

THAI BEVERAGE PLC

No. 207/2021

19 November 2021

CORPORATES

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

Last Review Date: 01/04/21

Company Rating History:

Date	Rating	Outlook/Alert
02/02/18	AA	Stable
20/12/17	AA+	Alert Negative
04/10/16	AA+	Stable
05/10/15	AA	Stable
28/05/13	AA-	Stable
20/07/12	AA	Alert Negative
04/03/10	AA	Stable
09/01/07	AA-	Stable
17/01/06	A+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Thai Beverage PLC (ThaiBev) and the ratings on its outstanding senior unsecured debentures at “AA”, with a “stable” rating outlook. The ratings reflect ThaiBev’s dominant position in the regional beverage markets, supported by its strong brands and extensive distribution network, and resilient cash generation. The ratings also take into consideration the company’s strong commitment to deleveraging. However, the ratings are constrained by the company’s high financial leverage, intense competition, regulatory constraints, and frequent excise tax hikes in the Thai alcoholic beverage industry.

KEY RATING CONSIDERATIONS

Revenue impacted by COVID-19 but revival expected

In the fiscal year (FY) of 2021 (October 2020-September 2021), we expect ThaiBev’s revenue to decline by 4%, as the Coronavirus Disease 2019 (COVID-19) pandemic has hurt both the company’s domestic and international sales, especially in the last quarter of FY2021. Both the Thai and Vietnamese governments implemented strict lockdown measures, including closure of bars and restaurants to contain the spread of the disease. The political turbulence in Myanmar also has significant impact on the company’s spirit sales in the country.

However, we expect ThaiBev’s revenue to rebound by around 4%-6% in FY2022 and FY2023 since many countries, including Thailand and Vietnam, have embarked upon policies of returning to normalcy and living with COVID-19. With the improvement in the COVID-19 situation, from the first quarter of FY2022, the Thai government have begun gradual easing of lockdown measures and opening up to foreign tourists without quarantine requirements. We believe this is a key turning point to revive the economies and consumer spending that are directly linked to the company’s revenue performance.

We expect the company’s earnings before interest, taxes, depreciation, and amortization (EBITDA) margin to improve to around 19% in FY2021, compared with 18% in FY2020. The expected improvement is based mainly on the company’s demonstration of prudent cost control during the outbreak, especially on advertising and promotion expenses. However, we project its EBITDA margin to be below 19% level in FY2022-FY2023 as the company will resume advertising and promotion expenses to boost its sales.

Solid business profile with strong market position, and greater geographic diversification

The company holds a strong position in each market in which it has active operation. In Thailand, ThaiBev is the largest beverage company, having dominated the alcoholic beverage industry for decades. The company’s market share exceeds 90% for spirits and nearly 40% for beer, based on sales volume. It is also the market leader in the ready-to-drink (RTD) tea and drinking water segments, and is a major producer of carbonated drinks and other beverages. For the international market, Sabeco is the largest brewer in Vietnam commanding a 35%-40% market share, while Grand Royal Group (GRG) is the largest whisky producer in Myanmar with a dominant market share of over 70%. We believe the company will maintain its dominant market positions, supported by its strong brands and extensive distribution network.

The company's business profile has strengthened significantly after its expansion in Vietnam and Myanmar, reducing its reliance on the domestic market. Since the alcoholic beverage markets in Myanmar and Vietnam are less mature than the domestic market in Thailand, we still believe overseas revenue will grow at a faster pace than domestic revenue, despite the political and regulatory risks that may affect overseas sales.

Extensive distribution network

ThaiBev has built up an extensive distribution network that covers more than 400,000 retail outlets in Thailand, using four large distribution centers and about 7,000 delivery vehicles. ThaiBev's sales are also channeled through about 300 active agents and more than 1,700 salespersons. Through its affiliated companies, ThaiBev extends its market coverage across the ASEAN region. Fraser and Neave Ltd. (F&N), an important affiliate, commands a strong position in its home markets of Malaysia and Singapore. The recent acquisitions of Sabeco and GRG further extend ThaiBev's distribution network to Vietnam and Myanmar.

Government regulations constrain market growth

The sale of alcoholic beverages is subject to strict government oversight and control. Typical regulations include limits on advertising and promotional activities, restricted hours of sale for alcoholic beverages, and minimum age requirements. The regulations make it difficult to boost sales or penetrate new market segments, despite numerous marketing campaigns. Excise taxes are another measure imposed by the government to discourage consumption of alcoholic beverages. Hikes in excise tax rates are frequent. For example, the Thai government has raised excise taxes on alcoholic beverages five times over the past 10 years. In the past, ThaiBev was able to maintain its profit margin by passing on the higher tax expense to consumers, with only temporary declines in sales volume. However, given the relatively low price elasticity of demand for alcoholic beverages, either ThaiBev's profit margin or its sales volume would potentially be higher if there were less frequent hikes in excise taxes. In Vietnam, the government has imposed a drink-driving law (DECREE 100) with harsh punishments for violations. The new law has heavily affected the alcoholic beverage market in Vietnam, especially alcoholic sales for out-of-home drinking. However, the company believes alcohol consumption in Vietnam will gradually recover as consumers adapt their consumption behavior to comply with the law.

