CreditNews ข่าวเครดิต

CARABAO GROUP PLC

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CORPORATES

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

Last Review Date: 31/10/19

Company Rating History:

Date	Rating	Outlook/Alert
20/11/17	A-	Stable

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RATIONALE

TRIS Rating upgrades the company rating on Carabao Group PLC (CBG) and the ratings on CBG's senior unsecured debentures to "A" from "A-" with a "stable" outlook. The upgrade reflects CBG's lower debt level and continued improvement in operating performance. Investment in vertical integration during 2016-2018 has helped CBG deliver higher profit margins. The company has also redirected its expansion effort from the United Kingdom (UK) market to the less costly CLMV (Cambodia, Laos, Myanmar, and Vietnam) markets, thereby significantly reducing its operating expenses. Capital expenditure needs in the foreseeable future are low relative to its internal cash flow.

The ratings continue to reflect CBG's strong market position in the energy drink market, and its growth opportunities abroad. However, these strengths are partially offset by CBG's reliance on a narrow range of products and limited growth prospects in the Thai energy drink market.

KEY RATING CONSIDERATIONS

Continued improvement in operating performance

CBG's profitability has improved continuously thanks to the company's vertical integration, economies of scale, and prudent use of advertising and promotion campaigns. CBG's earnings before interest, tax, depreciation, and amortization (EBITDA) margin has increased continuously, from 13.9% in 2018 to 25.4% in 2019 and 29.1% in the first half of 2020. The improvements were due to the company's reduced packaging costs after building its own bottle and aluminum can production facilities together with improved economies of scale. The company procures its raw materials directly from producers, which lowers raw material costs. In addition, selling and administration expenses have declined as the company has been more prudent in implementing advertising and promotion campaigns and has cut unnecessary sponsorship expenses. We project the company will be able to sustain a high EBITDA margin of around 25%-30% over the next three years.

Strong position in the Thai energy drink market

CBG has steadily gained market share in the Thai energy drink market during the past decade. Its product is currently the second most popular energy drink in Thailand. During the past five years, the company's market share has held at 22%-25%. CBG's strong market position is underpinned by the company's well-known brand, its effective marketing strategies, and its extensive distribution network covering more than 180,000 retail outlets.

The Thai energy drink market has been affected by the lockdown measures to contain the COVID-19 outbreak. In the first half of 2020, the market contracted by 7.0% year-on-year (y-o-y). CBG's domestic energy drink sales also decreased by 6.0% compared with the same period of the previous year. Under our base-case scenario, we project CBG's revenue from domestic energy drink sales will decline by 5% in 2020, then recover by around 3% per annum during 2021-2022.

Energy drink producers have managed to avoid the impacts of new excise and sugar taxes, which are levied at higher rates for high sugar content, by reformulating their products. So far, we have seen no price increases and there have been no complaints from consumers about the taste of the reformulated products.

Growth opportunities in CLMV markets

CBG has recorded impressive export revenue growth for its energy drink products. The company's export revenue grew by 29% y-o-y to THB4.4 billion in the first half of 2020. The strong growth was mainly the result of substantial increases in revenue in Cambodia and Myanmar. In the first half of 2020, export sales accounted for 51% of CBG's total revenue, and Cambodia, the major overseas market, contributed more than half of total export sales.

In order to increase revenue growth from exports, the company helps the distributor in each country create marketing and promotion campaigns to boost sales. The company also shares its best practices and strategies to gain market share and compete with rivals. With the help of these supporting activities, CBG believes its revenue and market share in the CLMV countries and China will continue to grow. We project CBG's export sales to increase by around 24% in 2020 and by 5%-10% per annum in 2021-2022.

Reliance on a limited range of products

CBG relies primarily on energy drink products, a small segment of the overall beverage market, which makes the company relatively vulnerable to shifts in consumer preferences and behavior. CBG derived 82% of its revenue from energy drink products in the first half of 2020. Most of its energy drink sales are from traditional energy drink products, with lower-income workers constituting the main consumer group. CBG has been trying to launch flavored energy drinks to capture a new consumer base but the long-term success of these products remains to be seen.

The Thai energy drink market is quite saturated, with limited growth prospects for the past several years. To spur domestic sales, the company has launched products in new categories, such as ready-to-drink coffee, sports drinks, water, and healthy functional drinks.

CBG also provides distribution services for third-party products to fully utilize its distribution network. In the first half of 2020, the company doubled revenue from third-party products, mainly contributed by spirits products. These third-party products will help boost domestic revenue but typically generate a lower profit margin. Increasing revenue from new products and third-party products will help the company reduce its reliance on energy drink sales. We project CBG's non-energy drink revenue to increase to THB3.5-THB4.0 billion per annum during 2020-2022.

Improved financial leverage

CBG's financial leverage has improved thanks to the growing cash flow. The debt to EBITDA ratio improved to 0.6 times in the first half of 2020 from 0.9 times in 2019, and the ratio of funds from operations (FFO) to debt increased to 133.5% in the first half of 2020 from 90.1% in 2019.

We project CBG's FFO to be THB3.5-THB4.0 billion per annum for 2020-2022. CBG has set a capital budget totaling THB3.3 billion for the same period. The company plans to finance its investments by internal cash flow. As a result, we expect the company's debt to EBITDA ratio to stay below 1 time over the next three years, and its FFO to debt ratio to stay over 100% during 2020-2022.

