

THAI BEVERAGE PLC

No. 228/2023
21 November 2023

CORPORATES

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

Last Review Date: 03/07/23

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

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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" 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. 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 continues to grow with manageable profitability

ThaiBev's revenue continues to increase thanks to a rebound in economic activities, particularly within the tourism sector, and the reopening of bars, pubs, and other entertainment venues. Despite the slight decline in beer revenue in Vietnam resulting from the economic slowdown, the company's total revenue is slated to increase by around 4% in fiscal year (FY) 2023, driven by growing sales of alcoholic and non-alcoholic beverages as well as food in Thailand, and sales of spirits in Myanmar. We still expect ThaiBev to achieve revenue growth of approximately 1.5% in FY2024 and maintain a growth rate of around 3% annually during FY2025-FY2026. This growth aligns with our projections of moderate revenue expansion across all business segments, except for beer revenue in Thailand which could be affected by increased competition from a big new brewer to the market.

Pressure from rising raw material costs, energy prices, plus advertising and promotion expenses has largely been mitigated by increasing product prices and through stronger sales of high-margin products. Nonetheless, the company recorded a slight decline in its earnings before interest, taxes, depreciation, and amortization (EBITDA) margin to 18% in the first half of FY2023. Although the company may launch more advertising and promotion campaigns in response to the increased competition in the market, we expect its EBITDA margin to stabilize within the 17%-18% range during FY2023-FY2026, in views of its prudent cost management plan and easing raw material costs.

Geographic diversification with strong market positions

The company has broadened its geographic footprint after expanding into Vietnam and Myanmar. In the first half of FY2023, overseas revenue contributed around 27% of total revenue. This geographic diversification helps reduce concentration risk and presents significant growth opportunities, despite potential political and regulatory challenges.

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, Saigon Alcohol, Beer and Beverage Corporation (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.

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. Its sales are 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 in Thailand is subject to strict government oversight and control. Typical regulations include limits on advertising and promotional activities, restricted hours for the 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 the government 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 a strict drink-driving law (DECREE 100) with harsh punishments for violations which diminishes the growth potential for out-of-home alcohol sales.

Leverage to decline

In the first half of FY2023, the company's adjusted debt slightly increased to THB170 billion, from THB166 billion in FY2022, due to the increased need for working capital. Its adjusted debt to EBITDA ratio slightly increased to 3.4 times in the first half of FY2023, compared with 3.3 times in FY2022. We project the company's EBITDA to remain in the range of THB49-THB51 billion during FY2023-FY2026. Meanwhile, its adjusted debt is expected to gradually drop to around THB140 billion in FY2026 as the company has no plans for additional large debt-funded acquisitions over the next three years. As a result, we project the company's adjusted debt to EBITDA ratio to gradually decline to around 2.7 times in FY2026. 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 2023, ThaiBev had cash on hand of THB45.3 billion. We project its funds from operations (FFO) of around THB37 billion over the next 12 months. The company has undrawn uncommitted credit facilities of around THB53 billion. In addition, in July 2023, the company issued THB15 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. Due to information as of March 2023, ThaiBev will have long-term debt repayment obligations of around THB57.8 billion coming due during the next 12 months. The company's outstanding short-term obligations are THB4.8 billion. The company also has planned capital expenditures of approximately THB5.5 billion in FY2024.

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 2023 was 0.9 times, well below the financial covenant limit of 3 times.

As of March 2023, ThaiBev's total interest-bearing debt of THB204 billion included priority debt of THB26 billion. The priority debt comprised unsecured debts at the subsidiary level. The company's priority debt to total debt ratio was 13%.

BASE-CASE ASSUMPTIONS

- Revenues to increase by 1.5% in FY2024, then around 3% per annum during FY2025-FY2026.
- EBITDA margin to stay in the 17%-18% range.
- Capital expenditures of around THB4-THB6 billion per annum over the forecast period.
- Adjusted debt to EBITDA ratio to gradually drop to 2.7 times in FY2026.

RATING OUTLOOK

The “stable” outlook reflects our expectation that ThaiBev will continue to post strong operating performance with moderate financial leverage. We expect the company to maintain its dominant position in the domestic and regional markets.

RATING SENSITIVITIES

The ratings and/or outlook could be revised upward, should the company’s 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 ThaiBev's operating performance deteriorates substantially from our projection or if its financial policy becomes more aggressive, resulting in the debt to EBITDA ratio rising above 3.5 times for a prolonged period.

