CARABAO GROUP PLC

No. 201/2022
31 October 2022

CORPORATES

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

Last Review Date: 14/10/21

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" outlook. The ratings reflect CBG's strong position in the domestic energy drink market and its growth opportunities abroad. The ratings are also supported by the company's moderate financial leverage and its sound 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 developed a strong position in the Thai energy drink market over the last decade, owing to the company's well-known brand, successful marketing strategies, and extensive distribution network covering more than 180,000 retail outlets. Its main product remained Thailand's second most popular energy drink in 2021 and the first half of 2022, with a market share of roughly 20%.

The energy drinks market in Thailand has been impacted by Coronavirus Disease 2019 (COVID-19). After declining by 7% in 2020, overall sales volume continued to decrease by 7% in 2021. In the first half of 2022, the market volume further decreased by 3% year-on-year (y-o-y). CBG's domestic energy drink sales were also affected, falling by 5% in 2021. However, CBG's domestic sales rose by 2% y-o-y in the first half of 2022. With an anticipated recovery in the domestic energy drink market and a minor increase in the wholesale selling prices of CBG's products, we expect the company's revenue from domestic energy drink sales to climb by 4% in 2022, 3% in 2023, and a further 1% in 2024.

Exports under pressure but recovery expected

After seeing high growth rates between 2014 and 2020, CBG's export revenue fell by 14% in 2021 and 12% y-o-y in the first half of 2022. Outbreaks of COVID-19 in Cambodia and political unrest and stiffer import regulations in Myanmar were the main causes of the decline. In the first half of 2022, exports to China also decreased as a result of the constant lockdowns imposed under China's zero-COVID policy. For the first half of 2022, 38% of CBG's total revenue came from exports. Cambodia was still the largest export market followed by Myanmar.

We project a minor 1% growth in CBG's export sales in 2022 due to the improving COVID-19 situation and the relatively low revenue base in the second half of 2021. We anticipate the COVID-19 situation will continue to improve in 2023 onward, which should result in increases in export revenue of 8% in 2023 and 6% in 2024.

Reliance on a limited range of products

CBG's primary product line is energy drinks, a small fraction of the entire beverage market, making the company vulnerable to changes in consumer preferences and behavior. In 2021, energy drink products accounted for 71% of CBG's revenue and 89% of its gross profit. Traditional energy drink products made up the majority of its sales, with lower-income workers representing the primary consumer category.

The Thai energy drink market is quite saturated, with limited growth prospects. CBG has introduced products in new categories like ready-to-drink coffee, sports drinks, water, and healthy functional drinks to boost growth in the domestic market. To effectively utilize its distribution network, CBG also offers distribution services for products from third parties. CBG's revenue from third-party products increased by 48% in 2021 and 78% y-o-y in the first half of 2022, owing mostly to the increase in alcoholic beverage sales. While boosting domestic revenue, these third-party products have thinner profit margins. Nevertheless, the company will be able to lessen its reliance on sales of energy drinks by increasing revenue from new products and products made by others. We expect CBG's non-energy drink revenue to increase to around THB6-THB8 billion per annum during 2022-2024.

Softened profitability due to surging raw material prices and rising mix of third-party products

CBG's profitability declined in 2021 and the first six months of 2022, owing primarily to an increase in raw material prices, particularly aluminum prices, and a greater contribution of revenue from lower margin third-party products. Earnings before interest, tax, depreciation, and amortization (EBITDA) margin decreased from 28.9% in 2020 to 24.1% in 2021 and 20.8% in the first half of 2022.

Going forward, we expect CBG's EBITDA margin to decrease to the 17%-18% range over the next three years as the revenue contribution from lower margin third-party products increases while packaging costs improve marginally from lower aluminum costs. However, we believe an upside for margins remains thanks to the company's vertical integration, economies of scale, and effective utilization of advertising and marketing activities.

