

BG CONTAINER GLASS PLC

No. 115/2021
23 July 2021

CORPORATES

Company Rating: A-
Outlook: Stable

Last Review Date: 23/07/20

Company Rating History:

Date	Rating	Outlook/Alert
23/07/20	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on BG Container Glass PLC (BGC) at “A-”, with a “stable” outlook. The rating reflects BGC’s strong position in the glass container industry, its leverage on captive customers, business diversification into other packaging segments and solar energy business, and consistent profitability. However, these strengths are partially offset by BGC’s high debt level and end-market concentration.

KEY RATING CONSIDERATIONS

Satisfactory performance, despite COVID-19 impacts

We expect BGC’s profitability to remain strong. The company’s economies of scale and long relationships with suppliers, including two suppliers in which BGC acquired 25% stakes in 2019, have enabled the company to bring down its production costs. Production efficiencies and a utilization rate above 80% have also resulted in significant cost savings in the production process. In addition, BGC has located its plants near major customers and suppliers to minimize logistics costs. Apart from the cost savings, the company has successfully increased profitability by focusing on premium glass packaging products.

The Coronavirus Disease 2019 (COVID-19) pandemic did impact BGC’s glass packaging business in 2020. Government restrictions on the sale of alcoholic beverages and the lockdown in the second quarter of 2020 caused BGC’s glass packaging sales to plummet by 20%, compared with the same period in 2019. However, sales began to pick up in the second half of 2020 with the lifting of restricting measures. Overall, glass packaging sales decreased by 7% in 2020.

Nonetheless, BGC’s profitability in 2020 remained strong despite the COVID-19 due to two main reasons: the revenue contribution from its solar power business, and low fuel and raw materials prices. Earnings before interest, taxes, depreciation, and amortization (EBITDA) amounted to THB2.6 billion, higher than the annual THB1.9-THB2.5 billion recorded during 2016-2019. EBITDA is projected to be THB2.5-THB2.8 billion per year during the forecast period of 2021-2023.

Diversified income streams

BGC has implemented a strategy to diversify its sources of income to secure steady future revenue streams. In 2019, the company acquired 100% equity interest in Solar Power Management (Thailand) Co., Ltd. (SPM) that holds a 67% interest in two solar power plants in Vietnam. The solar plants started operation in June 2019 and are committed to supply power to Vietnam Electricity (EVN) with a fixed tariff rate of 9.35 cents per kilowatt-hour, based on a 20-year power purchase agreement with EVN. Revenue from the solar power business in 2020 was THB456 million. We project revenue from the solar power business to be THB400-THB420 million annually during the forecast period.

BGC has also sought opportunities in other packaging businesses as part of its strategy to become a leader in total packaging solutions. In April 2021, BGC acquired 100% interest in two packaging companies under Bangkok Glass PLC (BG), its parent company. The acquired companies are BG Packaging Co., Ltd. (BGP), a producer and distributor of plastic films, plastic caps, PET bottles,

and preform; and Bangkok Visypak Co., Ltd. (BVP), a producer and distributor of corrugated paper boxes. The total acquisition cost was THB1.7 billion. Revenue from other packaging types is expected to reach THB1.6-THB1.7 billion per year, contributing about 12% of total revenue during the forecast period.

High leverage but acceptable cash flow protection

We expect BGC's leverage to stay high throughout the forecast period. Capital investment during 2021-2023 is projected to be THB1.7-THB4.3 billion per year. Of the total capital expenditure (CAPEX), apart from the THB1.7 billion spent for the acquisition of other packaging businesses in 2021, THB1.6 billion is earmarked for an additional furnace in 2022-2023, and the remainder for cold repairs of furnaces and normal CAPEX. We project the company's debt to capitalization ratio to remain in the 64%-68% range throughout the forecast period.

We assess BGC to have adequate liquidity over the next 12 months. Sources of funds in the next 12 months will include funds from operations (FFO) of THB2 billion, cash on hand of THB210 million, and unused committed credit facilities. An estimated THB1.7 billion for the acquisition of other packaging companies was funded by bank loans. Other uses of funds include debt repayments of THB1.7 billion and other CAPEX of THB1 billion. The FFO to total debt ratio will likely remain lower than 20% over the next three years. We expect the net debt to EBITDA ratio to be 4.5-5 times during 2021-2023.

Market concentration risk tied to domestic beverage market

Sales to beverage companies contribute around 90% of BGC's total glass packaging sales. In 2020, beer bottles, soft drink bottles, and alcoholic beverage bottles accounted for 41%, 37%, and 12% of total bottle sales, respectively. Any situation that causes a drop in sales of alcoholic or non-alcoholic beverages will directly impact BGC. BGC mitigates concentration risk to some extent by boosting sales to other segments that generate better profit margins, for instance food and medicines that require specific glass container designs.

The majority of BGC's products, 91% of total sales in 2020, were sold in Thailand. BGC has expanded its business overseas in an effort to mitigate the risk of stagnant domestic demand. The contribution of export sales to total sales has increased gradually, to 9% in 2020 from 5% in 2015.

High barriers to entry

The glass packaging business requires intensive investment and operating expertise. Captive customer loyalty among the existing dominant players also makes it extremely difficult for new entrants to compete.

