

THAI BEVERAGE PLC

No. 211/2024
15 November 2024

CORPORATES

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

Last Review Date: 09/10/24

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 ThaiBev's 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. However, the ratings are constrained by intense competition in the beer and non-alcoholic beverage segments, maturing spirits market in Thailand, and regulatory constraints in the alcoholic beverage industry.

KEY RATING CONSIDERATIONS

Consolidation of F&N enhances earnings base and business strength

In September 2024, the company swapped its 28.78% shareholding in Frasers Property Ltd. (FPL) for a 41.30% shareholding in Fraser and Neave Ltd. (F&N) with TCC Assets Ltd. (TCCAL), increasing its stake in F&N to 69.61%. Consequently, ThaiBev will consolidate the financial statements of F&N from fiscal year (FY) 2024 onwards. F&N, a leading food and beverage company in Singapore, operates non-alcoholic beverages, dairies, and printing businesses. About 40% of F&N's revenue comes from Malaysia, 31% from Thailand, 20% from Singapore, and the rest from other countries.

The consolidation of F&N will benefit ThaiBev by expanding earnings base and strengthening its business profile. We estimate the company's consolidated earnings will increase by 15%-20%. This move enables ThaiBev to expand its geographic reach and diversify its portfolio into the non-alcoholic beverage segment. We project that its overseas revenue contribution will rise to around 35% of total revenue, compared with 28.6% in FY2023. Meanwhile, revenue from non-alcoholic products is expected to increase to approximately 30% of total revenue, up from 14% in FY2023. Additionally, we anticipate further synergies from bundling and cross-selling with F&N, along with cost reductions through eliminating redundancies as the integration progresses.

Strong market positions with extensive distribution network

The company holds a strong position in each market in which it operates. In Thailand, ThaiBev is the largest beverage company, having dominated the alcoholic beverage industry for decades. The company has maintained a market share in excess of 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 international markets, its subsidiaries play vital roles in neighboring countries -- Saigon Alcohol, Beer and Beverage Corporation (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 market share of over 70%.

ThaiBev has built up an extensive distribution network that covers more than 500,000 retail outlets in Thailand, using four large distribution centers and over 7,000 delivery vehicles. Its sales are channeled through over 250 active agents and more than 1,700 salespersons. The strong distribution network through traditional retail outlets creates resilient sales for home consumption with less reliance on modern trade channels. ThaiBev has also extended its market coverage across the ASEAN region, through various acquisitions in the past

several years. F&N commands a strong position in Malaysia and Singapore. SABECO and GRG further extend ThaiBev's distribution network to Vietnam and Myanmar.

Government regulations constrain market growth

The sale of alcoholic beverages in Thailand is subject to strict government oversight and control. Typical regulations include limits on advertising, restricted sales hours, and minimum age requirements, restricting the ability to boost sales or penetrate new market segments. Given that excise taxes are a significant source of government revenue and a measure to discourage alcohol consumption, the Thai government has historically implemented periodic increases in these taxes on alcoholic beverages. ThaiBev has been 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 a strict drink-driving law (DECREE 100) with harsh punishments for violations which diminishes the growth potential for out-of-home alcohol sales. The Vietnamese government also intends to increase beer consumption taxes to generate additional revenue and curtail alcohol consumption.

Projecting moderate revenue growth with improved profitability for existing business

Excluding the consolidation of F&N, we expect ThaiBev's existing business to post flat revenue growth in FY2024, followed by moderate annual growth of around 3% during FY2025-FY2027. This growth would be supported by the recovery of beer revenue in Vietnam, in line with an economic rebound. Revenue from Thailand should also benefit from various government stimulus packages aimed at boosting consumption, although intense competition in most segments may limit growth, except for spirits. Including F&N, we project ThaiBev's revenue to range from THB341-THB370 billion annually during FY2024-FY2027, compared with THB280 billion in FY2023.

With less pressure from rising raw material and energy costs, combined with effective cost management, the company's EBITDA margin for its existing businesses rose to 19.4% in the first half of FY2024, up from 17.6% in FY2023. We project that the company's operating profit margin for its existing businesses will stabilize within the 18%-19% range during FYs 2024-2027. However, the consolidation of F&N's lower profit margin is anticipated to impact the overall EBITDA margin, which is expected to be around 17% over the forecast period. As a result, EBITDA is projected to rise to a range of THB60-THB65 billion over the forecast period from approximately THB50 billion in FY2023.

