

THAI BEVERAGE PLC

No. 210/2022
18 November 2022

CORPORATES

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

Last Review Date: 01/11/22

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

Tulyawat Chatkam
tulyawatc@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 its outstanding senior unsecured debentures at “AA”, with a “stable” rating outlook. The ratings reflect ThaiBev’s dominant position in the regional beverage markets, supported by its strong brands and extensive distribution network, and resilient cash generation. The ratings also take into consideration the company’s strong commitment to deleveraging. However, the ratings are constrained by an intensely competitive environment, regulatory constraints, and frequent excise tax hikes in the Thai alcoholic beverage industry.

KEY RATING CONSIDERATIONS

Revenue revival expected

After two years of impacts from the Coronavirus Disease 2019 (COVID-19) pandemic, the company’s revenue has started to recover following a return to normality in many countries. The company’s total revenue increased by 8.9% year-on-year (y-o-y) to THB143.4 billion in the first half of fiscal year (FY) 2022 due mainly to a strong recovery in the beer business, especially in Vietnam, while the spirits business remained resilient. We expect ThaiBev’s revenue to rebound by around 12% in FY2022 then increase by around 4% per annum during FY2023-FY2024. The growth will be supported by the recovery of economic activities after the relaxation and lifting of restrictive COVID-19 measures.

We expect the company’s earnings before interest, taxes, depreciation, and amortization (EBITDA) margin to hover around 18% during FY2022-FY2024. Pressure from rising raw material costs could be alleviated by increasing product prices. We expect the company to continue spending prudently on advertising and promotion expenses after the reopening of pubs, bars, and other recreation venues.

Strong market positions with expanding geographic coverage

The company holds a strong position in each market in which it operates. In Thailand, ThaiBev is the largest beverage company, having dominated the alcoholic beverage industry for decades. The company has maintained a market share in excess of 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 international markets, Sabeco is the largest brewer in Vietnam commanding a 35%-40% market share, while Grand Royal Group (GRG) is the largest whisky producer in Myanmar with a market share of over 70%. We believe the company will maintain its dominant market positions, supported by its strong brands and extensive distribution networks.

The company has strengthened its business profile through greater geographic diversification after its expansion in Vietnam and Myanmar. The alcoholic beverage markets in the two countries have high growth potential thanks to their younger populations, compared with the saturated domestic market in Thailand. We believe overseas revenue will grow at a faster pace than domestic revenue, despite the political and regulatory risks that may affect overseas sales.

Extensive distribution network

ThaiBev has built up an extensive distribution network that covers more than 500,000 retail outlets in Thailand, using four large distribution centers and over 7,000 delivery vehicles. ThaiBev's sales are also channeled through over 250 active agents and more than 1,700 salespersons. The strong distribution network through traditional retail outlets creates resilient sales for home consumption with less reliance on modern trade channels. Through its affiliated companies, ThaiBev has extended 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 acquisitions of Sabeco and GRG further extend ThaiBev's distribution network to Vietnam and Myanmar.

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 for sale of 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 governments to discourage consumption of alcoholic beverages. Over the past decade, the Thai government has frequently raised excise taxes on alcoholic beverages. 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 has imposed a drink-driving law (DECREE 100) with harsh punishments for violations. The new law has heavily affected the alcoholic beverage market in Vietnam, especially out-of-home drinking sales. However, the company believes alcohol consumption in Vietnam will gradually recover as consumers adapt their consumption behavior to comply with the law.

Continued deleveraging

The company's adjusted debt has continued to decline despite the performance hiccup caused by COVID-19. Its adjusted debt declined continuously, from THB193 billion in FY2020 to THB175 billion in the first half of FY2022. We project ThaiBev's net debt to gradually drop further to around THB136 billion in FY2024, and its EBITDA to gradually increase to approximately THB52 billion in FY2024, compared with THB45 billion in FY2021. Based on the management's strong intention to deleverage, our projection assumes no additional large debt-funded acquisitions over the next three years. Therefore, we project the total debt to EBITDA ratio to gradually decline to around 2.6 times in FY2024. ThaiBev could potentially lower its leverage faster than our base-case projection if the company succeeds in its plan to unlock its enterprise value.

Strong liquidity profile

The company has a strong liquidity position. As of March 2022, ThaiBev had cash on hand of THB39.7 billion. We project funds from operations (FFO) to be around THB35 billion in the next 12 months. The company has undrawn uncommitted credit facilities of around THB54 billion. In addition, in November 2022, the company issued THB13 billion in new debentures to refinance its maturing debts. These sources of funds should be sufficient to cover the cash needed for debt service and investments over the next 12 months. As of March 2022, ThaiBev had long-term debt repayment obligations of around THB21.8 billion coming due during the next 12 months. The company's outstanding short-term obligations were THB13.6 billion. The company also has planned capital expenditures of approximately THB4.5 billion in FY2023.

We expect ThaiBev to comply with the financial covenants on its debt obligations over the next 12-18 months. The company's interest-bearing debt to total equity ratio at the end of March 2022 was 0.95 times, well below the financial covenant limit of 3 times.

As of March 2022, ThaiBev's total interest-bearing debt of THB205 billion included priority debt of THB34 billion. The priority debt comprised unsecured debts at the subsidiary level. The company's priority debt to total debt ratio was 17%.

BASE-CASE ASSUMPTIONS

- Revenues to increase by around 12% in FY2022 and increase by around 4% per annum during FY2023-FY2024.
- EBITDA margin to stay around 18%.
- Capital expenditures to be around THB4-THB5 billion per annum over the forecast period.
- Adjusted debt to EBITDA ratio to gradually drop to 2.6 times in FY2024.

RATING OUTLOOK

The “stable” outlook reflects our expectation that ThaiBev will remain on track to bring down its financial leverage from its strong cash generation. We expect the company to maintain its dominant position in the domestic market and the regional markets outside Thailand.

