

THAI BEVERAGE PLC

No. 183/2018
16 November 2018

CORPORATES

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

Last Review Date :

Date	Rating	Outlook/Alert
15/02/18	AA	Stable

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 robust competitive position in the alcoholic beverage market, extensive distribution network, stable operating cash flow, and diversified sources of income. These strengths are partially constrained by intense competition, ThaiBev's high financial leverage, as well as strict regulations, and frequent excise tax hikes in the Thai alcoholic beverages industry.

KEY RATING CONSIDERATIONS

Domestic performance will recover

TRIS Rating expects the domestic beverage business performance will improve. In the first nine months of fiscal year (FY) 2018, ThaiBev's domestic beverage sales declined by 5.2% year-on-year (y-o-y) due to weak domestic consumption which was mainly affected by the lower price of agricultural products. As a result, the operating profit margin dropped to 15.3% in the first nine months of FY2018, compared with 17.4% in FY2017. However, TRIS Rating expects domestic beverage consumption will recover in the last quarter of 2018, due to more government spending to stimulate the domestic economy coupled with recovery in agricultural products prices. Therefore, we expect ThaiBev's domestic beverage sales will rebound and increase by around 3% per annum during FY2019-FY2021. We also project its operating profit margin will bounce back to around 17%.

Ongoing efforts to diversify sources of income

ThaiBev has made a series of strategic acquisitions over the past decade. One key objective of the acquisitions is to diversify its sources of income in two dimensions: product mix and geography. In 2017, ThaiBev made three major investments in Thailand and other ASEAN countries. ThaiBev bought a 75% stake in the Grand Royal Group (GRG), the largest maker and distributor of spirits in Myanmar. Next, the company acquired 252 KFC outlets in Thailand from Yum Restaurants International (Thailand) Co., Ltd. And finally, the company acquired a 53.59% stake in Saigon Beer-Alcohol-Beverage Joint Stock Corporation (Sabeco), the largest beer producer in Vietnam.

The acquisitions yield a number of benefits such as higher cash flow, a broader brand portfolio, and an expanded market presence in ASEAN. Revenue from abroad is expected to increase from 3% of sales in FY2017 to over 25% of sales in the next three years. These strategic moves will help ThaiBev reduce business concentration risk tied to the domestic market and make its operating performance less susceptible to event risk. In addition, the alcoholic beverage markets in Myanmar and Vietnam also have high growth potential, compared with the mature market in Thailand.

Strong position in beverage market

ThaiBev is the largest beverage company in Thailand. It has dominated the alcoholic beverage industry for years, with a market share exceeding 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 brewery in Vietnam with around

40% market share. Meanwhile, GRG is the largest brown spirit producer in Myanmar with over 70% market share.

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 7,300 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, Malaysia and Singapore. Other recent acquisitions further extend ThaiBev's distribution network to Myanmar and Vietnam.

Potential growth in domestic market is 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 for sale of 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 the excise tax rates are frequent. For example, the Thai government has raised the excise taxes on alcoholic beverages five times over the past 10 years. In the past, ThaiBev could maintain its profit margin by passing on the higher taxes to consumers, with only a temporary decline 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 is expected to decline

We project ThaiBev's leverage will gradually decline in the next three years. Its net debt reached its peak at Bt221.5 billion in the first nine months of FY2018, compared with Bt35.2 billion in FY2017, after it made substantial debt-funded acquisitions in the previous year. The ratio of debt to earnings before interest, tax, depreciation and amortization (EBITDA) also increased to 5.5 times (annualized with the trailing 12 months) in the first nine months of FY2018, from 1.0 time in FY2017. Nonetheless, we project EBITDA will increase to approximately Bt50 billion in FY2021, compared with Bt35.4 billion in FY2017. Our projection assumes no additional, large, debt-funded acquisitions over the next three years as the company's management has indicated its commitment to deleveraging. As a result, the total debt to EBITDA ratio will gradually decline to around 3.5 times in FY2021.

Strong liquidity profile

The company's liquidity position is strong. As of June 2018, ThaiBev's source of funds comprised cash on hand of Bt13.03 billion and short-term investments worth Bt10.08 billion. We project the funds from operations (FFO) will be around Bt35 billion in the next 12 months. The company has undrawn credit facilities of around Bt65 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 Bt9.01 billion due during the next 12 months. As of June 2018, the company's outstanding short-term obligations were Bt4.87 billion. The company has capital expenditures of approximately Bt5 billion in FY2019.

TRIS Rating believes ThaiBev will comply with its financial covenants over the next 12 to 18 months. The company's net debt to total equity ratio at the end of June 2018 was 1.56 times, below the financial covenant of 3 times. The net debt to EBITDA ratio at the end of June 2018 was 5.36 times, below the financial covenant of 6 times. The interest bearing debt to total equity ratio at the end of June 2018 was 1.65 times, below the financial covenant of 3 times.

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 applied to bring down financial leverage over the next three to four years.

