

# BETAGRO PLC

No. 215/2020  
25 December 2020

## CORPORATES

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

Last Review Date: 30/07/20

### Company Rating History:

Date	Rating	Outlook/Alert
03/01/19	A-	Stable
08/09/11	A	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Betagro PLC (BTG) and the ratings on BTG's senior unsecured debenture at "A-" with a "stable" rating outlook. The ratings continue to reflect BTG's proven record in the Thai agribusiness and food industries. The ratings also take into consideration several industry risk factors, such as cyclicity of commodity-type products, volatile raw material prices, the risk of disease outbreaks, and trade barriers. However, BTG's vertically integrated product lines, and its strategy to focus on value-added and branded products mitigate these concerns to some extent. The ratings also take into consideration concerns over the lingering economic uncertainty induced by the Coronavirus Disease 2019 (COVID-19) pandemic.

## KEY RATING CONSIDERATIONS

### Strong operating results

BTG posted strong operating performance in the first nine months of 2020. The prolonged outbreak of African swine fever (ASF) in several countries caused a shortage of pork and a steep rise in swine prices. Rising demand for export chicken in China, together with falling feed costs also contributed to the improved results. BTG's earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 60.8% year-on-year (y-o-y) to THB5.5 billion in the first nine months of 2020<sup>1</sup>. EBITDA margin was 9.4% in the first nine months of 2020, up from 5.9% in 2019.

Going forward, we expect the company to continue delivering good operating results in the last quarter of this year through 2021. Despite a drop from the recent extraordinarily high level, we believe swine prices will remain high as supply shortages caused by ASF will likely continue in the near future. We consider BTG is well positioned to benefit from the favorable swine prices and low feed costs. Rising Chinese demand for chicken could also be a revenue growth driver.

In our base-case forecast, BTG's operating revenue is projected to range from THB78 billion to THB86 billion per annum during 2020-2022. EBITDA margin is projected to hover around 6%-9% during 2020-2022, with EBITDA to range between THB5-THB6.9 billion during the same period.

### Improved leverage and cashflow

BTG's leverage has improved significantly, owing to recent satisfactory operating performance, combined with lower capital expenditure this year. Adjusted debt slipped to THB21.2 billion at the end of September 2020, from THB26.4 billion in 2019.

Cash flow protection also improved as leverage dropped amid the industry upturn. The ratio of net debt to EBITDA dropped to 3.3 times in the first nine months of 2020, from 6 times in 2019. The EBITDA interest coverage ratio surged to 14.8 times in the first nine months of 2020, from 6.3 times in 2019.

Nonetheless, we expect BTG's leverage to increase over the next few years. To pursue its growth strategy, the company plans capital expenditure of THB3.2-THB3.5 billion per annum. The debt to capitalization ratio is projected to hover

<sup>1</sup> Financial statement for the first nine months of 2020 is based on BTG's management account

in the range of 60%-62% in 2020-2022, and the net debt to EBITDA ratio in the range of 3.6-5.4 times, while the EBITDA interest coverage ratio to be around 6-10 times.

### **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 11% in 2019 (1st: Charoen Pokphand Foods PLC., 21%, 2nd: Saha Farm Co., Ltd., 12%). Its share of chicken exported from Thailand was around 8% in 2019 and in the first nine months of 2020, according to data from the Ministry of Commerce (MOC).

BTG is also the industry-leading producer of high-quality pork in Thailand, with a 9% share of domestic pork production. Thanks to a strategic partnership with Sumitomo Corporation of Japan, BTG has employed Specific Pathogen Free (SPF) technology in its swine farming operation since 1993. BTG raises swine under hygienic conditions and free of contaminants using specific SPF procedures. As a result, BTG is able to export pork through its major partners and gain premium prices.

### **Full vertical integration**

BTG's chicken and swine operations are fully vertically integrated, from feed to food products. BTG produces feed, breeds, and raises animals, and processes 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 the major importing countries.

BTG has a broad portfolio of products, covering animal feed, poultry, swine, and food products. The diverse range of products partially helps mitigate BTG's operational risks. During the first nine months of 2020, feed, farm, and food products comprised about 24%, 60%, and 13% 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 should help increase its profit margin and mitigate the effect of price fluctuations inherent in commodity-like farm products.

BTG has a strategy to shift its product portfolio from livestock to higher margin meat products. Additionally, BTG has established a food innovation center for research and product development purposes. During the first nine months of 2020, value-added food products comprised 13% of total sales. It plans to launch more value-added products in the years ahead.

The company's promotional efforts 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", for premium products and "Betagro" for standard products.

### **Adequate liquidity**

We assess BTG's liquidity to be adequate over the next 12 months. Funding needs in the next 12 months will include THB3 billion in maturing debentures and capital expenditures of THB3.3 billion. Primary source of repayment is expected to come from FFO of THB4.5 billion per annum. The liquidity buffer is supported by cash reserves, amounting to THB0.4 billion at the end of September 2020, as well as undrawn credit facilities of about THB14 billion from several financial institutions.

### **BASE CASE ASSUMPTIONS**

- Operating revenue to increase by 4%-6% in 2020-2022.
- Gross profit margin to be in the 14%-17% range; EBITDA margin to remain in the 6%-9% range.
- Total capital spending to be THB1.3 billion in 2020 and THB3.2-THB3.5 billion per annum during 2021-2022.

### **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 sizable capital expenditures BTG made during the past few years are expected to improve the company's competitive position and cash flow generation in the coming years.

