TRIS RATING
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CARABAO GROUP PLC

No. 190/2024
24 October 2024

CORPORATES

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

Last Review Date: 20/10/23

Company Rating History:

Date	Rating	Outlook/Alert
20/10/23	A	Negative
06/10/20	A	Stable
20/11/17	A-	Stable

Contacts:

Tulyawat Chatkam
tulyawatc@trisrating.com

Sarinthorn Sosukpaibul
sarinthorn@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Pramuansap Phonprasert
pramuansap@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Carabao Group PLC (CBG) and the ratings on its outstanding senior unsecured debentures at "A". At the same time, we revise the rating outlook to "stable" from "negative". The outlook revision is attributed to the company's strengthened financial profile, resulting from improved profitability and more efficient working capital management. The ratings continue to be supported by its strong position in the domestic energy drink market, characterized by a well-recognized brand and extensive distribution network. However, these strengths are partially offset by the company's reliance on a limited product range and constrained growth prospects in the Thai energy drink market.

KEY RATING CONSIDERATIONS

Established position in the Thai energy drink market

CBG has solidified its position in the Thai energy drink market through a combination of brand recognition, effective marketing, and a robust distribution network spanning over 180,000 retail outlets. As the Thai energy drink market continues to recover from the COVID-19 pandemic, the company's flagship product, Carabao Dang, has maintained popularity as the second-most consumed energy drink in the country during the first half of 2024.

CBG's market share in the energy drink segment has steadily increased, reaching 24.8% in August 2024, up from 22.1% a year earlier. This growth was attributed to the company's strategic decision to maintain a retail price of THB10 per bottle for Carabao Dang, while competitors have raised their prices to THB12. This pricing advantage has enabled the company to attract more consumers and increase market share.

The company's domestic energy drink revenue grew by 3% to THB5.7 billion in 2023 and 4% year-on-year (y-o-y) to THB2.7 billion in the first half of 2024. Looking ahead, we anticipate a modest growth trajectory for CBG's domestic energy drink revenue during 2024-2027. The saturation of the Thai energy drink market and ongoing intense competition are expected to constrain significant revenue growth. As a result, the company's domestic energy drink revenue is projected to remain within the range of THB5.9-THB6.1 billion per annum during 2024-2027.

Gradual recovery in export sales

The company has faced challenges in its export sales since 2021, primarily due to the impact of the COVID-19 pandemic on Cambodia's economy and stricter import regulations and political instability in Myanmar. However, there have been signs of recovery in export sales during the first half of 2024, with a y-o-y growth of 5%. This improvement can be attributed to increased sales in Myanmar and a revived market in Vietnam following the appointment of a new distributor, while the Cambodia market remains relatively stable.

Exports currently account for around 30% of CBG's total revenue, with Cambodia, Myanmar, and Vietnam being the key export markets. Looking ahead, we anticipate gradual recovery in the company's export sales, with export revenue projected to increase by 3% per annum from 2024 to 2027.The projected growth is expected to drive export revenue to the range of THB5.6-THB6.1 billion per annum during the forecast period.

Improved profitability

The company has demonstrated improvement in its profit margin, with EBITDA margin increasing to 21% in the first half of 2024, up from 17% in 2023. This margin expansion can be attributed to several factors, including lower packaging costs and economies of scale, despite rising sugar prices. Also, a reduction in selling general and administrative (SG&A) expenses, partially due to shared sponsorship costs with a related brewery, and more efficient staff cost management have contributed to the improved profitability.

Under our base case scenario, we anticipate that energy drink margins will remain relatively stable. However, CBG's overall profitability may be influenced by a shift in its revenue mix. The company is expected to see an increase in revenue from third-party products and beer distribution, which typically have lower profit margins compared to energy drinks. We estimate that these segments will account for 40-45% of CBG's total revenue in 2024-2027, up from 39% in 2023. As a result, the overall EBITDA margin is forecast to be around 19% during 2024-2027.

