FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Thai Beverage at 'BBB-'/'AA(tha)'; off RWP; Outlook Stable

Wed 28 Apr, 2021 - 5:53 AM ET

Fitch Ratings - Singapore/Bangkok - 28 Apr 2021: Fitch Ratings (Thailand) Limited has affirmed Thai Beverage Public Company Limited's (ThaiBev) Long-Term Foreign-Currency Issuer Default Rating at 'BBB-', National Long-Term Rating at 'AA(tha)' and senior unsecured rating at 'AA(tha)'. The ratings have been removed from Rating Watch Positive (RWP), on which they were placed in February 2021. The Outlook is Stable.

The rating action follows ThaiBev's announcement that it will defer its planned spin-off a minority share in its subsidiary, BeerCo Limited, a newly formed company that holds ThaiBev's beer businesses in Thailand and Vietnam. Market volatility, particularly amid Thailand's third wave of COVID-19, is behind the deferment. We regard the spin-off as credit positive, as it would have significantly reduced ThaiBev's debt, but we no longer consider it as a key rating driver due to the uncertainty around when the transaction will be completed. Hence, we have removed the RWP from the company's ratings.

We expect ThaiBev to continue its strong operating performance and robust free cash flow (FCF) generation. We also forecast that it will reduce fund flow from operations (FFO) net leverage to around 4.0x by the financial year ending September 2022 (FY22) and below 4.0x thereafter, notwithstanding the pandemic-led downturn.

KEY RATING DRIVERS

Deleveraging to Continue: We expect ThaiBev's FFO net leverage to decline to around 4.0x by FY22, supported by organic growth of its operating cash flow. We forecast a solid operating performance in FY21, despite rising COVID-19 infections in Thailand, with 5% EBITDA growth and an EBITDA margin of 28%-30% as a percentage of net revenue and excluding excise tax, up from 25% in FY19. EBITDA should also remain healthy at around THB40 billion-50 billion a year (USD1.3 billion-1.6 billion) in FY21-FY23, which will help the deleveraging.

The company's products are mainly sold off-premise at retail stores and have proved resilient to pandemic-related lockdowns and social-distancing measures, with only a limited portion sold via on-premise bars and restaurants. The resilience in off-premise sales is underpinned by ThaiBev's strong geographically dispersed national distribution network, with traditional retailers acting as its key sales channel, especially in rural areas.

Leading Regional Position: ThaiBev's business profile is bolstered by its leading position in the regional alcoholic-beverage industry, including a dominant market position in local spirits, with a sales-volume share of above 90%. It also has a strong beer market share of 35%-40% in Thailand and Vietnam. The expanded geographical reach in Myanmar and Vietnam has enhanced ThaiBev's operating scale and has improved its diversification profile, such that Thailand's share of EBITDA fell to less than 80%, from over 90% in FY17.

Significant Minority Interests in Sabeco: ThaiBev's ratings factor in our expectation of strong operational and strategic ties with Saigon Beer-Alcohol-Beverage Corporation (Sabeco), the company's Vietnam-based acquisition, despite its equity stake of 53.6%. We exclude dividends paid to minorities in arriving at consolidated FFO, and treat the minority share of Sabeco's cash balance (FYE20: about THB11 billion) as restricted cash to factor in the possibility of cash leakage to minorities.

DERIVATION SUMMARY

ThaiBev's ratings reflect its strong market position in spirits and leading share of beer sales in its key markets of Thailand, Vietnam and Myanmar. This is counterbalanced by higher leverage than that of higher-rated peers. ThaiBev's business profile is comparable with that of Molson Coors Beverage Company (BBB-/Negative). Molson Coors has a larger operating scale, with concentration in North America, while ThaiBev's has a more dominant position in Thailand, as reflected in a substantially stronger EBITDA margin. Both companies have solid FCF that supports our expectation of falling leverage in the next 12-18 months following large debt-funded acquisitions.

Compared with peers on the National Ratings scale, ThaiBev's credit profile is weaker than that of Advanced Info Service Public Company Limited (AA+(tha)/Stable) on account of ThaiBev's high leverage. Both have comparable business risk profiles, as they are strong market leaders in their respective industries.

ThaiBev has a substantially stronger business risk profile than Total Access Communication Public Company Limited (DTAC, AA(tha)/Stable, Standalone Credit Profile (SCP): aa-(tha)) and PTT Global Chemical Public Company Limited (PTTGC, AA+(tha)/Negative, SCP: aa-(tha)). ThaiBev has a strong market position and robust FCF generation, with a FCF margin of about 8% to net revenue, as well as limited competition. DTAC faces fierce competition in the Thai telco market, while PTTGC's operating cash flow is considerably more cyclical than that of ThaiBev due to its exposure to commodity prices and refining margins.

DTAC and PTTGC generate mostly negative FCF across economic cycles, stemming from the high capex requirements in the telecom sector and working-capital swings in the petrochemical industry. Therefore, ThaiBev is rated one notch higher than the two companies' SCPs.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Net revenue (excluding excise tax) for businesses in Thailand to rise by 3%-5% a year in FY21-FY23, recovering from the 3% decline in FY20 due to the pandemic impact.

- Net revenue of Grand Royal Group (GRG), the Myanmar acquisition, together with Sabeco, to rise by 8%-10% a year in FY21-FY23, recovering from a decline of 22% in FY20 due to the impact of the pandemic and government restrictions on drunk drivers in Vietnam.

- EBITDA margin as a proportion of net revenue maintained at 30%-33% for domestic businesses and 20%-23% for GRG and Sabeco.

- Capex of about THB5 billion a year in FY21-FY23, accounting for around 2% of annual gross revenue.

- Dividend payout ratio of 50%-60% in FY21-FY23

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- FFO net leverage sustained below 3.5x, provided that the business risk profile remains intact and there is no deterioration of FCF generation

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- FFO net leverage remaining above 4.0x

- Evidence of a weakening market position, operating efficiency or pricing power, resulting in continued weak sales growth and profit margin

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Manageable Liquidity: ThaiBev had THB53 billion of debt maturing within the next 12 months as at end-2020, including working-capital facilities from banks of around THB6 billion, bank loans of around THB2 billion, and debentures of around THB45 billion. The majority of the maturing debentures are supported by a THB40.0 billion two-year bridging loan from banks. Liquidity is supported by cash on hand, excluding Fitch-defined restricted cash, of around THB26 billion and undrawn committed revolving credit facilities of around THB5 billion. ThaiBev's strong credit profile and robust FCF generation supports its capital and credit market access, which underpins its liquidity profile.

ESG CONSIDERATIONS

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REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

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RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Thai Beverage Public Company Limited	LT IDR	BBB- Rating Outlook Stable	Revision Rating	BBB- Rating Watch Positive

ENTITY/DEBT	RATING			PRIOR
	Natl LT	AA(tha) Rating Outlook Stable	Revision Rating	AA(tha) Rating Watch Positive
• senior unsecured	Natl LT	AA(tha)	Revision Rating	AA(tha) Rating Watch Positive

VIEW ADDITIONAL RATING DETAILS

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Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Sector Navigators - Addendum to the Corporate Rating Criteria (pub. 21 Dec 2020)

Corporate Rating Criteria (pub. 21 Dec 2020) (including rating assumption sensitivity)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 09 Apr 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

ADDITIONAL DISCLOSURES

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Thai Beverage Public Company Limited	EU Endorsed, UK Endorsed

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Corporate Finance   Retail and Consumer   Asia-Pacific   Thailand

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