic beverage market, extensive distribution network, steadily increasing cash generation, and diversified sources of income. These strengths are partially offset by the surge in financial leverage in recent years, intense competition, regulatory constraints, and frequent excise tax hikes in the Thai alcoholic beverages industry.

KEY RATING CONSIDERATIONS

Domestic performance to continue improving

TRIS Rating expects ThaiBev's domestic beverage business performance to continue improving. After a decline in domestic beverage sales in the previous year, ThaiBev posted a quick recovery of 8.5% year-on-year (y-o-y) growth in domestic sales in the first nine months of fiscal year (FY) 2019. The growth was supported by the recovery of demand in both the alcoholic and non-alcoholic beverage segments. As a result, the company's operating profit margin improved to 15.8% in the first nine months of FY2019, compared with 14.3% in FY2018. TRIS Rating believes domestic market demand will continue to grow in tandem with government spending to stimulate the domestic economy coupled with higher farm income. We expect ThaiBev's domestic beverage sales to increase by around 8% in FY2019 and 3% in FY2020 and FY2021, respectively. We also project its operating profit margin to stay around 16% over the next three years.

Business profile strengthened by recent acquisitions

In the past few years, the company has made three key strategic investments, comprising the acquisition of Grand Royal Group (GRG), the largest producer and distributor of spirits in Myanmar, Saigon Beer-Alcohol-Beverage Corporation (Sabeco), the largest beer producer in Vietnam, and KFC outlets in Thailand. These acquisitions have added more than 30% to ThaiBev's revenue base and EBITDA (earnings before interest, taxes, depreciation, and amortization). Its expansions in Vietnam and Myanmar have also helped significantly reduce its reliance on the domestic market. Overseas revenue jumped to 28% of sales in the first nine months of FY2019, compared with a negligible 3% in FY2017. The alcoholic beverage markets in Myanmar and Vietnam are less mature than the domestic market in Thailand and have better growth potential. ThaiBev's presence there can be an important driver of its growth over the next 5 years. In addition, with overseas revenue growing at a faster pace, we expect the proportion of revenue coming from outside Thailand to continue to rise, further reducing the company's business concentration risk tied to the domestic market.

Strong market position

The company holds a strong position in every market in which it is active. In Thailand, ThaiBev is the largest beverage company, dominating the alcoholic beverage industry for many years. The company's market share exceeds 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 and drinking water segments and is a major producer of carbonated drinks and other beverages. For the international market, Sabeco is the largest brewer in Vietnam with around

40% market share, while GRG is the largest brown spirit producer in Myanmar with over 70% market share. We believe the company will maintain its dominant market positions, which are supported by strong brand awareness and an extensive distribution network.

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 about 6,800 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 a strong position in its home markets of Malaysia and Singapore. Other recent acquisitions further extend ThaiBev's distribution network to Myanmar and Vietnam.

Domestic market growth constrained by government regulations

The sale of alcoholic beverages is subject to strict government oversight and control. Regulations abound, such as limits on advertising and promotional activities, restricted hours of sale for alcoholic beverages, 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 excise tax rates are frequent. For example, the Thai government has raised excise taxes on alcoholic beverages 5 times over the past 10 years. In the past, ThaiBev was able to maintain its profit margin by passing on the higher taxes to consumers, with only temporary declines in sales volume. However, given the relatively low price elasticity of demand for alcoholic beverages, either ThaiBev's profit margin or its sales volume would potentially be higher if there were less frequent hikes in excise taxes.

Leverage expected to decline

We expect ThaiBev's leverage to gradually decline over the next three years. Its net debt reached a peak at Bt215.8 billion in FY2018, then declined to Bt206.2 billion in the first nine months of FY2019. The ratio of adjusted debt to EBITDA also improved to 5.0 times (annualized with the trailing 12 months) in the first nine months of FY2019, from 6.4 times in FY2018. We project EBITDA to increase to approximately Bt50 billion in FY2021, compared with Bt33.9 billion in FY2018. Our projection assumes no additional, large, debt-funded acquisitions over the next three years as the company's management has expressed strong intention to deleverage. Base on that, we project the total debt to EBITDA ratio to gradually decline to around 3.5 times in FY2021.

