

BG CONTAINER GLASS PLC

No. 119/2022
26 July 2022

CORPORATES

Company Rating: A-
Outlook: Stable

Last Review Date: 23/07/21

Company Rating History:

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

Contacts:

Suchana Chantadisai
suchana@trisrating.com

Sarinthorn Sosukpaibul
sarinthorn@trisrating.com

Parat Mahuttano
parat@trisrating.com

Sasiporn Vajarodaya
sasiporn@trisrating.com



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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 with leverage over captive customers, its strong financial profile, and its business diversification to other packaging segments. However, these strengths are partially offset by BGC’s cost pressure from higher prices of both fuel and raw materials, and end-market concentration.

KEY RATING CONSIDERATIONS

Profitability maintained despite cost pressure

BGC’s profitability is expected to remain strong, despite higher cost of fuel and raw materials. Although increased prices of fuel and soda ash have negatively impacted to BGC’s profitability, the company is expected to mitigate the lower margin by increasing its selling prices, cutting some production costs, changing the production formula, and applying technology in the production process to utilize fuel and raw materials more efficiently.

In addition, economies of scale and long relationships with suppliers, including two suppliers in which BGC acquired 25%-26% stakes in 2019, have enabled the company to bring down its production costs. Glass production efficiencies and utilization rates are above 80%. BGC has also located its plants near major customers and suppliers to minimize logistics costs.

Besides, the country’s reopening to tourists and the relaxation of government restrictions has boosted demand in both alcoholic and non-alcoholic beverage segments, which has consequently increased BGC’s revenue.

As a result, BGC’s sales are expected to increase by around 3%-5% annually throughout the forecast period. BGC’s earnings before interest, taxes, depreciation, and amortization (EBITDA) are projected to be THB2.2-THB2.6 billion per year during the forecast period of 2022-2024, the same range as that recorded during 2018-2021. The company’s adjusted EBITDA margin is expected to be in the 17%-19% range throughout the forecast period.

Diversification to other packaging

Total packaging solutions is the main strategy of BGC at present. Other packaging business is expected to play an important role in driving BGC’s revenue, alongside organic growth of the current glass packaging business. Other packaging segment is expected to record double-digit growth during the forecast period.

In 2021, BGC acquired a 100% interest in two packaging companies under Bangkok Glass PLC (BG), its parent company. The 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 was THB1.5 billion and THB450 million in 2021 and the first three months of 2022, respectively. The contribution to total revenue was approximately 12%.

We expect revenue from other packaging business to be around THB1.6–THB2.3 billion annually during 2022-2024.

Market concentration risk tied to domestic beverage market

Sales to beverage companies in Thailand contribute around 90% of BGC's total glass packaging sales. In 2021, beer bottles, soft drink bottles, and alcoholic beverage bottles accounted for 41%, 36%, and 13% 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 overseas markets and other segments, for instance food and soft drink, that require specific glass container designs and high-quality products. Consequently, the company can achieve better profit margins.

High barriers to entry

It is difficult for newcomers to enter the glass packaging business since it requires intensive investment and operating expertise. The relationships among the current dominant players and their captive customers also make entry to newcomers more challenging.

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 three manufacturers – BGC (Boon Rawd Group), Thai Glass Industries PLC (TCC Group), and Siam Glass Industry Co., Ltd. (Osotspa Group).

Economies of scale represent another constraint for new entrants to the market. The furnaces must run continuously so production volumes should be sufficient to ensure efficient utilization.

Stable leverage level

We expect BGC's leverage to remain steady throughout the forecast period. Capital investment during 2022-2024 is projected to be THB2 billion per year. The capital expenditure (CAPEX) is earmarked for cold repairs of furnaces totaling around THB1 billion per year, investment in other packaging business of THB500 million per year and normal maintenance.

In our base-case assumption, we project the company's funds from operations (FFO) to adjusted net debt ratio to be around 20%-25% and the net debt to EBITDA ratio to be 4 times during 2022-2024, the same range as 2018-2021.

As of March 2022, BGC had THB3.8 billion in priority debt out of its total interest-bearing debt of THB7.8 billion. This translates to a priority debt to total debt ratio of 49%.