Leverage to decline

In the first half of FY2024, the company's adjusted debt increased slightly to THB172 billion, up from THB169 billion in FY2023. Its adjusted debt to EBITDA ratio declined to 3.3 times in the first half of FY2024, compared with 3.4 times in FY2023. We project the adjusted debt to EBITDA ratio to drop to around 3.1 times in FY2024, after the consolidation of F&N, which has lower leverage. As the company has no plans for additional large debt-funded acquisitions over the next three years, we project the company's adjusted debt to EBITDA ratio to gradually decline to around 2.7 times by FY2027 in tandem with debt repayment and greater operating cash flow. During the forecast period, we project ThaiBev's capital expenditures of around THB9-THB11 billion per annum.

Strong liquidity profile

The company has a strong liquidity position. As of March 2024, ThaiBev had cash on hand of THB46.2 billion. We project funds from operations (FFO) of around THB44 billion over the next 12 months. The company has undrawn uncommitted credit facilities of around THB68 billion. In addition, in October 2024, the company issued THB20 billion new debentures to refinance its maturing debts. 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 2024, ThaiBev had long-term debt repayment obligations of around THB32.2 billion coming due during the following 12 months. The company's outstanding short-term obligations are THB9 billion.

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 March 2024 was 0.9 times, well below the financial covenant limit of 3 times.

Debt structure

As of March 2024, ThaiBev's total interest-bearing debt of THB207 billion included priority debt of THB25 billion. The priority debt comprised unsecured debts at the subsidiary level. The company's priority debt to total debt ratio was 12%.

BASE-CASE ASSUMPTIONS

- Annual revenues to range from THB341-THB370 billion during FY2024-FY2027.
- EBITDA margin to stay in the 17%-18% range.
- Capital expenditures of around THB9-THB11 billion per annum over the forecast period.
- Adjusted debt to EBITDA ratio to gradually drop to 2.7 times by FY2027.

RATING OUTLOOK

The “stable” outlook reflects our expectation that ThaiBev will continue to post strong operating performance with moderate financial leverage. We expect the company to maintain its dominant position in the domestic and regional markets.

RATING SENSITIVITIES

The ratings and/or outlook could be revised upward, should the company’s 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 ThaiBev’s operating performance deteriorates substantially from our projection or if its financial policy becomes more aggressive, resulting in the debt to EBITDA ratio rising above 3.5 times for a prolonged period.

COMPANY OVERVIEW

ThaiBev is a leading beverage and food company in Thailand and is also one of Asia’s largest beverage producers. The company was founded in 2003 and listed on the Singapore Exchange (SGX) in 2006. ThaiBev offers four key product categories: spirits, beer, non-alcoholic beverage, and food. At the end of May 2022, the Sirivadhanabhakdi family was the major shareholder, controlling about 66% of ThaiBev’s outstanding shares. ThaiBev has expanded its presence in the Southeast Asian region through mergers and acquisitions, including the acquisition of F&N, which consolidated as a subsidiary after its shareholding increased from 28.31% to 69.61% in 2024 through a share swap of FPL to TCCAL. 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 FY2024, ThaiBev’s total revenues were THB217.1 billion. Spirits were the key revenue contributor, comprising 43% of total revenue and over 61% of EBITDA.

KEY OPERATING PERFORMANCE

Table 1: ThaiBev's Revenue Breakdown

Unit: %

Product	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	Oct 2023- Jun 2024
Beer	41	44	43	41	45	43	43
Spirits	46	43	46	48	43	43	43
Non-alcoholic beverages	7	7	6	6	6	7	7
Food	6	6	5	5	6	7	7
Total	100	100	100	100	100	100	100
Total revenue (mil. THB)	229,695	267,357	253,481	240,543	272,359	279,085	217,055

