

BG CONTAINER GLASS PLC

No. 122/2024
19 July 2024

CORPORATES

Company Rating: A-
Outlook: Negative

Last Review Date: 27/07/23

Company Rating History:		
Date	Rating	Outlook/Alert
23/07/20	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on BG Container Glass PLC (BGC) at “A-”, but revises the rating outlook to “negative” from “stable”. The “negative” outlook reflects the company’s weakened financial profile due to worse-than-expected performance and high leverage.

The rating continues to reflect BGC’s leading position in the glass container industry with sustained demand from its beverage customers. However, the strength is partially offset by BGC’s cost pressure from higher raw materials and contribution from other new packaging businesses with lower margins.

KEY RATING CONSIDERATIONS

Weaker-than-expected financial profile

BGC’s financial profile is expected to fall short of our previous forecast due mainly to the impacts of a shrinking profit margin and rising debt stemming from intensive capital spending. Its EBITDA is expected to hover around THB2.0-THB2.2 billion per year during 2024-2026, below our previous forecast of THB2.3-THB2.6 billion, as a result of continuing high raw material costs and elevated operating expenses. Cold repairs of the company’s furnaces during 2023-2026 are likely to push debt up to even higher levels. Financial leverage, as measured by the debt to EBITDA ratio, is forecast to rise to 5.5-6 times during 2024-2026, compared with around 4 times in the previous forecast. The pace of the company’s performance recovery largely hinges on the success of new packaging segments such as flexible packaging, as well as the trading business, both of which remain uncertain.

Flexible packaging and trading segments anticipated to drive revenue growth

Under its total packaging solutions strategy, BGC acquired plastic and paper packaging companies from Bangkok Glass PLC (BG), its parent company, in April 2021. The company subsequently acquired a flexible packaging company in March 2023 and invested in a second flexible packaging plant which started operation in the first quarter of 2024 (1Q24). BGC foresees plentiful opportunities in flexible packaging. The segment is expected to generate income of THB550 million in 2024 and rise to THB800 million in 2026.

The trading business is considered to be another important driver of revenue growth. BGC recognizes the diverse needs of its customers for the packaging products other than its own products and raw materials. To serve these needs, it has developed a service to source products according to specific customer demands, focusing on products and materials in which BGC already has expertise. We forecast revenue from the trading business to range from around THB300-THB400 million per year.

The company’s total packaging solutions strategy, which involves pooling sales of its main glass products with other packaging products, along with additional revenue from the trading business, should push up overall sales. We expect revenues from other packaging segments and the trading business to reach around THB3.0-THB3.4 billion annually during 2024-2026.

Softening profitability from rising costs and changing revenue mix

The company’s EBITDA margin fell to 14%-15% in 2022-2023 and 17% in 1Q24 from 21%-22% during 2018-2021. The decline in margin was largely the result of rising raw material prices, particularly cullet and soda ash, and energy prices.

An increased proportion of revenue from other packaging such as plastic and paper packaging products with relatively lower margins, also contributed to the narrow profit margin. Revenue from other packaging products increased to 15% of total revenue in 2023 and 19% in 1Q24, from 12%-13% in 2021-2022.

Under our base case, glass packaging margins are forecast to improve and hold steady throughout the forecast years as prices of raw materials and energy are anticipated to decline. However, the increasing revenue contribution from flexible packaging and the trading business may cause the overall margin to contract. We assume the contribution of other packaging products and trading will account for roughly 20% of BGC's total revenue in 2024-2026 while the EBITDA margin is expected to be around 13%-14%.

Market concentration

BGC sells most of its glass bottle products to beverage companies. In 2023, beer bottles, soft drink bottles, and alcoholic beverage bottles accounted for 45%, 34%, and 12% of total glass bottle sales, respectively. A market condition that causes a drop in sales of alcoholic or non-alcoholic beverages could materially impact BGC. This concentration risk is mitigated to some degree by the company's diversification into other packaging businesses as well as the production of high-quality glass bottles for other end-market segments such as food and consumer products.

Rising leverage but a decline anticipated

We expect BGC's financial leverage to rise during the forecast years as cash generation has weakened while expenditure for the cold repair of its furnaces is ongoing. Capital expenditure (CAPEX) during 2024-2026 is projected to total THB4.0 billion, of which THB1.6 billion is earmarked for cold repairs of furnaces, and the rest for normal maintenance of the glass and other packaging plants.