Acceptable liquidity

We assess BGC to have adequate liquidity over the next 12 months. Sources of funds include expected FFO of THB2 billion, cash on hand of THB120 million, and unused committed credit facilities of THB7 billion. The uses of funds include debt repayments of THB1.6 billion and CAPEX of THB2 billion.

BASE-CASE ASSUMPTIONS

- Revenues to grow by 3-5% per year during 2022-2024 resulting from a recovery in overall beverage consumption, both alcoholic and non-alcoholic beverages, coupled with double-digit growth in other packaging businesses.
- Gross margin of around 15% and EBITDA margin of 17%-19% during 2022-2024.
- CAPEX of THB2 billion per year during the forecast years.

RATING OUTLOOK

The "stable" outlook reflects our expectation that BGC will maintain its competitive position in the glass packaging business, with income from other packaging businesses complementing the 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 the company's 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 2022, 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 2022, 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 Vietnam Electricity. 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.

In February 2022, BGC completely restructured its energy business. BGC disposed of its 100% stakes in SPM to BG Energy Solution Company Limited (BGE), receiving the payment in the form of 7.5 million newly issued ordinary shares of BGE (equivalent to 27.27% of the total issued and paid-up shares of BGE). BGC subsequently disposed of 7.35% of BGE's issued and paid-up shares to BG. As of March 2022, BGC held approximately 20% of BGE's issued and paid-up shares.

KEY OPERATING PERFORMANCE

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

Business (Mil. THB)	2016	2017	2018	2019	2020*	2021	Jan-Mar 2021	Jan-Mar 2022
	Glass packaging	10,151	11,164	10,400	11,249	10,512	10,859	2,932
Other packaging	-	-	-	-	1,335	1,527	365	446
Solar power	-	-	-	3	-	-	-	-
Total sales	10,151	11,164	10,400	11,252	11,847	12,387	3,297	3,967
Market (%) (Glass Packaging)	2016	2017	2018	2019	2020	2021	Jan-Mar 2021	Jan-Mar 2022
	Domestic	95	94	93	90	92	92	93
Export	5	6	7	10	8	8	7	10
Total sales	100	100	100	100	100	100	100	100

Source: BGC

Note: *Re-presented financial statement

Table 2: BGC's Bottle Sales Breakdown by Product

Unit: %

Product	2017	2018	2019	2020	2021	Jan-Mar 2021	Jan-Mar 2022
Beers	46	43	43	41	41	41	46
Soft drinks	30	34	35	37	36	38	34
Food	9	9	9	9	9	8	8
Insecticides & drugs	1	1	1	1	1	1	1
Other products	14	13	12	12	13	12	11
Total sales	100	100	100	100	100	100	100
Total sales (Mil. THB)	10,995	10,296	11,098	10,387	10,646	2,863	3,462

Source: BGC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	3,986	12,475	11,903	11,318	10,522
Earnings before interest and taxes (EBIT)	209	862	829	843	879
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	569	2,584	2,614	2,289	2,207
Funds from operations (FFO)	504	2,300	2,346	1,986	1,901
Adjusted interest expense	42	199	198	217	230
Capital expenditures	357	919	851	723	2,084
Total assets	15,179	18,708	19,359	17,932	14,729
Adjusted debt	8,586	9,796	10,750	10,471	8,547
Adjusted equity	4,877	5,489	6,784	5,942	5,158
Adjusted Ratios					
EBITDA margin (%)	14.27	20.71	21.96	20.22	20.97
Pretax return on permanent capital (%)	5.23 **	5.17	4.80	5.52	6.85
EBITDA interest coverage (times)	13.62	12.96	13.20	10.57	9.60
Debt to EBITDA (times)	3.51 **	3.79	4.11	4.58	3.87
FFO to debt (%)	25.05 **	23.48	21.82	18.96	22.24
Debt to capitalization (%)	63.78	64.09	61.31	63.80	62.37

* Consolidated financial statements

** Annualized from the trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022

BG Container Glass PLC (BGC)

Company Rating:	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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