CARABAO GROUP PLC

No. 204/2023
20 October 2023

CORPORATES

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

Last Review Date: 20/04/23

Company Rating History:

Date	Rating	Outlook/Alert
06/10/20	A	Stable
20/11/17	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Carabao Group PLC (CBG) and the ratings on its outstanding senior unsecured debentures at "A". At the same time, we revise the rating outlook to "negative" from "stable". The "negative" outlook reflects the company's weakened financial profile, primarily due to a sharp decline in export sales and cost pressure on profitability, and the prospect of a weaker-than-expected recovery in the coming quarters. The ratings continue to reflect CBG's strong position in the domestic energy drink market, with a well-accepted brand and an extensive distribution network. However, these strengths are partially offset by CBG's reliance on a narrow range of products and limited growth prospects in the Thai energy drink market.

KEY RATING CONSIDERATIONS

Weaker-than-expected operating performance

CBG's operating performance fell short of our previous forecast due mainly to weak export sales and a lower profit margin caused by increased costs. CBG's total operating revenue in the first half of 2023 fell to THB8.9 billion, 16% below our previous target, while its earnings before interest, taxes, depreciation, and amortization (EBITDA) declined to THB1.4 billion, 26% lower than our previous forecast. The weak operating performance also led to an increase in financial leverage, as measured by the debt to EBITDA ratio, which has risen to 2 times, a level that is not commensurate with the current "A" rating. Nevertheless, the company is attempting to revive its operating performance, both by increasing sales and by tightly controlling expenses. The pace of performance recovery hinges on the improvement of export sales and the success of its new business activity as a beer distributor, which remains uncertain.

Weak export sales

CBG's export sales have been deteriorating since 2021, falling 14% in 2021, 1% in 2022, and plunging by 26% in the first half of 2023, which contributed to the overall weak performance of the company. The decline in export sales was owing to the lingering effects of the Coronavirus Disease 2019 (COVID-19) pandemic on Cambodia's economy, and tighter import rules and political instability in Myanmar. In the first half of 2023, 32% of CBG's total revenue came from exports. Cambodia was still the largest export market followed by Myanmar.

We expect the company's export sales to gradually recover as a result of improving economic conditions in various countries. Export revenue is expected to drop by 16% in 2023 before recovering by 6%-10% per year in 2024-2026. The export revenue is expected to range from THB5.8-THB7.5 billion per annum in 2023-2026. However, there is still a possibility of a weak rebound in export sales if an economic slowdown persists in CBG's export markets, particularly Cambodia and Myanmar.

Softened profitability from rising costs

The company's profit margins have declined, with the EBITDA margin falling to 19% in 2022 and 15% in the first half of 2023 from 24% in 2021. The lower margins were a result of rising major raw material prices, particularly for sugar and aluminum, and energy prices. An increased proportion of revenue from third-party products with relatively lower margins also contributed to the narrower profit margin. The proportion of revenue from third-party products increased to approximately 30% of total revenue in 2022 and the first half of 2023, from 10%-20% in 2019-2021.

Under our base case, energy drink margins are forecast to hold steady since a decline in aluminum prices should somewhat offset an increase in sugar prices. However, we anticipate that the share of revenue from third-party products, including revenue from beer distribution, is likely to rise, causing the overall profit margin to contract. The EBITDA margin is expected to be around 14% in 2023 before falling to about 12% in 2024-2026. The decrease is mainly due to the shift in revenue mix resulting from higher revenue from third-party products and beer distribution, which have lower profit margins than energy drinks, even though energy drinks' profit margins are forecast to be relatively stable. We assume revenues from third-party products and beer will account for roughly 40% of CBG's total revenue in 2023 and 50% in 2024-2026, compared with 20%-30% in 2021-2022.

Established position in the Thai energy drink market

CBG has developed a strong position in the Thai energy drink market over the last decade, thanks to the company's well-known brand, successful marketing strategies, and extensive distribution network covering more than 180,000 retail outlets. Its main product remained Thailand's second most popular energy drink in the first half of 2023, with a market share of roughly 22%.

After experiencing persistent negative sales volume growth in 2020-2021 as a result of the COVID-19 pandemic, the energy drink market in Thailand began to rebound, with sales volume growing by 4% in 2022 and 7% in the first half of 2023. Competition in the energy drink industry remains intense. Aiming for incremental market share, the company uses a strategy that keeps the retail price of its energy drink at THB10 per bottle, while two of its main competitors have already increased the retail price of their core products to THB12 per bottle. However, we do not anticipate the company will gain significant market share as its competitors have also introduced new flavors of energy drinks at the THB10 price range to defend their market shares.

