

BBGI PLC

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CORPORATES

Company Rating: BBB+
Outlook: Stable

Last Review Date: 29/10/21

Company Rating History:

Date	Rating	Outlook/Alert
27/10/20	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on BBGI PLC (BBGI) at “BBB+” with a “stable” rating outlook. The “BBB+” rating incorporates a one-notch uplift from BBGI’s stand-alone credit profile (SACP) of “bbb”, reflecting our view of BBGI as a strategically important subsidiary of Bangchak Corporation PCL (BCP, rated “A-/Stable” by TRIS Rating).

The SACP of BBGI continues to reflect its strong market presence in domestic biofuel, leveraging the strengths of its major shareholders in securing feedstock and output offtakes. However, these strengths are held back by the lingering oversupply of biofuel, highly competitive marketplace, and volatile operating spreads.

The rating also takes into consideration BBGI’s strengthened capital structure, from the proceeds of the initial public offering (IPO) in March 2022. However, its credit profile is pressured by a deteriorating operating performance due to a hike in raw materials cost in 2022.

KEY RATING CONSIDERATIONS

Strong presence in biofuel market

BBGI maintains its position as a leading producer in Thailand’s biofuel market. The company ranks third in production capacity both for ethanol, and biodiesel.

Ethanol is a blending component of gasohol required by regulation for the retail market. BBGI owns and operates, through its subsidiaries, three ethanol plants with a total current capacity of 0.6 million liters per day (ML/D), about 8.7% of ethanol production capacity in Thailand. Capacity will increase to 0.8 ML/D in 2023, according to BBGI’s expansion plan.

At the same time, BBGI owns and operates a biodiesel plant with daily capacity of 1.0 ML, accounting for about 10.3% of industry capacity. The blending proportion of biodiesel in diesel for the retail market is subject to government policy changes in response to the market situation.

In 2021, BBGI sold 183 ML of ethanol, marking a 13.5% market share by sales volume. The company also held a 14.2% market share in biodiesel, with total sales of 239 ML.

Competitive advantages from complete supply chain

BBGI’s competitive advantages stems from its complete supply chain for biofuel products. BBGI has agreements with major shareholders to secure raw materials and products offtake.

On the supply side, Khon Kaen Sugar Industry (KSL) is BBGI’s key supplier of molasses, the main raw material for ethanol production. Under the long-term contract for feedstock supply, BBGI has first right to purchase all molasses from KSL’s four main sugar factories. We view the commitment as mitigating the risk of molasses shortages. In 2021, BBGI procured about 44% of molasses from KSL. BBGI also leverages KSL’s network to fulfill the molasses requirements for production.

As for demand side, BBGI has long-term sales and purchase contracts of ethanol with BCP. In 2021, BBGI sold about 80% of its ethanol production to BCP. Aside from ethanol, BBGI also has a long-term contract with BCP to

offtake its biodiesel production. In 2021, BBGI sold about 92% of biodiesel to BCP. With BCP being the major off-taker, BBGI could increase its utilization rates of ethanol and biodiesel productions to levels higher than the industry averages.

Excess production capacity

BBGI's business prospect is constrained by a lingering excess production capacity in the biofuel market, which puts pressure on profit margin and production volumes. The domestic ethanol production capacity totals 6.9 ML/D, whereas ethanol consumption over the last four years has been only 3.6-4.4 ML/D. At the same time, the market biodiesel production capacity of 9.70 ML/D greatly exceeds domestic demands. In all, industry-wide biodiesel utilization has fallen to 47% in 2021, and about 37% in the first half of 2022.

We view that it will take time for the demand and supply to balance, and the competition will likely remain intense in the short to medium term, inducing highly volatile margins industry wide.

Risk of policy change

Domestic demand for biodiesel is largely subject to government policy changes, in response to changing market situations. The retail fuel market has seen fuel prices rallying to the peaks in 2014 and recently in the third quarter of 2022. With the immense inflationary pressures, the Thai government has retained its policy to control the diesel price to stay below THB35 per liter through several measures, such as reducing the biodiesel content, and temporary cuts of excise tax. In February 2022, the government decreased the policy mix of biodiesel to B5 (diesel fuel blended with 5% biodiesel). This resulted in a decrease in demand of biodiesel. Despite the recent policy change, we expect that the government will foster the use of biodiesel in the long term. Currently, diesel B7 (diesel fuel blended with 7% biodiesel) is set to become the primary diesel fuel for domestic consumption.

