

THAI BEVERAGE PLC

No. 65/2014

21 August 2014

Company Rating: AA-

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
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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Rating Rationale

TRIS Rating affirms the company rating of Thai Beverage PLC (ThaiBev) at “AA-”. The rating reflects ThaiBev’s leading position in the Thai alcoholic beverages industry, strong cash flow, as well as ample liquidity. The rating also takes into consideration the benefits ThaiBev receives from its well-established production base and its extensive distribution network. These strengths are partially constrained by intense competition, softening performance in non-alcoholic beverages segment, as well as tightened regulations and increased excise tax in the alcoholic beverage industry.

ThaiBev was founded in 2003. ThaiBev Group is a leading manufacturer and distributor of alcoholic beverages in Thailand. ThaiBev’s operation has expanded into non-alcoholic beverages and food business. The company was listed on Singapore Exchange (SGX) in 2006. At the end of May 2014, the Sirivadhanabhakdi family was the major shareholder, controlling about 68% of ThaiBev’s outstanding shares.

ThaiBev’s business profile is very strong, supported by its leading position in the alcoholic beverages industry in Thailand. ThaiBev had about 95% share in terms of volume in the Thai off-trade brown spirits market and was the second largest brewer in Thailand with approximately 30% market share in 2013. The supportive factors to its credit quality include its established production base, nationwide distribution network, and diverse portfolio of products. ThaiBev’s production facilities in Thailand comprise 18 distilleries, three breweries, and 10 non-alcoholic beverage plants. Moreover, ThaiBev owns five Scotch whisky distilleries in Scotland and one distillery in China. The most notable brands are *Hong Thong*, *Blend 285* for spirits; *Chang* beer; *Oishi* green tea and Japanese restaurant chain; and *est* carbonated drinks. The sizable production base, together with an extensive distribution network, allows ThaiBev to benefit from economies of scale and offer several products to serve more than 400,000 retail outlets nationwide. However, ThaiBev faces challenges from intense competition, especially in beer and non-alcoholic beverage segment. The rising excise taxes and strict regulation on alcoholic beverages have discouraged the consumption.

ThaiBev’s total revenue was Bt155,771 million in 2013 and Bt81,068 million for the first six months of 2014. Spirits continue to comprise the largest portion of the company’s revenue, generating 64% of ThaiBev’s total sales. Beer sales accounted for 22%, and the non-alcoholic beverages and food segments combined made up the remainder. The spirits segment was also ThaiBev’s major profit generator, contributing about 87% of earnings before interest, tax, depreciation and amortization (EBITDA).

ThaiBev’s revenues in 2013 dropped by 3% from the previous year due to declines in sales volumes in alcoholic beverages and soft drinks, reflecting softened demand amid weaker economy and the political impasse of last year. In September 2013, hike in excise taxes negatively affected demand for alcoholic beverages. Sales volumes of spirits and beer dropped by 2% and 9% in 2013, respectively. Sermasuk PLC (Sermasuk), ThaiBev’s key bottler and distributor of soft drinks, reported a 32% decline in sales volumes and reported operating losses in 2013. The drop reflects the expiration of contract with Pepsi Co. (Pepsi) in November 2012. In addition, the launch of its own brand, *est*, needs time to build brand awareness and penetrate the market. Revenues for the first six months of 2014 rose by 7%

year on year (y-o-y) due mainly to the price increases in spirits and beer. TRIS Rating expects the spirits segment to remain the key growth driver of ThaiBev in the medium term. Demand for spirits is resilient and is expected to gradually grow, along with improving sentiment of the Thai consumers.

ThaiBev's financial profile is considered fairly strong, reflecting its sustained operating performance, strong cash flow, and ample liquidity. These positive factors are partly offset by leverage that was increased in 2012 from the acquisition of a 28.6% stake in Fraser and Neave Limited (F&N), a Singapore-based conglomerate. The operating margin (operating income before depreciation and amortization as a percentage of sales) rose to 18% for the first six months of 2014, compared with 15%-16% during 2010-2013, reflecting a recent price increases and its cost saving initiatives. The spirits segment posted the highest profit margin compared with other segments. Beer segment has turned profitable after three-year consecutive losses. Non-alcoholic beverages reported loss in 2013 due to intense competition. Food segment had fairly stable margin at around 10%. Over the medium term, TRIS Rating expects the overall operating margin to sustain in the level of 16%. This reflects the expectation that ThaiBev will continue its cost control efforts. However, TRIS Rating believes the company will need to continue its promotion and marketing expenditures to strengthen its brand awareness, especially in the non-alcoholic beverages segment.

ThaiBev's ability to generate cash is strong. Funds from operations (FFO) were about Bt19,000 million per annum in 2012 and 2013, increasing from Bt17,861 million in 2011. FFO is expected to rise, backed by improving performance of non-alcoholic beverages. Liquidity was sufficient as the FFO to total debt ratio rose from 18% in 2012, to 28% in 2013, and to 38% in the first six months of 2014 (annualized with trailing 12 months). ThaiBev has the debt obligations of about Bt10,000 million due in 2014 and Bt13,000 million in 2015. ThaiBev's liquidity profile is further supported by its cash balance of Bt2,963 million, plus Bt9,746 million of finished goods inventory of spirits at the end of June 2014. ThaiBev has good relations with financial institutions, and was granted Bt68,269 million of undrawn uncommitted credit lines.

Total debt soared in 2012, after ThaiBev acquired a 28.6% stake in F&N. However, ThaiBev prepaid debts of Bt33,346 million in August 2013, plus another Bt4,420 million in April 2014, after it received cash from F&N's capital reduction. In addition, ThaiBev also prepaid debts from dividends received during 2013-2014 in amount of Bt2,851 million. ThaiBev's debt to capitalization ratio has improved from 55% in 2012, to 41% in 2013, and to 36% at the end of June 2014. TRIS Rating expects ThaiBev to spend capital expenditures of about Bt12,200 million in total during 2014-2016. The capital expenditures are for plant maintenance, production efficiency improvements, as well as distribution network expansion. TRIS Rating believes that ThaiBev's leverage will gradually decline and its capital protection ratio will be strengthened, backed by its ability to generate cash. The rating incorporates the planned capital expenditures and expected dividend payments which ThaiBev's debt to capitalization ratio could decline to below 35% during 2014-2016.

Rating Outlook

The "stable" outlook reflects ThaiBev's ability to maintain its strong positions in the Thai alcoholic beverages market. ThaiBev is expected to improve operating performance in the non-alcoholic beverages segment. ThaiBev's strategy on merger and acquisition may raise financing need in the future that the impact to the rating will be taken into account the cost and return of each project, accordingly.

Thai Beverage PLC (ThaiBev)

Company Rating:

AA-

Rating Outlook:

Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----				
	Jan-Jun 2014	2013	2012	2011	2010
Sales	81,068	155,771	161,044	132,187	120,472
Gross interest expense	804	2,319	1,401	455	259
Net income from operations	11,462	18,694	17,685	11,655	10,432
Funds from operations (FFO)	11,282	18,743	18,949	17,861	15,010
Total capital expenditures	2,076	4,824	4,821	3,165	3,110
Total assets	176,183	183,329	207,686	99,362	77,302
Total debt	57,688	67,700	104,153	18,227	9,362
Shareholders' equity	101,730	97,993	84,971	63,202	56,880
Operating income before depreciation and amortization as % of sales	17.8	16.0	16.6	15.7	15.9
Pretax return on permanent capital (%)	16.6 **	14.2	18.1	23.5	22.2
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	20.7	12.5	20.3	45.7	75.1
FFO/total debt (%)	37.5 **	27.7	18.2	98.0	160.3
Total debt/capitalization (%)	36.4	40.9	55.1	22.4	14.1

* Consolidated financial statements

** Annualized with trailing 12 months

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