Leverage expected to decline

We expect ThaiBev's financial leverage to gradually decline over the next three years. Its adjusted debt gradually declined from THB205.7 billion in FY2019 to THB194.2 billion in the first half of FY2021. We project ThaiBev's net debt to gradually shrink to the THB160-THB170 billion range in FY2023, and its EBITDA to gradually increase to approximately THB49 billion in FY2023, compared with THB46 billion in FY2020. Our projection assumes no additional, large debt-funded acquisitions over the next three years as the company's management has expressed a strong intention to deleverage. Based on that assumption, we project the total debt to EBITDA ratio to gradually decline to around 3.4 times in FY2023. In addition, ThaiBev could lower its leverage faster than our base-case projection if the company succeeds in its plan to unlock its enterprise value.

Strong liquidity profile

The company has a strong liquidity position. As of March 2021, ThaiBev had cash on hand of THB36.1 billion. We project funds from operations (FFO) to be around THB35 billion in the next 12 months. The company has undrawn uncommitted credit facilities of around THB42 billion. In June 2021, the company also issued THB40 billion debentures to refinance its bridging loan. These sources of funds should be sufficient to cover the cash needed for debt service and investments over the next 12 months. As of March 2021, ThaiBev has long-term debt repayment obligations of around THB50 billion coming due during the next 12 months. The company's outstanding short-term obligations were THB27 billion. The company has planned capital expenditures of approximately THB7.1 billion in FY2022.

We expect ThaiBev to comply with the financial covenants on its debt obligations over the next 12-18 months. The company's interest-bearing debt to total equity ratio at the end of June 2021 was 1.2 times, well below the financial covenant of 3 times.

As of March 2021, ThaiBev's total interest-bearing debt of THB220 billion included THB963 million priority debt. This priority debt was unsecured debt at the subsidiaries' level. As its priority debt ratio is 0.4%, well below the threshold of 50%, we view that ThaiBev's unsecured creditors are not significantly disadvantaged with respect to claims against the company's operating assets.

BASE-CASE ASSUMPTIONS

Our key assumptions for the performance of ThaiBev during FY2021 to FY2023 are as follows:

- Revenues to decline by around 4% in FY2021, then recover by 4%-6% per annum during FY2022-FY2023.
- EBITDA margin to stay around 18%-19% range.
- Capital expenditures to be around THB4-THB7 billion per annum over the forecast period.
- Adjusted debt to EBITDA ratio to gradually drop to 3.4 times in FY2023.

RATING OUTLOOK

The “stable” outlook reflects our expectation that ThaiBev will be on track to bring down the financial leverage over the next few years from its strong cash generation. We expect the company to maintain its dominant position in the domestic market and the few major markets outside Thailand.

RATING SENSITIVITIES

ThaiBev’s ratings and/or outlook could be revised upward, should the adjusted debt to EBITDA ratio fall below 2 times on a sustained basis. On the contrary, the ratings and/or outlook could be revised downward if we believe that ThaiBev is unable to attain its deleveraging target and its net debt to EBITDA ratio stays above 3.5 times for a prolonged period.

COMPANY OVERVIEW

ThaiBev is a leading beverage and food company in Thailand and also one of Asia’s largest beverage producers. The company was founded in 2003 and listed on the Singapore Exchange (SGX) in 2006. At the end of May 2021, the Sirivadhanabhakdi family was the major shareholder, controlling about 68% of ThaiBev’s outstanding shares. ThaiBev has expanded its presence in the Southeast Asian region through mergers and acquisitions, including the F&N acquisition in which ThaiBev holds a 28.5% interest. In 2017, the company enlarged its market coverage in the spirits segment by acquiring a 75% stake in Myanmar Supply Chain and Marketing Services Co., Ltd. (MSC) and Myanmar Distillery Co., Ltd. (MDC). The two firms are collectively known as the Grand Royal Group or GRG. GRG is the largest producer and distributor of spirits in Myanmar. In addition, the company acquired 252 KFC outlets in Thailand from Yum Restaurants International (Thailand) Co., Ltd. and a 53.59% stake in Sabeco, the largest brewer in Vietnam. In the first nine months of FY2021, ThaiBev’s total revenues were THB192.1 billion. Spirits were the key revenue contributor, comprising 48% of total revenue and over 64% of EBITDA.

