TRIS RATING
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CARABAO GROUP PLC

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CORPORATES

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

Last Review Date: 21/06/21

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on Carabao Group PLC (CBG) and the rating on CBG's senior unsecured debenture at "A" with a "stable" rating outlook. The ratings reflect CBG's strong market position in the local energy drink market and its growth opportunities abroad. The ratings are also supported by the company's low debt level and continued improvement in operating performance. However, these strengths are partially offset by CBG's reliance on a narrow range of products and limited growth prospects in the Thai energy drink market.

KEY RATING CONSIDERATIONS

Strong position in the Thai energy drink market

CBG has established a strong market position in the Thai energy drink market during the past decade, underpinned by the company's well-known brand, its effective marketing strategies, and its extensive distribution network covering more than 180,000 retail outlets. Its main product remained the second most popular energy drink in Thailand with a market share of 21% in 2020.

The Thai energy drink market has been affected by lockdown measures and restrictions due to successive Coronavirus Disease 2019 (COVID-19) outbreaks. Overall market sales volume contracted by 7% in 2020 and dropped by 1% year-on-year (y-o-y) in the first half of 2021. CBG's domestic energy drink sales also dropped, by 1% in 2020 and remained flat y-o-y in the first six months of 2021. Under our base-case forecast, we expect that CBG's revenue from domestic energy drink sales will decline by 2% in 2021, then recover by 1%-2% per annum in 2022-2023.

Expected recovery in exports

CBG's export revenue dropped by 1% y-o-y to THB4.3 billion in the first half of 2021 after having recorded impressive growth rates during the past several years. The drop was mainly due to a substantial decrease in revenue in Cambodia as a result of the outbreak. However, the more than double growth in exports to China and strong revenue growth in Myanmar have to some degree alleviated the impact of the plunging sales in Cambodia. The sustainability of export revenue in both countries remains to be seen. In the first six months of 2021, export revenue contributed 48% of CBG's total revenue. Cambodia remained the major export market followed by Myanmar.

We expect CBG's export sales to drop by around 7% in 2021 due to continued pressure on demand in Cambodia from COVID-19 and political turmoil in Myanmar. We then expect the company's export revenue to rebound by 7% in 2022 and 4% in 2023 following a gradual improvement in the COVID-19 situation in 2022.

Reliance on a limited range of products

CBG relies primarily on energy drink products, a small segment of the overall beverage market, which makes the company relatively vulnerable to shifts in consumer preferences and behavior. CBG derived 77% of its revenue and 92% of its gross profit from energy drink products in the first half of 2021. Most of its energy drink sales are from traditional energy drink products, with lower-income workers constituting the main consumer group.

The Thai energy drink market is quite mature with limited growth prospects evidenced in the past several years. To drive growth in the domestic market, CBG has launched products in new categories such as ready-to-drink coffee, sports drinks, water, and healthy functional drinks. CBG also provides distribution services for third-party products to fully utilize its distribution network. CBG's revenue from third-party products grew by 71% in 2020 and 40% y-o-y in the first half of 2021, primarily driven by growth in alcoholic beverage sales. These third-party products help boost domestic revenue but generate a lower profit margin. Nonetheless, increasing revenue from new products and third-party products will help the company reduce its reliance on energy drink sales. We expect CBG's non-energy drink revenue to increase to THB4.1-THB5.5 billion per annum during 2021-2023.

Weakened profitability caused by surging raw material prices

CBG's profitability softened in the first half of 2021 due mainly to increases in raw material prices, such as sugar and aluminum. The company's earnings before interest, tax, depreciation, and amortization (EBITDA) margin fell from 28.9% in 2020 to 26.5% in the first six months of 2021.

Going forward, we expect CBG to be able to maintain an EBITDA margin of around 24%-25% over the next three year as CBG's profitability will continue to benefit from the company's vertical integration, economies of scale, and prudent use of advertising and promotion campaigns. The company has also managed to not only avoid the impacts of increasing sugar taxes but also gain additional cost savings on taxes and sugar by reformulating products.

Financial leverage on the rise but remains low

CBG's financial leverage has deteriorated slightly but still remains low. The company's debt inched up due to the acquisition of a minority stake in Asia Can Manufacturing Co., Ltd. and an increase in working capital. The company's debt to EBITDA ratio consequently increased from 0.8 times in 2020 to 1.1 times in the first half of 2021. The ratio of funds from operations (FFO) to debt fell from 105% in 2020 to 75% in the first six months of 2021.

In our base-case forecast, we project CBG's EBITDA to range from THB4.4-THB4.8 billion per annum for 2021-2023 and expect capital expenditures totaling THB4.7 billion for the same period. We expect the company's debt to EBITDA ratio to stay in the range of 0.7-1.0 times, and its FFO to debt ratio to stay above 80% in 2021-2023.