Pressure from rising prices and deficit supplies of raw materials

The key raw materials for biofuel are derived from agricultural products such as sugar cane, palm fruit, and casava chips, the productions of which hinge on weather conditions as well as cultivated areas. In addition, the prices of some of the raw materials are largely subject to global markets, especially during a period of food shortages since the Russia-Ukraine conflict began in February 2022.

In the first half of 2022, BBGI's financial performance softened due to a sharp rise in raw material prices and lower sales volume of biodiesel. The company's earnings before interest, taxes, depreciation, and amortization (EBITDA) drastically dropped by 39% year-on-year (y-o-y) to THB443 million. BBGI's EBITDA margin dropped to 6.2%, from 10.4% y-o-y. We expect performance to remain pressured throughout 2022 before gradually recovering in 2023-2024. For the first six months of 2022, the cost of raw material per litre of ethanol sold increased by 14% y-o-y putting pressure on the margin of BBGI's ethanol business. We expect the margin in ethanol business to remain restricted throughout 2022, before improving during 2023-2024 as the supply of sugar cane will likely increase.

The price of crude palm oil (CPO) also increased by 40% to THB50.4 per kilogram in the first half of 2022 due to the global food shortages which led to Indonesia's export ban from 28 April to 23 May 2022. Heightened CPO prices have pressured the Thai government to maintain the biodiesel policy mix at the lower level of B5 since February 2022. This plunged BBGI's biodiesel sales volume by 23% in the first six months of 2022. However, CPO prices have been significantly declining in the third quarter of 2022. As a result, we expect domestic demand for biodiesel to improve in 2023 from the government increasing biodiesel mix to B7 and recovering economic activity.

IPO proceeds strengthen capital structure

BBGI successfully raised THB4.45 billion in capital through its IPO in March 2022, considerably strengthening its capital structure. The debt to capitalization ratio improves to 6.3% at the end of June 2022 from 38.6% at the end of 2021. BBGI intends to spend most of the proceeds on investments in bio-based high-value products (HVP), and to repay loans.

With respect to long-term growth strategy, BBGI is trying to expand toward bio-based HVP in health & well-being to create a new s-curve growth. In addition, the new business will leverage BBGI's key strengths in sourcing agricultural products and derivatives, as well as operating commercial-scale fermentation facilities for bio-based products. BBGI's major investments in bio-based technology in 2022-2024 include the Contract Development and Manufacturing Organization (CDMO) business, and an investment in Sustainable Aviation Fuel (SAF) under a joint venture led by BCP. The total amount of approximately THB3.0-THB4.0 billion is required for commitment in bio-technology investments, including CDMO, SAF, Win Ingredient, and the new R&D investment -- BIOM.

We expect the return from these bio-technology investments to materialize only after 2024, subject to BBGI's success in commercialization.

Financial performance to recover in 2023-2024

We expect BBGI's performance will gradually recover in 2023-2024, based on our expectation of easing supply shortages of raw materials and reviving domestic economic activity. We forecast the company's EBITDA margin to increase from our 2022 forecast of 6.5%-7.0% to 7.5%-9.0% in 2023-2024. We also expect the biodiesel sales volume to gradually increase to normal levels over the forecast period, given the policy change to the B7 retail diesel mix in October 2022. As a result, we forecast the company's EBITDA in 2022 to be THB850-THB950 million, before increasing to range THB1.0-THB1.3 billion in 2023-2024.

We project BBGI to spend around THB5.0 billion in 2022-2024 on its new investment in new bio-based HVP businesses, regular maintenance, expansion in ethanol capacity, refined glycerin plant, and biogas plants. Based on the investment plan, we project BBGI's debt to capitalization ratio to gradually increase from about 6.3% as of June 2022 to 20%-25% in 2024, while the debt to EBITDA ratio to stay below 3 times during 2022-2024.