Source: ThaiBev

Table 2: ThaiBev's EBITDA Breakdown*

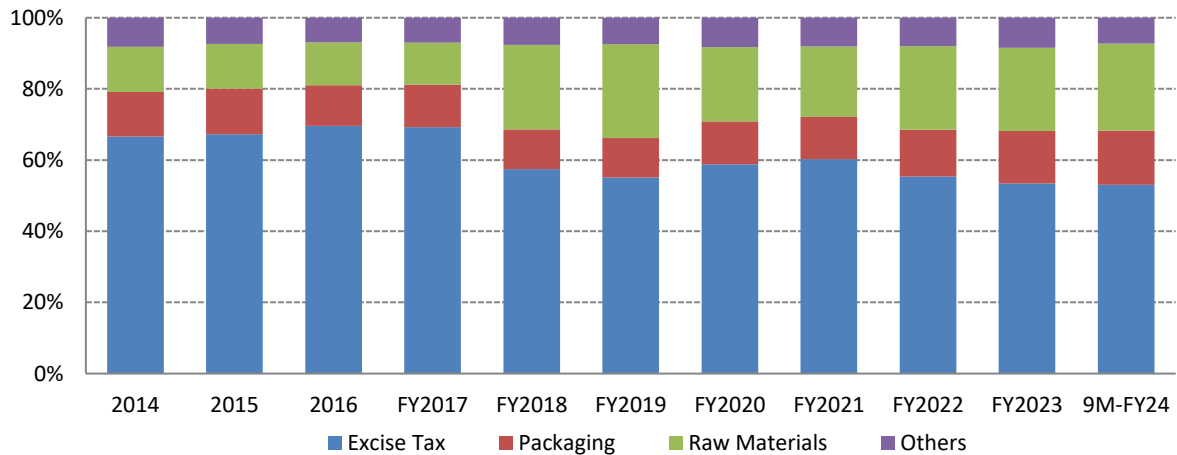
Unit: %

Product	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	Oct 2023- Jun 2024
Beer	25	30	29	28	35	30	31
Spirits	70	64	64	65	57	61	61
Non-alcoholic beverages	0	2	5	5	4	5	5
Food	5	4	2	2	4	4	3
Total	100	100	100	100	100	100	100
Total EBITDA (mil. THB)	34,296	40,913	44,388	44,209	49,612	48,182	38,595

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 2023- Mar 2024	----- Year Ended 30 September -----			
		2023	2022	2021	2020
Total operating revenues	148,266	280,166	273,142	241,264	254,707
Earnings before interest and taxes (EBIT)	23,956	43,264	46,263	38,893	40,417
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	28,746	49,402	50,562	45,402	46,477
Funds from operations (FFO)	21,707	35,952	37,557	32,357	32,627
Adjusted interest expense	3,642	6,855	6,322	6,920	7,486
Capital expenditures	2,541	4,932	3,753	3,558	4,650
Total assets	496,205	494,549	507,789	472,585	433,520
Adjusted debt	171,931	168,527	165,993	191,118	193,331
Adjusted equity	240,517	241,522	249,389	210,176	179,405
Adjusted Ratios					
EBITDA margin (%)	19.4	17.6	18.5	18.8	18.2
Pretax return on permanent capital (%)	9.6	9.4	10.2	9.2	10.3
EBITDA interest coverage (times)	7.9	7.2	8.0	6.6	6.2
Debt to EBITDA (times)	3.3	3.4	3.3	4.2	4.2
FFO to debt (%)	21.6	21.3	22.6	16.9	16.9
Debt to capitalization (%)	41.7	41.1	40.0	47.6	51.9

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

Thai Beverage PLC (ThaiBev)

Company Rating:	AA
Issue Ratings:	
TBEV253A: THB9,300 million senior unsecured debentures due 2025	AA
TBEV25NA: THB3,395 million senior unsecured debentures due 2025	AA
TBEV267A: THB2,500 million senior unsecured debentures due 2026	AA
TBEV274A: THB4,000 million senior unsecured debentures due 2027	AA
TBEV277A: THB9,000 million senior unsecured debentures due 2027	AA
TBEV279A: THB9,262 million senior unsecured debentures due 2027	AA
TBEV27OA: THB3,500 million senior unsecured debentures due 2027	AA
TBEV27NA: THB5,478 million senior unsecured debentures due 2027	AA
TBEV283A: THB14,500 million senior unsecured debentures due 2028	AA
TBEV293A: THB10,100 million senior unsecured debentures due 2029	AA
TBEV29OA: THB10,000 million senior unsecured debentures due 2029	AA
TBEV29NA: THB2,500 million senior unsecured debentures due 2029	AA
TBEV32NA: THB1,662 million senior unsecured debentures due 2032	AA
TBEV337A: THB3,500 million senior unsecured debentures due 2033	AA
TBEV34OA: THB2,500 million senior unsecured debentures due 2034	AA
Rating Outlook:	Stable

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