

BETAGRO PLC

No. 1/2019
3 January 2019

CORPORATES

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

Last Review Date: 07/03/18

Company Rating History:

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

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RATIONALE

TRIS Rating downgrades the company rating and issue ratings on Betagro PLC (BTG) to "A-" from "A". The downgrades reflect an oversupply problem in the livestock industry and BTG's worsening financial profile.

The ratings still reflect BTG's proven record in the Thai agribusiness and food industries. The ratings also take into consideration several industry risk factors, such as volatile raw material prices, the risk of disease outbreaks, and trade barriers. However, BTG is fully vertically integrated across its diverse product lines. In addition, its focus on value-added and branded products mitigates these concerns to some extent.

KEY RATING CONSIDERATIONS

Industry downturn hurts profits

BTG's operating performance in 2017 and the first half of 2018 were hurt by an excess supply of livestock in Thailand. Most (90%) of BTG's annual sales are in Thailand; exports make up only 10%. Poultry and swine prices plummeted, cutting BTG's operating margin before depreciation and amortization to 1.4% in 2017 and -4.5% in the first half of 2018, from 5.7% in 2016. Consequently, Earnings before interest, tax, depreciation, and amortization (EBITDA) tumbled to Bt1,227 million in 2017 and a loss of Bt1,785 million in the first half of 2018, down from Bt4,990 million in 2016.

TRIS Rating foresees that BTG's earnings will be under pressure for the remainder of 2018. Prices of swine and poultry are forecast to stay low while costs are rising. Nevertheless, the prices of swine are expected to improve during the second half of the year.

Demand for poultry and swine will gradually recover during the forecast period. Under TRIS Rating's base case forecast, BTG's revenue will range from Bt78,000 million to Bt91,000 million during 2018-2021. The operating margin before depreciation and amortization will turn to range from 3.8% to 7.3% during 2019-2021 from -0.5% in 2018. EBITDA will rebound to Bt6,800 million by 2021, the same level as 2013 and 2014, from negative Bt330 million in 2018.

Deterioration in financial profile

BTG's leverage remains high, despite a recent equity injection. In November 2018, BTG raised Bt1,500 million from its existing shareholders. However, debt keeps increasing because working capital is rising and capital expenditures are increasing. Capital expenditures were Bt6,300 million in 2017. The total debt to capitalization ratio was 55.4% in 2017, up slightly from 43.8% in 2016. Because of the downturn in the livestock industry, cash flow protection weakened in 2017 and 2018. The EBITDA interest coverage ratio declined to 3.0 times in 2017 from 13.3 times in 2016.

Looking forward, TRIS Rating expects BTG's leverage to remain high. The company plans capital expenditures of Bt3,000-Bt5,000 million per annum. The debt to capitalization ratio is expected to hover around 60% in 2018-2021. The EBITDA interest coverage ratio will be negative (-0.5 times) in 2018 but will rise to 4-9 times during 2019-2021.

Leader in Thailand's agribusiness and food industries

BTG has been a leader in the agribusiness and food industries for more than 50 years. BTG is the third-largest poultry processor in Thailand with a market share of 12% in 2017 (1st: Charoen Pokphand Foods PLC (22%), 2nd: Saha Farm Co., Ltd. (12%)). Its market share of chicken exported from Thailand was around 9% in 2017 and in the first six months of 2018, according to the Thai Broiler Processing Exporters Association.

BTG is also the industry-leading producer of high quality pork meat in Thailand, with a market share of approximately 7% of domestic pork meat production. Thanks to a strategic partnership with Sumitomo Corporation of Japan, BTG has adopted the Specific Pathogen Free (SPF) technology for swine farming since 1993. BTG raises the swine under hygienic conditions and free of contaminants with specific SPF swine raising procedures. As a result, BTG can export pork abroad through its major partners and get a premium price for the pork meat.

Fully vertically integrated

BTG's production process is fully vertically integrated. BTG produces feed, breeds, and raises animals as well as processes the meat. Livestock are raised in-house and via contract farming. Through vertical integration, the company can control the quality and costs of the production processes. Fully integrated operations help BTG's products meet safety and traceability standards, which qualify its products for export to major importing countries.

BTG has a broad portfolio of products, covering animal feed, poultry, swine, and food products. The diverse range of products partly helps mitigate BTG's operational risks. In 2017 and the first half of 2018, feed, farm, and food products comprised about 36%, 49%, and 11% of total sales, respectively.

Focus on value-added and branded products

BTG's key strategy is to focus on value-added and branded products. This strategy will help increase its profit margin and partly mitigate the effect of price fluctuations inherent in commodity-like farm products.

BTG set up a food innovation center for research and product development purposes. During the first half of 2018, value-added food products comprised 11% of total sales. It plans to launch more value-added products in the years ahead.

The company's promotional effects support its branded products. Brand recognition gives BTG an advantage as consumers are more likely to choose trusted brands. For the domestic market, BTG has two major brands: S-Pure and Betagro. The S-Pure brand name is used for premium products, while the Betagro brand name is used for standard products.

Manageable liquidity

For the next 12 months, Bt600 million in outstanding debentures will mature and BTG will make capital expenditures of Bt4,000 million. The funds will come from funds from operations (FFO) of Bt2,300 million and undrawn credit facilities of Bt15,000 million. BTG has reasonably easy access to both internal and external sources of funds. For example, paid-up capital increased in November 2018 and it issued debentures in 2016-2018, despite a gloomy outlook for the Thai economy.

