TRIS RATING
A Strategic Partner of S&P Global

CreditNews ข่าวเครดิต

# THAI BEVERAGE PLC

No. 196/2020
23 November 2020

## CORPORATES

| | |
|---|---|
| **Company Rating:** | AA |
| **Issue Ratings:** | |
| Senior unsecured | AA |
| **Outlook:** | Stable |

**Last Review Date:** 07/11/19

**Company Rating History:**

| Date | Rating | Outlook/Alert |
|---|---|---|
| 02/02/18 | AA | Stable |
| 20/12/17 | AA+ | Alert Negative |
| 04/10/16 | AA+ | Stable |
| 05/10/15 | AA | Stable |
| 28/05/13 | AA- | Stable |
| 20/07/12 | AA | Alert Negative |
| 04/03/10 | AA | Stable |
| 09/01/07 | AA- | Stable |
| 17/01/06 | A+ | Stable |

**Contacts:**

Pramuansap Phonprasert

pramuansap@trisrating.com

Sarinthorn Sosukpaibul

sarinthorn@trisrating.com

Wajee Pitakpaibulkij

wajee@trisrating.com

Thiti Karoonyanont, Ph.D., CFA

thiti@trisrating.com

WWW.TRISRATING.COM

## RATIONALE

TRIS Rating affirms the company rating on Thai Beverage PLC (ThaiBev) and the ratings on ThaiBev's outstanding senior unsecured debentures at "AA", with a "stable" outlook. The ratings reflect ThaiBev's dominant position in the regional beverage markets, supported by its strong brands and extensive distribution network. The ratings also take into consideration the company's strong commitment to deleveraging. However, the ratings are constrained by the company's high financial leverage, intense competition, regulatory constraints, and frequent excise tax hikes in the Thai alcoholic beverage industry.

## KEY RATING CONSIDERATIONS

### Revenue to recover after being hit by COVID-19 and new regulations in Vietnam

ThaiBev's domestic revenue was hurt after the government implemented lockdown measures, banned alcohol sales, and closed pubs and bars to contain the spread of the Coronavirus Disease 2019 (COVID-19) during the third quarter of fiscal year 2020 (FY2020). However, we expect ThaiBev's domestic sales to recover rapidly in the fourth quarter of FY2020, after the government lifted the lockdown measures. We expect ThaiBev to record flat domestic sales in FY2020, and then grow by approximately 3% during FY2021-FY2022.

In FY2020, revenue from beer sales in Vietnam declined substantially after the Vietnamese government introduced a new drink-driving law with strong punishments for violations. The beer market in Vietnam contracted substantially after the new law came into effect. Vietnam's government also implemented lockdown measures to contain the COVID-19 outbreak. From combination of these results, we expect Saigon Beer-Alcohol-Beverage Corporation's sales (Sabeco) to decline by around 20% in FY2020. However, we project Sabeco's sales will rebound by 5%-10% during FY2021-FY2022 as Vietnamese consumers adjust their drinking behavior to comply with the new law and the government to ease the lockdown measures once the spread of the COVID-19 is under control.

In response to the impacts of the COVID-19 and the huge drop in beer sales in Vietnam, ThaiBev has tightened cost control, especially selling and administrative expenses. As a result, the company's earnings before interest, taxes, depreciation, and amortization (EBITDA) margin improved to 18.2% in the first half of FY2020, compared with 16.6% in FY2019. We project its EBITDA margin will stay in the 17%-18% range over the next three years.

### Strong market position and growth potential of overseas sales

The company holds a strong position in each of the markets in which it has active operation. In Thailand, ThaiBev is the largest beverage company, having dominated the alcoholic beverage industry for many years. The company's market share exceeds 90% for spirits and nearly 40% for beer, based on sales volume. It is also the market leader in the ready-to-drink (RTD) tea and drinking water segments and is a major producer of carbonated drinks and other beverages. For the international market, Sabeco is the largest brewer in Vietnam commanding around 35%-40% market share, while Grand Royal Group (GRG) is the largest brown spirit producer in Myanmar with a dominant 75% market share. We believe the company will maintain its dominant market positions, supported by strong brand awareness and an extensive distribution network.