The company's domestic energy drink revenue has been quite flat, increasing by 2% in 2022 and dropping by 2% in the first half of 2023. Going forward, TRIS Rating anticipates the company's domestic energy drink revenue to grow marginally by around 2%-3% per year during 2023-2026. This should result in domestic energy drink revenue of approximately THB5.7-THB6.2 billion per annum during 2023-2026, with growth coming from the ongoing recovery of the energy drink market and a slight increase in the company's market share.

Reliance on a limited range of products

CBG's primary product line is energy drinks, which represents just a small fraction of the entire beverage market, making the company vulnerable to changes in consumer preferences and behavior. In 2022, energy drink products accounted for 65% of CBG's revenue and 82% of its gross profit. Traditional energy drink products made up the majority of its sales, with lower-income workers representing the primary consumer category.

The Thai energy drink market is quite saturated, with limited growth prospects. CBG has introduced products in new categories like ready-to-drink coffee, sports drinks, water, and healthy functional drinks to boost growth in the domestic market. However, its non-energy drink own-branded products still account for a relatively small portion of its total revenue at around 3%. In addition, CBG also offers distribution services for products from third parties utilizing its extensive distribution network. CBG's revenue from third-party products has been growing significantly with a compound annual growth rate (CAGR) of around 50% over the past four years, owing mostly to the increase in alcoholic beverage sales. However, these third-party products have thinner profit margins than own-brand products. We expect CBG's revenues from non-energy drink own-brand products and third-party products to increase to around THB6-THB8 billion per annum during 2023-2026.

Beer distribution expected to begin in late 2023

CBG intends to start distributing beer in late 2023, leveraging the company's extensive distribution network, for a brewery owned by the company's shareholders. Additionally, the company will provide the brewery with glass bottles, aluminum cans, and other packaging materials. If the beer business is successful, the company will need to invest in expanding its glass bottle production capacity so that it can supply the brewery with sufficient glass bottles.

Under our base-case forecast, we expect the company to start generating revenue from the beer distribution business in late 2023 and expect revenues to be approximately THB10 billion per annum in 2024-2026. The profit margin from the beer distribution business is expected to be much lower than that of its own-brand products. However, since beer distribution is a new business for CBG and competition in the beer market in Thailand is intense, the company's performance in this segment may materially deviate from our projections.

Rising financial leverage but a decline anticipated

The company's financial leverage has risen as its cash generation has weakened. The debt to EBITDA ratio climbed to 1.8 times in 2022 and 2 times in the first half of 2023, from 1.4 times in 2021. Under our base case, we expect the company's EBITDA to gradually recover to THB2.9 billion in 2023 and approximately THB3.8-THB4.5 billion per annum in 2024-2026. We expect the company's capital expenditures to total THB5.6 billion in 2023-2026. As a result, the debt to EBITDA ratio is expected to remain at 2 times in 2023 before gradually decreasing to 1.9 times in 2024 and 1.5 times in 2025.

We assess CBG to have adequate liquidity over the next 12 months. Sources of liquidity include cash on hand of around THB1.5 billion as of June 2023, expected funds from operations (FFO) of around THB2.4 billion in 2023, and undrawn credit facilities of around THB8.4 billion. These should be sufficient to cover short-term bank loans of THB500 million, long-term bank loans of THB900 million, and debentures of THB1.5 billion coming due in the next 12 months.

The key financial covenant on CBG's debentures requires its interest-bearing debt to equity ratio to remain below 2.5 times. The ratio was 0.68 times as of June 2023, in compliance with the covenant. We expect that the company should have no problems complying with its financial covenants over the next 12 to 18 months.

As of June 2023, CBG's debt consisted of THB640 million of priority debt out of total interest-bearing debt of THB6.6 billion. The priority debt to total debt ratio was 10%.

BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions for CBG's performance during 2023-2026 are as follows:

- Revenues of THB20.3-THB37.6 billion per annum in 2023-2026.
- EBITDA margin of 14% in 2023 and around 12% in 2024-2026.
- Total capital expenditures and investments of around THB5.6 billion over 2023-2026.

RATING OUTLOOK

The "negative" outlook reflects the company's weakened financial profile, primarily due to a sharp decline in export sales and cost pressure on profitability, as well as the prospect of a weaker-than-expected recovery in the coming quarters.

