TRIS RATING
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CreditUpdate เครดิตอัพเดท
New Issue Report

CARABAO GROUP PLC

No. 36/2018
22 May 2018

CORPORATES

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

Company Rating History:

Date	Rating	Outlook/Alert
20/11/17	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating of Carabao Group PLC (CBG) at "A-". At the same time, TRIS Rating assigns the rating of "A-" to CBG's proposed issue of up to Bt3,000 million in senior unsecured debentures. The proceeds from the new debentures will be mainly utilized to restructure debt obligations for improved liquidity and reduced financing costs.

The ratings reflect CBG's well-recognized brand name and solid market position in the energy drink market in Thailand, extensive distribution network, and moderate but rising level of debt. The ratings are partially offset by CBG's dependence on a limited range of products and the uncertainty of the expansion efforts in the United Kingdom (UK) which might put pressure on profitability over the next few years.

CBG's revenue rose sharply to Bt12,904 million in 2017, an increase of 29% from last year, driven by a rise in exports sales volume, especially to CLMV markets and China. In the first quarter of 2018, revenue was Bt3,350 million, up 25% from the same period last year. The growth was driven by overseas markets, especially sales in the CLMV region that grew a faster-than-expected 81% year-on-year. Despite the rise in revenue, sales in China and the UK were lower than expected as a result of intense competition in those two markets.

The adjusted operating margin (operating income before depreciation and amortization as a percentage of revenue) dropped from 18.9% in 2016 to 10.2% in 2017 and 9.4% in the first quarter of 2018. Profitability deteriorated due to higher selling and marketing expense and a lower gross margin in the domestic segment. Selling and marketing expenses rose because CBG paid to sponsor football teams and a football tournament in the UK and undertook marketing activities in the UK. Based on payment terms in sponsorship agreements, sponsorship fees will reach the peak in 2018 and reduce in subsequent years. In domestic market, the gross margin fell due to rises in the prices of raw materials of packaging and energy drinks.

Leverage is growing due to the sizable investments needed to expand the capacity to produce energy drinks and packaging. Marketing expenses have risen substantially in an effort to penetrate international markets. The adjusted debt to capitalization ratio was 40% at the end of the first quarter of 2018, up from 15% in 2016 and 34% in 2017. Going forward, leverage is expected to peak in 2018, then gradually fall in the following years.

RATING OUTLOOK

The "stable" outlook reflects the expectation that CBG will be able to maintain its market position in the domestic market, while expanding successfully in the UK market as planned. The company operating performance and leverage are expected to improve in 2019 after possible deterioration in 2018.

RATING SENSITIVITIES

A rating upgrade is limited in the near term given the sizable investments and uncertainty around the expansion effort in the UK. A rating downgrade would occur if the operating performance is weaker than expected for a prolonged period of time or if the company adopts more aggressive financial policies.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		---------------- Year Ended 31 December ----------			
	Jan-Mar 2018	2017	2016	2015	2014
Revenue	3,350	12,904	9,965	7,753	7,448
Gross interest expense	25	48	4	2	112
Net income from operations	130	801	1,405	1,256	1,012
Funds from operations (FFO)	294	949	1,727	1,526	1,198
Total capital expenditures	704	2,979	2,142	199	1,202
Total assets	14,050	12,520	9,778	7,361	7,064
Total debts	4,547	3,393	1,000	-	30
Total debts (operating lease adjusted)	4,815	3,654	1,283	152	66
Shareholders' equity including minority interest	7,207	7,005	7,100	6,333	6,029
Operating income before depreciation and amortization as % of sales	9.4	10.2	18.9	21.1	19.0
Pretax return on permanent capital (%)	11.3 **	11.8	22.9	23.4	26.8
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	12.5	22.2	105.2	209.1	13.6
FFO/total debt (%)	23.3 **	28.4	139.3	1,008.6	1,818.2
Total debt/capitalization (%)	40.1	34.3	15.3	2.3	1.1

Note: All ratios have been adjusted by operating leases.
** Consolidated financial statements*
*** Annualized with trailing 12 months*

Carabao Group PLC (CBG)

Company Rating:	A-
Issue Rating:	
Up to Bt3,000 million senior unsecured debentures due within 3 years	A-
Rating Outlook:	Stable

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