### **RATING SENSITIVITIES**

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

## COMPANY OVERVIEW

BTG was incorporated in 1967 by the Taepaisitphongse family and its associates. As of June 2020, the Taepaisitphongse family directly held 15.35% of BTG's outstanding shares and indirectly held 69.45% of shares through Betagro Holding Co., Ltd., BTG's parent company.

BTG has three major business segments: feed, farm, and food. Farm products (breeding stock, live animals, and raw meat) contributed 60% of sales during the first nine months of 2020, followed by animal feed (24%), food products (semi-cooked meat, cooked meat and ready-to-eat products, 13%), and other products (3%). In terms of product category, revenue from poultry products comprised 38% of BTG's total sales, followed by swine (27%), feed (24%), animal health 5%), sausage and meatball (3%), and others (3%).

Fully-integrated operations help BTG's products meet international standards, qualifying the company to export to Japan and the European Union (EU). Exports constituted 13% of annual sales in the first nine months of 2020, while domestic sales accounted for 87% of total sales.

Apart from Thailand, BTG has expanded its footprint into Cambodia and the Lao People's Democratic Republic (Lao PDR). BTG's overseas operations cover feed plants and farms. Revenue from overseas operations accounted for 5% of its total revenue in the first nine months of 2020, but this figure is expected to increase gradually.

## KEY OPERATING PERFORMANCE

**Table 1: BTG's Revenue Breakdown by Product Segment**

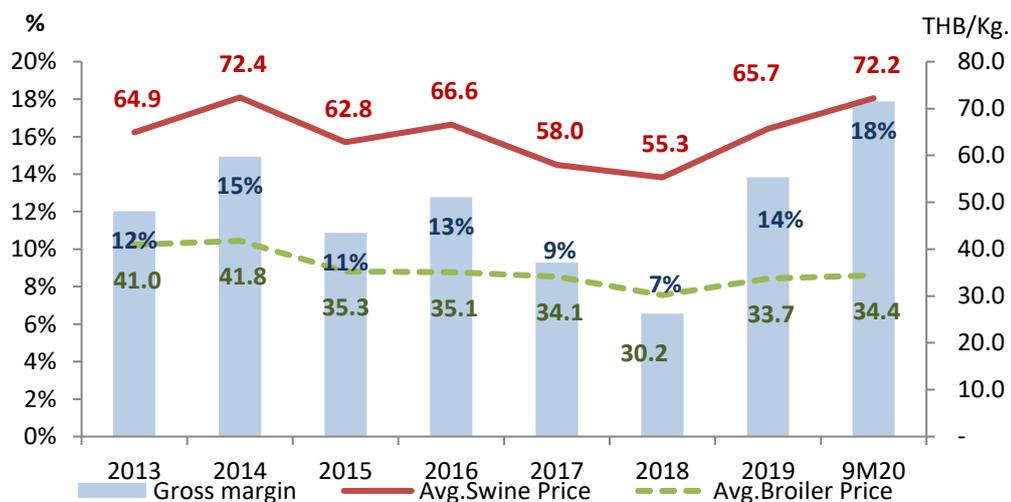
Unit: %

Product Segment	2015	2016	2017	2018	2019	Jan-Sep 2020
Feed	35	35	36	35	23	24
Farm	50	51	50	51	59	60
Food	12	12	12	12	14	13
Others	3	2	2	2	4	3
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Sales (mil. THB)</b>	<b>83,455</b>	<b>83,633</b>	<b>81,241</b>	<b>82,815</b>	<b>74,092</b>	<b>58,174</b>

Note: Revenue contribution since 2019 onwards changed significantly due to an applying of new account standard by excluding sales to contract farmers.

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: Mil. THB*

	----- Year Ended 31 December -----				
	2019	2018	2017	2016	2015
Total operating revenues	74,552	83,501	81,892	84,129	84,021
Earnings before interest and taxes (EBIT)	1,687	(2,744)	(881)	2,971	2,396
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,428	(237)	1,218	4,990	4,291
Funds from operations (FFO)	3,962	(902)	951	3,972	3,686
Adjusted interest expense	699	614	455	375	400
Capital expenditures	2,345	5,297	6,319	3,638	2,710
Total assets	47,522	51,438	45,158	38,542	37,187
Adjusted debt	26,393	27,970	19,844	13,448	14,145
Adjusted equity	15,393	14,299	16,000	17,234	16,212
<b>Adjusted Ratios</b>					
EBITDA margin (%)	5.94	(0.28)	1.49	5.93	5.11
Pretax return on permanent capital (%)	3.98	(6.95)	(2.60)	9.59	8.24
EBITDA interest coverage (times)	6.33	(0.39)	2.67	13.30	10.73
Debt to EBITDA (times)	5.96	(118.23)	16.29	2.69	3.30
FFO to debt (%)	15.01	(3.22)	4.79	29.54	26.06
Debt to capitalization (%)	63.16	66.17	55.36	43.83	46.60

**RELATED CRITERIA**

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

## Betagro PLC (BTG)

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
BTG215A: THB3,000 million senior unsecured debentures due 2021	A-
BTG227A: THB3,000 million senior unsecured debentures due 2022	A-
BTG233A: THB2,000 million senior unsecured debentures due 2023	A-
BTG238A: THB800 million senior unsecured debentures due 2023	A-
BTG247A: THB1,000 million senior unsecured debentures due 2024	A-
BTG248A: THB1,000 million senior unsecured debentures due 2024	A-
BTG258A: THB2,200 million senior unsecured debentures due 2025	A-
<b>Rating Outlook:</b>	Stable

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