

THAI BEVERAGE PLC

No. 89/2015

5 October 2015

Company Rating: AA
Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
21/08/14	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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Rating Rationale

TRIS Rating upgrades the company rating of Thai Beverage PLC (ThaiBev) to “AA” from “AA-”. The upgrade reflects ThaiBev’s strengthened credit quality, supported by a solid operating performance, growing cash flow, healthier balance sheet, and enhancement of the non-alcoholic beverage portfolio. ThaiBev’s rating continues to reflect its robust position in the Thai alcoholic beverage industry, growing presence in the overseas market, and experienced management team. Business synergy with Fraser and Neave Limited (F&N) further extends to maximize the ThaiBev Group’s production facility and shorten lead time for the new product launches. These strengths are partially offset by an intensely competitive environment as well as stricter regulations and a potential rise in excise taxes for the beverage industry.

ThaiBev was founded in 2003 and listed on the Singapore Exchange (SGX) in 2006. At the end of April 2015, the Sirivadhanabhakdi family was the major shareholder, controlling about 68% of ThaiBev’s outstanding shares. ThaiBev is the leading operator of the beverages and food business in Thailand. The company has expanded its presence in the regional market through merger and acquisition, including F&N acquisition which ThaiBev and TCC Assets Limited hold 28.5% and 59.4%, respectively. F&N helps set the ThaiBev Group’s position firmly in the Singaporean and Malaysian markets.

ThaiBev’s strong business profile derived from its leading position in each business segment. In brown spirits segment, ThaiBev had about 95% market share in terms of volume sales through the Thai off-trade channel. ThaiBev is one of two major brewers in Thailand, with nearly 30% market share for the first six months of 2015. For non-alcoholic beverages, ThaiBev is the market leader in ready-to-drink (RTD) green tea segment and has a variety of product portfolio, including newly launched *est* and *Jubjai*. F&N’s business, mainly focusing on non-alcoholic beverages, strengthens the ThaiBev Group’s product portfolio and enhances the market coverage in Singapore and Malaysia. The Group’s key brands include *Ruang Khao*, *Hong Thong*, *Blend 285* for spirits; *Chang* beer; *Oishi* green tea, *est* carbonated soft drink, as well as *100PLUS* and *NutriSoy* from F&N. Food services are mainly operated by OISHI Group PLC (OISHI), providing Japanese restaurants, chilled and frozen foods, and food delivery. As of June 2015, ThaiBev held 226 outlets, of which major restaurant chains are *Shabushi* and *Oishi Ramen*.

ThaiBev’s production facilities in Thailand comprise 18 distilleries, three breweries, 10 non-alcoholic beverage plants, and one central kitchen. Moreover, ThaiBev owns five Scotch whisky distilleries in Scotland and one distillery in China. The ThaiBev Group combinedly has an extensive distribution network which serves more than 400,000 retail outlets nationwide. Cooperation with F&N not only enhances the product availability, but also provides a prompt access to F&N’s home market. ThaiBev has contracted to produce and launch *100PLUSs*, F&N’s carbonated isotonic drinks, in Thailand since February 2015. At the same time, F&N has been responsible to market *est* in Malaysia. This could provide cost synergy and efficiency to the Group in terms of maximizing plant utilization and marketing expenses.

ThaiBev’s total revenue was Bt162,040 million in 2014 and Bt84,697 million for the first six months of 2015. Spirits is the largest contributor, generating about 63% of ThaiBev’s total sales, and 90% of earnings before interest, tax, depreciation

and amortization (EBITDA). The operating margin (operating income before depreciation and amortization as a percentage of sales) was relatively stable at about 16%-17% during the last five years, supported by stable profitability of spirits segment. Food service business, although having low operating margin, it has a resilient demand. The profit margin in food services was slightly impacted from the recent economic slowdown, going down from 10% in 2013 to about 8% during 2014 through the first six months of 2015. Performance in beer segment gradually recovers and turns profitable, while the non-alcohol beverages segment remains a loss maker due to the intense competition in carbonated soft drink (CSD) market which causes the continued spending in *est* brand activation and also the increase in marketing spending in newly-launched *100PLUS* and *Jubjai* brand introduction.

Funds from operations (FFO) rose from Bt18,743 million in 2013 to about Bt22,000 million per annum in 2014 and 2015. The FFO to total debt ratio improved from 28% to 44% during the same period. ThaiBev has long-term debt obligations of about Bt10,000 million due in 2016 and Bt11,000 million due in 2017. ThaiBev's liquidity is further enhanced by its current cash balance of Bt1,909 million, plus Bt10,497 million in worth of finished goods inventory in spirits products at the end of June 2015. ThaiBev had about Bt50,000 million of undrawn uncommitted credit lines as of June 2015.

During 2016-2018, TRIS Rating expects ThaiBev's revenue will have an organic growth of about 5% per annum on average. Demand for alcoholic beverages is expected to gradually grow while the consumer perception of the *est* brand is expected to improve. The overall operating margin is expected to stay over 16.5%, belonging to ThaiBev's on-going cost control efforts while maintaining high marketing expenditures to counter the competition and create brand awareness in the non-alcoholic beverages segment. FFO is expected to grow, ranging from Bt24-Bt33 billion per annum, as the performance of the non-alcoholic beverages segment improves, due partly to F&N's contribution.

Total debt outstanding was Bt50,261 million as of June 2015. The outstanding amount was reduced by one-half from the peak in 2012. The deleverage was faster than expected as ThaiBev prepaid debts during 2013 and 2014. As a result, the debt to capitalization ratio improved from 55% in 2012 to 32% at the end of June 2015. TRIS Rating expects ThaiBev to make about Bt15,000 million in capital expenditures during 2016-2018. The capital expenditures are for an expansion of an alcoholic beverage plant, production efficiency improvements, as well as an expansion of its distribution network. Without any large acquisitions, ThaiBev's debt to capitalization ratio would stay below 35% during the next three years. The debt to EBITDA ratio is expected to stay below 1.5 times.

Rating Outlook

The "stable" outlook reflects ThaiBev's ability to maintain its strong positions in the Thai alcoholic beverage market and its ability to deliver good financial results.

ThaiBev's rating downside may occur if the financial profile weakens for an extended period either by the deteriorated profitability or aggressive debt utilization. A potential rating upgrade is unlikely in the near term.

Thai Beverage PLC (ThaiBev)

Company Rating:

AA

Rating Outlook:

Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Jun 2015	----- Year Ended 31 December -----			
		2014	2013	2012	2011
Sales	84,697	162,040	155,771	161,044	132,187
Gross interest expense	702	1,553	2,319	1,401	455
Net income from operations	12,004	21,460	18,694	17,685	11,655
Funds from operations (FFO)	11,318	22,013	18,743	18,949	17,861
Total capital expenditures	1,911	4,763	4,824	4,821	3,165
Total assets	173,306	171,987	183,329	207,686	99,362
Total debt	50,261	49,772	67,700	104,153	18,227
Shareholders' equity	106,777	104,676	97,993	84,971	63,202
Operating income before depreciation and amortization as % of sales	17.3	16.9	16.0	16.6	15.7
Pretax return on permanent capital (%)	17.6 **	17.1	14.2	18.1	23.5
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	24.8	20.1	12.5	20.3	45.7
FFO/total debt (%)	43.9 **	44.2	27.7	18.2	98.0
Total debt/capitalization (%)	32.0	32.2	40.9	55.1	22.4

* Consolidated financial statements

** Annualized with trailing 12 months

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