

BETAGRO PLC

No. 250/2023
26 December 2023

CORPORATES

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

Last Review Date: 15/12/22

Company Rating History:

Date	Rating	Outlook/Alert
15/12/22	A	Stable
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 its senior unsecured debentures at “A” with a “stable” outlook.

The ratings continue to reflect BTG’s leading position in the Thai agribusiness and food industries, its integrated product lines, and extensive distribution network, as well as its moderate financial leverage following the increase in capital from an initial public offering (IPO) in late-2022.

The ratings have incorporated industry risk factors, such as the cyclical nature of commodity-type products, animal disease outbreaks, and trade barriers. The ratings also take into consideration our concerns over unfavorable economic conditions, slumping livestock prices, and prolonged high feed costs.

KEY RATING CONSIDERATIONS

Operating results hit by falling livestock prices

BTG’s operating performance has been severely weakened by a steep fall in livestock prices combined with soaring feed costs. Pork prices slumped on the back of an oversupply situation, largely driven by a sizable influx of smuggled meat. Poultry prices also declined substantially as a pork substitution product and due to lower export volume. During the first nine months of 2023, hog prices fell by 21.7% year-on-year (y-o-y) to THB75.8 per kilogram, while broiler prices declined by 8.3% y-o-y to THB37.7 per kilogram.

Like its industry peers, BTG’s profitability contracted substantially. The company’s earnings before interest, taxes, depreciation, and amortization (EBITDA) margin shrank to 4.1% in the first nine months of 2023, compared with 5.8%-12.5% in 2019-2022. BTG’s EBITDA was THB3.3 billion in the first nine months of 2023, down from THB10.6 billion during the same period of 2022.

We see several challenges in the coming years, including threat of a global economic slowdown and volatility in agricultural product prices. However, we anticipate livestock prices, and the supply situation will gradually improve following the authorities’ crackdown on pork smuggling.

Under our base-case scenario, we project BTG’s operating revenue will hover in the THB108-THB118 billion per annum range in 2023-2025. The EBITDA margin is projected at 3.4% in 2023, before edging up to 5.1%-6.1% in 2024-2025. EBITDA is projected at THB3.7 billion in 2023 and THB5.7-THB7.2 billion per annum in 2024-2025.

Higher leverage during industry downcycle but reverse trend expected

The company’s leverage decreased substantially following the completion of IPO and listing on the Stock Exchange of Thailand (SET) in late 2022, with net IPO proceeds of approximately THB16 billion. Following the IPO, BTG’s adjusted debt declined to THB19.6 billion in 2022, from THB31.9 billion in 2021. The adjusted debt to capitalization ratio decreased to 40.6% in 2022, from 67.3% in 2021.

However, BTG’s leverage as measured by levels of debt against cash generation has increased significantly in 2023, owing to weakened cash generation during an industry downtrend. As of September 2023, BTG’s net debt stood at THB23.1 billion, up from THB19.6 billion in 2022. The debt to

EBITDA ratio was 3.4 times in the first nine months of 2023, up from 1.4 times at year-end 2022.

We anticipate BTG's leverage will peak at the end of 2023, then decline gradually in 2024-2025 on the back of improved operating performance. Given capital expenditures of THB3.7-THB4.1 billion per annum, BTG's net debt to EBITDA ratio is projected to peak at 6.3 times in 2023, then decline to 3-4 times in 2024-2025, while the debt to capitalization ratio should stay below 50% in 2023-2025.

Adequate liquidity

We assess BTG's liquidity as manageable over the next 12 months. Funding needs will include maturing debenture repayment of THB2 billion and capital expenditures of THB3.7 billion. The primary source of funding is expected to come from funds from operations (FFO) of THB6 billion in 2024. The liquidity buffer is supported by cash reserves, amounting to THB1.7 billion at the end of September 2023 and undrawn credit facilities from several financial institutions.

The key financial covenant on BTG's debentures requires maintenance of an interest-bearing debt to equity ratio below 2 times. The ratio was 0.9 times as of September 2023. We expect the company to remain in compliance with the covenant over the forecast period of 2023-2025.

Leader in Thailand's agribusiness and food industries

BTG has been a leader in the agribusiness and food industries for 56 years. The company is the third-largest poultry processor in Thailand with a market share of 11% in 2022, trailing Charoen Pokphand Foods PLC (22%) and Saha Farm Co., Ltd. (11%). Its share of chicken exports from Thailand was around 8% in 2022, according to data from the Thai Broiler Processing Exporters Association. BTG is also an industry-leading producer of high-quality pork products in Thailand, with a share of approximately 16% of the domestic supply of pork products.