We assess CBG to have adequate liquidity over the next 12 months. Sources of liquidity include cash on hand of around THB868 million and expected FFO of around THB3.5 billion per annum, which should be adequate to cover bank loans and debentures of around THB2.6 billion coming due in the next 12 months.

According to the key financial covenant on its debentures, CBG has to maintain its interest-bearing debt to equity ratio below 2.5 times. The ratio was 0.37 times as of June 2020, well below the covenant threshold. The company should have no problems complying with its financial covenants over the next 12 to 18 months.

BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions during 2020 to 2022 are as follows:

- Revenues of THB17-THB20 billion per annum over the next three years.
- EBITDA margin in the 25%-30% range during 2020-2022.
- Total capital expenditure of around THB3.3 billion over the three-year forecast period.

RATING OUTLOOK

The "stable" outlook reflects our expectation that CBG will be able to maintain its strong market position in the domestic energy drink market while maintaining reasonable growth in the export market. We expect CBG to continue delivering strong profitability and solid operating performance while maintaining sound financial leverage.

RATING SENSITIVITIES

The ratings could be revised downward if CBG's operating performance deteriorates substantially for a prolonged period or if its financial policy becomes more aggressive. A rating upgrade is unlikely in the near term. However, the ratings could be revised upward if CBG is able to enlarge its cash flow base significantly and develop more meaningful and diversified sources of income while maintaining sound financial leverage.

COMPANY OVERVIEW

CBG commenced operations to manufacture, market, and sell energy drink products under the "Carabao Dang" trademark in 2002, as a joint investment between Mr. Sathien Setthasit, Ms. Nutchamai Thanombooncharoen, and Mr. Yuenyong Opakul. CBG was incorporated as a holding company in 2013, owning subsidiaries that handle energy drink production, glass bottle manufacturing, aluminum can manufacturing, and domestic distribution. The company was listed on the Stock Exchange of Thailand (SET) in 2014. As of August 2020, the three co-founders together controlled 68% of the company's outstanding shares.

The strength of the "Carabao Dang" brand has been built around the popularity of the legendary musical band, "Carabao". With savvy marketing campaigns and on-the-ground marketing activities, Carabao Dang has become the second most popular energy drink in Thailand. CBG distributes its products through traditional trade and modern trade channels. Distribution in the traditional trade channel uses a multi-tier agent model. CBG also operates cash vans to reach retail outlets in more rural areas. As of June 2020, CBG had 31 distribution centers and more than 326 cash vans covering over 180,000 retail outlets nationwide.

CBG's production includes bottled energy drink filling lines, canned energy drink filling lines, amber glass bottle producing lines and aluminum can producing lines. The annual production capacities were 1,800 million bottles of energy drinks, 1,560 million cans of energy drinks, 1,300 million amber glass bottles and 1,000 aluminum cans.

Besides energy drinks, CBG offers a few other branded products including electrolyte drink, ready-to-drink coffee, 3-in-1 coffee powder, and drinking water, all under the "Carabao" trademark. CBG also provides distribution services for third-party products to fully utilize its distribution network.

KEY OPERATING PERFORMANCE

Table 1: Revenue Contribution by Product Line

Product	2017		2018		2019		Jan-Jun 2020	
Line	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%
Energy drinks	11,058	86	12,518	87	12,864	86	6,989	82
Branded products	985	8	826	6	548	4	344	4
3rd products	803	6	1,020	7	1,409	9	1,073	12
Others	58	0	58	0	112	1	163	2
Total	**12,904**	**100**	**14,422**	**100**	**14,933**	**100**	**8,568**	**100**

Source: CBG

Table 2: International Sales Contribution

	2017		2018		2019		Jan-Jun 2020	
	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%
Domestic	7,854	61	7,926	55	7,879	53	4,193	49
International	5,050	39	6,496	45	7,054	47	4,375	51
Total	**12,904**	**100**	**14,422**	**100**	**14,993**	**100**	**8,568**	**100**

Source: CBG

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

		---------------Year Ended 31 December ----------			
	Jan-Jun 2020	2019	2018	2017	2016
Total operating revenues	8,614	15,047	14,541	13,023	10,047
Earnings before interest and taxes (EBIT)	2,123	3,176	1,440	1,128	1,688
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,506	3,818	2,015	1,481	1,974
Funds from operations (FFO)	2,095	3,106	1,520	1,151	1,675
Adjusted interest expense	67	148	127	69	21
Capital expenditures	386	440	2,069	3,035	2,146
Total assets	15,363	14,780	14,320	12,520	9,778
Adjusted debt	2,943	3,447	4,932	3,604	174
Adjusted equity	9,231	8,718	7,365	7,005	7,100
Adjusted Ratios					
EBITDA margin (%)	29.10	25.37	13.86	11.37	19.65
Pretax return on permanent capital (%)	31.26	24.85	12.42	11.73	22.48
EBITDA interest coverage (times)	37.60	25.88	15.91	21.47	94.46
Debt to EBITDA (times)	0.62	0.90	2.45	2.43	0.09
FFO to debt (%)	133.49	90.11	30.82	31.95	962.47
Debt to capitalization (%)	24.17	28.34	40.11	33.97	2.39

RELATED CRITERIA

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

Carabao Group PLC (CBG)

Company Rating:	A
Issue Ratings:	
CBG216A: Bt720 million senior unsecured debentures due 2021	A
CBG216B: Bt370 million senior unsecured debentures due 2021	A
Rating Outlook:	Stable

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