FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Thai Beverage at 'BBB-'/'AA(tha)'; Outlook Stable

Wed 02 Feb, 2022 - 5:48 AM ET

Fitch Ratings - Singapore - 02 Feb 2022: 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(tha)', with a Stable Outlook. Fitch has also affirmed the senior unsecured rating at 'AA(tha)'.

The affirmation reflects the strength of ThaiBev's market position in a challenging environment characterised by bans on sale of alcohol beverages and other Covid-19 pandemic-related measures in Thailand. The rating also reflects a strong business profile, and that cash-flow generation will continue to drive positive free cash flow (FCF) and deleveraging to a level consistent with its rating. Fitch also believes that ThaiBev will adhere to its commitment to prioritise debt reduction and maintain a conservative capital structure.

KEY RATING DRIVERS

Delayed but Continued Deleveraging: Fitch expects ThaiBev's funds from operations (FFO) net leverage to fall to around 4.0x by end-September 2023 (FYE23), due to muted operating cash flow growth. The spirits business is largely off-premise consumption, while it faces challenges in its beer and non-alcoholic segments from the pandemic situation in south-east Asia, which interrupted earnings growth in 2HFY21. This, together with cash outflow to fund an equity injection via a 2021right issue into its property associate, Frasers Property Limited, raised leverage to 5.8x by FYE21 (FYE20: 5.3x).

Solid Operating Performance Rebound: Fitch expects EBITDA to rise to around THB44 billion in FY22. EBITDA remained healthy at the pre-pandemic level (FY21: THB40 billion, FY20: THB42 billion, FY19: THB40 billion), thanks to its strong local operation, and despite a small 4% decline in FY21. We believe ThaiBev will maintain a solid EBITDA margin of 29%-30% (as a percentage of net revenue excluding excise tax). This is supported by rising product prices, enhanced cost-based sharing within the group, and benefits from efficiency improvements.

ThaiBev generated a wider EBITDA margin of around 29% during FY20-FY21, up from 25% in FY19, owing partly to reducing advertising and promotional expenses. Long and continued efforts to strengthen its own retail network and improve distribution coverage have paid off significantly over the course of the pandemic. Its strong, geographically dispersed national distribution network, with traditional retailers acting as its key sales channel - especially in rural areas - has played an important role in supporting the resilience in off-premise sales.

Regional Operation Recovery: Fitch expects performance in Vietnam and Myanmar to recover, with EBITDA growth of 18% in FY22, after a decline of 12% in FY21, in line with the easing pandemic situation in countries where demand has been growing. Vietnam's beer and Myanmar's spirits markets have been hurt by the pandemic-related measures and lockdowns in FY21, while in Vietnam there has also been tighter restrictions on drunk drivers since FY20. EBITDA margins in those countries improved considerably in FY20-FY21, which mitigates some impact from declined sales.

Leading Regional Position: ThaiBev's business profile is bolstered by leading regional positions, including local spirits with a sales-volume share of above 90%. This segment is off-premise consumption, and was therefore less affected by pandemic-related measures. The company also has a strong beer market share of 35%-40% in Thailand and Vietnam. The expanded geographical reach in Myanmar and Vietnam has enhanced its operating scale and broadened diversification, such that Thailand's share of EBITDA is now less than 80%, from over 90% in FY17.

Significant Minority Interests in Sabeco: ThaiBev's ratings factor in our expectation of strong operational and strategic ties with Saigon Beer-Alcohol-Beverage Corporation (Sabeco), the company's Vietnam-based acquisition, despite its smaller equity stake of 53.6%. We exclude dividends paid to minorities in arriving at consolidated FFO, and treat the minority share of Sabeco's cash balance (FYE21: about THB13 billion) as restricted cash to factor in the possibility of cash leakage to minorities.

DERIVATION SUMMARY

ThaiBev's ratings reflect its strong position in spirits and a leading share of beer sales in its key markets of Thailand, Vietnam and Myanmar. This is counterbalanced by its higher leverage compared with its higher-rated peers. Furthermore, the higher-rated peers are 'pure play' food and beverage companies that benefit from relative stability of cashflows, even during times of macro-economic strain, while ThaiBev has a complex organisational structure that includes investments in the more cyclical property sector. ThaiBev's business profile is stronger than the Turkish brewer Anadolu Efes Biracilik ve Malt Sanayii A.S. (Efes, BBB-/Stable), in terms of operating scale, home-country market position, and profitability. However, ThaiBev's stronger business profile is offset by Efes's significantly more conservative capital structure, resulting in their similar ratings.

