

BG CONTAINER GLASS PLC

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CORPORATES

Company Rating: A-
Outlook: Stable

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RATIONALE

TRIS Rating assigns the company rating of “A-” to BG Container Glass PLC (BGC) with a “stable” rating outlook. The rating reflects BGC’s long track record in the glass container industry, entrenched industry position, strong degree of leverage with customers, stable profitability, and business diversification to solar energy business. These strengths are partially offset by BGC’s high leverage and end-market concentration.

KEY RATING CONSIDERATIONS

Long track record

BGC’s competitive edge is underscored by its track record of 40 years in the glass packaging business. The company is one of the top glass packaging manufacturers in Thailand with a production capacity of 3,495 tons per day. As of June 2020, BGC had 11 glass furnaces operating at five plants in different provinces. BGC and its staff have accumulated experience and knowledge since the first plant began operations in 1980. The efficiency rate was in the range of 85%-88% during 2015-2019. The company has also invested in advanced technology to keep improving its efficiency and to manufacture high-quality products at lower costs.

High barriers to entry

The high investment and maintenance costs, required operating expertise, and entrenched positions of the existing dominant players supported by their respective captive markets, make it extremely difficult for any new entrant to compete.

The top glass packaging producers in Thailand are all connected to the leading beverage firms who are the market leaders in the domestic beverage market and the major buyers of glass bottles. Presently, the glass container industry is dominated by three main manufacturers -- BGC (Boon Rawd Group), Thai Glass Industries PLC (TCC Group), and Siam Glass Industry Co., Ltd. (Osotspa Group).

It’s difficult for new-comers to effectively utilize their furnaces, which need to be kept running continuously. Economies of scale represent another constraint for new entrants to the market.

Stable profitability

We expect BGC to maintain stable profitability. Production efficiencies have been achieved through economies of scale and minimized job changes in the production line. With five production plants located in three regions, raw material sourcing in local areas has worked well. BGC has long established relationships with its raw material suppliers. However, to further secure raw material sources, BGC acquired approximately 25% equity stakes in two cullet suppliers, B S Glass Recycling Co., Ltd. (BSR) and Taweewsup (Jew Ja Heng) Co., Ltd. (TWS), in 2019. Logistics cost saving has been a key consideration in locating plants near suppliers and customers to minimize transportation expenses.

Apart from cost saving, the company has focused on premium glass packaging products as another driver of profitability. Earnings before interest, tax, depreciation, and amortization (EBITDA) are projected to be THB2.2-THB2.4 billion per year during the forecast period of 2020-2022.

Diversified income streams

BGC has implemented a strategy to diversify its sources of income to secure steady future revenue streams. In 2019, the company acquired 100% of Solar Power Management (Thailand) Co., Ltd. (SPM) that holds a 67% share in two solar power projects in Vietnam. The solar projects started operation in June 2019 and are committed to provide solar power to Vietnam Electricity (EVN) with the fixed tariff rate of 9.35 cents per kilowatt-hour, based on a 20-year power purchase agreement with EVN. These projects are expected to generate revenue of approximately THB450 million per year.

The company has studied a number of other projects to seek investment opportunities in other packaging-related businesses and renewable projects.

High leverage but acceptable cash flow protection

We expect BGC's leverage to stay high during the forecast period. Capital investment during 2020-2022 is projected to average THB1-THB2 billion per year. The capital expenditure (CAPEX) is mainly for normal maintenance and cold repairs of furnaces. We project the debt to capitalization ratio to stay at 65% throughout the forecast period.

We assess BGC to have adequate liquidity over the next 12 months. Sources of funds in the next 12 months to cover debt repayments of THB1.4 billion and CAPEX of THB1 billion will include funds from operations (FFO) of THB1.8 billion, cash on hand of THB260 million, and unused committed facilities for the remainder. The FFO to total debt ratio will likely be lower than 20% over the next three years. We expect the EBITDA interest coverage ratio and net debt to EBITDA ratio to be around 7 times and 4.5 times, respectively, during 2020-2022.

Market concentration risk tied to domestic beverage market

Sales to beverage companies contribute around 80% of BGC's total glass packaging sales. In 2019, beer bottles and soft drink bottles accounted for 43% and 35% of total bottle sales, respectively. Any situation that causes a drop in sales of alcoholic or non-alcoholic beverages will directly impact BGC. BGC mitigates concentration risk to some extent by boosting sales to other segments that generate better profit margins, for instance food and medicines that require specific glass containers.

The majority of BGC's products -- 90% of total sales in 2019 -- were sold in Thailand. BGC has expanded its business overseas in an effort to manage the risk of stagnant domestic demand. The contribution of export sales to total sales has increased gradually, to 10% in 2019 from 5% in 2015.

