

BETAGRO PLC

No. 202/2019
13 December 2019

CORPORATES

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

Last Review Date: 03/01/19

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating and the senior unsecured debenture ratings on Betagro PLC (BTG) at “A-” with a “stable” rating outlook. The ratings continue to reflect BTG’s proven record in the Thai agribusiness and food industries. The ratings also take into consideration several industry risk factors, such as cyclical nature of the commodity-type products BTG sells; volatile raw material prices, the risk of disease outbreaks, and trade barriers. However, BTG is vertically integrated across its diverse product lines. In addition, its strategy to focus on value-added and branded products mitigates these concerns to some extent.

KEY RATING CONSIDERATIONS

Improved operating performance

BTG’s operating results for the first nine months of 2019 recovered from a supply glut during 2017-2018. The outbreak of African swine fever (ASF) in several countries caused a shortage of pork and soaring prices of pork and broiler, as the meat substitute.

Higher pork and broiler prices, together with falling feed costs, lifted BTG’s operating margin. The operating profit margin before depreciation and amortization was 6.0% in the first nine months of 2019, up from -0.6% in 2018 and 1.4% in 2017. Earnings before interest, tax, depreciation, and amortization (EBITDA) also improved, rising to Bt3.43 billion in the first nine months of 2019, compared with -Bt0.24 billion in 2018 and Bt1.22 billion in 2017.

Over the next couple of years, TRIS Rating holds the view that BTG will likely continue to enjoy the benefits of rise in prices and manageable feed costs. Additionally, growing demand for chicken exports, especially as a result of the lifting of import restrictions by China, should strengthen BTG’s export revenue. Under TRIS Rating’s base-case forecast, BTG’s operating revenue is projected to range from Bt74 billion to Bt87 billion per annum during 2019-2022. The operating margin before depreciation and amortization is projected to hover around 5.2%-5.9% during 2019-2022, with EBITDA to range between Bt4.40 billion and Bt4.70 billion during the same period.

Leverage remains high

BTG’s leverage has risen significantly as a result of weaker operating performance and higher capital expenditure over the past few years. Adjusted debt surged from Bt13.45 billion in 2016 to Bt27.97 billion in 2018 and slightly decreased to Bt24.64 billion at the end of September 2019.

Cash flow protection also weakened as leverage rose amid the industry downturn. The ratio of net debt to EBITDA leaped to 6.9 times in the first nine months of 2019 from 1.4-3.3 times in 2014-2016. The EBITDA interest coverage ratio also tumbled to 7.5 times in the first nine months of 2019 from 10-19 times in 2014-2016.

Looking forward, TRIS Rating expects BTG’s leverage to remain high. The company plans capital expenditures of Bt2.50-Bt4.50 billion per annum. The debt to capitalization ratio is expected to hover around 65% in 2019-2022, and the ratio of net debt to EBITDA to be around 6-7 times, while the EBITDA interest coverage ratio to hover around 5-6 times.

Leader in Thailand's agribusiness and food industries

BTG has been a leader in the agribusiness and food industries for more than 50 years. BTG is the third-largest poultry processor in Thailand with a market share of 12% in 2018 (1st: Charoen Pokphand Foods PLC., 21%, 2nd: Saha Farm Co., Ltd., 12%). Its market share of chicken exported from Thailand was around 8% in 2018 and in the first half of 2019, according to the Thai Broiler Processing Exporters Association.

BTG is also the industry-leading producer of high quality pork in Thailand, with an 8% market share of domestic pork production. Thanks to a strategic partnership with Sumitomo Corporation of Japan, BTG has adopted the Specific Pathogen Free (SPF) technology for swine farming since 1993. BTG raises swine under hygienic conditions and free of contaminants with specific SPF swine raising procedures. As a result, BTG can export pork through its major partners and get premium prices.

Fully vertically integrated

BTG's chicken and swine operations are fully vertically integrated, from feed to food products. BTG produces feed, breeds, and raises animals as well as processes the 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. Fully integrated operations help BTG's products meet safety and traceability standards, which qualify its products for export to the major importing countries.

BTG has a broad portfolio of products, covering animal feed, poultry, swine, and food products. The diverse range of products partially helps mitigate BTG's operational risks. During the first nine months of 2019, feed, farm, and food products comprised about 23%, 58%, and 13% 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 will help increase its profit margin and mitigate the effect of price fluctuations inherent in commodity-like farm products.

BTG has a strategy to shift its product portfolio from livestock to higher margin meat products. Additionally, BTG has established a food innovation center for research and product development purposes. During the first nine months of 2019, value-added food products comprised 13% of total sales. 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 are more likely to choose trusted brands. For the domestic market, BTG has two major brands: S-Pure, for premium products and Betagro for standard products.

Manageable liquidity

We assess BTG to have an adequate liquidity profile over the next 12 months. Funding needs in the next 12 months will include Bt2.50 billion maturing debentures and capital expenditures of Bt3.50 billion. The sources of funds will come from funds from operations (FFO) of Bt3.60 billion and undrawn credit facilities of about Bt9.00 billion. TRIS Rating views that the company has reasonable access to both internal and external sources of funds. For example, paid-up capital increased in 2014 and 2018, and the company was able to rollover debenture payments in 2017-2018, despite an industry down-cycle period.