COMPANY OVERVIEW

ThaiBev is a leading beverage and food company in Thailand and is 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-alcoholic 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 28.4% 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 FY2023, ThaiBev’s total revenues were THB215.9 billion. Spirits were the key revenue contributor, comprising 43% of total revenue and over 63% of EBITDA.

KEY OPERATING PERFORMANCE

Table 1: ThaiBev’s Revenue Breakdown

Unit: %

Product	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	Oct 2022- Jun 2023
Beer	30	41	44	43	41	45	43
Spirit	58	46	43	46	48	43	43
Non-alcoholic beverages	9	7	7	6	6	6	7
Food	4	6	6	5	5	6	7
Total	100						
Total revenue (mil. THB)	189,997	229,695	267,357	253,481	240,543	272,359	215,893

Source: ThaiBev

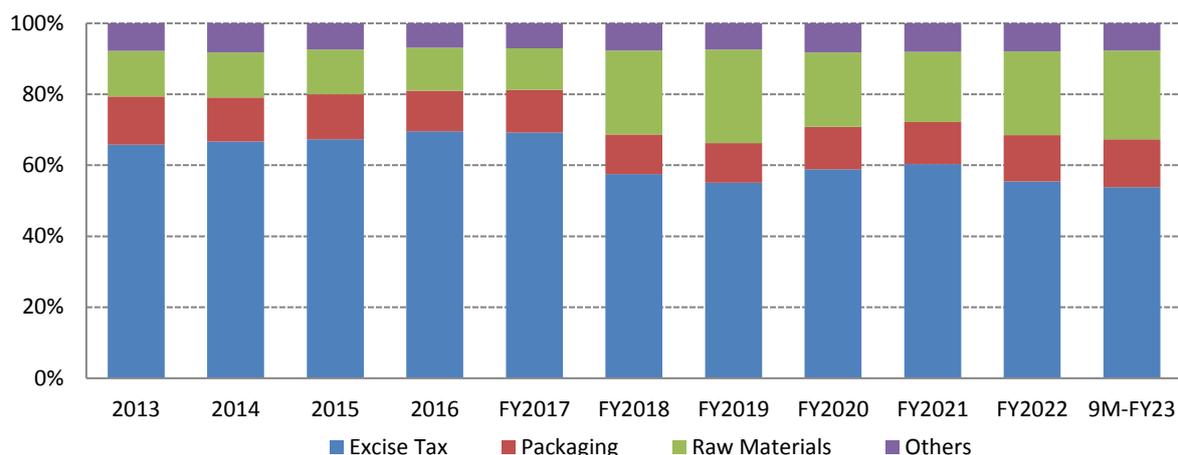
Table 2: ThaiBev’s EBITDA Breakdown*

Unit: %

Product	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	Oct 2022- Jun 2023
Beer	14	25	30	29	28	35	28
Spirit	83	70	64	64	65	57	63
Non-alcoholic beverages	1	0	2	5	5	4	5
Food	2	5	4	2	2	4	4
Total	100						
Total EBITDA (mil. THB)	32,675	34,296	40,913	44,388	44,209	49,612	37,765

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 September -----				
	Oct 2022- Mar 2023	2022	2021	2020	2019
Total operating revenues	148,981	273,142	241,264	254,707	268,095
Earnings before interest and taxes (EBIT)	24,045	46,263	38,893	40,417	38,939
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	26,763	50,562	45,402	46,477	44,593
Funds from operations (FFO)	20,500	37,557	32,357	32,627	31,286
Adjusted interest expense	3,226	6,322	6,920	7,486	7,628
Capital expenditures	2,262	3,753	3,558	4,650	5,815
Total assets	478,792	507,789	472,585	433,520	407,496
Adjusted debt	170,067	165,993	191,118	193,331	205,705
Adjusted equity	226,248	249,389	210,176	179,405	150,322
Adjusted Ratios					
EBITDA margin (%)	17.96	18.51	18.82	18.25	16.63
Pretax return on permanent capital (%)	10.51 **	10.17	9.17	10.26	10.03
EBITDA interest coverage (times)	8.30	8.00	6.56	6.21	5.85
Debt to EBITDA (times)	3.42 **	3.28	4.21	4.16	4.61
FFO to debt (%)	21.44 **	22.63	16.93	16.88	15.21
Debt to capitalization (%)	42.91	39.96	47.63	51.87	57.78

* 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:	
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
TBEV267A: THB2,500 million senior unsecured debentures due 2026	AA
TBEV277A: THB9,000 million senior unsecured debentures due 2027	AA
TBEV279A: THB9,262 million senior unsecured debentures due 2027	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
TBEV337A: THB3,500 million senior unsecured debentures due 2033	AA
Rating Outlook:	Stable

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