We assess CBG to have adequate liquidity over the next 12 months. Sources of liquidity include cash on hand of around THB742 million, expected FFO of around THB3.6 billion in 2021, and undrawn credit facilities of around THB1.6 billion, which should be adequate to cover short-term bank loans of THB4.7 billion and long-term bank loans of THB169 million coming due in the next 12 months.

The key financial covenant on CBG's debentures requires its interest-bearing debt to equity ratio to remain below 2.5 times. The ratio was 0.62 times as of June 2021, in compliance with the covenant. We expect that the company should have no problems complying with its financial covenants over the next 12 to 18 months.

As of June 2021, CBG's debts consisted of THB1.1 billion of priority debt out of total interest-bearing debt of THB5.7 billion. As its priority debt ratio is 20%, below the threshold of 50%, we view that CBG's unsecured creditors are not significantly disadvantaged with respect to the priority of claims against the company's operating assets.

BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions for CBG's performance during 2021-2023 are as follows:

- Revenues of THB17.4-THB19.8 billion per annum over the next three years.
- EBITDA margin in the 24%-25% range during 2021-2023.
- Total capital expenditure of around THB4.7 billion over the three-year forecast period.

RATING OUTLOOK

The "stable" outlook reflects our expectation that CBG will be able to maintain its strong market position in the domestic energy drink market while maintaining reasonable growth in the export market. We expect CBG to continue delivering strong profitability and solid operating performance while maintaining sound financial leverage.

RATING SENSITIVITIES

The ratings could be revised downward if CBG's operating performance deteriorates substantially for a prolonged period or if its financial policy becomes more aggressive. A rating upgrade is unlikely in the near term. However, the ratings could be revised upward if CBG is able to enlarge its cash flow base significantly and develop more meaningful and diversified sources of income while maintaining sound financial leverage.

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 Setthasit, Ms. Nutchamai Thanombooncharoen, and Mr. Yuenyong Opakul. CBG 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 2021, the three co-founders together controlled 68% 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. CBG also operates cash vans to reach retail outlets in rural areas.

CBG's production includes bottled energy drink filling lines, canned energy drink filling lines, amber glass bottle producing lines and aluminum can producing lines. The annual production capacities are currently 2,500 million bottles of energy drinks, 2,000 million cans of energy drinks, 1,300 million amber glass bottles and 1,000 aluminum cans.

Besides energy drinks, CBG offers a few other branded products including electrolyte drink, ready-to-drink coffee, 3-in-1 coffee powder, and drinking water, all under the "Carabao" trademark. CBG 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	2018		2019		2020		Jan-Jun 2021	
Line	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%
Energy drinks	12,518	87	12,864	86	13,818	80	6,948	77
Branded products	826	6	548	4	708	4	391	4
3rd products	1,020	7	1,409	9	2,413	14	1,505	17
Others	58	0	112	1	292	2	181	2
Total	**14,422**	**100**	**14,933**	**100**	**17,231**	**100**	**9,025**	**100**

Source: CBG

Table 2: International Sales Contribution

	2018		2019		2020		Jan-Jun 2021	
	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%
Domestic	7,926	55	7,879	53	9,138	53	4,697	52
International	6,496	45	7,054	47	8,093	47	4,328	48
Total	**14,422**	**100**	**14,993**	**100**	**17,231**	**100**	**9,025**	**100**

Source: CBG

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

		---------------Year Ended 31 December --------------			
	Jan-Jun 2021	2020	2019	2018	2017
Total operating revenues	9,085	17,321	15,047	14,541	13,023
Earnings before interest and taxes (EBIT)	2,036	4,329	3,176	1,440	1,128
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,411	4,998	3,818	2,015	1,481
Funds from operations (FFO)	2,022	4,222	3,106	1,520	1,151
Adjusted interest expense	44	108	148	127	69
Capital expenditures	760	1,678	440	2,069	3,035
Total assets	18,220	17,087	14,780	14,320	12,520
Adjusted debt	5,556	4,017	3,447	4,932	3,604
Adjusted equity	9,809	10,157	8,718	7,365	7,005
Adjusted Ratios					
EBITDA margin (%)	26.54	28.85	25.37	13.86	11.37
Pretax return on permanent capital (%)	29.13**	30.65	24.85	12.42	11.73
EBITDA interest coverage (times)	54.81	46.10	25.88	15.91	21.47
Debt to EBITDA (times)	1.12**	0.80	0.90	2.45	2.43
FFO to debt (%)	75.63**	105.10	90.11	30.82	31.95
Debt to capitalization (%)	36.16	28.34	28.34	40.11	33.97

* *Consolidated financial statement*

** *Annualized with trailing 12 months*

RELATED CRITERIA

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

Carabao Group PLC (CBG)

Company Rating:	A
Issue Rating:	
CBG237A: THB1,500 million senior unsecured debentures due 2023	A
Rating Outlook:	Stable

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