

BETAGRO PLC

No. 221/2021
16 December 2021

CORPORATES

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

Last Review Date: 25/12/20

Company Rating History:

Date	Rating	Outlook/Alert
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 BTG’s senior unsecured debentures at “A-” with a “stable” rating outlook. The ratings continue to reflect BTG’s leading position in the Thai agribusiness and food industries. The ratings also take into consideration several industry risk factors, such as the cyclicity of commodity-type products, volatile raw material prices, animal disease outbreaks, and trade barriers. However, BTG’s vertically integrated product lines, and its strategy to focus on value-added and branded products alleviate these concerns to some extent. The ratings also take into consideration concerns over the lingering economic uncertainty induced by the emergence of Coronavirus Disease 2019 (COVID-19) variants.

KEY RATING CONSIDERATIONS

Operating results weaker than expected

BTG’s operating results were weaker than projected. This was mainly due to the company’s sluggish operating performance in the third quarter of 2021 on the back of the heightened COVID-19 outbreak and lockdown measures, combined with a steep rise in raw material costs. The disruption of supply chain following COVID-19 outbreaks in several food processing plants, as well as a drop in consumer demand resulted in a significant decline in livestock prices. Additionally, the company incurred extraordinary expenses from COVID-19 protection measures and factory closures during this period. As a result, BTG’s earnings before interest, taxes, depreciation, and amortization (EBITDA) plummeted by 37.5% year-on-year (y-o-y) to THB3.5 billion in the first nine months of 2021. The EBITDA margin plunged to 5.6% in the first nine months of 2021, from 8.9% in 2020.

We expect BTG’s operating results to improve gradually in 2022. This is despite the prospect of several rising challenges, including a slow recovery of livestock prices, high prices of raw materials, container shortages, as well as emergence of new COVID-19 variants. Nevertheless, the company’s strategy of focusing on efficiency improvement, market expansions, and value-added product offerings, together with the prospect of a post-COVID economic recovery, should help stabilize operating performance over the next few years.

In our base-case forecast, BTG’s operating revenue is projected to range from THB84-THB97 billion per annum during 2021-2023. EBITDA margin is projected to hover around 5.2%-6.6%, with EBITDA to range from THB4.4-THB6.4 billion during the same period.

Leverage will remain high due to ongoing expansions

Higher raw material costs and supply chain disruptions contributed to higher working capital needs and higher debt levels in 2021. BTG’s adjusted debt rose to THB28.3 billion at the end of September 2021, from THB23.3 billion in 2020.

To pursue its growth strategy, the company plans capital expenditures of THB5-THB6 billion per annum. Thus, we expect BTG’s leverage will remain high over the next few years. The debt to capitalization ratio is projected to hover in the range of 60%-61% in 2021-2023, and the net debt to EBITDA ratio in the range of 4.2-5.7 times.

Leader in Thailand's agribusiness and food industries

BTG has been a leader in the agribusiness and food industries for more than 50 years. BTG is the third-largest poultry processor in Thailand with a market share of 11% in 2020, trailing Charoen Pokphand Foods PLC (21%) and Saha Farm Co., Ltd. (13%). Its share of chicken exports from Thailand was around 7% in 2020, 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 a 10% share of domestic supply of pork products.

BTG's chicken and swine operations are fully vertically integrated, from feed to food products. BTG produces feed, breeds, farms livestock, and processes meat. Livestock are raised in-house and via contract farming. Through vertical integration, 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 range of products helps mitigate BTG's operational risks. During the first nine months of 2021, feed, farm, and food products comprised about 28%, 58%, and 12% of total sales, respectively.

Focus on value-added and branded products

BTG's key strategy is to focus on value-added and branded products. This strategy should help increase its profit margin and partly mitigate the effect of price fluctuations inherent in commodity-like farm products.

BTG has a strategy to shift its product portfolio from livestock to higher margin meat products. Additionally, BTG has established a food innovation center for research and product development. During the first nine months of 2021, value-added food products comprised 12% of total sales. 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. For the domestic market, BTG has two major brands: "S-Pure" for premium products, and "Betagro" for standard products.

Adequate liquidity

We assess BTG's liquidity to be adequate over the next 12 months. Funding needs in the next 12 months will include THB3 billion in maturing debentures and capital expenditures of THB3 billion. The primary source of repayment is expected to come from funds from operations (FFO) of THB3.7-THB5.2 billion per annum. The liquidity buffer is supported by cash reserves, amounting to THB0.5 billion at the end of September 2021, as well as undrawn credit facilities of about THB34 billion from several financial institutions.

The key financial covenant on BTG's debentures requires maintenance of an interest-bearing debt to equity ratio below 2 times. BTG's net debt to equity ratio at the end of September 2021 was 1.7 times. We expect the company to remain in compliance with the covenant over the forecast period of 2021-2023.

BASE-CASE ASSUMPTIONS

- Operating revenue to increase by 4%-8% in 2021-2023.
- Gross profit margin to be in the 14%-15% range; EBITDA margin to remain in the 5.2%-6.6% range.
- Total capital spending to be THB2.4 billion in 2021 and THB5-THB6 billion per annum during 2022-2023.

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. The sizable capital expenditures BTG made during the past few years are expected to improve the company's competitive position and cash generation in the coming years.

