

BETAGRO PLC

No. 170/2017

14 December 2017

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

Company Rating History:

Date	Rating	Outlook/Alert
08/09/11	A	Stable

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Rating Rationale

TRIS Rating affirms the company rating and current senior unsecured debenture ratings of Betagro PLC (BTG) at "A". The ratings reflect the company's proven record in the Thai agribusiness and food industries, full vertical integration across its diverse product lines, and focus on value-added and branded products. These strengths are partially offset by the inherent cyclical nature of the commodity-type products BTG sells; the volatile prices for grain, the major raw material; the exposure to disease outbreaks; as well as changes in tariffs of importing countries.

BTG was incorporated in 1967 by the Taepaisitphongse family and its associates. The company is one of the leading agribusiness and food companies in Thailand. As of November 2017, the Taepaisitphongse family directly held 15.33% of the company's shares and indirectly held a 69.45% share through Betagro Holding Co., Ltd., BTG's parent company. BTG's business segments cover feed, animal health, pet food, swine, poultry, egg, and processed meat. In 2016, revenue from poultry products comprised 36% of BTG's total sales, followed by feed (35%) and swine (19%). Domestic sales accounted for 89% of total sales in 2016, with the remaining 11% from exports.

BTG is an industry-leading producer of high-quality pork meat in Thailand. The company's chicken and swine operations are fully and vertically integrated, from feed to food products. Fully integrated operations help BTG's products meet safety and traceability standards, which qualify its products for export to major importing countries, including the countries of the European Union (EU), Asian nations, and others. BTG's main export markets are Japan and the countries of the EU.

To alleviate the effect of the cyclical nature of the industry and the commodity-like nature of the products, BTG is striving to create value-added products and build its own brands. Additionally, BTG set up a food innovation center for research and product development purposes, as well as plans to launch more value-added products. BTG also created its own domestic distribution channel, "Betagro Shops". At the end of June 2017, the company had 171 stores in Thailand and four stores abroad.

BTG's operating results fluctuated over the course of the livestock industry cycle. BTG's financial performance tumbled in the first half of 2017, down from normal operation in 2016. Revenue was Bt83,732 million in 2016, up slightly from Bt83,450 million in 2015. BTG's revenue declined by 4.8% year-on-year (y-o-y) to Bt39,339 million during the first half of 2017. The swing in swine price affected BTG's profit margin. The operating margin before depreciation and amortization increased from 4.1% in 2015 to 5.1% in 2016 and dropped to minus 0.1% in the first half of 2017. Earnings before interest, tax, depreciation, and amortization (EBITDA) rose by 11.2% y-o-y to Bt4,396 million in 2016, but it slumped by 86% y-o-y to Bt371 million during the first half of 2017.

To pursue its growth strategy, BTG increased its capital spending to approximately Bt2,500 million in the first half of 2017, double from about Bt1,000 million during the same period of a year earlier. Coupled with a drop in EBITDA, the total debt to capitalization ratio rose to 48.6% as of June 2017, up from 42.8% at the end of 2016. Cash flow protection also weakened, but remained acceptable during the down cycle of livestock industry. The ratio of funds from operations

(FFO) to total debt dropped from 30.7% in 2016 to 12.0% (annualized, from the trailing 12 months) for the first six months of 2017. The EBITDA interest coverage ratio 2.0 times during the first half of 2017, compared with 12.5 times in 2016.

The drop in the price of swine will continue to put pressure on BTG's profitability for the remainder of the year. Going forward, BTG's operating performance is expected to improve along with the recovery of livestock prices and feed costs being under control. Under TRIS Rating's base-case scenario, BTG's revenue is expected to grow from Bt83,732 million in 2016 to approximately Bt100,000 million in 2020. EBITDA is expected to escalate from Bt4,396 million in 2016 to hover around Bt7,000 million in 2020. BTG continued to plan a sizable capital expenditures of approximately Bt6,000-Bt8,000 million per annum over the next few years, up from Bt2,500-Bt3,500 million per year during 2014-2016. The rise in capital expenditure plans are mainly for additional expansion of farms, as well as feed and food processing plants. Given the expected levels of EBITDA and capital expenditures, the debt to capitalization ratio is expectedly managed at moderate level in 2018-2020. The EBITDA interest coverage ratio will stay at about 7-8 times, and the FFO to total debt ratio will hover around 18%-21% during the same period.

Rating Outlook

The "stable" outlook reflects TRIS Rating's view that BTG will be able to maintain its leading positions in the Thai agribusiness and food industries. BTG is expected to manage its total debt to capitalization ratio at approximately 50% during the expansion period.

The rating or outlook upside is limited in the short term during its hefty investment period and the downturn of livestock industry. In contrast, the ratings or outlook could be revised downward if more intense competition leads to persistent declines in BTG's profitability and cash flow.

Betagro PLC (BTG)

Company Rating:	A
Issue Ratings:	
BTG183A: Bt300 million senior unsecured debentures due 2018	A
BTG184A: Bt500 million senior unsecured debentures due 2018	A
BTG18NA: Bt500 million senior unsecured debentures due 2018	A
BTG19NA: Bt600 million senior unsecured debentures due 2019	A
BTG207A: Bt2,000 million senior unsecured debentures due 2020	A
BTG215A: Bt3,000 million senior unsecured debentures due 2021	A
BTG227A: Bt3,000 million senior unsecured debentures due 2022	A
BTG247A: Bt1,000 million senior unsecured debentures due 2024	A
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----				
	2016	2015	2014	2013	2012
Sales and service revenues	83,732	83,450	82,578	74,247	64,632
Gross interest expense	264	282	311	433	353
Net income from operations	1,761	1,741	4,324	2,773	495
Funds from operations (FFO)	3,646	3,652	6,262	4,540	1,928
Earnings before interest, tax, depreciation, and amortization (EBITDA)	4,396	3,954	7,307	5,320	2,159
Total capital expenditures and investments	3,322	2,641	2,647	1,993	2,278
Total assets	38,542	37,187	35,157	33,152	30,059
Total debt	11,911	11,775	9,352	11,991	14,499
Shareholders' equity	17,234	16,212	15,888	12,012	9,310
Operating income before depreciation and amortization as % of sales	5.07	4.14	8.33	6.56	2.30
Pretax return on permanent capital (%)	9.50	8.81	23.03	15.88	4.23
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	12.48	10.09	17.55	10.53	5.28
FFO/total debt (%)	30.73	30.22	61.62	37.25	13.20
Total debt/capitalization (%)	42.75	44.48	39.72	51.53	62.19

* Consolidated financial statements

Note: All ratios are operating lease adjusted.

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