

BETAGRO PLC

No. 228/2022
15 December 2022

CORPORATES

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

Last Review Date: 16/12/21

Company Rating History:

Date	Rating	Outlook/Alert
03/01/19	A-	Stable
08/09/11	A	Stable

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RATIONALE

TRIS Rating upgrades the company rating on Betagro PLC (BTG) and the ratings on its senior unsecured debenture to “A” from “A-” with a “stable” outlook. The upgrade reflects BTG’s strengthened capital structure, following its initial public offering (IPO) and listing on the Stock Exchange of Thailand (SET), together with its sound operating performance on the back of a substantial increase in livestock prices. We view the momentum of high meat prices to continue in 2023 before gradually softening in 2024.

The “stable” outlook reflects our view of the company’s ability to maintain its business position and its financial profile as measured by the ratio of debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) below 4 times on a sustained basis.

The ratings are underpinned by BTG’s leading position in the Thai agribusiness and food industries. The ratings also factor in several industry risk factors, such as the cyclicity of commodity-type products, volatile raw material prices, animal disease outbreaks, and trade barriers. However, BTG’s vertically integrated product lines, and its strategy to focus on value-added and branded products alleviate these concerns to some extent.

KEY RATING CONSIDERATIONS

Substantial strengthening in capital structure

In November 2022, BTG completed its IPO with proceeds of approximately THB17.5 billion and listing on the SET. About 50% of this capital injection will be used for repayment of existing debts and the remainder is slated for capacity expansion and working capital needs.

At the end of September 2022, BTG’s debt to EBITDA ratio dropped sharply to 2.2 times from 5.6 times at year-end 2021. With the fresh capital and capital expenditures of THB3-THB5 billion per annum, BTG’s net debt to EBITDA ratio is projected to improve substantially to 1.5 times in 2022 and stay in the range of 2.5-3.9 times in 2023-2024, while the debt to capitalization ratio should stay below 50% in 2022-2024.

Good operating performance amid higher livestock prices

BTG reported satisfactory operating results in the first nine months of 2022, despite a steep rise in grain costs. The improvement was mainly driven by skyrocketing livestock prices. During the first nine months of 2022, average prices of swine and chicken surged by 32.7% and 28.6% year-on-year (y-o-y), respectively, according to data from Thai Feed Mill Association. Swine prices surged on the back of supply shortages following an outbreak of African swine fever (ASF) in Thailand. Prices of chicken also escalated due to rising demand as a pork substitute and demand from export markets.

For the first nine months of 2022, BTG’s operating revenue soared by 32.7% y-o-y to THB83.2 billion. EBITDA surged to THB10.6 billion, compared with THB3.5 billion during the same period of 2021. The EBITDA margin was 12.8%, compared with 6.6%-8.9% in 2019-2021.

TRIS Rating expects BTG to continue delivering sound operating results in the coming years. Although feed costs and inflation remain high, we believe the company should further benefit from high meat prices, driven by the ongoing

supply shortage, as well as from escalating demand boosted by the revival of tourism and food security concerns globally.

We project BTG's operating revenue to climb to THB103-THB110 billion per annum during 2022-2024. The EBITDA margin is projected to hit 11.8% in 2022, before normalizing to 5.3%-7.9% in 2023-2024. EBITDA is projected to reach THB12.7 billion in 2022 and THB5.5-THB8.7 billion per annum in 2023-2024.

Adequate liquidity

We assess BTG's liquidity to be adequate over the next 12 months. Funding needs will include THB2.8 billion maturing debentures and capital expenditures of THB4.7 billion. The primary source of repayment is expected to come from funds from operations (FFO) of THB7 billion in 2023. The liquidity buffer is supported by cash reserves, amounting to THB1.3 billion at the end of September 2022, as well as proceeds from the IPO and numerous undrawn credit facilities from several financial institutions.

The key financial covenant on BTG's debentures requires maintenance of an interest-bearing debt to equity ratio below 2 times. BTG's net debt to equity ratio is projected to below 1 times at the end of 2022. We expect the company to remain in compliance with the covenant over the forecast period of 2022-2024.

Leader in Thailand's agribusiness and food industries

BTG has been a leader in the agribusiness and food industries for 55 years. BTG is the third-largest poultry processor in Thailand with a market share of 11% in 2021, trailing Charoen Pokphand Foods PLC (21%) and Saha Farm Co., Ltd. (12%). Its share of chicken exports from Thailand was around 8% in 2021, according to data from the Thai Broiler Processing Exporters Association. BTG is also an industry-leading producer of high-quality pork products in Thailand, with approximately 10% share of the domestic supply of pork products.

BTG's chicken and swine operations are fully vertically integrated, from feed to food products. BTG produces feed, breeds and farms livestock, and processes meat. Livestock are raised in-house and via contract farming. Through vertical integration, the company can control the quality and costs of the production processes. BTG has a broad portfolio of products, covering animal feed, poultry, swine, and food products. The diverse range of products helps mitigate BTG's operational risks. During the first nine months of 2022, feed, farm, and food products contributed about 24%, 61%, and 12% of total sales, respectively.

Focus on value-added and branded products

BTG's key strategy is to focus on value-added and branded products. This strategy should help increase its profit margin and partly mitigate the effect of price fluctuations inherent in commodity-like farm products. During the first nine months of 2022, value-added food products comprised 12% of total sales. Additionally, BTG has established a food innovation center for research and product development. It plans to launch more value-added products in the years ahead.