RATING SENSITIVITIES

The ratings could be downgraded if CBG's operating performance remains weak such that the debt to EBITDA ratio hovers above 2 times for an extended period. On the other hand, the rating outlook could be revised to "stable" if the company can improve its operating performance and financial profile in line with our base-case projections.

COMPANY OVERVIEW

CBG commenced operations to manufacture, market, and sell energy drink products under the "Carabao Dang" trademark in 2002, as a joint investment between Mr. Sathien Sathientham, Ms. Nutchamai Thanombooncharoen, and Mr. Yuenyong Opakul. CBG was incorporated as a holding company in 2013, owning subsidiaries that handle energy drink production, glass bottle manufacturing, aluminum can manufacturing, and domestic distribution. The company was listed on the Stock Exchange of Thailand (SET) in 2014. As of August 2023, the three co-founders together controlled 69% of the company's outstanding shares.

The strength of the "Carabao Dang" brand has been built around the popularity of the legendary musical band, "Carabao". With savvy marketing campaigns and on-the-ground marketing activities, Carabao Dang has become the second most popular energy drink in Thailand. CBG distributes its products through traditional trade and modern trade channels. Distribution in the traditional trade channel uses a multi-tier agent model. CBG also operates cash vans to reach retail outlets in rural areas.

CBG's production facilities include bottled energy drink filling lines, canned energy drink filling lines, glass bottle producing lines, and aluminum can producing lines. The production capacities are approximately 2,000 million bottles and cans of energy drinks each per annum, 600 tonnes of glass per day for bottle production, and 1,000 million aluminum cans per annum.

Besides energy drinks, CBG offers a few other branded products including electrolyte drinks, ready-to-drink coffee, 3-in-1 coffee powder, drinking water, and functional drinks. CBG also provides distribution services for third-party products to fully utilize its distribution network.

KEY OPERATING PERFORMANCE

Table 1: Revenue Contribution by Product Line

Product	2019		2020		2021		2022		Jan-Jun 2023	
Line	Mil. THB	%	Mil. THB	%	Mil. THB	%	Mil. THB	%	Mil. THB	%
Energy drinks	12,864	86	13,818	80	12,360	71	12,399	65	5,416	61
Branded products	548	4	708	4	766	4	659	3	197	2
Third-party products	1,409	9	2,413	14	3,568	21	5,350	28	2,920	33
Others	112	1	292	2	671	4	807	4	297	4
Total	**14,933**	**100**	**17,231**	**100**	**17,364**	**100**	**19,215**	**100**	**8,830**	**100**

Source: CBG

Table 2: International Sales Contribution

	2019		2020		2021		2022		Jan-Jun 2023	
	Mil. THB	%	Mil. THB	%	Mil. THB	%	Mil. THB	%	Mil. THB	%
Domestic	7,879	53	9,138	53	10,433	60	12,332	64	6,001	68
International	7,054	47	8,093	47	6,931	40	6,883	36	2,830	32
Total	**14,993**	**100**	**17,231**	**100**	**17,364**	**100**	**19,215**	**100**	**8,830**	**100**

Source: CBG

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2023	-------------Year Ended 31 December ---------- 2022	2021	2020	2019
Total operating revenues	8,933	19,434	17,500	17,321	15,047
Earnings before interest and taxes (EBIT)	952	2,783	3,443	4,329	3,176
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,358	3,605	4,213	4,998	3,818
Funds from operations (FFO)	1,136	3,056	3,600	4,211	3,139
Adjusted interest expense	81	119	92	108	148
Capital expenditures	457	445	1,180	1,678	440
Total assets	19,894	20,039	19,186	17,087	14,780
Adjusted debt	5,837	6,555	6,000	4,017	3,447
Adjusted equity	10,585	10,565	10,111	10,157	8,718
Adjusted Ratios					
EBITDA margin (%)	15.20	18.55	24.08	28.85	25.37
Pretax return on permanent capital (%)	11.45 **	15.77	21.28	30.65	24.85
EBITDA interest coverage (times)	16.84	30.36	46.04	46.10	25.88
Debt to EBITDA (times)	2.04 **	1.82	1.42	0.80	0.90
FFO to debt (%)	41.28 **	46.62	60.00	104.84	91.04
Debt to capitalization (%)	35.54	38.29	37.24	28.34	28.34

* *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
- Issue Rating Criteria, 15 June 2021

Carabao Group PLC (CBG)

Company Rating:	A
Issue Ratings:	
CBG254A: THB1,585 million senior unsecured debentures due 2025	A
CBG264A: THB546 million senior unsecured debentures due 2026	A
Rating Outlook:	Negative

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