Sufficient Liquidity

Following the IPO, BBGI has further strengthened its liquidity profile. The company's sources of funds comprised cash on hand plus short-term investments of about THB3.5 billion, and undrawn short-term credit facilities of about THB7.4 billion as of June 2022. We forecast BBGI's funds from operations (FFO) over the next 12 months to be THB650-THB750 million. Debt and lease liabilities coming due over the next 12 months will amount to THB1.1 billion, on top of THB2.3 billion in capital expenditure and committed investments in the pipeline over the same period.

Capital Structure

At the end of June 2022, BBGI has THB3.4 billion in debt, including approximately THB2.1 billion of priority debt. BBGI's priority debt included THB1.34 billion of secured debt and THB0.74 billion of unsecured debt at the subsidiary level. The ratio of priority debt to total debt was 62%, suggesting that the company's unsecured creditors could be significantly disadvantaged to the priority debt holders with respect to claims against the company's assets.

BASE-CASE ASSUMPTIONS

- Ethanol capacity to increase to 0.8 ML/D in 2023 from 0.6 ML/D in 2022
- The utilization rate of ethanol plants increasing to about 85%-90% by 2024, from 68% in the first six months of 2022.
- Biodiesel capacity at 1.0 ML/D, with utilization rate of 55%-60% in 2022 and 75%-80% during 2023-2024.
- EBITDA margin to gradually increase to 8.0%-9.0% over 2023-2024, from 6.5%-7.0% in 2022.
- Capital Expenditure (CAPEX) and investment for committed new projects over 2022-2024 to total THB5.0 billion.

RATING OUTLOOK

The "stable" outlook reflects our expectation that the operating performance of BBGI will gradually recover in 2023-2024. We also expect the debt to EBITDA ratio to stay below 3.0 times in 2023-2024, despite its sizable investment plan.

RATING SENSITIVITIES

A rating upgrade could develop if the company can significantly enlarge its cash flow from existing operation and/or new businesses, while maintaining its financial leverage at acceptable levels. In contrast, a rating downgrade could occur if the company's performance materially deviates from our expectation.

Any material changes in the credit profile of BCP or a weakened linkage between BBGI and BCP could also impact the rating on BBGI.

COMPANY OVERVIEW

BBGI was established in October 2017 by an amalgamation between biofuel businesses of BCP and KSL. After the IPO in March 2022, BBGI is held by BCP for 45% and KSL for 30%. Currently, there are two main biofuel business lines -- ethanol and biodiesel. As of June 2022, BBGI's ethanol capacity was 600 kiloliters per day (KL/D) and biodiesel capacity was 1,000 KL/D. However, the company's ethanol capacity will increase to 800 KL/D in 2023. BCP is also a major off-taker for both ethanol and biodiesel, as these two products are mandated for blending with gasoline and regular diesel with specific proportion for selling as fuel across Thailand.

BBGI not only focuses on the biofuel business but also on entering the biotechnology business. In addition to Manus Bio and WIN Ingredients, BBGI has also committed to investing in the CDMO business, and in the sustainable aviation fuel business under a joint venture led by BCP.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	7,168	14,132	12,619	10,059	9,801
Earnings before interest and taxes (EBIT)	228	836	1,412	623	351
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	443	1,298	1,829	1,030	738
Funds from operations (FFO)	382	1,121	1,506	843	583
Adjusted interest expense	52	128	144	115	110
Capital expenditures	200	484	928	634	623
Total assets	16,126	12,907	12,731	11,494	9,372
Adjusted debt	754	4,347	5,055	4,804	3,545
Adjusted equity	11,205	6,904	6,504	5,537	5,089
Adjusted Ratios					
EBITDA margin (%)	6.19	9.18	14.49	10.24	7.53
Pretax return on permanent capital (%)	3.99 **	7.12	12.69	6.49	4.15
EBITDA interest coverage (times)	8.61	10.15	12.72	8.96	6.73
Debt to EBITDA (times)	0.74 **	3.35	2.76	4.67	4.81
FFO to debt (%)	115.83 **	25.78	29.80	17.55	16.46
Debt to capitalization (%)	6.30	38.63	43.73	46.45	41.05

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

BBGI PLC (BBGI)

Company Rating:	BBB+
Rating Outlook:	Stable

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