Strong liquidity profile

The company's liquidity position is strong. As of June 2019, ThaiBev had cash-on-hand of Bt24.1 billion. We project funds from operations (FFO) to be around Bt33 billion in the next 12 months. The company has undrawn credit facilities of around Bt54 billion. These sources of funds should be sufficient to cover the cash needed for debt service and investments over the next 12 months. ThaiBev has long-term debt repayment obligations of around Bt6.0 billion coming due during the next 12 months. As of June 2019, the company's outstanding short-term obligations were Bt14.0 billion. The company has planned capital expenditures of approximately Bt7.0 billion in FY2020.

TRIS Rating expects ThaiBev to comply with its financial covenants over the next 12 to 18 months. The company's interest bearing debt to total equity ratio at the end of June 2019 was 1.50 times, below the financial covenant of 3 times.

BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions for the performance of ThaiBev during 2019 to 2021 are as follows:

- Revenues to increase by around 8% in FY2019 and 3% in FY2020 and FY2021, respectively.
- Operating profit margin to stay approximately 16%.
- Capital expenditures to be around Bt7 billion per annum over the forecast period.
- Adjusted debt to EBITDA ratio to gradually drop to 3.5 times in 2021.

RATING OUTLOOK

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

RATING SENSITIVITIES

ThaiBev's ratings and/or outlook could be revised upward, should the adjusted debt to EBITDA ratio fall below 2.0 times on

a sustained basis. On the contrary, the ratings and/or outlook could be revised downward if ThaiBev's deleveraging proceeds slower than planned.

COMPANY OVERVIEW

ThaiBev is a leading beverage and food company in Thailand. The company was founded in 2003 and listed on the Singapore Exchange (SGX) in 2006. At the end of October 2018, the Sirivadhanabhakdi family was the major shareholder, controlling about 68% of ThaiBev's outstanding shares. ThaiBev has expanded its presence in the Southeast Asian region through mergers and acquisitions, including the F&N acquisition in which ThaiBev controls a 28.5% interest. In 2017, the company enlarged its market coverage in the spirits segment by acquiring a 75% stake in Myanmar Supply Chain and Marketing Services Co., Ltd. (MSC) and Myanmar Distillery Co., Ltd. (MDC). The two firms are known as the Grand Royal Group or GRG. The GRG is the largest producer and distributor of spirits in Myanmar. In addition, the company acquired 252 KFC outlets in Thailand from Yum Restaurants International (Thailand) Co., Ltd. The company also purchased a 53.59% stake in Sabeco, the largest brewer in Vietnam. In the first nine months of FY2019, ThaiBev's total revenues were Bt205.9 billion. Spirits were the key revenue contributor, comprising 43% of total revenue and over 64% of EBITDA.

KEY OPERATING PERFORMANCE

Table 1: ThaiBev's Revenue Breakdown

Unit: %	Product	2013	2014	2015	Jan-Sep 2016	FY2017	FY2018	Oct-Jun 2019
	Beer	21	22	25	32	30	41	45
	Spirit	64	65	62	55	58	46	43
	Non-alcohol beverage	11	10	10	9	9	7	6
	Food	4	4	4	4	4	6	6
	Total	100						
	Total Revenue (Bt million)	155,771	162,040	172,049	139,153	189,997	229,695	205,227