The company's expansions in Vietnam and Myanmar have helped reduce its reliance on the domestic market. In the first half of FY2020, overseas revenue contributed 23% of total sales. Despite regulatory risk that may affect overseas sales in some years, we still believe overseas revenue will grow at a faster pace than domestic revenue. The alcoholic beverage markets in Myanmar and Vietnam are less mature than the domestic market in Thailand and have much better growth potential given the early stages of their economic growth and development as well as relatively young populations. We expect the proportion of revenue from outside Thailand to continue to rise in the foreseeable future, further reducing the company's business concentration risk tied to the domestic market.

### Extensive distribution network

ThaiBev has built up an extensive distribution network that covers more than 400,000 retail outlets in Thailand, using four large distribution centers and about 7,000 delivery vehicles. ThaiBev's sales are also channeled through about 300 active agents and more than 1,700 salespersons. Through its affiliated companies, ThaiBev extends its market coverage across the ASEAN region. Fraser and Neave Ltd. (F&N), an important affiliate, commands a strong position in its home markets of Malaysia and Singapore. The recent acquisitions of Sabeco and GRG further extend ThaiBev's distribution network to Myanmar and Vietnam.

### Government regulations constrain market growth

The sale of alcoholic beverages is subject to strict government oversight and control. Typical regulations include limits on advertising and promotional activities, restricted hours of sale for alcoholic beverages, and minimum age requirements. The regulations make it difficult to boost sales or penetrate new market segments, despite numerous marketing campaigns. Excise taxes are another measure imposed by the government to discourage consumption of alcoholic beverages. Hikes in excise tax rates are frequent. For example, the Thai government has raised excise taxes on alcoholic beverages five times over the past 10 years. In the past, ThaiBev was able to maintain its profit margin by passing on the higher tax expense to consumers, with only temporary declines in sales volume. However, given the relatively low price elasticity of demand for alcoholic beverages, either ThaiBev's profit margin or its sales volume would potentially be higher if there were less frequent hikes in excise taxes. In Vietnam, the government recently imposed a new drink-driving law with harsh punishments for violations. The new law heavily affected the alcoholic beverage market in Vietnam, especially alcoholic sales for out-of-home drinking. The company believes alcohol consumption in Vietnam will gradually recover as consumers adapt their alcoholic consumption behavior to comply with the law.

### Leverage expected to decline

We expect ThaiBev's financial leverage to gradually decline over the next three years. Its adjusted debt reached a peak of THB218.3 billion in FY2018, then declined to THB205.4 billion in FY2019. We project ThaiBev's net debt to gradually shrink to the THB180-THB170 billion range in FY2022, and its EBITDA to gradually increase to approximately THB50 billion in FY2022, compared with THB44.6 billion in FY2019. Our projection assumes no additional, large debt-funded acquisitions over the next three years as the company's management has expressed a strong intention to deleverage. Based on that assumption, we project the total debt to EBITDA ratio to gradually decline to around 3.5 times in FY2022. In addition, ThaiBev could lower its leverage faster than our base-case projection if the company succeeds in its plan to unlock its enterprise value, for example, by listing its beer business.

### Strong liquidity profile

The company has a strong liquidity position. As of March 2020, ThaiBev had cash on hand of THB25.6 billion. We project funds from operations (FFO) to be around THB33 billion in the next 12 months. The company has undrawn uncommitted credit facilities of around THB46 billion. The company has also secured committed bridging loans of THB40 billion to refinance upcoming maturing debentures. These sources of funds should be sufficient to cover the cash needed for debt service and investments over the next 12 months. ThaiBev has long-term debt repayment obligations of around THB48 billion coming due during the next 12 months. As of March 2020, the company's outstanding short-term obligations were THB18 billion. The company has planned capital expenditures of approximately THB6.5 billion in FY2021.

We expect ThaiBev to comply with the financial covenants on its debt obligations over the next 12 to 18 months. The company's interest-bearing debt to total equity ratio at the end of June 2020 was 1.38 times, well below the financial covenant of 3 times.

## BASE-CASE ASSUMPTIONS

Our key assumptions for the performance of ThaiBev during FY2020 to FY2022 are as follows:

- Revenues to decline by around 5% in FY2020, then recover by 3%-4% during FY2021-FY2022.
- EBITDA margin to stay around 17%-18%.
- Capital expenditures to be around THB5-THB7 billion per annum over the forecast period.
- Adjusted debt to EBITDA ratio to gradually drop to 3.5 times in FY2022.

