

BETAGRO PLC

No. 229/2024
11 December 2024

CORPORATES

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

Last Review Date: 26/12/23

Company Rating History:

Date	Rating	Outlook/Alert
15/12/22	A	Stable
03/01/19	A-	Stable
08/09/11	A	Stable

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RATIONALE

TRIS Rating affirms the company rating on Betagro PLC (BTG) and the ratings on its senior unsecured debentures at “A” with a “stable” outlook. At the same time, TRIS Rating assigns a rating of “A” to BTG’s proposed issues of up to THB2 billion senior unsecured debentures due within one year and six months. The proceeds from the new debentures will be used to refinance its outstanding debts and to fund its working capital needs.

The ratings continue to reflect BTG’s leading position in the Thai agribusiness and food industries, its integrated product lines and extensive distribution network, as well as its moderate financial leverage. The ratings have incorporated industry risk factors, including the cyclical nature of commodity-type products and outbreaks of animal diseases. The ratings also account for our concerns about global economic slowdowns, the uncertainty surrounding trade restrictions, and geopolitical issues, which could impact export volumes, as well as commodity prices and exchange rates.

KEY RATING CONSIDERATIONS

Recovering operating performance

Owing to substantial decline in feed costs and gradual recovery in meat prices, BTG’s operating performance exhibited significant rebound from its lowest point in 2023. During the first nine months of 2024, production costs decreased significantly due to a 10%-15% year-on-year (y-o-y) decline in the costs of major feed components, including corn and soybean meal.

As a result, BTG’s profitability recovered markedly. The company’s EBITDA margin was 7.7% in the first nine months of 2024, compared with 4.3% in 2023. BTG’s EBITDA was THB6.5 billion in the first nine months of 2024, up from THB3.5 billion during the same period of 2023.

Looking ahead, we anticipate continued improvement in the company’s performance. We expect the price of products, particularly pork meat, to further rebound as pork smuggling decreases. Also, we expect higher margins from improved product mix and cost efficiency, resulting from the company’s substantial investments in manufacturing and systems over the past few years. However, despite promising demand, we foresee several challenges in coming years. These include the threat of a global economic slowdown and volatility in agricultural product prices, which may arise from geopolitical tensions and animal diseases.

Under our base-case scenario, we anticipate BTG’s operating revenue will remain in the THB113-THB118 billion per annum range during 2024-2026. EBITDA is projected to range from THB7.3 billion to THB7.9 billion, while EBITDA margin to be maintained of around 6.5%-6.7%.

Improved leverage ratio

Thanks to a rebound in profit margin, BTG’s leverage as measured by levels of debt against cash generation has decreased substantially from the industry downturn in 2023. As of September 2024, BTG’s net debt amounted to THB26.5 billion. The debt to EBITDA ratio was 3.5 times in the first nine months of 2024, down from 5.5 times at year-end 2023.

We anticipate BTG’s leverage to decline gradually on the back of improved operating performance. Given capital expenditures and investments of THB4-

THB5 billion per annum, BTG's net debt to EBITDA ratio is projected at 3.3-3.5 times in 2024-2026, while the debt to capitalization ratio should stay below 50% during the same period.

Adequate liquidity

We assess BTG's liquidity as manageable over the next 12 months. Funding needs will include maturing debenture repayment of THB2.2 billion and capital expenditures of THB4.9 billion. The primary source of funding is expected to come from funds from operations (FFO) of THB6 billion in 2025. The liquidity buffer is supported by cash reserves totaling THB1.4 billion at the end of September 2024, along with undrawn credit facilities, primarily THB2 billion in overdraft facilities from several financial institutions.

The key financial covenant on BTG's debentures requires maintenance of a net interest-bearing debt to equity ratio below 2 times. The ratio was 0.7 times as of September 2024. We expect the company to remain in compliance with the covenant over the forecast period of 2024-2026.

Debt structure

As of September 2024, BTG's total interest-bearing debt, excluding lease liability, was THB20.7 billion. BTG's priority debt was THB6.4 billion, translating into a priority debt ratio of 31%.

Leader in Thailand's agribusiness and food industries

BTG has been a leader in the agribusiness and food industries for 57 years. The company is the third-largest poultry processor in Thailand with a 12% market share in 2023, trailing Charoen Pokphand Foods PLC (about 20%) and Saha Farm Co., Ltd. (about 13%). Its share of chicken exports from Thailand was around 8% in 2023, according to data from the Thai Broiler Processing Exporters Association. BTG is also an industry-leading producer of high-quality pork products in Thailand, with an approximate 16% share of the domestic supply of pork products.

BTG's chicken and swine operations are fully vertically integrated, from feed to food products. Thus, the company can control the quality and costs of the production processes. BTG has a broad portfolio of products, covering animal feed, poultry, swine, and food products. The diverse product range helps mitigate operational risks. During the first nine months of 2024, feed, farm, and food products contributed about 28%, 57%, and 13% of BTG's total sales, respectively.

BASE-CASE ASSUMPTIONS

- Operating revenue to hover around THB113-THB118 billion per annum in 2024-2026.
- Gross profit margin to hover around 13% and EBITDA margin to stay in the 6.5%-6.7% range during 2024-2026.
- Total capital spending and investments to be THB4-THB5 billion per annum during 2024-2026.

RATING OUTLOOK

The "stable" outlook reflects our view that BTG will be able to maintain its leading positions in the Thai agribusiness and food industries. BTG's strategy of focusing on biosecurity and digital transformation, as well as its value-added product offerings, should improve the company's competitive position and operating performance over the next few years.

RATING SENSITIVITIES

BTG's ratings could be upgraded if the company is able to significantly enlarge its cashflow while improving its balance sheet. Conversely, ratings could be downgraded if the company's operating performance deteriorates significantly, or it undertakes any sizeable debt-financed investments that would lead to a weakened balance sheet and cash flow protection. A rating downgrade could occur if its adjusted debt to EBITDA ratio rises above 4 times for an extended period.

COMPANY OVERVIEW

BTG was established in 1967 by the Taepaisitphongse Family and its associates. The company successfully raised funds via an initial public offering (IPO) on the Stock Exchange of Thailand (SET) in November 2022. The Taepaisitphongse Family remains the major shareholder of the company, holding an approximate 64% stake, as of October 2024. The company has three major business segments: feed, farm, and food. Farm products (breeding stock, live animals, and raw meat) contributed 57% of sales during the first nine months of 2024, followed by animal feed (28%), food products (semi-cooked meat, cooked meat, and ready-to-eat products, 13%), and other products (2%).

In terms of product category, revenue from poultry products comprised 38% of BTG's total sales, followed by feed (28%), swine (26%), animal health (3%), sausage and meatball (3%), and others (2%). Fully integrated operations help BTG's products meet international standards, qualifying the company to export to Japan and the European Union (EU). Exports

constituted 13% of total sales in the first nine months of 2024, while domestic sales accounted for 82% with the remainder sales under BTG’s overseas operations.

Apart from Thailand, BTG has expanded its footprint into Cambodia and the Lao People's Democratic Republic (Lao PDR). BTG’s overseas operations cover feed plants and farms. Revenue from overseas operations accounted for 5% of its total revenue in the first nine months of 2024.

BTG’s key strategy is to focus on value-added and branded products. This strategy should help increase the company’s profit margin and partly mitigate the effects of price fluctuations inherent in commodity-like farm products. During the first nine months of 2024, value-added food products contributed 13% of its total sales. Additionally, BTG has established a food innovation center for research and product development. It plans to launch more value-added products in the years ahead. The company’s promotional efforts support its branded products. Brand recognition gives BTG an advantage as consumers tend to choose trusted brands. BTG has several well-known brands such as “S-Pure” and “Betagro” for hygienic meat and food, “ITOHAM” for premium sausage, “Better Pharma” for drug and animal health, “Perfecta”, “DOG n joy”, and “CAT n joy” for pet food products.