BASE-CASE ASSUMPTIONS

- TRIS Rating assumes that BTG's revenues will apply new accounting standard for the revenue recognition by excluding sales to contract farmers starting from 2019. Hence, its revenue growth will drop in 2019 to -8% but will grow up to 10% per annum in 2021. However, to compare the same base by excluding sales to contract farmers in 2018, BTG's revenue will grow at 9% in 2019.
- We expect BTG's operating margins before depreciation and amortization will improve up to 7.3% in 2021 from -0.5% in 2018.
- Capital expenditures will be around Bt3,000-Bt5,000 million per annum during 2018-2021, based on BTG's information.

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. The heavy capital expenditures will generate cash in a few years.

RATING SENSITIVITIES

BTG's credit ratings could be upgraded if the company makes sustained improvements in operating performance, cash flow, and debt serviceability. Downward rating pressure would emerge if the company undertakes any sizeable debt-financed investments which will further deteriorate its balance sheet and cash flow protection.

COMPANY OVERVIEW

BTG was incorporated in 1967 by the Taepaisitphongse family and its associates. As of November 2018, the Taepaisitphongse family directly held 15.35% of the outstanding shares and indirectly held 69.45% of shares through Betagro Holding Co., Ltd., BTG’s parent company.

BTG has three major segments: feed, farm, and food. Farm products (breeding stock, live animals, and raw meat) had contributed an average of 50% of annual sales from 2013 through 2017, followed by animal feed (35%), food products (semi-cooked meat, cooked meat and ready-to-eat products, 11%), and other products (4%).

KEY OPERATING PERFORMANCE

Table 1: BTG’s Revenue Breakdown by Product Segment

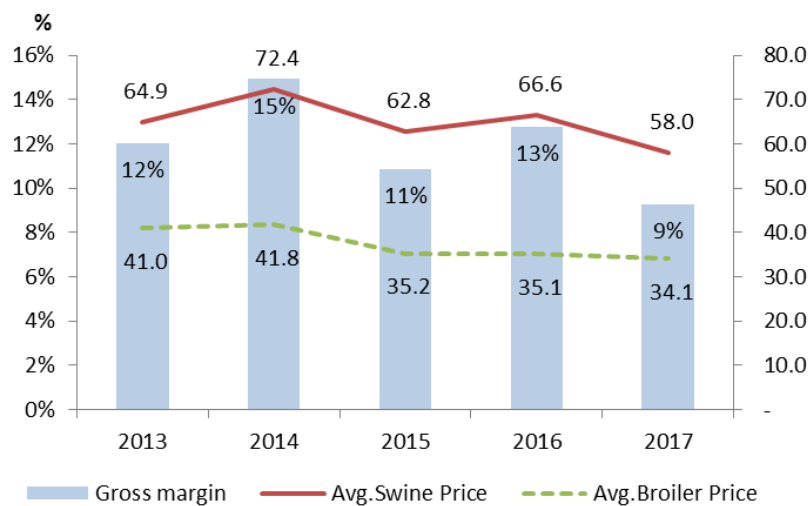
Unit: %

Product Segment	2013	2014	2015	2016	2017
Feed	36	34	35	34	36
Farm	48	51	50	51	49
Food	12	12	12	11	11
Others	4	3	3	4	4
Total	100	100	100	100	100
Sales (Bt mil.)	74,975	83,169	84,021	84,129	81,901

Note: Consolidated basis

Source: BTG

Chart 1: BTG’s Gross Margin and Average Prices of Broiler and Swine, by Year



Sources: BTG and Thai Feed Mill Association

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	-----Year Ended 31 December -----				
	2017	2016	2015	2014	2013
Total operating revenues	81,901	84,129	84,021	83,169	74,975
Operating income	1,150	4,813	4,065	7,695	5,671
Earnings before interest and taxes (EBIT)	(872)	2,971	2,396	6,131	3,948
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,227	4,990	4,291	7,855	5,653
Funds from operations (FFO)	1,000	3,972	3,686	6,428	4,623
Adjusted interest expense	415	375	400	414	523
Capital expenditures	6,319	3,638	2,710	2,735	2,061
Total assets	45,158	38,542	37,187	35,157	33,152
Adjusted debt	19,844	13,448	14,145	11,356	13,203
Adjusted equity	16,000	17,234	16,212	15,888	12,012
Adjusted Ratios					
Operating income as % of total operating revenues (%)	1.40	5.72	4.84	9.25	7.56
Pretax return on permanent capital (%)	(2.57)	9.59	8.24	22.91	15.32
EBITDA interest coverage (times)	2.95	13.30	10.73	19.00	10.82
Debt to EBITDA (times)	16.17	2.69	3.30	1.45	2.34
FFO to debt (%)	5.04	29.54	26.06	56.60	35.01
Debt to capitalization (%)	55.36	43.83	46.60	41.68	52.36

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Betagro PLC (BTG)

Company Rating:	A-
Issue Ratings:	
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-
BTG233A: Bt2,000 million senior unsecured debentures due 2023	A-
BTG247A: Bt1,000 million senior unsecured debentures due 2024	A-
Rating Outlook:	Stable

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