

BETAGRO PLC

No. 48/2017

18 July 2017

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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Rating Rationale

TRIS Rating affirms the company rating of Betagro PLC (BTG) and the ratings of BTG's outstanding senior unsecured debentures at "A". At the same time, TRIS Rating assigns a rating of "A" to BTG's proposed issue of up to Bt6,000 million in senior unsecured debentures. The newly assigned rating replaces the rating of the proposed issue of up to Bt4,500 million announced on 27 June 2017 as the company decided to increase the size of the debentures. The proceeds from the new debentures will be used for the company's planned capital expenditures.

The "A" ratings reflect BTG's proven record in the Thai agribusiness and food industries, full vertical integration across its diverse product lines, and the focus on value-added and branded products. These strengths are partially offset by the inherent cyclicity of the commodity-like products BTG sells and the volatile prices for the major raw materials, the exposure to disease outbreaks, as well as changes in tariffs of importing countries.

BTG was incorporated in 1967 by the Taepaisitphongse family and its associates. The company is one of the leading agribusiness and food companies in Thailand. As of May 2017, the Taepaisitphongse family held directly 15.33% of the company's shares and held indirectly a 69.45% share through Betagro Holding Co., Ltd., BTG's parent company. BTG's business lines cover feed, animal health, pet food, swine, poultry, egg, and processed meat. The company's chicken and swine operations are fully, vertically integrated from feed to food products. BTG is also well-known as an industry-leading producer of high-quality pork meat in Thailand. In 2016, revenue from the poultry products comprised 36% of BTG's total sales, followed by feed (35%), and swine (19%). Domestic sales accounted for 89% of total sales in 2016, with the remaining 11% from exports.

To alleviate the effect of cyclical nature of the industry and the commodity-like nature of the products, BTG is striving to create value-added products and build its own brands. BTG set up a food innovation center for research and product development purposes, as well as plans to launch more value-added products. BTG also created its own domestic distribution channel, "Betagro Shops". At the end of March 2017, the company had 160 stores in Thailand and six stores abroad.

BTG's performances fluctuated over the course of the livestock industry cycle. BTG's financial performance improved in 2016 on the back of the gradual recovery from oversupply situations. Revenue was relatively flat at Bt83,732 million in 2016, compared with Bt83,450 million in 2015. The rise in swine price and the drop in cost of grain shift BTG's profit margin. The operating margin before depreciation and amortization improved from 4.1% in 2015 to 5.1% in 2016. Earnings before interest, tax, depreciation, and amortization (EBITDA) increased by 11% year-on-year (y-o-y) to Bt4,396 million in 2016.

During the first quarter of 2017, BTG posted weaker operating performance. The significant drops in livestock prices hurt BTG's revenue and profit margin. During the first quarter of 2017, BTG's revenue declined by 6.8% y-o-y to Bt19,107 million. The operating profit margin also dropped, sliding to 1.3%, from 4.8% during the first quarter of 2016. EBITDA also slumped, sinking to Bt443 million for the first quarter of 2017, down from Bt1,200 million during the same period a year earlier.

CreditUpdate reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The *CreditUpdate* occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The *CreditUpdate* announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

CreditUpdates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

BTG's balance sheet remained fair. The total debt to capitalization ratio was moderate at 45.7% at the end of March 2017 from 42.8% as of December 2016. Cash flow protection was softer, but remained acceptable. The ratio of funds from operations (FFO) to total debt dropped from 30.7% in 2016 to 23.3% (annualized, from the trailing 12 months) for the first quarter of 2017. The EBITDA interest coverage ratio was 3.4 times during the first quarter of 2017, compared with 12.4 times in 2016.

BTG is expected to report better earnings for the remaining of the year as the prices of livestock increase and the feed costs get under control. The rising domestic poultry price is supported by the strong export demand driven by the avian flu outbreak in several countries. Normally, the company's EBITDA range from Bt5,000-Bt6,000 million per year. BTG revised its capital expenditures to approximately Bt6,000 million per annum over the next three years, up from Bt4,000-Bt5,000 million per year. The rise in capital expenditure plans is mainly for additional expansion of farms, feed, and food processing plants. Given the expected levels of EBITDA and capital expenditures, the debt to capitalization ratio is expected to hold at approximately 50% in 2017-2019. The EBITDA interest coverage ratio will stay at about 9 times, and the FFO to total debt ratio will hover around 25% during the same period.

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 to approximately 50% during expansion.

BTG's ratings and/or outlook would be revised upward if its cash flow generation improves significantly on a sustainable basis while the capital structure and debt serviceability do not deteriorate from the current levels. In contrast, the ratings and/or outlook could be revised downward if more intense competition leads to persistent declines in BTG's profitability and cash flow protection.

Betagro PLC (BTG)

Company Rating:	A
Issue Ratings:	
BTG17NA: Bt600 million senior unsecured debentures due 2017	A
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
BTG215A: Bt3,000 million senior unsecured debentures due 2021	A
Up to Bt6,000 million senior unsecured debentures due within 7 years	A
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----				
	2016	2015	2014	2013	2012
Sales and service revenues	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	3,322	2,624	2,647	1,993	2,275
Total assets	38,542	37,187	35,157	33,152	30,059
Total debt	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)	12.42	10.09	17.55	10.53	5.28
FFO/total debt (%)	30.67	30.22	61.62	37.25	13.20
Total debt/capitalization (%)	42.78	44.48	39.72	51.53	62.19

Note: All ratios are operating lease adjusted

* Consolidated financial statements

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