BTG's chicken and swine operations are fully vertically integrated, from feed to food products. Thus, the company can control the quality and costs of the production processes. BTG has a broad portfolio of products, covering animal feed, poultry, swine, and food products. The diverse range of products helps mitigate operational risks. During the first nine months of 2023, feed, farm, and food products contributed about 29%, 57%, and 12% of BTG's total sales, respectively.

BASE-CASE ASSUMPTIONS

- Operating revenue to decline by 5% to THB108 billion in 2023, before edging up to THB113-THB118 billion annually in 2024-2025.
- Gross profit margin to be 10.2% in 2023 and in the 12%-14% range in 2024-2025; EBITDA margin to be 3.4% in 2023 and in the 5.1%-6.1% range in 2024-2025.
- Total capital spending to be THB3.7-THB4.1 billion per annum during 2023-2025.

RATING OUTLOOK

The "stable" outlook reflects our view that BTG will be able to maintain its leading positions in the Thai agribusiness and food industries. BTG's strategy of focusing on biosecurity and digital transformation, as well as its value-added product offerings, should improve the company's competitive position and operating performance over the next few years.

RATING SENSITIVITIES

BTG's ratings could be upgraded if the company is able to significantly enlarge its cashflow while improving its balance sheet. On the contrary, downward rating pressure would emerge if the company's operating performance deteriorates significantly, or it undertakes any sizeable debt-financed investments which would lead to a weakening of its balance sheet and cash flow protection. A rating downgrade could occur if its adjusted debt to EBITDA ratio rises above 4 times for an extended period.

COMPANY OVERVIEW

BTG was established in 1967 by the Taepaisitphongse Family and its associates. The company successfully raised funds via an IPO on the SET in November 2022. The Taepaisitphongse Family remains the major shareholder, holding approximately 65% stake, as of September 2023. The company has three major business segments: feed, farm, and food. Farm products (breeding stock, live animals, and raw meat) contributed 57% of sales during the first nine months of 2023, followed by animal feed (29%), food products (semi-cooked meat, cooked meat, and ready-to-eat products, 12%), and other products (2%). In terms of product category, revenue from poultry products comprised 37% of BTG's total sales, followed by feed (29%), swine (26%), animal health (3%), sausage and meatball (3%), and others (2%). Fully integrated operations help BTG's products meet international standards, qualifying the company to export to Japan and the European Union (EU). Exports constituted 12% of total sales in the first nine months of 2023, while domestic sales accounted for 88%. 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 total revenue in the first nine months of 2023, but this figure is expected to increase gradually. BTG's key strategy is to focus on value-added and branded products. This strategy should help increase the company's profit margin and partly mitigate the effects of price fluctuations inherent in commodity-like farm products. During the first nine months of 2023, value-added food products contributed 12% of its total sales. Additionally, BTG has established a food innovation center for research and product development. 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 tend to choose trusted brands. BTG has several well-known brands such as "S-Pure" and "Betagro" for hygienic meat and food, "ITOHAM" for premium sausage, "Better Pharma" for drug and animal health, "Perfecta", "DOG n joy", and "CAT n joy" for pet food products.

KEY OPERATING PERFORMANCE

Table 1: BTG's Revenue Breakdown by Product Segment

Unit: %

Product Segment	2018	2019	2020	2021	2022	Jan-Sep 2023
Feed	35	23	24	27	25	29
Farm	51	59	60	58	61	57
Food	12	14	13	12	12	12
Others	2	4	3	3	2	2
Total	100	100	100	100	100	100
Sales (mil. THB)	82,815	74,092	79,966	85,292	112,480	81,127

Note: Revenue contribution since 2019 onwards has 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

	Jan-Sep 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	81,603	113,223	85,952	80,500	74,551
Earnings before interest and taxes (EBIT)	(53)	9,693	914	3,224	1,681
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,309	14,119	4,962	7,185	5,372
Funds from operations (FFO)	2,639	13,036	3,850	6,239	4,387
Adjusted interest expense	469	659	628	556	700
Capital expenditures	2,887	3,171	2,098	965	2,345
Total assets	61,783	65,234	57,475	50,342	47,522
Adjusted debt	23,105	19,575	31,909	23,300	26,196
Adjusted equity	26,032	28,664	15,522	17,146	15,393
Adjusted Ratios					
EBITDA margin (%)	4.05	12.47	5.77	8.93	7.21
Pretax return on permanent capital (%)	4.89 **	18.98	2.05	7.76	3.97
EBITDA interest coverage (times)	7.06	21.42	7.90	12.92	7.68
Debt to EBITDA (times)	3.40 **	1.39	6.43	3.24	4.88
FFO to debt (%)	28.99 **	66.60	12.07	26.78	16.75
Debt to capitalization (%)	47.02	40.58	67.27	57.61	62.99

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

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

Betagro PLC (BTG)

Company Rating:	A
Issue Ratings:	
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
Rating Outlook:	Stable

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