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# BBGI PLC

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## CORPORATES

**Company Rating:** BBB+
**Outlook:** Stable

## RATIONALE

TRIS Rating assigns the company rating to BBGI PLC (BBGI) at "BBB+" with a "stable" outlook. The rating reflects BBGI's position as a leading biofuel producer in Thailand, backed by its competitive advantages in leveraging the strengths of its major shareholders to secure feedstock supplies and output offtake. However, the rating is weighed down by the discernible oversupply of biofuel, leading to a highly competitive marketplace and volatile product spreads. The rating is also held back by the risk of biofuel feedstock shortages.

## KEY RATING CONSIDERATIONS

### A leading biofuel producer in Thailand

BBGI is a leading biofuel producer in Thailand. The company produces ethanol and biodiesel (B100), which are made from bioproduct feedstocks to blend with fossil fuels for use in land transportation.

BBGI is the second largest ethanol producer in Thailand, trailing behind Mitr Phol Group. BBGI owns and operates, through its subsidiaries, three ethanol plants with a total capacity of 0.6 million liters per day (ML/D), representing about 10% of ethanol production capacity in Thailand. Ethanol is blended with gasoline to produce gasohol.

BBGI also owns and operates a biodiesel plant with a capacity of 1 ML/D, accounting for about 12% of total market capacity. Biodiesel is blended with diesel. Among the 13 biodiesel producers in Thailand, BBGI is ranked third in terms of market share.

In the first half of 2020, BBGI sold 84 ML of ethanol, suggesting a 12.1% market share by sales volume. Meanwhile, the company held a 14.1% market share in biodiesel, with total sales of 132 ML.

### Distinct competitive advantages

We are of the view that BBGI has distinct competitive advantages in the ethanol market, with the arrangements with its major shareholders to secure raw material supplies and output offtake. The company was established through the amalgamation of subsidiaries owned by its major shareholders, i.e., Bangchak Corporation PLC (BCP) and Khon Kaen Sugar Industry PLC (KSL). The amalgamation has brought about a complete supply chain in ethanol production and distribution, which puts BBGI at a distinct advantage.

On the supply side, KSL is BBGI's key supplier of molasses, the main raw material for ethanol production. Under a long-term feedstock supply contract, BBGI has first-right to purchase all of the molasses from KSL's four main sugar factories. We view that the committed arrangement meaningfully mitigates the risk of molasses shortages. In 2019, BBGI purchased about 70% of the molasses it needed from KSL. Added to that, BBGI also leverages KSL's network to purchase the rest of the molasses it needs from other suppliers.

On the demand side, BBGI has secured long-term sales and purchase contracts for ethanol with BCP. In 2019, BBGI sold about 70% of its ethanol output to BCP.

### BCP's offtake commitment mitigates demand risk

Apart from ethanol, BCP also has a long-term contract with BBGI to purchase biodiesel production volume. In 2019, BBGI sold about 81% of its biodiesel to

**Contacts:**

Sermwit Sriyotha
sermwit@trisrating.com

Jarturun Sukthong
jarturun@trisrating.com

Parat Mahuttano
parat@trisrating.com

Monthian Chantarklam
monthian@trisrating.com

WWW.TRISRATING.COM

BCP. With BCP being the major off-taker, BBGI is able to achieve optimal production and demand risk is considerably mitigated. BBGI was able to ramp up its utilization rate to over 95% for both ethanol and biodiesel production in 2019. This level was considerably higher than the industry average. Of the biofuel producers in the market, the average capacity utilization rates for ethanol and biodiesel in 2019 were 75% and 60% respectively.

We expect BCP's demand for ethanol should stay at about 340-360 ML a year, a volume well exceeding BBGI's capacity of 198 ML. Meanwhile, we expect BCP will need about 250-300 ML of biodiesel a year, which could absorb 75%-90% of BBGI's full production. Based on the past records, BBGI manages to sell the rest of its biodiesel output to other major oil companies. In our view, BBGI is strategically important to BCP as the company helps enhance BCP's competitiveness in its retail oil business and supports BCP in carrying out its eco-friendly business strategies.

**Oversupply of biofuel**

BBGI's business prospects are held back by a discernible oversupply of biofuel, which puts pressure on profit margins. The total capacity of biofuel production is well above the domestic consumption level. In total, all the ethanol producers can produce up to 6.1 ML/D. For the first half of 2020, the Coronavirus Disease 2019 (COVID-19) outbreak caused a sharp drop in ethanol consumption, to 3.8 ML/D, a steep decline of 12.8% year-over-year (y-o-y). The pre-pandemic ethanol consumption was about 4.4 ML/D. The consumption is expected to increase by 2%-3% per annum, moving in tandem with the growth of gasohol consumption.