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 and also one of Asia’s largest beverage producers. The company was founded in 2003 and listed on the Singapore Exchange (SGX) in 2006. ThaiBev offers four key product categories: spirit, beer, non-alcohol beverage, and food. At the end of May 2022, the Sirivadhanabhakdi family was the major shareholder, controlling about 66% 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 nine months of FY2022, ThaiBev’s total revenues were THB207.9 billion. Spirits were the key revenue contributor, comprising 44% of total revenue and over 57% of EBITDA.

KEY OPERATING PERFORMANCE

Table 1: ThaiBev's Revenue Breakdown

Unit: %

Product	Jan-Sep 2016	FY2017	FY2018	FY2019	FY2020	FY2021	Oct 2021-Jun 2022
Beer	32	30	41	44	43	41	44
Spirit	55	58	46	43	46	48	44
Non-alcohol beverage	9	9	7	7	6	6	6
Food	4	4	6	6	5	5	6
Total	100						
Total revenue (mil. THB)	139,153	189,997	229,695	267,357	253,481	240,543	207,992

Source: ThaiBev

Table 2: ThaiBev's EBITDA Breakdown*

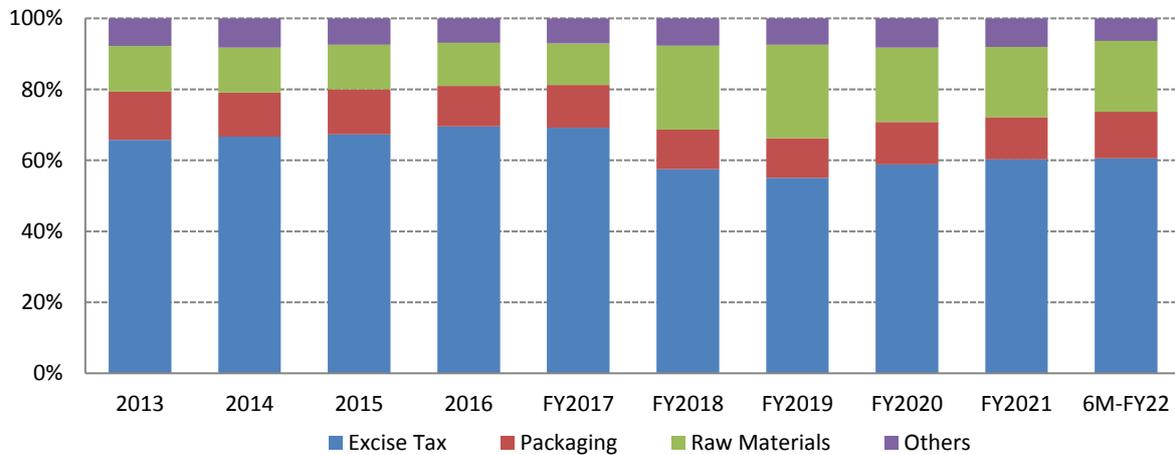
Unit: %

Product	Jan-Sep 2016	FY2017	FY2018	FY2019	FY2020	FY2021	Oct 2021-Jun 2022
Beer	17	14	25	30	29	28	35
Spirit	82	83	70	64	64	65	57
Non-alcohol beverage	-1	1	0	2	5	5	4
Food	2	2	5	4	2	2	4
Total	100						
Total EBITDA (mil. THB)	23,516	32,675	34,296	40,913	44,388	44,209	39,110

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

	Oct 2021- Mar 2022	-----Year Ended 30 September -----			
		2021	2020	2019	2018
Total operating revenues	143,399	241,264	254,707	268,095	230,555
Earnings before interest and taxes (EBIT)	24,382	38,893	40,417	38,939	28,196
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	27,615	45,402	46,477	44,593	33,916
Funds from operations (FFO)	21,598	32,357	32,627	31,286	23,385
Adjusted interest expense	3,267	6,920	7,486	7,628	5,325
Capital expenditures	1,808	3,558	4,650	5,815	7,437
Total assets	471,542	472,585	433,520	407,496	417,923
Adjusted debt	175,134	191,118	193,331	205,705	218,310
Adjusted equity	215,354	210,176	179,405	150,322	155,473
Adjusted Ratios					
EBITDA margin (%)	19.26	18.82	18.25	16.63	14.71
Pretax return on permanent capital (%)	9.66 **	9.17	10.26	10.03	9.80
EBITDA interest coverage (times)	8.45	6.56	6.21	5.85	6.37
Debt to EBITDA (times)	3.72 **	4.21	4.16	4.61	6.44
FFO to debt (%)	19.56 **	16.93	16.88	15.21	10.71
Debt to capitalization (%)	44.85	47.63	51.87	57.78	58.41

* 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
- Issue Rating Criteria, 15 June 2021

Thai Beverage PLC (ThaiBev)

Company Rating:	AA
Issue Ratings:	
TBEV233A: THB10,000 million senior unsecured debentures due 2023	AA
TBEV243A: THB11,300 million senior unsecured debentures due 2024	AA
TBEV244A: THB8,000 million senior unsecured debentures due 2024	AA
TBEV253A: THB9,300 million senior unsecured debentures due 2025	AA
TBEV25NA: THB3,395 million senior unsecured debentures due 2025	AA
TBEV27NA: THB5,478 million senior unsecured debentures due 2027	AA
TBEV283A: THB14,500 million senior unsecured debentures due 2028	AA
TBEV293A: THB10,100 million senior unsecured debentures due 2029	AA
TBEV29NA: THB2,500 million senior unsecured debentures due 2029	AA
TBEV32NA: THB1,662 million senior unsecured debentures due 2032	AA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2022, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria