

BG CONTAINER GLASS PLC

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CORPORATES

Company Rating: A-
Outlook: Stable

Last Review Date: 26/07/22

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 leading position in the glass container industry with sustained demand from its beverage customers, its moderate financial profile, and its business diversification into other packaging segments. However, these strengths are partially offset by BGC’s cost pressure from higher raw materials and fuel prices, and end-market concentration.

KEY RATING CONSIDERATIONS

Profitability eroded by higher costs

BGC’s profitability has been hit by higher raw materials and fuel costs since 2022. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) were THB2.2 billion in 2022 and THB500 million in the first three months of 2023. EBITDA margin has declined to 15% in 2022 and 13% in the first quarter of 2023 from around 17%-22% over the past five years. The company has sought to mitigate falling margin by increasing its selling prices and lowering costs. Cost-control measures include adapting the production formulas, using alternative sources of energy, and applying technologies in the production process to utilize fuel and raw materials more efficiently. These efforts have partly offset the incremental costs. BGC’s EBITDA margin should pick up in 2024-2025 from a low point in 2023, following an expected gradual decline in raw material and fuel prices.

We expect BGC’s revenue to grow by 3%-5% annually throughout the forecast years, mainly due to the country’s reopening and the acquisition of a flexible packaging business. BGC’s EBITDA is projected at THB2.1-THB2.6 billion per year during the forecast period of 2023-2025. The company’s adjusted EBITDA margin is expected to be in the 14%-16% range throughout the forecast period.

Revenue growth from total packaging solutions

We expect BGC to generate incremental revenues from plastic and paper packaging products, especially its new product segment, flexible packaging. These two product categories have played an important role in driving revenue growth, following the acquisition of plastic and paper packaging companies in 2021.

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, polyethylene terephthalate (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. Combined revenue from these two companies was THB1.8 billion in 2022 and THB470 million in the first three months of 2023. The contribution to total revenue was approximately 12%.

In March 2023, BGC acquired a 75% stake in Prime Packaging Co., Ltd. (PRIME), a producer of flexible packaging products such as pouch packaging for consumer products and food products, plastic film, and labels. BGC plans to acquire the remaining 25% stake by March 2025. The total investment is THB580 million. BGC foresees plentiful opportunities in the flexible packaging segment. PRIME is expected to contribute revenues of around THB400 million

in 2023 with sales anticipated to double by 2025 once the company's second plant becomes fully operational in 2024. The increased production volume will also enable BGC to negotiate lower raw material prices, leading to higher margins in this packaging segment throughout the forecast years.

The company's total packaging solutions strategy, which involves pooling sales of its main glass products with other packaging products, should push up overall sales. We expect revenues from the non-glass packaging business to reach around THB2.2-THB3.0 billion annually during 2023-2025.

Market concentration

BGC sells most of its glass bottle products to beverage companies. In 2022, beer bottles, soft drink bottles, and alcoholic beverage bottles accounted for 43%, 34%, and 13% of total glass bottle sales, respectively. Any situation that causes a drop in sales of alcoholic or non-alcoholic beverages will directly impact BGC. This concentration risk is mitigated to some degree by the company's diversification into other packaging businesses as well as the production of high-quality glass bottles for other end-market segments such as food and consumer products.

Stable leverage

We expect BGC's leverage to remain steady throughout the forecast period. Capital investment during 2023-2025 is projected to be THB1-THB3 billion per year. The capital expenditure (CAPEX) is earmarked for cold repairs of furnaces totaling around THB1-THB2 billion per year, investment in other packaging business of THB580 million, 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 18%-23% and the net debt to EBITDA ratio to be 4-5 times during 2023-2025, the same range as in 2018-2022.

As of March 2023, BGC had THB4.7 billion in priority debt out of its total interest-bearing debt of THB9.4 billion. This translates to a priority debt to total debt ratio of 50%. Most of BGC's operating assets are held at the subsidiary level. If the level of BGC's priority debt is higher than 50% of its total debt, we consider BGC's senior unsecured creditors to be significantly disadvantaged with respect to the priority of claims against BGC's assets.

Adequate liquidity

We assess BGC to have adequate liquidity over the next 12 months. Its sources of funds comprised cash on hand and short-term investments of THB135 million and undrawn credit facilities of THB7 billion at the end of March 2023. Its FFOs over the next 12 months are projected to be around THB1.8 billion. These sources of funds should be sufficient to cover debt services and investment needs over the next 12 months. BGC has long-term debt repayment obligations of around THB1.4 billion coming due in the next 12 months, and an investment budget for 2023 of around THB2.5 billion.

