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THAI BEVERAGE PLC

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Company Rating: AA+

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
04/10/16	AA+	Stable
05/10/15	AA	Stable
28/05/13	AA-	Stable
20/07/12	AA	Alert Negative
04/03/10	AA	Stable
09/01/07	AA-	Stable
17/01/06	A+	Stable

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Rating Rationale

TRIS Rating affirms the company rating of Thai Beverage PLC (ThaiBev) at "AA+". The rating reflects ThaiBev's robust competitive position in the Thai alcoholic beverage industry, extensive distribution network, stable operating cash flow, and strong balance sheet. These strengths are partially constrained by intense competition, as well as strict regulations and higher excise taxes in the alcoholic beverage industry.

ThaiBev was founded in 2003 and listed on the Singapore Exchange (SGX) in 2006. At the end of May 2017, the Sirivadhanabhakdi family was the major shareholder, controlling about 68% of ThaiBev's outstanding shares. ThaiBev is a leading beverage and food company in Thailand. ThaiBev has expanded its presence in the Southeast Asian region through merger and acquisition, including Fraser and Neave, Ltd. (F&N) acquisition in which ThaiBev controls a 28.5% interest. In 2017, the company enlarged its market coverage in the spirits segment by acquiring a 75% stake in Myanmar Supply Chain and Marketing Services Co., Ltd. (MSC) and Myanmar Distillery Co., Ltd. (MDC). The two firms are known as the Grand Royal Group. The Grand Royal Group is the largest maker and distributor of spirits in Myanmar. In addition, the company announced it will acquire more than 240 outlets of KFC in Thailand from Yum Restaurants International (Thailand) Co., Ltd. The purchase will boost ThaiBev's cash flow in the food segment and broaden its brand portfolio.

ThaiBev's strong business profile is derived from its leading positions in each business segment in Thailand and a diversified portfolio of products. In the brown spirits segment, ThaiBev has about 95% market share, in terms of sales volume through the Thai off-trade channel. ThaiBev is one of the two major brewers in Thailand. ThaiBev's market share in the beer segment has held steady after the re-launch of the new *Chang* beer in late 2015, hovering around 38% as of June 2017. In the non-alcoholic beverage segment, ThaiBev is the market leader in the ready-to-drink (RTD) tea segment and is a major producer of carbonated drinks in Thailand. Besides beverages, Oishi Group PLC (OISHI), a subsidiary, is responsible for the food segment with a product line that spans Japanese restaurants, chilled and frozen foods, and food delivery. As of June 2017, OISHI had 242 outlets, half of which were *Shabushi* restaurants.

ThaiBev's production facilities in Thailand comprise 18 distilleries, three breweries, more than 10 non-alcoholic beverage plants, and one central kitchen. Moreover, ThaiBev owns Scotch whisky distilleries in Scotland and a distillery in China. ThaiBev has an extensive distribution network which serves more than 400,000 retail outlets nationwide. The acquisition of a major stake in F&N, with its focus on non-alcoholic beverages, strengthens ThaiBev's product portfolio and enhances market coverage, particularly in Singapore and Malaysia. Cooperative efforts with F&N could provide synergies, cost reductions, and increased efficiency for ThaiBev in terms of higher plant utilization, more efficient marketing spending, plus shorter lead times for new products.

In the first nine months of fiscal year (FY) 2017, ThaiBev's total revenue was Bt142,460 million, down 6% year-on-year (y-o-y) from the previous year. The decline was mainly due to a drop in sales in Thailand. Consumption of spirits and beer fell during the mourning period for the late monarch. For the first nine months of FY2017, sales of spirits comprised about 57% of ThaiBev's total sales and

82% of earnings before interest, tax, depreciation and amortization (EBITDA). The operating margin (operating income before depreciation and amortization as a percentage of sales) improved to 17.1% in the first nine months of FY2017, compared with 16.3% in FY2016. The rise came because of the company's ongoing cost control efforts plus the improvement of its operating efficiency.

ThaiBev's financial profile has strengthened, reflecting improvements in cash flow, lower leverage, and sufficient liquidity. For the first nine months of FY2017, funds from operations (FFO) were Bt23,457 million. The FFO to total debt ratio was 63.1% (annualized, from the trailing 12 months) in the first nine months of FY2017, compared with 55.7% in 2015. During the next 12 months, the company has long-term debt repayment obligations of around Bt24,903 million and outstanding short-term debt obligations of Bt7,457 million. Liquidity is sufficient to cover the near-term obligations, supported by Bt3,888 million in cash on hand, and available credit lines from financial institutions of approximately Bt60,000 million.

TRIS Rating expects ThaiBev's revenue will grow by around 10% in FY2018 due to the consolidation of two recent acquisitions: the KFC outlets and the Grand Royal Group. Revenue is forecast to increase at mid-single digit rates per annum during FY2019 and FY2020. A recent rise in excise taxes will have a small, short-term effect on revenue because the tax increases are slight. The operating margin is expected to stay around 17%. FFO is expected to grow, exceeding Bt30,000 million per annum during the next three years.

The company’s total interest bearing debt outstanding was Bt42,360 million as of June 2017, down from Bt46,085 million at the end of September 2016. The debt to capitalization ratio improved to 24.9% at the end of June 2017, compared with 27.1% at the end of September 2016. The acquisition of the KFC outlets and the Grand Royal Group will cost around Bt35,000 million. A large part of the cost will be financed with new debt. In addition, ThaiBev plans capital expenditures of Bt15,000 million during the next three years. The capital expenditures are for an expansion of an alcoholic beverage plant, production efficiency improvements, as well as an expansion of the distribution network. TRIS Rating expects the company’s debt to capitalization ratio will increase to around 29% in FY2018, and then gradually decline to around 25% in FY2020.

Rating Outlook

The “stable” outlook reflects TRIS Rating's expectation that ThaiBev will be able to maintain its strong position in the Thai alcoholic beverage market and to deliver sound financial performance.

The rating downside may occur if ThaiBev's financial profile weakens for an extended period, caused by either deterioration in profitability or more aggressive use of debt as a source of funds. ThaiBev's rating could be upgraded, should its larger presence in markets outside Thailand and neighboring countries contributes greater sales, higher earnings, and larger cash flows.

Thai Beverage PLC (ThaiBev)

Company Rating:	AA+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Oct-Jun 2017	Jan-Sep 2016	------- Year Ended 31 December ------- 2015	2014	2013
Sales	142,460	139,153	172,049	162,040	155,771
Gross interest expense	741	813	1,363	1,553	2,319
Net income from operations	20,982	18,870	21,980	21,460	18,720
Funds from operations (FFO)	23,457	20,680	24,637	24,558	20,462
Total capital expenditures	3,790	2,954	4,065	4,763	4,824
Total assets	188,101	187,653	182,017	171,987	183,329
Total debt	42,360	46,085	44,257	49,502	67,700
Shareholders' equity	127,649	123,712	119,266	104,676	97,993
Operating income before depreciation and amortization as % of sales	17.1	16.3	16.0	16.9	16.0
Pretax return on permanent capital (%)	18.7 **	16.2 **	17.5	17.1	14.2
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	39.2	32.9	23.7	20.1	12.5
FFO/total debt (%)	63.1 **	61.0 **	55.7	49.6	30.2
Total debt/capitalization (%)	24.9	27.1	27.1	32.1	40.9

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

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