Reliance on limited product range

The company relies heavily on energy drinks, which constitute a small portion of the overall beverage market. This makes the company susceptible to shifts in consumer trends. Energy drinks accounted for 59% of CBG's revenue and 80% of its gross profit in 2023. The majority of these sales come from traditional energy drinks targeting lower-income workers.

The saturated Thai energy drink market offers limited growth opportunities. CBG has attempted to diversify its product portfolio with new categories like ready-to-drink coffee, sports drinks, bottled water, and functional drinks. However, these non-energy drink own-brand products still represent a minor portion of its revenue, at around 3%. Also, the company provides distribution services for third-party products, particularly spirit beverages, which have demonstrated substantial growth. In late 2023, the company began distributing beer for a shareholder-owned brewery. Revenue from beer distribution fell short of initial expectations due to heightened competition and limited distribution channels. However, CBG continues to focus on expanding its presence in the beer market by leveraging its existing distribution network and cash van fleet. We anticipate CBG's revenues from non-energy drink own-brand products and third-party products to reach THB8.0-THB9.9 billion per annum during 2024-2027. While these third-party products offer a broader revenue base, they have lower profit margins compared to own-brand products.

Declining financial leverage

CBG's financial leverage declined due to improved cash generation and more efficient working capital management. The company posted a 54% rise in EBITDA in the first half of 2024, driven by improved profitability and sales. Meanwhile, adjusted net debt decreased to THB3.4 billion in the first half of 2024, compared to THB5.8 billion in the same period of the previous year. This reduction in debt was supported by lower working capital requirements, partly due to more efficient management of accounts receivable and inventory. As a result, the debt to EBITDA ratio decreased to 0.9 times in the first half of 2024, down from 1.8 times in 2022 and 1.5 times in 2023.

Under our base-case forecast, CBG's EBITDA is expected to range from THB3.9-THB4.4 billion during 2024-2027. The company's capital expenditures are projected to total THB5.9 billion during the same period, including investments in energy drink manufacturing plants in Cambodia and Myanmar and an expansion of the glass bottle production line. Given these projections, the debt to EBITDA ratio is anticipated to remain at a low level of around 0.9-1.1 times during 2024-2027.

The key financial covenant on CBG's debentures requires its interest-bearing debt-to-equity ratio to remain below 2.5 times. As of June 2024, this ratio was 0.36 times. We expect the company to have no difficulty meeting its financial covenants over the next 12 to 18 months.

Adequate liquidity

We assess CBG to have adequate liquidity for the next 12 months. Sources of liquidity include cash on hand of around THB900 million as of June 2024, expected funds from operations (FFO) of around THB3.1 billion in 2024, and undrawn credit facilities of around THB8.6 billion. These sources should be sufficient to cover short-term bank loans of THB350 million, long-term bank loans of THB600 million, debentures of THB1.5 billion maturing within the next 12 months, and planned capital expenditures of around THB2.2 billion in 2025.

Debt structure

CBG has no priority debt as of June 2024.

BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions for CBG's performance during 2024-2027 are as follows:

- Revenues of THB20.1-THB23.3 billion per annum.
- EBITDA margin of around 19%.
- Total capital expenditures and investments of around THB5.9 billion over 2024-2027.

RATING OUTLOOK

The "stable" outlook reflects our expectation that CBG will continue to demonstrate sound operating performance, supported by its strong market position in the domestic energy drink market and reasonable performance in the export market. Also, we anticipate that the company will maintain a strong balance sheet.

RATING SENSITIVITIES

The ratings could be revised upward if CBG significantly expands its cash generation base and develops more diverse and substantial sources of income while maintaining a strong financial position. Conversely, a downgrade could occur if the company's operating performance is weaker than anticipated or if it engages in aggressive debt-funded investments that lead to a debt to EBITDA ratio hovering around or exceeding 2 times for an extended period.