BASE-CASE ASSUMPTIONS

- BTG has applied new accounting standards for revenue recognition by excluding sales to contract farmers since 2019. Hence, its revenue growth is forecast to drop in 2019 to -11% but rebound to 5%-7% per annum in 2020-2022. However, to compare the same base by excluding sales to contract farmers in 2018, BTG's revenue will likely grow by 6% in 2019.
- We expect BTG's operating margin before depreciation and amortization to improve to 5%-6% during 2019-2022, up from -0.6% in 2018.
- Capital expenditures will be around Bt2.50-Bt4.50 billion per annum during 2019-2022.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's view that BTG will be able to maintain its leading positions in the Thai agribusiness and food industries. The sizable capital expenditures BTG made during the past few years are expected to improve the company's competitive position and cash flow generation in the coming years.

RATING SENSITIVITIES

BTG's credit ratings could be upgraded if the company makes sustained improvements in operating performance, cash flow, and debt serviceability. Downward rating pressure would emerge if the company undertakes any sizeable debt-financed investments which would deteriorate its balance sheet and cash flow protection.

COMPANY OVERVIEW

BTG was incorporated in 1967 by the Taepaisitphongse family and its associates. As of June 2019, the Taepaisitphongse family directly held 15.33% of the outstanding shares and indirectly held 69.45% of shares through Betagro Holding Co., Ltd., BTG's parent company.

BTG has three major business segments: feed, farm, and food. Farm products (breeding stock, live animals, and raw meat) contributed 58% of annual sales during the first nine months of 2019, followed by animal feed (23%), food products (semi-cooked meat, cooked meat and ready-to-eat products, 13%), and other products (6%). In terms of product category, revenue from poultry products comprised 38% of BTG's total sales, followed by swine (25%), feed (23%), animal health (5%), sausage and meatball (3%), and others (6%).

Fully integrated operations help BTG's products meet international standards, qualifying the company to export to the European Union (EU) and Japan. Exports comprised 13% of annual sales in the first nine months of 2019, while domestic sales accounted for 87% of total sales.

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 contribution from overseas operation was less than 4% of total revenue in 2018 through the first nine months of 2019, but it is expected to increase gradually.

KEY OPERATING PERFORMANCE

Table 1: BTG's Revenue Breakdown by Product Segment

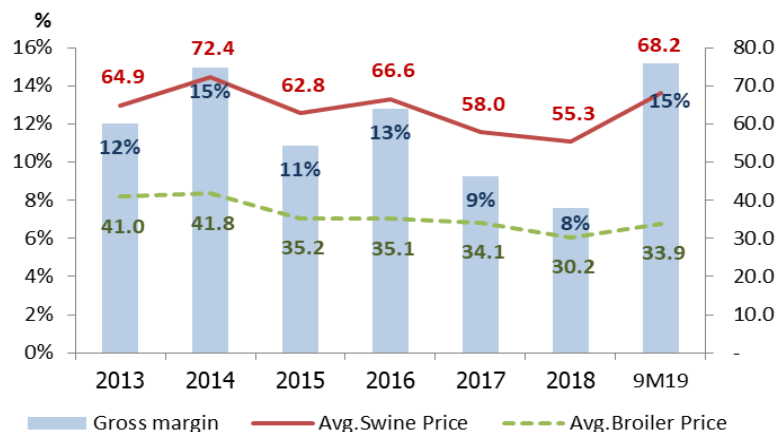
Unit: %

Product Segment	2014	2015	2016	2017	2018	Jan-Sep 2019
Feed	34	35	35	36	35	23
Farm	51	50	52	49	51	58
Food	12	12	11	11	11	13
Others	2	3	3	3	4	6
Total	100	100	100	100	100	100
Sales (Bt mil.)	82,512	83,455	83,633	81,241	82,815	56,152

Note: Revenue contribution in Jan-Sep 2019 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: Bt million

	-----Year Ended 31 December -----				
	2018	2017	2016	2015	2014
Total operating revenues	83,501	81,892	84,129	84,021	83,169
Earnings before interest and taxes (EBIT)	(2,744)	(881)	2,971	2,396	6,131
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	(237)	1,218	4,990	4,291	7,855
Funds from operations (FFO)	(866)	991	3,972	3,686	6,428
Adjusted interest expense	578	415	375	400	414
Capital expenditures	5,297	6,319	3,638	2,710	2,735
Total assets	51,438	45,158	38,542	37,187	35,157
Adjusted debt	27,970	19,844	13,448	14,145	11,356
Adjusted equity	14,299	16,000	17,234	16,212	15,888
Adjusted Ratios					
EBITDA margin (%)	n.m.	1.49	5.93	5.11	9.44
Pretax return on permanent capital (%)	n.m.	(2.60)	9.59	8.24	22.91
EBITDA interest coverage (times)	n.m.	2.93	13.30	10.73	19.00
Debt to EBITDA (times)	n.m.	16.29	2.69	3.30	1.45
FFO to debt (%)	n.m.	4.99	29.54	26.06	56.60
Debt to capitalization (%)	66.17	55.36	43.83	46.60	41.68

n.m. = not meaningful

RELATED CRITERIA

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

Betagro PLC (BTG)

Company Rating:	A-
Issue Ratings:	
BTG207A: Bt2,000 million senior unsecured debentures due 2020	A-
BTG215A: Bt3,000 million senior unsecured debentures due 2021	A-
BTG227A: Bt3,000 million senior unsecured debentures due 2022	A-
BTG233A: Bt2,000 million senior unsecured debentures due 2023	A-
BTG247A: Bt1,000 million senior unsecured debentures due 2024	A-
Rating Outlook:	Stable

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