## RATING OUTLOOK

The "stable" outlook reflects our expectation that ThaiBev will maintain its dominant position in both the domestic and international alcoholic beverage markets and continue to deliver strong cash generation, which will be used to bring down financial leverage over the next three years.

## RATING SENSITIVITIES

ThaiBev's ratings and/or outlook could be revised upward, should the adjusted debt to EBITDA ratio fall below 2 times on a sustained basis. On the contrary, the ratings and/or outlook could be revised downward if we believe that ThaiBev is unable to attain its deleveraging target and its net debt to EBITDA ratio stays above 3.5 times for a prolonged period.

## COMPANY OVERVIEW

ThaiBev is a leading beverage and food company in Thailand. The company was founded in 2003 and listed on the Singapore Exchange (SGX) in 2006. At the end of December 2019, the Sirivadhanabhakdi family was the major shareholder, controlling about 68% of ThaiBev's outstanding shares. ThaiBev has expanded its presence in the Southeast Asian region through mergers and acquisitions, including the F&N acquisition in which ThaiBev holds a 28.5% interest. In 2017, the company enlarged its market coverage in the spirits segment by acquiring a 75% stake in Myanmar Supply Chain and Marketing Services Co., Ltd. (MSC) and Myanmar Distillery Co., Ltd. (MDC). The two firms are collectively known as the Grand Royal Group or GRG. GRG is the largest producer and distributor of spirits in Myanmar. In addition, the company acquired 252 KFC outlets in Thailand from Yum Restaurants International (Thailand) Co., Ltd. and a 53.59% stake in Sabeco, the largest brewer in Vietnam. In the first half of FY2020, ThaiBev's total revenues were THB137.1 billion. Spirits were the key revenue contributor, comprising 47% of total revenue and over 67% of EBITDA.

## KEY OPERATING PERFORMANCE

**Table 1: ThaiBev's Revenue Breakdown**

*Unit: %*

| Product | 2014 | 2015 | Jan-Sep 2016 | FY2017 | FY2018 | FY2019 | Oct 2019-Mar 2020 |
|---|---|---|---|---|---|---|---|
| Beer | 22 | 25 | 32 | 30 | 41 | 44 | 42 |
| Spirit | 65 | 62 | 55 | 58 | 46 | 43 | 47 |
| Non-alcohol beverage | 10 | 10 | 9 | 9 | 7 | 7 | 6 |
| Food | 4 | 4 | 4 | 4 | 6 | 6 | 5 |
| **Total** | **100** | **100** | **100** | **100** | **100** | **100** | **100** |
| **Total revenue (mil. THB)** | **162,040** | **172,049** | **139,153** | **189,997** | **229,695** | **267,357** | **137,092** |

*Source: ThaiBev*

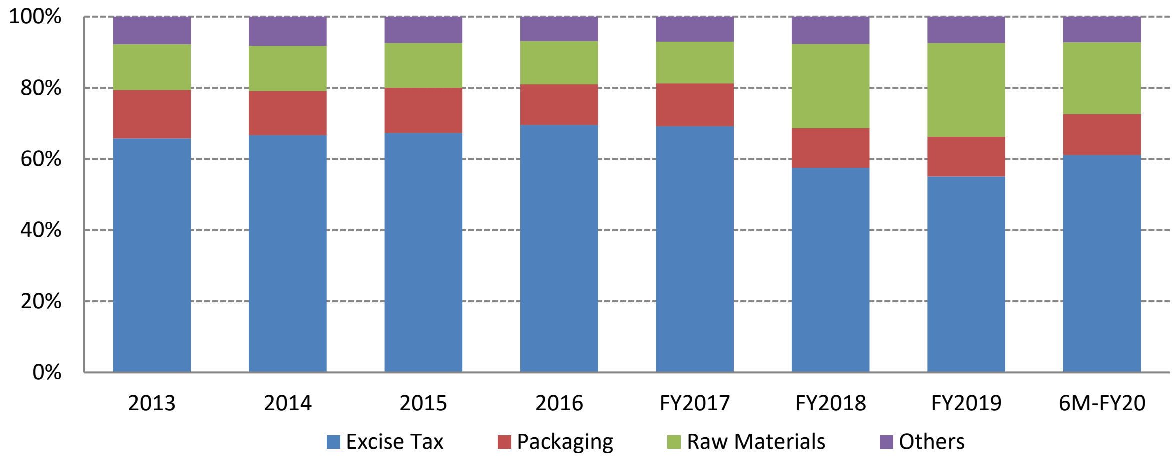
**Table 2: ThaiBev's EBITDA Breakdown***