Based on the country's oil plan for 2018-2037, ethanol consumption is projected to reach 7.5 ML/D in 2037, led by the government's drive to increase the use of gasohol E20 (gasoline blended with ethanol 20%) as the primary petrol grade for most fuel vehicles. Nonetheless, we expect the ethanol production will hover around 70% of capacity in the medium term, given the gradual growth in demand.

At the same time, the market biodiesel production capacity (8.5 ML/D) overwhelmingly exceeds market needs. In all, the capacity utilization has stayed at about 60%. For the first half of 2020, biodiesel demand was 5.2 ML/D. The government has pushed ahead to boost biodiesel consumption by promoting the use of diesel B10 and diesel B20 (diesel fuel blended with biodiesel in the proportion of 10% and 20%, respectively). The diesel B10 is set to be the primary diesel-based fuel, replacing diesel B7. The higher mandatory blending requirement will help boost demand for biodiesel by at least 5%-10%. In effect, the consumption of biodiesel still grew by 10.7% in the first half of 2020 although the overall demand for diesel fuel declined by 4.3%. According to the oil plan, the biodiesel consumption should reach 8 ML/D in 2037.

In recognition of this, we view that the demand and supply could take time to balance. As such, the competition will likely remain intense in the short-to-medium term, inducing a high volatility of margin industry-wide.

**Risk of raw materials shortages**

The key raw materials for biofuel are derived from agricultural products such as sugar cane, palm fruit, and casava chips, production of which hinges on weather conditions as well as area under cultivation. Therefore, shortages of raw materials pose a serious threat to biofuel producers. In addition, the price of raw materials may shoot up during periods of acute drought, eroding the spreads of biofuel products. As for BBGI, the supply risk is mitigated by KSL's committed supply volume and expert views on sugar supply trends and price movements. That said, BBGI may need to shoulder a pile-up of raw materials in store if dismal production of sugar is imminent.

**BBGI's foray into HVA bio-based products**

With respect to its long-term growth strategy, BBGI aims to be the global greenovative bio-business for sustainability. The company is leaning toward bio-based products to create a new growth s-curve. In addition, the new business will leverage BBGI's key strengths on sourcing agricultural products and derivative, as well as innovating high-value-added (HVA) bio-based products. The new business could involve production of biomaterials, bio-nutrition ingredients, or pharmaceutical ingredients, derived from agricultural products available in Thailand. In our base case, we do not expect BBGI to spend heavily on its new business to the point that the investment will hurt the company's financial profile over the forecast periods during 2020-2023.

**Decent financial profile**

BBGI has a decent financial profile with an improving trend. BBGI's earnings before interest, tax, depreciation, and amortization (EBITDA) have consistently increased over the past years, reaching THB1 billion in 2019. For the first half of 2020, BBGI posted THB874 million in EBITDA. The surge in EBITDA came after the increased production resulting from expanded ethanol production facilities, as well as rising demand for biodiesel. EBITDA margin also surged to 14.4% in the first half of 2020, due in part to higher spread of ethanol and biodiesel (the gap between product selling price and raw material price), coupled with improved economies of scale in production.

BBGI has loaded up debt to finance its business expansion, including the expansion of ethanol production capacity, debottlenecking of the biodiesel plant, construction of a refined glycerin plant to increase HVA products, and a new storehouse for raw materials. As a result, BBGI's adjusted debt rose to THB5.1 billion as of June 2020. The debt to EBITDA ratio was hovering around 4-5 times over the past three years.

We forecast BBGI's revenue will be in the range of THB11-THB13 billion per year during 2020-2023. BBGI's EBITDA is forecast at THB1-THB1.5 billion per year, based on our expectation that the ethanol spread will likely decline due to a potential rise in raw material prices. We also expect the biodiesel spread to return to the normal level over the forecast period, given the lingering oversupply. In total, we project BBGI to spend around THB3.3 billion over the forecast period for maintenance, debottlenecking of the biodiesel plant, expansion of ethanol capacity, construction of refined glycerin and biogas plants, and investment in new businesses. Based on the above investment plan, we project BBGI's debt to capitalization ratio to stay about 45%-50% during 2020-2023. The debt to EBITDA ratio would stay around 4-5 times during 2020-2022 before declining to below 4 times in 2023.