Rising but still moderate financial leverage

CBG's financial leverage has increased but remained moderate. The company's debt rose due mainly to an increase in working capital. The company's debt to EBITDA ratio climbed from 0.8 times in 2020 to 1.4 times in 2021 and 1.6 times in the first half of 2022. The ratio of funds from operations (FFO) to debt fell from 105% in 2020 to 60% in 2021 and 55% in the first six months of 2022.

In our base-case forecast, we project CBG's EBITDA to range THB3.6-THB4.1 billion per annum for 2022-2024, with capital expenditures and investments totaling THB4.9 billion for the same period. We expect the company's debt to EBITDA ratio to remain in the range of 1.3-1.6 times, and its FFO to debt ratio to stay above 50% in 2022-2024.

We assess CBG to have adequate liquidity over the next 12 months. Sources of liquidity include cash on hand of around THB921 million as of June 2022, expected FFO of around THB3 billion in 2022, and undrawn credit facilities of around THB5.2 billion, which should be sufficient to cover short-term bank loans of THB2.6 billion and long-term bank loans of THB1 billion 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 0.66 times as of June 2022, 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 2022, CBG's debt consisted of THB900 million of priority debt out of total interest-bearing debt of THB6.2 billion. The priority debt to total debt ratio was 14%.

BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions for CBG's performance during 2022-2024 are as follows:

- Revenues of THB19.7-THB22.5 billion per annum over the next three years.
- EBITDA margin in the 17%-18% range during 2022-2024.
- Total capital expenditures and investments of around THB4.9 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 performance in the export market. We expect CBG to continue delivering decent operating performance and profitability 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 such that the debt to EBITDA ratio rises close to 2 times. 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 2022, 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. CBG 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. 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		2021		Jan-Jun 2022	
Line	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%
Energy drinks	12,518	87	12,864	86	13,818	80	12,360	71	6,477	65
Branded products	826	6	548	4	708	4	772	4	354	4
3rd products	1,020	7	1,409	9	2,413	14	3,565	21	2,685	27
Others	58	0	112	1	292	2	665	4	512	5
Total	**14,422**	**100**	**14,933**	**100**	**17,231**	**100**	**17,362**	**100**	**10,028**	**100**

Source: CBG

Table 2: International Sales Contribution

	2018		2019		2020		2021		Jan-Jun 2022	
	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%
Domestic	7,926	55	7,879	53	9,138	53	10,431	60	6,213	62
International	6,496	45	7,054	47	8,093	47	6,931	40	3,815	38
Total	**14,422**	**100**	**14,993**	**100**	**17,231**	**100**	**17,362**	**100**	**10,028**	**100**

Source: CBG

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

		----------------Year Ended 31 December -------------			
	Jan-Jun 2022	2021	2020	2019	2018
Total operating revenues	10,141	17,500	17,321	15,047	14,541
Earnings before interest and taxes (EBIT)	1,702	3,443	4,329	3,176	1,440
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,108	4,213	4,998	3,818	2,015
Funds from operations (FFO)	1,782	3,600	4,211	3,139	1,488
Adjusted interest expense	51	92	108	148	127
Capital expenditures	278	1,180	1,678	440	2,069
Total assets	19,868	19,186	17,087	14,780	14,320
Adjusted debt	6,155	6,000	4,017	3,447	4,932
Adjusted equity	10,463	10,111	10,157	8,718	7,365
Adjusted Ratios					
EBITDA margin (%)	20.78	24.08	28.85	25.37	13.86
Pretax return on permanent capital (%)	18.48	21.28	30.65	24.85	12.42
EBITDA interest coverage (times)	41.25	46.04	46.10	25.88	15.91
Debt to EBITDA (times)	1.57	1.42	0.80	0.90	2.45
FFO to debt (%)	54.58	60.00	104.84	91.04	30.17
Debt to capitalization (%)	37.04	37.24	28.34	28.34	40.11

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

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