Compared with peers on the National Ratings scale, ThaiBev's credit profile is weaker than that of Advanced Info Service Public Company Limited (AA+(tha)/Stable) on account of ThaiBev's high leverage. Both have comparable business risk profiles, as they are strong market leaders in their respective industries.

ThaiBev has a substantially stronger business risk profile than Total Access Communication Public Company Limited (DTAC, AA(tha)/Negative, Standalone Credit Profile (SCP): aa-(tha)) and PTT Global Chemical Public Company Limited (PTTGC, AA+(tha)/Negative, SCP: aa-(tha)). ThaiBev has a strong market position and robust FCF generation, with a FCF margin of about 8% to net revenue, as well as 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 telecom sector and working-capital swings in the petrochemical industry. Therefore, ThaiBev is rated one notch higher than the two companies' SCPs.

KEY ASSUMPTIONS

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

- Net revenue (excluding excise tax) for businesses in Thailand to rise by 3%-6% a year in FY22-FY24 (FY21: -2%);

- Net revenue of Grand Royal Group (GRG), the Myanmar acquisition, together with Sabeco, to recover by 8%-18% a year in FY22-FY24 (FY21: -14%);

- EBITDA margin as a proportion of net revenue maintained at around 34%-35% for domestic businesses (FY21: 34.5%) and 23%-24% for GRG and Sabeco (FY21: 22.3%).

- Capex of about THB7 billion in FY22 and THB5 billion a year in FY23-FY24, accounting for around 1.5%-3% of annual gross revenue.

- Dividend payout ratio of 50%-60% in FY22-FY24

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- FFO net leverage sustained below 3.5x, provided that the business risk profile remains intact and there is no deterioration of FCF generation

- Simplification of organisational structure such that Thai Bev is a 'pure play' food and beverages company

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- FFO net leverage remaining above 4.0x

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

BEST/WORST CASE RATING SCENARIO

International scale credit 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, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Manageable Liquidity: ThaiBev had THB67.5 billion of debt maturing within the next 12 months as of FYE21, including working-capital facilities from banks of THB19.1 billion, bank loans of THB4.5 billion, and debentures of THB43.9 billion. Liquidity is supported by cash on hand, excluding Fitch-defined restricted cash of THB25.4 billion and undrawn committed revolving credit facilities of around THB5 billion. ThaiBev's strong credit profile and robust FCF generation supports its capital and credit market access, which underpins its liquidity profile.

ISSUER PROFILE

ThaiBev is Thailand's largest beverage producer, generating EBITDA of THB40 billion in FY21. It is diversified across four core businesses: spirits, beer, non-alcoholic beverages, and food. ThaiBev holds dominant shares in local spirits and Myanmar's whisky markets, and strong shares in local beer and Vietnam's beer markets. ThaiBev also has significant listed associates, i.e. Fraser and Neave Limited which is a Singapore-based non-alcoholic beverages company, and Frasers Property Limited, which is a Singapore-based property company.

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

Thai Beverage Public Company Limited has an ESG Relevance Score of '4' for Group Structure due to the company's complex group structure, which has a negative impact on the credit profile, and is relevant to the rating[s] in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
Thai Beverage Public Company Limited	LT IDR	BBB- Rating Outlook Stable	BBB- Rating Outlook Stable
	Affirmed		

	Natl LT	AA(tha) Rating Outlook Stable	Affirmed	AA(tha) Rating Outlook Stable
senior unsecured	Natl LT	AA(tha)	Affirmed	AA(tha)
senior unsecured	Natl LT	AA(tha)	Affirmed	AA(tha)

VIEW ADDITIONAL RATING DETAILS

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PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 23 Dec 2020)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 09 Apr 2021) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 16 Oct 2021) (including rating assumption sensitivity)

Sector Navigators - Addendum to the Corporate Rating Criteria (pub. 16 Oct 2021)

APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Thai Beverage Public Company Limited	EU Endorsed, UK Endorsed

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Corporate Finance Retail and Consumer Asia-Pacific Thailand