KEY OPERATING PERFORMANCE

Table 1: ThaiBev's Revenue Breakdown

Unit: %

Product	2015	Jan-Sep 2016	FY2017	FY2018	FY2019	FY2020	Oct 2020-Mar 2021
Beer	25	32	30	41	44	43	41
Spirit	62	55	58	46	43	46	49
Non-alcohol beverage	10	9	9	7	7	6	6
Food	4	4	4	6	6	5	4
Total	100	100	100	100	100	100	100
Total revenue (mil. THB)	172,049	139,153	189,997	229,695	267,357	253,481	131,252

Source: ThaiBev

Table 2: ThaiBev's EBITDA Breakdown*

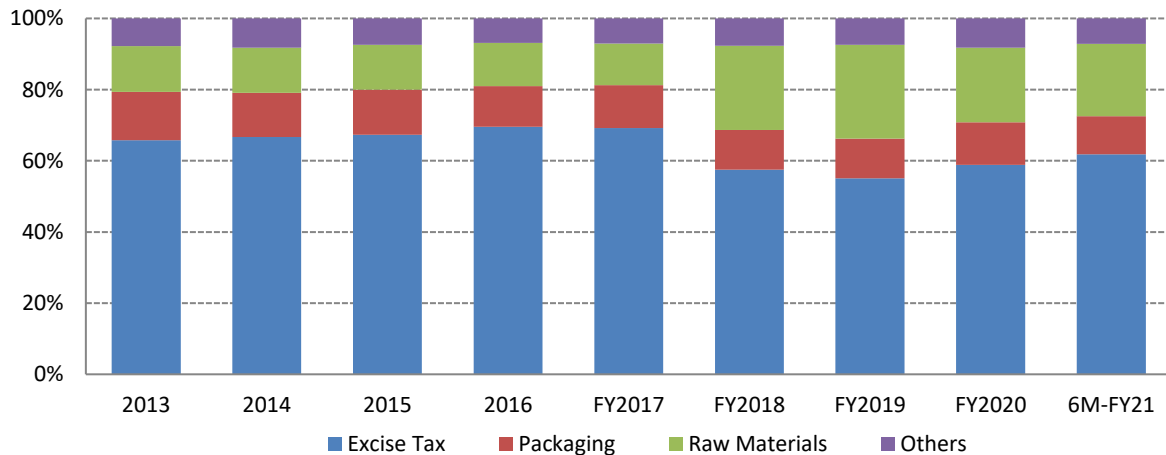
Unit: %

Product	2015	Jan-Sep 2016	FY2017	FY2018	FY2019	FY2020	Oct 2020-Mar 2021
Beer	8	17	14	25	30	29	28
Spirit	93	82	83	70	64	64	65
Non-alcohol beverage	-3	-1	1	0	2	5	4
Food	2	2	2	5	4	2	3
Total	100	100	100	100	100	100	100
Total EBITDA (mil. THB)	29,070	23,516	32,675	34,296	40,913	44,388	25,368

Source: ThaiBev

* Excluding share profit from associates

Chart 1: ThaiBev's Cost of Goods Sold Breakdown



Source: ThaiBev

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Oct 2020- Mar 2021	-----Year Ended 31 September -----			
		2020	2019	2018	2017
Total operating revenues	131,707	254,707	268,095	230,555	190,511
Earnings before interest and taxes (EBIT)	22,372	40,417	38,939	28,196	32,434
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	25,998	46,477	44,593	33,916	35,842
Funds from operations (FFO)	19,702	32,125	31,737	24,097	29,489
Adjusted interest expense	3,504	7,486	7,628	5,325	1,221
Capital expenditures	1,705	4,650	5,815	7,437	5,557
Total assets	446,286	433,519	407,496	417,923	194,241
Adjusted debt	194,241	193,331	205,705	218,310	36,509
Adjusted equity	183,359	179,405	150,322	155,473	132,513
Adjusted Ratios					
EBITDA margin (%)	19.74	18.25	16.63	14.71	18.81
Pretax return on permanent capital (%)	9.91	10.26	10.03	9.80	18.33
EBITDA interest coverage (times)	7.42	6.21	5.85	6.37	29.36
Debt to EBITDA (times)	4.10	4.16	4.61	6.44	1.02
FFO to debt (%)	17.57	16.62	15.43	11.04	80.77
Debt to capitalization (%)	51.44	51.87	57.78	58.41	21.60

RELATED CRITERIA

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

Thai Beverage PLC (ThaiBev)

Company Rating:	AA
Issue Ratings:	
TBEV233A: THB10,000 million senior unsecured debentures due 2023	AA
TBEV243A: THB11,300 million senior unsecured debentures due 2024	AA
TBEV244A: THB8,000 million senior unsecured debentures due 2024	AA
TBEV253A: THB9,300 million senior unsecured debentures due 2025	AA
TBEV283A: THB14,500 million senior unsecured debentures due 2028	AA
TBEV293A: THB10,100 million senior unsecured debentures due 2029	AA
Rating Outlook:	Stable

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