BASE-CASE ASSUMPTIONS

- Revenues to grow by 3%-5% per year during 2023-2025 resulting from a recovery in beverage consumption, coupled with double-digit growth in other packaging businesses.
- Gross margin of 11%-13% and EBITDA margin of 14%-16% during 2023-2025.
- CAPEX of THB1-THB3 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 its 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. The company 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 five provinces; Pathum Thani, Ayutthaya, Prachin Buri, Khon Kaen, and Ratchaburi. 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 Prachin Buri plant which is 49% held by TC Pharmaceutical Industries Co., Ltd.

The glass packaging business is difficult for newcomers to enter as it requires intensive investment and operating expertise. Skilled staff are needed to adjust production formulas and ensure the furnaces operate efficiently to lower costs. In addition, sales needed to be sufficient to ensure optimal utilization of production lines since the furnaces must run continuously. The relationship between glass bottle manufacturers and their customers is another obstacle facing newcomers. The top glass packaging producers in Thailand are all connected to the leading 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).

In 2019, BGC invested in three companies to expand its business. BGC acquired a 100% shareholding in Solar Power Management (Thailand) Co., Ltd. (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 (EVN). BGC also acquired 26% and 25% stakes in B S Glass Recycling Co., Ltd. (BSR) and Taweasup (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 Co., Ltd. (BGE), receiving 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.

In March 2023, BGC acquired a 75% stake in PRIME, a producer of flexible packaging products such as pouch packaging, plastic film, and labels. BGC aims to acquire the remaining 25% stake in PRIME by March 2025. The total investment is THB580 million.

KEY OPERATING PERFORMANCE

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

Business (Mil. THB)	2017	2018	2019	2020*	2021	2022	Jan-Mar 2022	Jan-Mar 2023
	Glass packaging	11,164	10,400	11,249	10,512	10,859	12,367	3,521
Other packaging	-	-	-	1,335	1,527	1,825	446	469
Solar power	-	-	3	-	-	-	-	-
Total sales	11,164	10,400	11,252	11,847	12,387	14,192	3,967	3,814
Market (%) (Glass Packaging)	2017	2018	2019	2020	2021	2022	Jan-Mar 2022	Jan-Mar 2023
	Domestic	94	93	90	92	93	90	89
Export	6	7	10	8	7	10	11	9
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	2018	2019	2020	2021	2022	Jan-Mar 2022	Jan-Mar 2023
Beers	43	43	41	41	43	46	46
Soft drinks	34	35	37	36	34	34	32
Food	9	9	9	9	9	8	8
Insecticides & drugs	1	1	1	1	1	1	1
Other products	13	12	12	13	13	11	13
Total sales	100	100	100	100	100	100	100
Total sales (Mil. THB)	10,296	11,098	10,387	10,646	12,138	3,462	3,308

Source: BGC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	3,835	14,366	12,475	11,903	11,318
Earnings before interest and taxes (EBIT)	130	690	862	829	843
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	495	2,161	2,584	2,614	2,289
Funds from operations (FFO)	425	1,957	2,300	2,346	1,986
Adjusted interest expense	56	180	199	198	217
Capital expenditures	1,028	1,423	919	851	723
Total assets	17,806	16,055	18,708	19,359	17,932
Adjusted debt	10,261	9,033	9,796	10,750	10,471
Adjusted equity	5,339	4,873	5,489	6,784	5,942
Adjusted Ratios					
EBITDA margin (%)	12.91	15.04	20.71	21.96	20.22
Pretax return on permanent capital (%)	4.17 **	4.68	5.17	4.80	5.52
EBITDA interest coverage (times)	8.80	12.01	12.96	13.20	10.57
Debt to EBITDA (times)	4.91 **	4.18	3.79	4.11	4.58
FFO to debt (%)	18.31 **	21.66	23.48	21.82	18.96
Debt to capitalization (%)	65.77	64.96	64.09	61.31	63.80

* Consolidated financial statements

** Annualized from the trailing 12 months

RELATED CRITERIA

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

BG Container Glass PLC (BGC)

Company Rating:	A-
Rating Outlook:	Stable

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