

BBGI PLC

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CORPORATES

Company Rating: BBB+
Outlook: Stable

Last Review Date: 27/10/20

Company Rating History:

Date	Rating	Outlook/Alert
27/10/20	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on BBGI PLC (BBGI) at “BBB+” with a “stable” rating outlook. The rating reflects BBGI’s strong market presence in domestic biofuel, leveraging the strengths of its major shareholders in securing feedstock supply and output offtakes. However, these strengths are held back by the lingering oversupply of biofuel, highly competitive marketplace, and volatile product spreads.

The company rating on BBGI also reflects our view that BBGI is a strategically important subsidiary of Bangchak Corporation PLC (BCP, rated “A-/Stable” by TRIS Rating). The rating incorporates a one-notch uplift from BBGI’s stand-alone credit profile of “bbb”.

KEY RATING CONSIDERATIONS

Strong presence in domestic biofuel

BBGI is a leading biofuel producer in Thailand. The company is the second largest ethanol producer in Thailand, trailing behind Mitr Phol Group. BBGI owns, through its subsidiaries, three ethanol plants with total capacity of 0.6 million liters per day (ML/D), representing about 9% of ethanol production capacity in Thailand. The capacity will increase to 0.8 ML/D in 2022 according to the company’s expansion project which is under construction. Ethanol is used to blend with gasoline to produce gasohol.

At the same time, BBGI owns a biodiesel plant with capacity of 1.0 ML/D, accounting for about 11% of total market capacity. Biodiesel is used to blend with diesel. Among the biodiesel producers in Thailand, BBGI is ranked third in market share.

In the first half of 2021, BBGI sold 84 ML of ethanol, marking a 12.3% market share by sales volume. Meanwhile, the company held a 14.1% market share in biodiesel, with total sales of 127 ML

Distinct competitive advantages

We hold our view that BBGI has distinct competitive advantages in the ethanol market, with a complete supply chain in the ethanol production and distribution. BBGI has leveraged its exclusive supply and offtake agreements with its major shareholders, BCP and Khon Kaen Sugar Industry PCL (KSL).

On the supply side, KSL is BBGI’s key supplier of molasses, the main raw material for ethanol production. Under long-term contract of feedstock supply, BBGI has first-right to purchase all of molasses from KSL’s four main sugar factories. We view the committed arrangement meaningfully mitigates the risk of molasses shortages. In 2020, BBGI purchase about 53% of needed molasses from KSL. Moreover, BBGI also leverages KSL’s network to purchase the rest of needed molasses from other suppliers.

As for the demand side, BBGI has secured long-term sales and purchase contract of ethanol with BCP. In 2020, BBGI sold about 63% of ethanol output to BCP. Aside from ethanol, BCP also has a long-term contract with BBGI to purchase biodiesel production volume. In 2020, BBGI sold about 89% of biodiesel to BCP.

Well-mitigated demand risk

With BCP being the major off-taker, the demand risk of the company is well mitigated. BBGI had an over 95% utilization rate of ethanol production while

the utilization rate of biodiesel production was about 80% in 2020. Such level of production was well above the industry's average. Across the biofuel producers in the market, the average capacity utilization rate of ethanol and biodiesel in 2020 were 65.6% and 60.5% respectively.

We project BCP will consume ethanol of about 300-340 ML a year, which overwhelmingly higher than BBGI's capacity of 198 ML. Meanwhile, we expect BCP will need about 250-300 ML in biodiesel a year, which could absorb about 75%-90% of BBGI's full production. Based on past records, BBGI managed to sell the rest of biodiesel output to other major oil companies. We view BBGI as a strategically important subsidiary of BCP. BBGI is in the supply chain of BCP, which helps enhance BCP's competitiveness in its retail oil business. Added to that, BBGI is positioned to support BCP in carrying out its eco-friendly business strategies.

Excess supply of biofuel

BBGI's business prospect is constrained by a lingering oversupply of biofuel, which put pressure on profit margin. Total capacity of biofuel production is higher than the domestic consumption. In total, all ethanol producers can produce up to 6.1 ML/D. For the first half of 2021, the ongoing COVID-19 outbreak caused the ethanol consumption to stay at 3.8 ML/D while the ethanol consumption in 2020 was 4.0 ML/D.