The company's promotional efforts support its branded products. Brand recognition gives BTG an advantage as consumers tend to choose trusted brands. BTG has several well-known brands such as "S-Pure" and "Betagro" for hygienic meat and food, "ITOHAM" for premium sausage, "Better Pharma" for drug and animal health, "Perfecta", "DOG n joy", and "CAT n joy" for pet food products.

BASE-CASE ASSUMPTIONS

- Operating revenue to increase by 24% to THB108 billion in 2022 and THB103-110 billion in 2023-2024.
- Gross profit margin to be 19.4% in 2022 and 14%-16% range in 2023-2024; EBITDA margin to be 11.8% in 2022 and 5.3%-7.9% range in 2023-24
- Total capital spending to be THB2.7 billion in 2022 and THB4.7-THB5.0 billion per annum during 2023-2024.

RATING OUTLOOK

The "stable" outlook reflects our view that BTG will be able to maintain its leading positions in the Thai agribusiness and food industries. The company's strategy of focusing on biosecurity and digital transformation, as well as its value-added product offerings, should improve the company's competitive position and operating performance over the next few years.

RATING SENSITIVITIES

BTG's ratings could be upgraded if the company is able to significantly enlarge its cashflow while maintaining a strong balance sheet. On the contrary, downward rating pressure would emerge if BTG's operating performance deteriorates significantly, or the company undertakes any sizeable debt-financed investments which would weaken its balance sheet and cash flow protection. A rating downgrade could occur if its ratio of adjusted debt to EBITDA increases above 4 times on a sustained basis.

COMPANY OVERVIEW

BTG was established in 1967 by the Taepaisitphongse family and its associates. The company successfully raised funds via an IPO on the SET in November 2022. The Taepaisitphongse family remains the major shareholder, holding approximately 66% stake, as of November 2022.

The company has three major business segments: feed, farm, and food. Farm products (breeding stock, live animals, and raw meat) contributed 61% of sales during the first nine months of 2022, followed by animal feed (24%), food products (semi-cooked meat, cooked meat and ready-to-eat products, 12%), and other products (2%). In terms of product category, revenue from poultry products comprised 39% of BTG’s total sales, followed by swine (29%), feed (24%), animal health (3%), sausage and meatball (2%), and others (2%).

Fully integrated operations help BTG’s products meet international standards, qualifying the company to export to Japan and the European Union (EU). Exports constituted 12% of total sales in the first nine months of 2022, while domestic sales accounted for 88%.

Apart from Thailand, BTG has expanded its footprint into Cambodia and the Lao People's Democratic Republic (Lao PDR). BTG’s overseas operations cover feed plants and farms. Revenue from overseas operations accounted for 5% of total revenue in the first nine months of 2022, but this figure is expected to increase gradually.

KEY OPERATING PERFORMANCE

Table 1: BTG’s Revenue Breakdown by Product Segment

Unit: %

Product Segment	2017	2018	2019	2020	2021	Jan-Sep 2022
Feed	36	35	23	24	27	24
Farm	50	51	59	60	58	61
Food	12	12	14	13	12	12
Others	2	2	4	3	3	2
Total	100	100	100	100	100	100
Sales (mil. THB)	81,241	82,815	74,092	79,966	85,292	82,673

Note: Revenue contribution since 2019 onwards has changed significantly due to an applying of new account standard by excluding sales to contract farmers.

Source: BTG

Chart 1: BTG’s Gross Margin and Average Prices of Broiler and Swine, by Year



Sources: BTG and Thai Feed Mill Association

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Sep 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	83,200	86,524	80,500	74,551	83,500
Earnings before interest and taxes (EBIT)	7,510	1,647	3,224	1,681	(2,745)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	10,643	5,695	7,185	5,372	405
Funds from operations (FFO)	8,989	4,586	6,239	4,387	(481)
Adjusted interest expense	454	625	556	700	614
Capital expenditures	2,304	2,098	965	2,345	5,297
Total assets	60,053	57,475	50,342	47,522	51,438
Adjusted debt	27,718	31,831	23,300	26,196	27,816
Adjusted equity	10,028	15,522	17,146	15,393	14,299
Adjusted Ratios					
EBITDA margin (%)	12.79	6.58	8.93	7.21	0.49
Pretax return on permanent capital (%)	20.62	3.70	7.76	3.97	(6.95)
EBITDA interest coverage (times)	23.46	9.11	12.92	7.68	0.66
Debt to EBITDA (times)	2.16	5.59	3.24	4.88	68.68
FFO to debt (%)	38.80	14.41	26.78	16.75	(1.73)
Debt to capitalization (%)	73.43	67.22	57.61	62.99	66.05

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

Betagro PLC (BTG)

Company Rating:	A
Issue Ratings:	
BTG233A: THB2,000 million senior unsecured debentures due 2023	A
BTG238A: THB800 million senior unsecured debentures due 2023	A
BTG247A: THB1,000 million senior unsecured debentures due 2024	A
BTG248A: THB1,000 million senior unsecured debentures due 2024	A
BTG258A: THB2,200 million senior unsecured debentures due 2025	A
Rating Outlook:	Stable

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