BASE CASE ASSUMPTIONS

- Revenues to fall by 15% in 2020 resulting from a drop in overall beverage consumption and a ban on alcoholic beverage sales in April 2020 due to the pandemic of Coronavirus Disease 2019 (COVID-19). Revenue to increase by 10% in 2021 and organically grow by 3% in 2022.
- Gross margin to stay at 17% and EBITDA margin at 22% during 2020-2022.
- CAPEX of THB530 million in 2020, THB2.2 billion in 2021, and THB1.5 billion in 2022.

RATING OUTLOOK

The "stable" outlook reflects our expectation that BGC will maintain its competitive position in the glass packaging business, with the energy business that generates stable income to complement the existing business.

RATING SENSITIVITIES

A rating upside case could occur if BGC enlarges its earnings and stabilizes its profit margin without deteriorating the balance sheet. On the other hand, a rating downside case could emerge if profitability and earnings fall short of expectations. Any overly aggressive, debt-funded investments that weaken the net debt to EBITDA ratio to a level of 6 times or above for a sustained period could also lead to a downgrade scenario.

COMPANY OVERVIEW

BGC was established in 2016 and registered on the Stock Exchange of Thailand (SET) in 2018. BGC's main business is to manufacture and sell glass packaging products. BGC is a subsidiary of Bangkok Glass PLC (BG). As of March 2020, BG was the major shareholder, holding 72% of BGC's shares. The ultimate shareholder of BGC is Boon Rawd Brewery Co., Ltd., indirectly holding through BG. Boon Rawd holds 67.5% of BG.

As of June 2020, BGC had five production plants located in Pathumthani, Ayutthaya, Prachinburi, Khon Kaen, and Ratchaburi provinces. The company has 11 furnaces with a total production capacity of 3,495 tons per day. All of the plants

are wholly owned by BGC except for the Prachinburi plant which is 49% held by TC Pharmaceutical Industries Co., Ltd.

In 2019, BGC invested in three companies to expand its business. BGC acquired a 100% shareholding in SPM which operates two solar projects in Phu Yen, Vietnam with a total capacity of 110.025 megawatts (MW). The investment cost was THB1.3 billion. The two solar projects are committed to provide 99.216 MW of power to EVN. BGC also acquired 26% and 25% stake in BSR and TWS, respectively, to engage in the purchase and sale of glass scrap. The investment cost for the two projects was THB135 million.

KEY OPERATING PERFORMANCE

Table 1: BGC's Revenue Breakdown by Business & Market

Business (Mil. THB)	2015	2016	2017	2018	2019	Jan-Mar 2020
Glass packaging	10,902	10,151	11,164	10,400	11,249	2,900
Solar power	-	-	-	-	3	116
Total sales	10,902	10,151	11,164	10,400	11,252	3,016
Market (%)	2015	2016	2017	2018	2019	Jan-Mar 2020
Domestic	95	95	94	93	90	91
Export	5	5	6	7	10	9
Total sales	100	100	100	100	100	100

Source: BGC

Table 2: BGC's Bottle Sales Breakdown by Product

Unit: %

Product	2017	2018	2019	Jan-Mar 2020
Beers	46	43	43	41
Soft drinks	30	34	35	38
Food	9	9	9	8
Insecticides & drugs	1	1	1	1
Others products	14	13	12	12
Total sales	100	100	100	100
Total sales (Mil. THB)	10,995	10,296	11,098	2,864

Source: BGC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	3,028	11,318	10,522	11,221	10,194
Earnings before interest and taxes (EBIT)	281	843	879	500	1,090
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	687	2,289	2,207	1,947	2,527
Funds from operations (FFO)	583	2,004	1,900	1,722	2,348
Adjusted interest expense	76	216	219	210	177
Capital expenditures	205	723	2,084	1,182	828
Total assets	17,931	17,395	14,729	12,971	13,113
Adjusted debt	10,228	10,471	8,547	8,683	5,141
Adjusted equity	5,861	5,627	5,158	3,034	6,879
Adjusted Ratios					
EBITDA margin (%)	22.69	20.22	20.97	17.35	24.78
Pretax return on permanent capital (%)	5.96 **	5.58	6.85	4.17	8.74
EBITDA interest coverage (times)	8.99	10.59	10.09	9.26	14.30
Debt to EBITDA (times)	4.28 **	4.58	3.87	4.46	2.03
FFO to debt (%)	20.12 **	19.14	22.23	19.83	45.68
Debt to capitalization (%)	63.57	65.04	62.37	74.10	42.77

* Consolidated financial statements

** Annualized from the trailing 12 months

RELATED CRITERIA

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

BG Container Glass PLC (BGC)

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Rating Outlook:	Stable

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