Source: ThaiBev

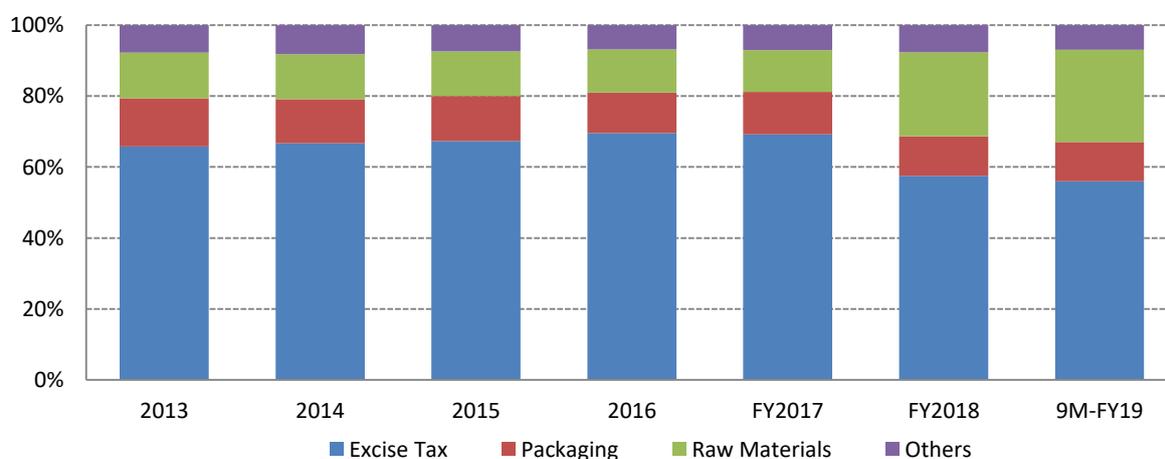
Table 2: ThaiBev's EBITDA Breakdown*

Unit: %	Product	2013	2014	2015	Jan-Sep 2016	FY2017	FY2018	Oct-Jun 2019
	Beer	1	4	8	17	14	26	30
	Spirit	99	96	93	82	83	69	64
	Non-alcohol beverage	-2	-2	-3	-1	1	0	1
	Food	2	2	2	2	2	5	5
	Total	100						
	Total EBITDA (Bt million)	25,878	28,275	29,070	23,516	32,675	34,789	32,129

Source: ThaiBev

* Excluding share profit from associates

Chart 1: ThaiBev's Cost of Goods Sold Breakdown



Source: ThaiBev

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	---- Year Ended 30 Sep ----				
	Oct-Jun 2019	2018	2017	Jan-Sep 2016	Jan-Dec 2015
Total operating revenues	205,859	230,555	190,511	139,627	172,695
Operating income	32,442	32,901	33,052	23,848	28,852
Earnings before interest and taxes (EBIT)	31,511	29,302	32,334	23,458	28,126
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	34,910	33,892	35,403	26,291	31,337
Funds from operations (FFO)	25,293	24,085	29,150	21,702	25,314
Adjusted interest expense	5,560	5,199	1,121	946	1,515
Capital expenditures	5,520	7,437	5,557	3,011	4,277
Total assets	405,753	417,922	194,241	187,654	182,017
Adjusted debt	206,178	215,762	34,816	45,006	44,641
Adjusted equity	148,477	155,473	132,513	123,712	119,266
Adjusted Ratios					
Operating income as % of total operating revenues (%)	15.76	14.27	17.35	17.08	16.71
Pretax return on permanent capital (%)	9.86 **	10.26	18.42	15.66 **	17.30
EBITDA interest coverage (times)	6.28	6.52	31.59	27.78	20.69
Debt to EBITDA (times)	4.96 **	6.37	0.98	1.33 **	1.42
FFO to debt (%)	14.08 **	11.16	83.73	61.49 **	56.70
Debt to capitalization (%)	58.13	58.12	20.81	26.68	27.24

* Consolidated financial statements

** Annualized from the trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Thai Beverage PLC (ThaiBev)

Company Rating:	AA
Issue Ratings:	
TBEV203A: Bt5,000 million senior unsecured debentures due 2020	AA
TBEV213A: Bt11,200 million senior unsecured debentures due 2021	AA
TBEV233A: Bt10,000 million senior unsecured debentures due 2023	AA
TBEV253A: Bt9,300 million senior unsecured debentures due 2025	AA
TBEV283A: Bt14,500 million senior unsecured debentures due 2028	AA
TBEV213B: Bt31,600 million senior unsecured debentures due 2021	AA
TBEV243A: Bt11,300 million senior unsecured debentures due 2024	AA
TBEV293A: Bt10,100 million senior unsecured debentures due 2029	AA
Rating Outlook:	Stable

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