### Sufficient liquidity

We view that BBGI should have sufficient liquidity to manage debt obligation coming due over the next 12 months. At the end of June 2020, BBGI's reported debt was THB5.76 billion, of which THB2.94 billion was short-term loans used to fund working capital needs. Over the next 12 months, BBGI will have long-term debt coming due amounting to about THB500 million, which should be sufficiently covered by its cash on hand of THB700 million and expected funds from operations (FFO) of about THB1 billion.

## BASE-CASE ASSUMPTIONS

- Ethanol capacity to increase to 850 KL/D in 2023 from 600 KL/D in 2020, with utilization rates of 90%-95%.
- Biodiesel capacity to increase to 1,100 KL/D in 2023 from 1,000 KL/D in 2020, with a utilization rate of 90%.
- EBITDA margin to be expected at 10%-12% during 2020-2023.
- Capital expenditures and investment to be expected to total about THB3.3 billion over 2020-2023.

## RATING OUTLOOK

The "stable" outlook reflects our expectation that BBGI will maintain its market position in the biofuel market and continue to benefit from arrangements with the two major shareholders on raw material supplies and output offtakes. We also expect economies of scale to increase cost efficiency and enhance the company's competitive edge in a continued oversupply market environment.

## RATING SENSITIVITIES

A rating upgrade could materialize if the company is able to enlarge its cash flow from operation, while maintaining its financial leverage at acceptable levels. On the contrary, the rating and/or outlook could be revised downward if BBGI's operating performance significantly undershoots the forecast, or if its debt to EBITDA ratio exceeds 5 times over a sustained period.

According to TRIS Rating's "Group Rating Methodology", a downward revision on the rating on BCP could impact the rating on BBGI.

## COMPANY OVERVIEW

BBGI was established in October 2017 through an amalgamation of the biofuel businesses of BCP and KSL. Since the establishment, BBGI has been held by BCP at (60%) and KSL at (40%). Currently, the company has two main business lines under the operations of BBGI, ethanol and biodiesel. For the first half of 2020, BBGI's production capacity was 600 KL/D of ethanol and 1,000 KL/D of biodiesel. BCP is not only the major shareholder, it is also a major off-taker for both ethanol and biodiesel, as these two products are mandated to blend with gasoline and regular diesel in specific proportions for sales as fuels across Thailand.

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

*Unit: Mil. THB*

| | | --------------Year Ended 31 December ----------- | | | |
|---|---|---|---|---|---|
| | Jan-Jun 2020 | 2019 | 2018 | 2017 | 2016 |
| Total operating revenues | 6,085 | 10,059 | 9,801 | 9,828 | 9,199 |
| Earnings before interest and taxes (EBIT) | 684 | 623 | 351 | 402 | 418 |
| Earnings before interest, tax, depreciation, and amortization (EBITDA) | 874 | 1,030 | 738 | 663 | 605 |
| Funds from operations (FFO) | 710 | 849 | 584 | 527 | 505 |
| Adjusted interest expense | 78 | 115 | 110 | 125 | 77 |
| Capital expenditures | 718 | 634 | 623 | 392 | 1,352 |
| Total assets | 12,542 | 11,494 | 9,372 | 8,847 | 8,987 |
| Adjusted debt | 5,072 | 4,804 | 3,545 | 3,068 | 3,098 |
| Adjusted equity | 5,943 | 5,537 | 5,089 | 4,912 | 4,817 |
| **Adjusted Ratios** | | | | | |
| EBITDA margin (%) | 14.37 | 10.24 | 7.53 | 6.74 | 6.57 |
| Pretax return on permanent capital (%) | 11.26 ** | 6.49 | 4.15 | 4.91 | 5.47 |
| EBITDA interest coverage (times) | 11.22 | 8.96 | 6.73 | 5.28 | 7.81 |
| Debt to EBITDA (times) | 3.25 ** | 4.67 | 4.81 | 4.63 | 5.12 |
| FFO to debt (%) | 25.22 ** | 17.68 | 16.47 | 17.16 | 16.30 |
| Debt to capitalization (%) | 46.05 | 46.45 | 41.05 | 38.44 | 39.14 |

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

## RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

**BBGI PLC (BBGI)**

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|---|---|
| **Company Rating:** | BBB+ |
| **Rating Outlook:** | Stable |

**TRIS Rating Co., Ltd.**
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000