At the same time, the market biodiesel production capacity (8.95 ML/D) overwhelmingly exceeds the market needs. In all, the capacity utilization has stayed at about 60.5% in 2020. For the first half of 2021, biodiesel demand was 4.9 ML/D with the capacity utilization at about 55.5%. According to the country's oil plan 2018-2037, diesel B10 (diesel fuel blended with biodiesel 10%) are set to be the primary diesel fuel for domestic consumption, replacing diesel B7. That is expected to boost up biodiesel demand by at least 5%-10%. However, domestic biodiesel consumption is not expected to reach 8.0 ML/D until 2037. Hence, we view that the demand and supply will take time to balance, and the competition will likely remain intense in the short-to-medium terms, inducing a high volatility of margin industry-wide.

Pressure from rising raw materials prices

The key raw materials for biofuel are derived from agricultural products such as sugar cane, palm fruit and casava chips, the productions of which hinge on weather conditions, as well as cultivated areas. During 2020 to the first six months of 2021, agricultural production volume was hurt by the drought in Thailand. As a result, the raw material prices for biofuel sharply increased for both ethanol and biodiesel.

For the first six months of 2021, the price of molasses increased by 13.5% to THB3.9 per kilogram, while the price of Crude Palm Oil (CPO) increased by 20.4% to THB33.7 per kilogram. On the other hand, demand for gasohol and diesel dropped by 1.2%, pressuring demand for ethanol and biodiesel. However in this year, BBGI could not effectively pass on an increase in raw material prices to its customers as the previous year. As a result, BBGI's EBITDA margin dropped to 10.4% in the first six months of 2021 from 13.7% in the first six months of 2020.

Head-on into HVA bio-based products

With respect to its long-term growth strategy, BBGI aims to be the global Greenovative bio-business for sustainability. The company is leaning toward bio-based products to create its new s-curve growth. In addition, the new business will leverage BBGI's key strengths on sourcing agricultural products and derivative, as well as innovating high-value-added (HVA) bio-based products.

In 2020, BBGI spent around THB800 million on Series B Preferred Stock of Manus Bio Inc., the world leading manufacturer of high-value biobased products located in the United States. Manus Bio's productions are complex natural ingredients used in daily life by using its advanced fermentation technology. In addition, BBGI recently entered the consumer market with the launch of its "B Nature +" brand Asta-Immu dietary supplement and pharma-grade hand sanitizer products in September 2021. In our view, meaningful contributions from HVA bio-based products will yet be seen in the immediate future.

Decent financial profile

BBGI arrived at THB1.8 billion in earnings before interest, taxes, depreciation, and amortization (EBITDA) in 2020, a steep rise of 78% year-on-year (y-o-y). EBITDA margin also surged to 14.5% in 2020, due in part to higher spread of ethanol and biodiesel (the gap between product selling price and raw material price), coupled with the achieved economies of scale in production. For the first half of 2021, BBGI had THB722 million in EBITDA with EBITDA margin of 10.4%. The decline in EBITDA margin came after the increase in raw material prices that led to lower spreads of ethanol and biodiesel.

BBGI has loaded up debt to finance its business expansion, including the expansion in ethanol production capacity, construction of a refined glycerin plant, biogas plant, and boiler & generator. As a result, BBGI's adjusted debt rose to THB5.8 billion while the debt to EBITDA ratio was at 3 times (Annualized with trailing 12 months) as of June 2021.

We forecast BBGI's revenue to be in the range of THB13.0-THB14.0 billion per year during 2021-2023. BBGI's EBITDA is forecast at THB1.0-THB1.5 billion per year during 2021-2023, based on our expectation that BBGI successfully increase its ethanol sales volume from the capacity expansion while keeping ethanol spread at normal level. We also expect the biodiesel spread to be back to the normal level over the forecast period, given the lingering oversupply. In total, we project BBGI to spend around THB1.8 billion over the forecast period for its maintenance, expansion in ethanol capacity, construction of refined glycerin plant, biogas plants, boiler & generator, and investment in bio-based businesses. Based on the above investment plan, we project BBGI's debt to capitalization ratio to stay about 40%-44% during 2021-2023 and debt to EBITDA ratio to stay above 5 times in 2021 before declining to around 4 times during 2022-2023.

Plan to raise new capital

At the end of September 2021, BBGI filed a registration statement with the Office of Securities and Exchange Commission (SEC) for an initial public offering (IPO). The company will be listed on the Stock Exchange of Thailand (SET) by offering an IPO of not more than 216.6 million shares or not more than 30% of the total number of issued and paid-up ordinary shares. The company plans to use the IPO proceeds to fund an investment for business expansion and future projects in bio-based business, repay loans owed to financial institutions, repay its debentures, and for working capital needs.

