

BETAGRO PLC

No. 20/2018

7 March 2018

CORPORATES

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

Company Rating History:

Date	Rating	Outlook/Alert
08/09/11	A	Stable

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RATIONALE

TRIS Rating affirms the company rating of Betagro PLC (BTG) and its current senior unsecured debenture ratings at "A". At the same time, TRIS Rating assigns a rating of "A" to BTG's proposed issue of up to Bt2,000 million in senior unsecured debentures. The proceeds from the new debentures will be used for planned capital expenditures.

The ratings reflect the company's proven record in the Thai agribusiness and food industries, the fully vertical integration across its diverse product lines, and its focus on value-added and branded products. The strengths partially offset by the inherent cyclicity of the commodity-type products BTG sells, the volatile prices for major raw material, the exposure to disease outbreaks, and changes in the regulations and tariffs of importing countries.

BTG's financial performance during the first nine months of 2017 was negatively affected by the sluggish swine price following the supply glut. The operating margin before depreciation and amortization dropped to 1.4% in the first nine months of 2017, compared with 4.1% in 2015 and 5.1% in 2016. Earnings before interest, tax, depreciation, and amortization (EBITDA) was lower to Bt1,412 million, from the range of Bt4,000-Bt4,400 million in 2015-2016. The lower product prices, combined with higher capital expenditures pushed BTG's leverage higher. Total debt increased from Bt11,911 million in 2016 to Bt16,425 million as of September 2017. The total debt to capitalization ratio rose to 51.1% as of September 2017, up from 42.8% at the end of 2016. Cash flow protection also weakened, but remained acceptable during the down cycle of livestock industry. The EBITDA interest coverage 4.9 times during the first nine months of 2017, compared with 12.5 times in 2016.

Looking forward, the drop in the price of livestock will continue to put pressure on BTG's profitability in the short term. However, BTG's operating performance is expected to improve along with the recovery cycle of livestock industry. Under TRIS Rating's base-case scenario, BTG's revenue is expected to grow from Bt83,732 million in 2016 to approximately Bt100,000 million in 2020. EBITDA is expected to gradually improve to hover around Bt4,000-Bt7,000 million in 2018-2020. BTG continued to plan a sizable capital expenditures of approximately Bt6,000-Bt8,000 million per annum over the next few years, up from Bt2,500-Bt3,500 million per year during 2014-2016. The rise in capital expenditure plans are mainly for additional expansion of farms, as well as feed and food processing plants. BTG is expected to manage its debt to capitalization ratio properly during its investment period. The EBITDA interest coverage ratio is projected to stay at about 7-8 times, and the FFO to total debt ratio will hover around 18%-21% in the medium term.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's view that BTG will be able to maintain its leading positions in the Thai agribusiness and food industries. BTG is expected to manage its total debt to capitalization ratio at approximately 50% during the expansion period.

RATING SENSITIVITIES

BTG's ratings or outlook upside is limited in the short term during its investment period and the downturn of livestock industry. In contrast, the ratings or outlook could be revised downward if more intense competition leads to persistent declines in BTG's profitability and cash flow protection.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	----- Year Ended 31 December -----				
	2016	2015	2014	2013	2012
Revenue	83,732	83,450	82,578	74,247	64,632
Gross interest expense	264	282	311	433	353
Net income from operations	1,761	1,741	4,324	2,773	495
Funds from operations (FFO)	3,646	3,652	6,262	4,540	1,928
Earnings before interest, tax, depreciation, and amortization (EBITDA)	4,396	3,954	7,307	5,320	2,159
Total capital expenditures and investments	3,322	2,641	2,647	1,993	2,278
Total assets	38,542	37,187	35,157	33,152	30,059
Total debts	11,911	11,775	9,352	11,991	14,499
Shareholders' equity	17,234	16,212	15,888	12,012	9,310
Operating income before depreciation and amortization as % of sales	5.07	4.14	8.33	6.56	2.30
Pretax return on permanent capital (%)	9.50	8.81	23.03	15.88	4.23
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	12.48	10.09	17.55	10.53	5.28
FFO/total debt (%)	30.73	30.22	61.62	37.25	13.20
Total debt/capitalization (%)	42.75	44.48	39.72	51.53	62.19

Note: All ratios have been adjusted by operating leases

* Consolidated financial statements

Betagro PLC (BTG)

Company Rating:	A
Issue Ratings:	
BTG183A: Bt300 million senior unsecured debentures due 2018	A
BTG184A: Bt500 million senior unsecured debentures due 2018	A
BTG18NA: Bt500 million senior unsecured debentures due 2018	A
BTG19NA: Bt600 million senior unsecured debentures due 2019	A
BTG207A: Bt2,000 million senior unsecured debentures due 2020	A
BTG215A: Bt3,000 million senior unsecured debentures due 2021	A
BTG227A: Bt3,000 million senior unsecured debentures due 2022	A
BTG247A: Bt1,000 million senior unsecured debentures due 2024	A
Up to Bt2,000 million senior unsecured debentures due within 5 years	A
Rating Outlook:	Stable

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