KEY OPERATING PERFORMANCE

Table 1: BTG’s Revenue Breakdown by Product Segment

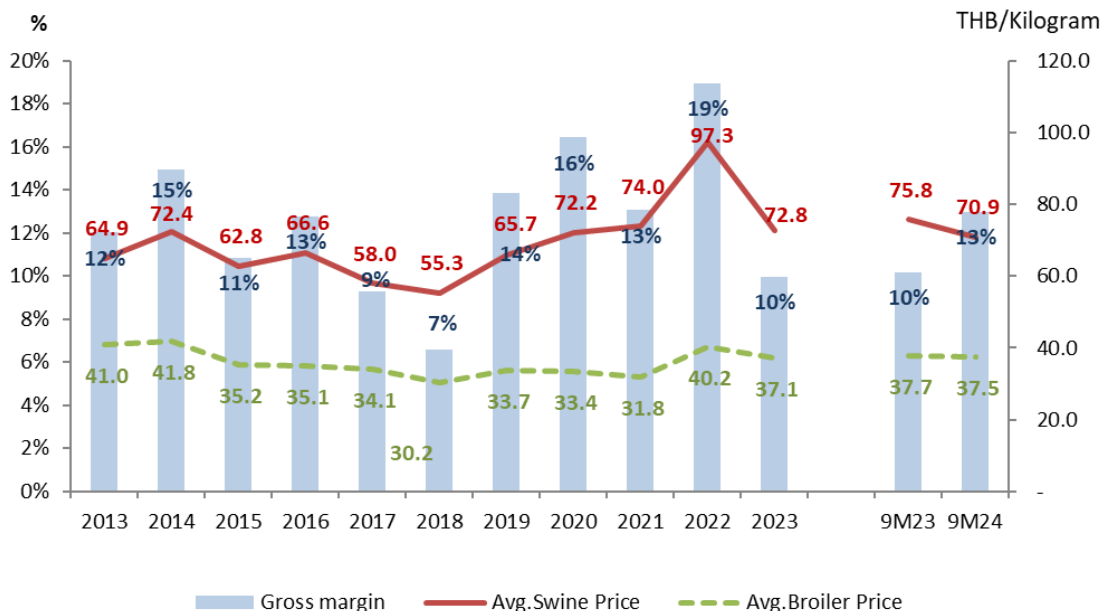
Unit: %

Product Segment	2019	2020	2021	2022	2023	Jan-Sep 2024
Feed	23	24	27	25	29	28
Farm	59	60	58	61	57	57
Food	14	13	12	12	12	13
Others	4	3	3	2	2	2
Total	100	100	100	100	100	100
Sales (mil. THB)	74,092	79,966	85,292	112,480	108,441	83,981

Note: Revenue contribution since 2019 onwards has changed significantly due to an applying of new account standard by excluding sales to contract farmers.

Source: BTG

Chart 1: BTG’s Gross Margin and Average Prices of Broiler and Swine, by Year



Sources: BTG and Thai Feed Mill Association

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	84,538	109,103	113,025	85,952	80,500
Earnings before interest and taxes (EBIT)	2,803	(107)	9,876	900	3,163
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	6,485	4,569	14,302	4,947	7,124
Funds from operations (FFO)	5,179	3,423	13,219	3,836	6,178
Adjusted interest expense	601	715	659	628	556
Capital expenditures	2,739	4,480	3,171	2,098	965
Total assets	64,194	62,501	65,234	57,475	50,342
Adjusted debt	26,534	24,921	19,575	31,909	23,300
Adjusted equity	26,147	25,312	28,664	15,522	17,146
Adjusted Ratios					
EBITDA margin (%)	7.7	4.2	12.7	5.8	8.8
Pretax return on permanent capital (%)	4.9 **	(0.2)	19.3	2.0	7.6
EBITDA interest coverage (times)	10.8	6.4	21.7	7.9	12.8
Debt to EBITDA (times)	3.5 **	5.5	1.4	6.4	3.3
FFO to debt (%)	21.8 **	13.7	67.5	12.0	26.5
Debt to capitalization (%)	50.4	49.6	40.6	67.3	57.6

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

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

Betagro PLC (BTG)

Company Rating:	A
Issue Ratings:	
BTG258A: THB2,200 million senior unsecured debentures due 2025	A
Up to THB2,000 million senior unsecured debentures due within 1 year and 6 months	A
Rating Outlook:	Stable

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