Our base-case forecast does not incorporate the fund raised from IPO and the investment in future projects in bio-based business.

Sufficient Liquidity

We view that BBGI should have sufficient liquidity to manage its debt obligation coming due over the next 12 months. At the end of June 2021, BBGI's reported debt was THB5.35 billion, of which THB1.54 billion was short-term loans funding its working capital needs, THB2.5 billion of long-term loans, and THB1.3 billion of debentures. Over the next 12 months, BBGI has maturing long-term debt of about THB600 million, which should be sufficiently covered by its cash on hand of THB600 million and expected funds from operations of about THB800 million.

Capital Structure

At the end of June 2021, BBGI has THB5.3 billion in debt, including approximately THB4.0 billion of the priority debt. BBGI's priority debt included THB1.8 billion of secure debt and THB2.2 billion of unsecured debt at the subsidiary level. This means the ratio of priority debt to total debt was about 76%.

BASE-CASE ASSUMPTIONS

- Ethanol capacity to increase to 800 KL/D in 2022 from 600 KL/D in 2021, with utilization rate of 90%-95%
- Biodiesel capacity at 1,000 KL/D, with utilization rate of 80% in 2021 and 90% during 2022-2023
- EBITDA margin to be expected at around 8%-10% during 2021-2023.
- Capital Expenditure (CAPEX) and investment for committed projects to be expected to total about THB1.8 billion over 2021-2023.
- Not incorporated a fund raising from planning IPO.

RATING OUTLOOK

The "stable" outlook reflects our expectation that BBGI will maintain its solid market position in the biofuel market and continue to benefit from the arrangements with the two major shareholders on raw material supply and output offtakes. We also expect the economies of scale to increase cost efficiency and enhance its competitive edge amidst a continued oversupply market environment.

RATING SENSITIVITIES

A rating upgrade could develop if the company is able to significantly enlarge its cash flow from operation and/or new business, while maintaining its financial leverage at acceptable levels. Contrarily, a downward revision to the rating and/or outlook could emerge if BBGI's operating performance significantly undershoots the forecast.

According to TRIS Rating's Group Rating Methodology, any change in ratings of BCP could impact the rating on BBGI.

COMPANY OVERVIEW

BBGI was established in October 2017 by amalgamation between biofuel businesses of BCP and KSL. Since the establishment, BBGI is held by BCP 60% and KSL 40%. Currently, there are two main business lines, which are ethanol and biodiesel. As of June 2021, BBGI's ethanol capacity was 600 KL/D and biodiesel capacity was 1,000 KL/D. However, the company's ethanol capacity will increase to 800 KL/D in 2022. BCP is not only the major shareholder, but also a major off-

taker for both ethanol and biodiesel, as these two products are mandated to blend with gasoline and regular diesel with specific proportion for selling as fuel across Thailand.

BBGI is not only focusing on the biofuel business but also investing in biotechnology as well. Both BBGI and Manus Bio have jointly established “WIN Ingredients” to conduct the joint venture’s businesses in Southeast Asia, Japan, and South Korea. BBGI holds 51% share in WIN Ingredients.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	Jan-Jun 2021	2020	2019	2018	2017
Total operating revenues	6,953	12,619	10,059	9,801	9,828
Earnings before interest and taxes (EBIT)	515	1,412	623	351	402
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	722	1,829	1,030	738	663
Funds from operations (FFO)	629	1,511	849	584	527
Adjusted interest expense	52	144	115	110	125
Capital expenditures	215	928	634	623	392
Total assets	13,472	12,731	11,494	9,372	8,847
Adjusted debt	5,206	5,128	4,804	3,545	3,068
Adjusted equity	6,705	6,504	5,537	5,089	4,912
Adjusted Ratios					
EBITDA margin (%)	10.39	14.49	10.24	7.53	6.74
Pretax return on permanent capital (%)	10.60 **	12.69	6.49	4.15	4.91
EBITDA interest coverage (times)	13.89	12.72	8.96	6.73	5.28
Debt to EBITDA (times)	3.03 **	2.80	4.67	4.81	4.63
FFO to debt (%)	28.27 **	29.47	17.68	16.47	17.16
Debt to capitalization (%)	43.71	44.08	46.45	41.05	38.44

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

BBGI PLC (BBGI)

Company Rating:	BBB+
Rating Outlook:	Stable

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