

BETAGRO PLC

No. 44/2017

27 June 2017

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

Company Rating History:

| Date | Rating | Outlook/Alert |
|----------|--------|---------------|
| 08/09/11 | A | Stable |

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Rating Rationale

TRIS Rating affirms the company rating and the outstanding senior unsecured debenture ratings of Betagro PLC (BTG) at "A". At the same time, TRIS Rating assigns a rating of "A" to BTG's proposed issue of up to Bt4,500 million in senior unsecured debentures. The proceeds from the new debentures will be used for planned capital expenditures. The ratings reflect the company's proven record in the Thai agribusiness and food industries, full vertical integration across its diverse product lines, and the focus on value-added and branded products. These strengths are partially offset by the inherent cyclical nature of the commodity-like products BTG sells and the volatile prices for the major raw materials, the exposure to disease outbreaks, as well as changes in tariffs of importing countries.

BTG was incorporated in 1967 by the Taepaisitphongse family and its associates. The company is one of the leading agribusiness and food companies in Thailand. As of May 2017, the Taepaisitphongse family held directly 15.33% of the company's shares and held indirectly a 69.45% share through Betagro Holding Co., Ltd., BTG's parent company. BTG's business lines cover feed, animal health, pet food, swine, poultry, egg, and processed meat. The company's chicken and swine operations are fully vertically integrated, from feed to food products. BTG is also well-known as an industry-leading producer of high-quality pork meat in Thailand. In 2016, revenue from poultry products comprised 36% of BTG's total sales, followed by feed (35%), and swine (19%). Domestic sales accounted for 89% of total sales in 2016, with the remaining 11% from exports.

To alleviate the effect of cyclical nature of the industry and the commodity-like nature of the products, BTG is striving to create value-added products and build its own brands. BTG set up a food innovation center for research and product development purposes, as well as plans to launch more value-added products. BTG also created its own domestic distribution channel, "Betagro Shops". At the end of March 2017, the company had 160 stores in Thailand and six stores abroad.

BTG's performances fluctuated over the course of the livestock industry cycle. BTG's financial performance improved in 2016 on the back of gradual recovery from oversupply situations in the previous year. Revenue was relatively flat at Bt83,732 million in 2016, compared with Bt83,450 million in 2015. The rise in swine price and the drop in cost of grain shift BTG's profit margin. The operating margin before depreciation and amortization improved from 4.1% in 2015 to 5.1% in 2016. Earnings before interest, tax, depreciation, and amortization (EBITDA) increased by 11% year-on-year (y-o-y) to Bt4,396 million in 2016.

During the first quarter of 2017, BTG posted weaker operating performance. Significant drops in livestock prices hurt BTG's revenue and profit margin. During the first quarter of 2017, BTG's revenue declined by 6.8% y-o-y to Bt19,107 million. The operating profit margin also dropped, sliding to 1.3%, from 4.8% during the first quarter of 2016. EBITDA also slumped, sinking to Bt443 million for the first quarter of 2017, down from Bt1,200 million during the same period a year earlier.

BTG's balance sheet remained fair. The total debt to capitalization ratio was moderate at 45.7% at the end of March 2017, despite weakening from 42.8% as of December 2016. Cash flow protection was softer, but remained acceptable. The ratio of funds from operations (FFO) to total debt dropped from 30.7% in 2016 to

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23.3% (annualized, from the trailing 12 months) for the first quarter of 2017. The EBITDA interest coverage ratio was 3.4 times during the first quarter of 2017, compared with 12.4 times in 2016.

BTG is expected to report better earnings for the remaining of the year as prices of livestock increase and feed costs get under control. The rising domestic poultry price is supported by strong export demand driven by the avian flu outbreak in several countries. Normally, company's EBITDA range from Bt5,000-Bt6,000 million per year. BTG revised its capital expenditures to approximately Bt6,000 million per annum over the next three years, up from Bt4,000-Bt5,000 million per year. The rise in capital expenditure plans are mainly for additional expansion of farms, feed and food processing plants. Given the expected levels of EBITDA and capital expenditures, the debt to capitalization ratio is expected to hold approximately 50% in 2017-2019. The EBITDA interest coverage ratio will stay at about 9 times, and the FFO to total debt will hover around 25% during the same period.

Rating Outlook

The "stable" outlook reflects TRIS Rating's view that BTG will be able to maintain its leading positions in the Thai agribusiness and food industries. BTG is expected to manage its total debt to capitalization ratio to approximately 50% during expansion.

BTG's ratings and/or outlook would be revised upward if its cash flow generation improves significantly on a sustainable basis while the capital structure and debt serviceability do not deteriorate from the current levels. In contrast, the ratings and/or outlook could be revised downward if more intense competition leads to persistent declines in BTG's profitability and cash flow protection.

Betagro PLC (BTG)

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|--|--------|
| Company Rating: | A |
| Issue Ratings: | |
| BTG17NA: Bt600 million senior unsecured debentures due 2017 | A |
| BTG183A: Bt300 million senior unsecured debentures due 2018 | A |
| BTG184A: Bt500 million senior unsecured debentures due 2018 | A |
| BTG18NA: Bt500 million senior unsecured debentures due 2018 | A |
| BTG19NA: Bt600 million senior unsecured debentures due 2019 | A |
| BTG215A: Bt3,000 million senior unsecured debentures due 2021 | A |
| Up to Bt4,500 million senior unsecured debentures due within 7 years | A |
| Rating Outlook: | Stable |

Financial Statistics and Key Financial Ratios*

Unit: Bt million

| | ----- Year Ended 31 December ----- | | | | |
|--|------------------------------------|--------|--------|--------|--------|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| Sales and service revenues | 83,732 | 83,450 | 82,578 | 74,247 | 64,632 |
| Gross interest expense | 264 | 282 | 311 | 433 | 353 |
| Net income from operations | 1,761 | 1,741 | 4,324 | 2,773 | 495 |
| Funds from operations (FFO) | 3,646 | 3,652 | 6,262 | 4,540 | 1,928 |
| Earnings before interest, tax, depreciation, and amortization (EBITDA) | 4,396 | 3,954 | 7,307 | 5,320 | 2,159 |
| Total capital expenditures | 3,322 | 2,624 | 2,647 | 1,993 | 2,275 |
| Total assets | 38,542 | 37,187 | 35,157 | 33,152 | 30,059 |
| Total debt | 11,911 | 11,775 | 9,352 | 11,991 | 14,499 |
| Shareholders' equity | 17,234 | 16,212 | 15,888 | 12,012 | 9,310 |
| Operating income before depreciation and amortization as % of sales | 5.07 | 4.14 | 8.33 | 6.56 | 2.30 |
| Pretax return on permanent capital (%) | 9.50 | 8.81 | 23.03 | 15.88 | 4.23 |
| Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times) | 12.42 | 10.09 | 17.55 | 10.53 | 5.28 |
| FFO/total debt (%) | 30.67 | 30.22 | 61.62 | 37.25 | 13.20 |
| Total debt/capitalization (%) | 42.78 | 44.48 | 39.72 | 51.53 | 62.19 |

Note: All ratios are operating lease adjusted

* Consolidated financial statements

TRIS Rating Co., Ltd.

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