Our base case scenario assumes ThaiBev's revenues will grow gradually to around Bt280 billion in FY2021. The operating profit margin will be around 17% during the next three years. The FFO will gradually increase to Bt40 billion in FY2021 from Bt32 billion in FY2018. The company set normal capital expenditures ranging between Bt5-Bt8 billion during FY2019-FY2021. The company has no plans for significant investments in the next three years; hence leverage is expected to decline steadily. We forecast the FFO to total debt ratio will improve to 20% and the EBITDA interest coverage ratio will be around 7 times.

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 financial profile weakens further, caused by either a significant deterioration in profitability or a significant further rise in financial leverage.

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 May 2017, 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 maker 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 brewery in Vietnam. In the first nine months of FY2018, ThaiBev's total revenues were Bt175.5 billion. Spirits were the key revenue contributor, comprising 47% of total revenue and over 70% of EBITDA.

KEY OPERATING PERFORMANCE

Table 1: ThaiBev's Revenue Breakdown

Unit: %	Product	2013	2014	2015	Jan-Sep 2016	FY2017	Oct-Jun 2018
	Beer	21	22	25	32	30	40
	Spirit	64	65	62	55	58	47
	Non-alcohol beverage	11	10	10	9	9	7
	Food	4	4	4	4	4	6
	Total	100	100	100	100	100	100
	Total Revenue (Bt million)	155,771	162,040	172,049	139,153	189,997	173,916

Source: ThaiBev

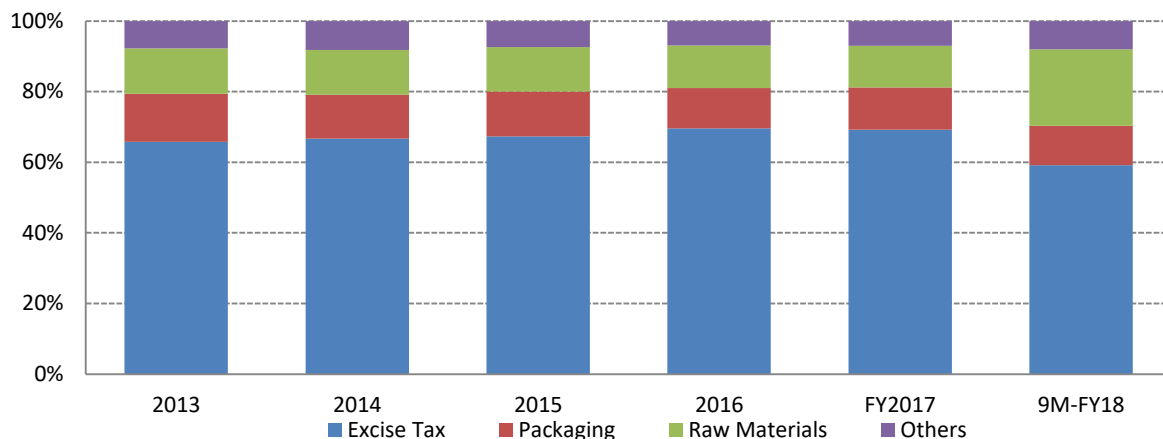
Table 2: ThaiBev's EBITDA Breakdown*

Unit: %	Product	2013	2014	2015	Jan-Sep 2016	FY2017	Oct-Jun 2018
	Beer	1	4	8	17	14	26
	Spirit	99	96	93	82	84	70
	Non-alcohol beverage	-2	-2	-3	-1	1	0
	Food	2	2	2	2	2	4
	Total	100	100	100	100	100	100
	Total EBITDA (Bt million)	25,878	28,275	29,070	23,516	32,675	27,281

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

	Oct-Jun 2018	Oct-Sep 2017	Jan-Sep 2016	---Year Ended 30 Dec ---	
				2015	2014
Total operating revenues	175,588	190,511	139,627	172,695	162,354
Operating income	26,870	33,052	23,848	28,852	28,261
Earnings before interest and taxes (EBIT)	28,936	32,334	23,458	28,126	27,417
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	32,461	35,403	26,291	31,337	30,872
Funds from operations (FFO)	25,540	29,150	21,702	25,314	24,605
Adjusted interest expense	3,231	1,121	946	1,515	1,715
Capital expenditures	5,340	5,557	3,011	4,277	4,795
Total assets	407,377	194,241	187,654	182,017	171,988
Adjusted debt	221,507	35,205	45,321	44,912	51,111
Adjusted equity	142,856	132,513	123,712	119,266	104,676
Adjusted Ratios					
Operating income as % of total operating revenues (%)	15.30	17.35	17.08	16.71	17.41
Pretax return on permanent capital (%)	12.68 **	18.38	15.64 **	17.27	16.76
EBITDA interest coverage (times)	10.05	31.59	27.78	20.69	18.00
Debt to EBITDA (times)	5.51 **	0.99	1.34 **	1.43	1.66
FFO to debt (%)	14.33 **	82.80	61.06 **	56.36	48.14
Debt to capitalization (%)	60.79	20.99	26.81	27.36	32.81

* Consolidated financial statements

** Annualized with the trailing 12 months

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

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
Rating Outlook:	Stable

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