



RATING ACTION COMMENTARY

Fitch Affirms Thai Beverage at 'BBB-'/AA(th)'; Maintains Negative Outlook

Wed 08 Apr, 2020 - 7:32 AM ET

Fitch Ratings - Singapore/Bangkok - 08 Apr 2020: Fitch Ratings has affirmed Thai Beverage Public Company Limited's (ThaiBev) Long-Term Foreign-Currency Issuer Default Rating at 'BBB-' and National Long-Term Rating at 'AA(th)', and maintained the Outlook at Negative. Fitch has also affirmed the senior unsecured rating at 'AA(th)'.

The affirmation reflects ThaiBev's strong business profile, and that cash flow generation capability will continue to drive positive free cash flow (FCF) despite some temporary weakening in sales and EBITDA.

Fitch believes ThaiBev's exposure to the coronavirus pandemic is manageable for its key domestic spirits business. Its sales volume is mainly off-premises at retail stores, with only a limited portion via on-premise bars and restaurants sales volume, which are likely to be the most affected. The strength is offset by weaker earnings in Vietnam and higher exposure of ThaiBev's non-spirits businesses as these are more exposed to on-premise sales, and the product portfolios are subject to more sensitive demand.

The Negative Outlook reflects risks to ThaiBev's deleveraging to a level consistent with its ratings by the fiscal year ending September 2021 (FYE21), which has become more challenging due to COVID19. We do not expect the current high leverage to be permanent, taking into account the company's ability and intention to improve its capital structure after large debt-funded acquisitions in the past and management's stated commitment to reduce leverage. However, the external pressures may prevent the company from doing so in the next 18-24 months.

KEY RATING DRIVERS

Deleveraging Risk: We still expect ThaiBev's net leverage, measured by funds from operations (FFO) to net debt, to stay high at above 4.0x, the level at which Fitch would consider negative rating action, in FY20-FY21, relying largely on the company's organic recovery from the pandemic impact. Net leverage stood at 5.2x at end-December 2019, coming off the peak of 8.3x at FYE18 following its large debt-funded acquisitions. ThaiBev may be able to deleverage faster, reducing its net leverage to 4.0x by FYE21, if there is additional cash-flow generation via improving operating efficiencies and synergies within the group companies, capital management, or monetisation of the company's assets.

EBITDA Contraction from COVID-19: Fitch assumes ThaiBev's revenue to decline by 5%-8% together with a narrowing in the EBITDA margin to around 24% (as percentage to net revenue excluding excise tax) in FY20 (FY19:25%), and recover to pre-COVID levels in FY21. The full-year impact on performance in FY20 is compensated partly by its strong first half, particularly domestic operations, when the impact from COVID-19 was limited. We expect ThaiBev's businesses to face rising pressure in 2HFY20, particularly those in tourist areas, given that several lockdown measures have been implemented which will affect sales volumes.

The margins from food and beverage (F&B) will be pressured, given the fixed-cost base and investment in promotions designed to combat the impact of COVID19. We expect ThaiBev's FCF will remain positive, with the FCF margin above 5% - which is strong for its rating despite weakness in profit - and dividend payout remaining consistent at about 50%-60%.

Margin Improvement Post-Coronavirus: Fitch expects the EBITDA margin to net revenue to increase to 26% in FY22, from 24%-25% in FY18-FY19. We believe the improvement to be broad based, stemming from all of ThaiBev's key product

segments and end-markets. The EBITDA margin of domestic spirits - a major EBITDA contributor - came down from its historical highs during FY18-FY19, due mainly to the impact from the country's mourning period, major excise tax reform, and rising raw material costs. The margin recovered significantly in 1QFY20, thanks to higher demand and average selling prices. We expect its spirits business to generate a strong margin as the operating environment returns to normal.

Strong Business Risk Profile: Acquisitions in Vietnam and Myanmar have expanded ThaiBev's operating scale and broadened its geographic diversification such that Thailand's share of EBITDA fell to less than 80% from FY19, from over 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 remains a key strength, with a market share of over 90%, supported by high entry barriers and EBITDA margins to net revenue generally of 50% or above. The company's established brands and a strong distribution network in each of its markets also support its business strengths.

Both ThaiBev's acquired entities - Saigon Beer-Alcohol-Beverage Corporation (Sabeco) in Vietnam and Grand Royal Group (GRG) in Myanmar (Myanmar Supply Chain and Marketing Services Co., Ltd and Myanmar Distillery Co., Ltd.) - are leaders in their respective markets. Sabeco has maintained its beer share in Vietnam by sales volume at about 40% over the last few years, while GRG dominates Myanmar's whisky market, at over 70%.

Significant Minority Interests in Sabeco: ThaiBev's ratings factor in our expectation of strong operational and strategic ties with Sabeco despite its equity stake of 53.6%. We have fully consolidated Sabeco's financials when assessing ThaiBev, but have excluded dividends paid to minorities in arriving at consolidated FFO, and have treated the minority share of Sabeco's cash balance (FYE19: about THB20 billion) as restricted cash.