The top glass packaging producers in Thailand are all connected to the leading domestic beverage firms which are also the major buyers of glass bottles. Currently, the glass container industry is dominated by the three manufacturers – BGC (Boon Rawd Group), Thai Glass Industries PLC (TCC Group), and Siam Glass Industry Co., Ltd. (Osotspa Group).

It is difficult for newcomers to effectively utilize their furnaces, which need to be kept running continuously. Economies of scale represent another constraint for new entrants to the market.

BASE-CASE ASSUMPTIONS

- Revenues to rise by 15% in 2021 resulting from a recovery in overall beverage consumption, especially alcoholic beverages, and the acquisition of other packaging businesses in April 2021. A growth of 5% in 2022 and an organic growth of 2% in 2023.
- Gross margin of around 15% and EBITDA margin of around 20% during 2021-2023.
- CAPEX of THB2.7 billion in 2021, THB4.3 billion in 2022, and THB1.7 billion in 2023.

RATING OUTLOOK

The "stable" outlook reflects our expectation that BGC will maintain its competitive position in the glass packaging business, with the solar energy business and other packaging businesses generating income to complement its core business.

RATING SENSITIVITIES

A rating upside case could occur if BGC enlarges its earnings and stabilizes its profit margin without weakening its balance sheet. On the other hand, a rating downside case could emerge if profitability and earnings fall significantly short of expectations. Any overly aggressive, debt-funded investments that elevate its net debt to EBITDA ratio to a level of 6 times or above for a sustained period could also lead to a downgrade scenario.

COMPANY OVERVIEW

BGC was established in 2016 and registered on the Stock Exchange of Thailand (SET) in 2018. BGC's main business is the manufacture and sale of glass packaging products. BGC is a subsidiary of BG. As of March 2021, BG was the major shareholder, holding 72% of BGC's shares. The ultimate shareholder of BGC is Boon Rawd Brewery Co., Ltd., with an indirect holding through BG. Boon Rawd Brewery holds 67.5% of BG.

As of June 2021, BGC had five production plants located in Pathumthani, Ayutthaya, Prachinburi, Khon Kaen, and Ratchaburi provinces. The company has 11 furnaces with a total production capacity of 3,495 tons per day. All of the plants are wholly owned by BGC except for the Prachinburi plant which is 49% held by TC Pharmaceutical Industries Co., Ltd.

In 2019, BGC invested in three companies to expand its business. BGC acquired a 100% shareholding in SPM which operates two solar projects in Phu Yen, Vietnam with a total capacity of 110.025 megawatts (MW). The investment cost was THB1.3 billion. The two solar projects are committed to provide 99.216 MW of power to EVN. BGC also acquired 26% and 25% stakes in B S Glass Recycling Co., Ltd. (BSR) and Taweessup (Jew Ja Heng) Co., Ltd. (TWS), respectively, to engage in the purchase and sale of glass scrap. The investment cost for the two projects was THB135 million.

In April 2021, BGC acquired two other packaging companies; BGP and BVP, from BG with a total investment of THB1.7 billion. BGP is a producer and distributor of plastic films, plastic caps, PET bottles and preform, while BVP is a producer and distributor of corrugated paper boxes.

KEY OPERATING PERFORMANCE

Table 1: BGC's Revenue Breakdown by Business & Market

Business (Mil. THB)	2016	2017	2018	2019	2020	Jan-Mar 2021
Glass packaging	10,151	11,164	10,400	11,249	10,512	2,932
Solar power	-	-	-	3	456	88
Total sales	10,151	11,164	10,400	11,252	10,968	3,020
Market (%) (Glass Packaging)	2016	2017	2018	2019	2020	Jan-Mar 2021
Domestic	95	94	93	90	91	92
Export	5	6	7	10	9	8
Total sales	100	100	100	100	100	100

Source: BGC

Table 2: BGC's Bottle Sales Breakdown by Product

Unit: %

Product	2017	2018	2019	2020	Jan-Mar 2021
Beers	46	43	43	41	41
Soft drinks	30	34	35	37	38
Food	9	9	9	9	8
Insecticides & drugs	1	1	1	1	1
Other products	14	13	12	12	12
Total sales	100	100	100	100	100
Total sales (Mil. THB)	10,995	10,296	11,098	10,387	2,863

Source: BGC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	3,031	11,022	11,318	10,522	11,221
Earnings before interest and taxes (EBIT)	283	907	843	879	500
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	684	2,604	2,289	2,207	1,947
Funds from operations (FFO)	618	2,342	2,004	1,900	1,722
Adjusted interest expense	57	277	216	219	210
Capital expenditures	121	742	723	2,084	1,182
Total assets	17,991	17,949	17,932	14,729	12,971
Adjusted debt	9,852	10,153	10,471	8,547	8,683
Adjusted equity	6,411	6,158	5,942	5,158	3,034
Adjusted Ratios					
EBITDA margin (%)	22.58	23.62	20.22	20.97	17.35
Pretax return on permanent capital (%)	5.50 **	5.44	5.52	6.85	4.17
EBITDA interest coverage (times)	12.09	9.41	10.59	10.09	9.26
Debt to EBITDA (times)	3.79 **	3.90	4.58	3.87	4.46
FFO to debt (%)	24.12 **	23.06	19.14	22.23	19.83
Debt to capitalization (%)	60.58	62.25	63.80	62.37	74.10

* Consolidated financial statements

** Annualized from the trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

BG Container Glass PLC (BGC)

Company Rating:

A-

Rating Outlook:

Stable

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