In our base case, we project the company's ratio of funds from operations (FFO) to adjusted net debt to be around 13%-15% and the net debt to EBITDA ratio to peak at 5.8 times in 2024 before declining to around 5.5 times in 2025-2026.

Adequate liquidity

As of the end of March 2024, the company's sources of funds comprised cash on hand and short-term investments of THB101 million and undrawn credit facilities of THB6 billion. FFO over the next 12 months are projected to be around THB1.5 billion. These sources of funds should be sufficient to cover debt services and investment needs. BGC has long-term debt repayment obligations of around THB1.1 billion coming due in the next 12 months, and an investment budget for 2024 of around THB1 billion.

Debt profile

As of March 2024, BGC had THB4.8 billion in priority debt out of total interest-bearing debt of THB10.6 billion. This translates to a priority debt to total debt ratio of 45%. Most of BGC's operating assets are held at the subsidiary level. If the level of BGC's priority debt rises above 50%, we would consider BGC's senior unsecured creditors to be significantly disadvantaged with respect to the priority of claims against BGC's assets.

BASE-CASE ASSUMPTIONS

- Revenues to decrease by 1% in 2024 due to a slowdown in alcohol consumption, then grow by 2%-4% per year during 2025-2026 resulting from a prospective recovery in beverage consumption, coupled with incremental revenue from the flexible packaging and trading businesses.
- Gross margin of 14% and EBITDA margin of 13%-14% during 2024-2026.
- CAPEX of THB1.0-THB1.5 billion per year during the forecast years.

RATING OUTLOOK

The "negative" outlook reflects the company's weakened financial profile due to worse-than-expected performance and high leverage.

RATING SENSITIVITIES

The rating outlook could be revised to "stable" if the company can improve its operating performance and financial profile, with the net debt to EBITDA ratio hovering at around 5 times or below. On the other hand, a rating downgrade scenario could emerge if its operating performance and balance sheet deteriorate beyond the 2023 level, with EBITDA falling below THB2.3 billion and net debt to EBITDA ratio rising above 5.1 times for an extended period.

COMPANY OVERVIEW

BGC was established in 2016 and registered on the Stock Exchange of Thailand (SET) in 2018. BGC's main business is the manufacture and sale of glass packaging and non-glass packaging products. The company is a subsidiary of BG. As of March 2024, BG was the major shareholder, holding 71% of BGC's shares. The ultimate shareholder of BGC is Boon Rawd Brewery Co., Ltd., with an indirect holding through BG. Boon Rawd Brewery holds 67.5% of BG.

As of June 2024, BGC had five production plants located in five provinces: Pathum Thani, Ayutthaya, Prachin Buri, Khon Kaen, and Ratchaburi. The company has 10 furnaces with a total production capacity of 3,210 tons per day. All the plants are wholly owned by BGC except for the Prachin Buri plant which is 49% held by TC Pharmaceutical Industries Co., Ltd.

The glass packaging business is difficult for newcomers to enter as it requires intensive investment and operating expertise. Skilled staff are needed to adjust production formulas and ensure the furnaces operate efficiently. In addition, sales need to be sufficient to ensure optimal utilization of production lines since the furnaces must run continuously. The relationship between glass bottle manufacturers and their customers is another obstacle facing newcomers. The top glass packaging producers in Thailand are all connected to the leading beverage firms which are also the major buyers of glass bottles. Currently, the glass container industry is dominated by three manufacturers – BGC (Boon Rawd Group), Thai Glass Industries PLC (TCC Group), and Siam Glass Industry Co., Ltd. (Osotspa Group).

In 2019, BGC invested in three companies to expand its business. BGC acquired a 100% shareholding in Solar Power Management (Thailand) Co., Ltd. (SPM), which operates two solar projects in Phu Yen, Vietnam with a total capacity of 110.025 megawatts (MW). The investment cost was THB1.3 billion. The two solar projects are committed to provide 99.216 MW of power to Vietnam Electricity (EVN). BGC also acquired 26% and 25% stakes in B S Glass Recycling Co., Ltd. (BSR) and Taweessup (Jew Ja Heng) Co., Ltd. (TWS), respectively, to engage in the purchase and sale of glass scrap. The investment cost for the two projects was THB135 million.