RATING SENSITIVITIES

BTG's ratings could be upgraded if the company is able to sustainably improve its operating performance, cash flow, and debt serviceability. Downward rating pressure would emerge if the company's operating performance deteriorates significantly or undertakes any sizeable debt-financed investments which would weaken its balance sheet and cash flow protection.

COMPANY OVERVIEW

BTG was incorporated in 1967 by the Taepaisitphongse family and its associates. As of June 2021, the Taepaisitphongse family directly held 15.35% of BTG's outstanding shares and indirectly held 69.45% of shares through Betagro Holding Co., Ltd., BTG's parent company.

BTG has three major business segments: feed, farm, and food. Farm products (breeding stock, live animals, and raw meat) contributed 58% of sales during the first nine months of 2021, followed by animal feed (28%), food products (semi-cooked meat, cooked meat and ready-to-eat products, 12%), and other products (2%). In terms of product category, revenue from poultry products comprised 35% of BTG’s total sales, followed by feed (28%), swine (27%), animal health (5%), 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 12% of annual sales in the first nine months of 2021, while domestic sales accounted for 88% of total sales.

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 6% of total revenue in the first nine months of 2021, but this figure is expected to increase gradually.

KEY OPERATING PERFORMANCE

Table 1: BTG’s Revenue Breakdown by Product Segment

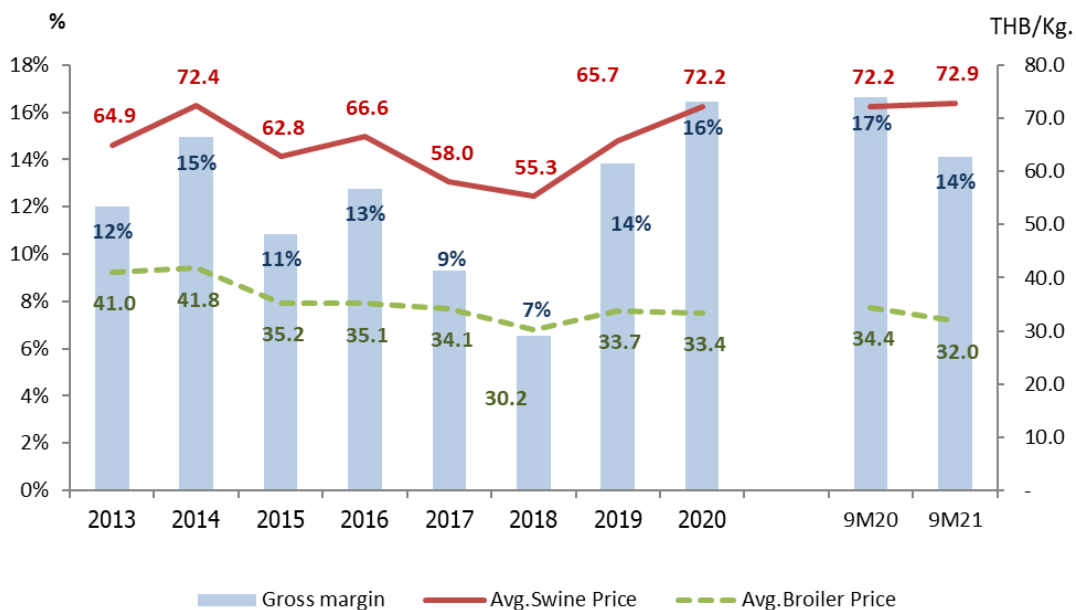
Unit: %

Product Segment	2016	2017	2018	2019	2020	Jan-Sep 2021
Feed	35	36	35	23	24	28
Farm	51	50	51	59	60	58
Food	12	12	12	14	13	12
Others	2	2	2	4	3	2
Total	100	100	100	100	100	100
Sales (mil. THB)	83,633	81,241	82,815	74,092	79,966	62,228

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

	-----Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total operating revenues	80,500	74,551	83,500	81,892	84,129
Earnings before interest and taxes (EBIT)	3,227	1,687	(2,745)	(881)	2,971
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	7,188	5,377	405	1,218	4,990
Funds from operations (FFO)	6,250	4,911	(260)	951	3,972
Adjusted interest expense	556	700	614	455	375
Capital expenditures	965	2,345	5,297	6,319	3,638
Total assets	50,342	47,522	51,438	45,158	38,542
Adjusted debt	23,300	26,196	27,816	19,844	13,448
Adjusted equity	17,146	15,393	14,299	16,000	17,234
Adjusted Ratios					
EBITDA margin (%)	8.93	7.21	0.49	1.49	5.93
Pretax return on permanent capital (%)	7.76	3.98	(6.95)	(2.60)	9.59
EBITDA interest coverage (times)	12.92	7.68	0.66	2.67	13.30
Debt to EBITDA (times)	3.24	4.87	68.68	16.29	2.69
FFO to debt (%)	26.82	18.75	(0.93)	4.79	29.54
Debt to capitalization (%)	57.61	62.99	66.05	55.36	43.83

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Betagro PLC (BTG)

Company Rating:	A-
Issue Ratings:	
BTG227A: THB3,000 million senior unsecured debentures due 2022	A-
BTG233A: THB2,000 million senior unsecured debentures due 2023	A-
BTG238A: THB800 million senior unsecured debentures due 2023	A-
BTG247A: THB1,000 million senior unsecured debentures due 2024	A-
BTG248A: THB1,000 million senior unsecured debentures due 2024	A-
BTG258A: THB2,200 million senior unsecured debentures due 2025	A-
Rating Outlook:	Stable

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