*Unit: %*

| Product | 2014 | 2015 | Jan-Sep 2016 | FY2017 | FY2018 | FY2019 | Oct 2019-Mar 2020 |
|---|---|---|---|---|---|---|---|
| Beer | 4 | 8 | 17 | 14 | 25 | 30 | 25 |
| Spirit | 96 | 93 | 82 | 83 | 70 | 64 | 67 |
| Non-alcohol beverage | -2 | -3 | -1 | 1 | 0 | 2 | 5 |
| Food | 2 | 2 | 2 | 2 | 5 | 4 | 3 |
| **Total** | **100** | **100** | **100** | **100** | **100** | **100** | **100** |
| **Total EBITDA (mil. THB)** | **28,275** | **29,070** | **23,516** | **32,675** | **34,296** | **40,913** | **23,446** |

*Source: ThaiBev*
** Excluding share profit from associates*

**Chart 1: ThaiBev's Cost of Goods Sold Breakdown**




*Source: ThaiBev*

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

*Unit: Mil. THB*

| | | ----Year Ended 30 Sep---- | | | |
|---|---|---|---|---|---|
| | Oct 2019- Mar 2020 | 2019 | 2018 | 2017 | Jan-Sep 2016 |
| Total operating revenues | 137,866 | 268,095 | 230,555 | 190,511 | 139,627 |
| Earnings before interest and taxes (EBIT) | 22,194 | 38,939 | 28,196 | 32,434 | 23,530 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 25,113 | 44,593 | 33,916 | 35,842 | 26,671 |
| Funds from operations (FFO) | 17,708 | 31,737 | 24,097 | 29,489 | 22,009 |
| Adjusted interest expense | 3,731 | 7,628 | 5,325 | 1,221 | 1,019 |
| Capital expenditures | 2,879 | 5,815 | 7,437 | 5,557 | 3,011 |
| Total assets | 429,567 | 407,240 | 417,923 | 194,241 | 187,654 |
| Adjusted debt | 209,267 | 205,446 | 218,310 | 36,509 | 46,174 |
| Adjusted equity | 169,526 | 150,325 | 155,473 | 132,513 | 123,712 |
| **Adjusted Ratios** | | | | | |
| EBITDA margin (%) | 18.22 | 16.63 | 14.71 | 18.81 | 19.10 |
| Pretax return on permanent capital (%) | 10.09 ** | 10.03 | 9.80 | 18.33 | 15.63 ** |
| EBITDA interest coverage (times) | 6.73 | 5.85 | 6.37 | 29.36 | 26.17 |
| Debt to EBITDA (times) | 4.59 ** | 4.61 | 6.44 | 1.02 | 1.34 ** |
| FFO to debt (%) | 15.30 ** | 15.45 | 11.04 | 80.77 | 60.66 ** |
| Debt to capitalization (%) | 55.25 | 57.75 | 58.41 | 21.60 | 27.18 |

* *Consolidated financial statements*
** *Annualized from the trailing 12 months*

## RELATED CRITERIA

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

## Thai Beverage PLC (ThaiBev)

| | |
|---|---|
| **Company Rating:** | AA |
| **Issue Ratings:** | |
| TBEV213A: THB11,200 million senior unsecured debentures due 2021 | AA |
| TBEV233A: THB10,000 million senior unsecured debentures due 2023 | AA |
| TBEV253A: THB9,300 million senior unsecured debentures due 2025 | AA |
| TBEV283A: THB14,500 million senior unsecured debentures due 2028 | AA |
| TBEV213B: THB31,600 million senior unsecured debentures due 2021 | AA |
| TBEV243A: THB11,300 million senior unsecured debentures due 2024 | AA |
| TBEV293A: THB10,100 million senior unsecured debentures due 2029 | AA |
| **Rating Outlook:** | Stable |

**TRIS Rating Co., Ltd.**
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000