DERIVATION SUMMARY

ThaiBev's ratings reflect its strong market position in spirits and its leading share of beer sales in its key markets of Thailand, Vietnam and Myanmar, which are counterbalanced by its narrow geographic diversity and smaller operating scale compared with rating peers. ThaiBev's business profile is comparable with that of Molson Coors Brewing Company (BBB-/Stable), even though Molson Coors has a

larger operating scale with concentration in North America. ThaiBev has a comparable financial profile, with both companies experiencing heightened leverage from large debt-funded acquisitions. The risk to ThaiBev's slower deleveraging pace underpins our Negative Outlook.

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+(thu)/Stable). They both have comparable business risk profiles as they are strong market leaders in their respective industries. ThaiBev has broader geographical diversification, but its rating is lower than that of AIS by one notch due to ThaiBev's higher financial risk.

ThaiBev has a substantially stronger business risk profile than Total Access Communication Public Company Limited (DTAC, AA(thu)/Negative, standalone credit profile AA-(thu)) and PTT Global Chemical Public Company Limited (PTTGC, AA+(thu)/Negative, standalone credit profile AA-(thu)). ThaiBev has a strong market position; robust FCF generation, with FCF margins of about 8% (to net revenue); and limited competition. DTAC faces fierce competition in the Thai telco market, while PTTGC's operating cash flow is considerably more cyclical than that of ThaiBev due to its exposure to commodity prices and refining margins. DTAC and PTTGC generate mostly negative FCF across economic cycles, stemming from the high capex requirements in the telecoms sector and working-capital swings in the petrochemical industry. Therefore, ThaiBev is rated one notch higher than the two companies' standalone credit profiles. However, ThaiBev's National Rating may be downgraded by more than one notch if it is not able to reduce its net leverage to below 4.0x.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Net revenue (excluding excise tax) for businesses in Thailand to decline slightly by 2% in FY20, as the strong growth in the first half is likely to be offset by the decline caused by COVID-19 in the second half. Domestic net revenue to recover, and to grow by 4%-6% a year in FY21-FY22.

- Net revenue of GRG together with Sabeco to decline by about 20% in FY20, of which the decline started since 1QFY20, and to recover with 10%-15% growth per

year in FY21-FY22.

- EBITDA margin (as a proportion of net revenue) for businesses in Thailand to be maintained at around 28% in FY20 (FY19: 28%), and improve slightly to 29%-30% in FY21-FY22. The margin stabilisation in FY20 is also a combination of a strong first half and weaker second half caused by COVID-19.

- EBITDA margin (as a proportion of net revenue) of Sabeco together with GRG to decline to around 15% in FY20 (FY19: 19%) due to COVID-19, and recover to 18%-20% in FY21-FY22.

- Capex of about THB6 billion-7 billion per year in FY20-FY22, which accounted for 2.5% of annual gross revenue.

- Dividend payout ratio of 50%-60% in FY20-FY22

RATING SENSITIVITIES

Developments That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- The rating Outlook could be revised to Stable if ThaiBev generates stronger-than-expected operating cash flows or undertakes capital management to reduce debt, leading to a decline in FFO net leverage to below 4.0x by FY21.

Developments That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Failure to reduce FFO net leverage to 4.0x by FY21, unless the company demonstrates strong deleveraging commitment with low execution risk.

- Evidence of a weakening market position, operating efficiency or pricing power, resulting in sustained weak sales growth and profit margins

BEST/WORST CASE RATING SCENARIO

Ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings <https://www.fitchratings.com/site/re/10111579>.

LIQUIDITY AND DEBT STRUCTURE

Manageable Liquidity: ThaiBev had THB15 billion of debt maturing within the next 12 months at end-December 2019, including working-capital facilities from banks of around THB5 billion and debentures of around THB10 billion. Liquidity is supported by cash on hand (excluding Fitch defined restricted cash) of around THB18 billion and an available committed revolving credit facilities of around THB5 billion. The next significant debenture maturity is THB43 billion in March 2021. ThaiBev's credibility as the largest consumer staples company and one of the 10 biggest companies by market capitalisation listed on the Singapore Exchange, support its liquidity profile and refinancing.

SUMMARY OF FINANCIAL ADJUSTMENTS

Cash and cash equivalents of Sabeco consolidated on a proportional basis

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING		
Thai Beverage Public Company Limited	LT IDR	BBB-	Affirmed
	Natl LT	AA(tha)	Affirmed
● senior unsecured	Natl LT	AA(tha)	Affirmed

[VIEW ADDITIONAL RATING DETAILS](#)

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

[National Scale Ratings Criteria \(pub. 18 Jul 2018\)](#)

[Corporates Notching and Recovery Ratings Criteria \(pub. 14 Oct 2019\) \(including rating assumption sensitivity\)](#)

[Corporate Rating Criteria \(pub. 28 Mar 2020\) \(including rating assumption sensitivity\)](#)

[Sector Navigators-Addendum to the Corporate Rating Criteria \(pub. 28 Mar 2020\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.8.0 (1)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

Thai Beverage Public Company Limited EU Endorsed

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING

<https://www.fitchratings.com/site/dam/jcr:6b03c4cd-611d-47>

[READ MORE](#)

COPYRIGHT

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (in

[READ MORE](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated

entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

[Corporate Finance](#) [Retail and Consumer](#) [Asia-Pacific](#) [Thailand](#)