In April 2021, BGC acquired two other packaging companies from BG, BG Packaging Co., Ltd. (BGP) and Bangkok Visypak Co., Ltd. (BVP), with a total investment of THB1.7 billion. BGP is a producer and distributor of plastic films, plastic caps, PET bottles, and preform, while BVP is a producer and distributor of corrugated paper boxes.

In February 2022, BGC completely restructured its energy business. BGC disposed of its 100% stakes in SPM to BG Energy Solution Co., Ltd. (BGE), receiving payment in the form of 7.5 million newly issued ordinary shares of BGE (equivalent to 27.27% of the total issued and paid-up shares of BGE). BGC subsequently disposed of 7.35% of BGE's issued and paid-up shares to BG. As of March 2024, BGC held approximately 20% of BGE's issued and paid-up shares.

In March 2023, BGC acquired a 75% stake in Prime Packaging Co., Ltd. (PRIME), a producer of flexible packaging products such as pouch packaging, plastic film, and labels. BGC aims to acquire the remaining 25% stake in PRIME by March 2025. The total investment is THB580 million.

In February 2024, BGC invested in a 5% shares of Bangkok Can Manufacturing Co., Ltd. (BCM) with an investment cost of THB98 million.

KEY OPERATING PERFORMANCE

Table 1: BGC's Revenue Breakdown by Business & Market

Business (Mil. THB)	2018	2019	2020*	2021	2022	2023	Jan-Mar 2023	Jan-Mar 2024
Glass packaging	10,400	11,249	10,512	10,859	12,367	12,747	3,345	3,085
Other packaging	-	-	1,335	1,527	1,825	2,253	469	701
Solar power	-	3	-	-	-	-	-	-
Warehouse rental	-	-	-	-	-	5	-	3
Total sales	10,400	11,252	11,847	12,387	14,192	15,005	3,814	3,789
Market (%) (Glass Packaging)	2018	2019	2020	2021	2022	2023	Jan-Mar 2023	Jan-Mar 2024
Domestic	93	90	92	93	90	93	91	93
Export	7	10	8	7	10	7	9	7
Total sales	100	100	100	100	100	100	100	100

Source: BGC

* Re-presented financial statement

Table 2: BGC's Bottle Sales Breakdown by Product

Unit: %

Product	2018	2019	2020	2021	2022	2023	Jan-Mar 2023	Jan-Mar 2024
Beers	43	43	41	41	43	45	46	40
Soft drinks	34	35	37	36	34	34	32	37
Food	9	9	9	9	9	8	8	9
Insecticides & drugs	1	1	1	1	1	1	1	1
Other products	13	12	12	13	13	12	13	13
Total sales	100	100	100	100	100	100	100	100
Total sales (Mil. THB)	10,296	11,098	10,387	10,646	12,138	12,615	3,308	3,060

Source: BGC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	3,807	15,116	14,282	12,475	11,903
Earnings before interest and taxes (EBIT)	219	696	606	862	829
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	646	2,293	2,077	2,584	2,614
Funds from operations (FFO)	528	1,935	1,873	2,300	2,346
Adjusted interest expense	92	309	180	199	198
Capital expenditures	778	3,418	1,423	919	851
Total assets	19,098	19,140	16,055	18,708	19,359
Adjusted debt	11,629	11,788	9,033	9,796	10,750
Adjusted equity	5,299	5,209	4,873	5,489	6,784
Adjusted Ratios					
EBITDA margin (%)	17.0	15.2	14.5	20.7	22.0
Pretax return on permanent capital (%)**	4.8	4.5	4.1	5.2	4.8
EBITDA interest coverage (times)	7.0	7.4	11.5	13.0	13.2
Debt to EBITDA (times)**	4.8	5.1	4.3	3.8	4.1
FFO to debt (%)**	17.5	16.4	20.7	23.5	21.8
Debt to capitalization (%)	68.7	69.4	65.0	64.1	61.3

* Consolidated financial statements

** Annualized from the trailing 12 months

RELATED CRITERIA

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

BG Container Glass PLC (BGC)

Company Rating:	A-
Rating Outlook:	Negative

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