COMPANY OVERVIEW

CBG commenced operations to manufacture, market, and sell energy drink products under the Carabao Dang trademark in 2002, as a joint investment between Mr. Sathien Sathientham, Ms. Nutchamai Thanombooncharoen, and Mr. Yuenyong Opakul. The company was incorporated as a holding company in 2013, owning subsidiaries that handle energy drink production, glass bottle manufacturing, aluminum can manufacturing, and domestic distribution. The company was listed on the Stock Exchange of Thailand (SET) in 2014. As of August 2024, the three co-founders together controlled 69% of the company's outstanding shares.

The strength of the Carabao Dang brand has been built around the popularity of the legendary musical band, Carabao. With savvy marketing campaigns and on-the-ground marketing activities, Carabao Dang has become the second most popular energy drink in Thailand. CBG distributes its products through traditional trade and modern trade channels. Distribution in the traditional trade channel uses a multi-tier agent model. The company also operates cash vans to reach retail outlets in rural areas.

CBG's production facilities include bottled energy drink filling lines, canned energy drink filling lines, glass bottle producing lines, and aluminum can producing lines. The production capacities are approximately 2,000 million bottles and cans of energy drinks each per annum, 600 tonnes of glass per day for bottle production, and 1,000 million aluminum cans per annum.

Besides energy drinks, CBG offers a few other branded products including electrolyte drinks, ready-to-drink coffee, 3-in-1 coffee powder, drinking water, and functional drinks. The company also provides distribution services for third-party products to fully utilize its distribution network.

KEY OPERATING PERFORMANCE

Table 1: Revenue Contribution by Product Line

Product	2020		2021		2022		2023		Jan-Jun 2024	
Line	Mil. THB	%	Mil. THB	%	Mil. THB	%	Mil. THB	%	Mil. THB	%
Energy drinks	13,818	80	12,360	71	12,399	65	11,038	59	5,659	57
Branded products	708	4	766	4	659	3	390	2	220	2
Third-party products	2,413	14	3,568	21	5,350	28	6,458	34	3,546	36
Others	292	2	671	4	807	4	967	5	463	5
Total	**17,231**	**100**	**17,364**	**100**	**19,215**	**100**	**18,853**	**100**	**9,888**	**100**

Source: CBG

Table 2: International Sales Contribution

	2020		2021		2022		2023		Jan-Jun 2024	
	Mil. THB	%	Mil. THB	%	Mil. THB	%	Mil. THB	%	Mil. THB	%
Domestic	9,138	53	10,433	60	12,332	64	13,457	71	6,912	70
International	8,093	47	6,931	40	6,883	36	5,396	29	2,976	30
Total	**17,231**	**100**	**17,364**	**100**	**19,215**	**100**	**18,853**	**100**	**9,888**	**100**

Source: CBG

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

		-----------Year Ended 31 December ------------			
	Jan-Jun 2024	2023	2022	2021	2020
Total operating revenues	9,968	19,013	19,434	17,500	17,321
Earnings before interest and taxes (EBIT)	1,673	2,408	2,783	3,443	4,329
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,085	3,234	3,605	4,213	4,998
Funds from operations (FFO)	1,723	2,710	3,056	3,600	4,211
Adjusted interest expense	83	188	119	92	108
Capital expenditures	145	860	445	1,180	1,678
Total assets	18,514	19,544	20,039	19,186	17,087
Adjusted debt	3,415	4,867	6,555	6,000	4,017
Adjusted equity	12,150	11,312	10,565	10,111	10,157
Adjusted Ratios					
EBITDA margin (%)	20.9	17.0	18.5	24.1	28.9
Pretax return on permanent capital (%)	18.1 **	13.6	15.8	21.3	30.7
EBITDA interest coverage (times)	25.1	17.2	30.4	46.0	46.1
Debt to EBITDA (times)	0.9 **	1.5	1.8	1.4	0.8
FFO to debt (%)	96.5 **	55.7	46.6	60.0	104.8
Debt to capitalization (%)	21.9	30.1	38.3	37.2	28.3

* *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
- Issue Rating Criteria, 15 June 2021

Carabao Group PLC (CBG)

Company Rating:	A
Issue Ratings:	
CBG254A: THB1,585 million senior unsecured debentures due 2025	A
CBG264A: THB546 million senior unsecured debentures due 2026	A
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000