

BBGI PLC

No. 168/2023
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CORPORATES

Company Rating: A-
Outlook: Stable

Last Review Date: 19/01/23

Company Rating History:

Date	Rating	Outlook/Alert
19/01/23	A-	Alert Negative
27/10/22	A-	Stable
27/10/20	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on BBGI PLC (BBGI) at “A-”, with a “stable” outlook. The “A-” rating incorporates a two-notch uplift from BBGI’s stand-alone credit profile (SACP) of “bbb” as we remain of the view that BBGI is a strategically important subsidiary of Bangchak Corporation PLC (BCP, rated “A/stable”).

At the same time, we remove the CreditAlert with a negative implication placed on 19 January 2023 from the company rating. This follows BCP’s announcement on 31 August 2023 of the completed acquisition of 65.99% of the shares of ESSO (Thailand) PLC (ESSO).

The SACP of BBGI continues to mirror its strong market presence in domestic biofuel, leveraging the strengths of its major shareholders in securing feedstock and output offtakes. The SACP also recognizes BBGI’s growth prospects from additional biofuel demand from ESSO. Conversely, the SACP is constrained by high competition in the domestic biofuel market, volatile product spreads, and a potential rise in the company’s financial leverage.

KEY RATING CONSIDERATIONS

Strong position in biofuel market

BBGI maintains its position as a leading producer in Thailand’s biofuel market. The company ranks second and fourth in the production capacity of ethanol and biodiesel, respectively.

BBGI owns and operates three ethanol plants with total capacity reaching 0.8 million liters per day (ML/D), following an expansion of its Nampong plant in March 2023 adding 0.2 ML/D capacity. We view the expansion to support a potential increase in ethanol consumption by the BCP Group from 2024 onwards, after BCP’s takeover of ESSO.

At the same time, BBGI owns and operates a biodiesel plant with a daily capacity of 1.0 ML, accounting for about 9.7% of industry capacity. In 2022, BBGI sold 141 ML of ethanol, marking a 11% market share by sales volume. The company also held a 14% market share in biodiesel, with total sales of 208 ML.

We view BBGI as a strategically important subsidiary of BCP, considering its integration to the group’s operation and its role of implementing eco-friendly business strategies.

Group supply chain gives edge on plant utilization

Prospects for the biofuel business in Thailand have been constrained by a lingering excess production capacity. This has led to fierce competition and placed pressure on profit margins and production volumes.

BBGI’s competitive advantage, however, stems from its vertical integration with the two major shareholders. The company holds agreements with both shareholders to secure raw materials and products offtake. BBGI recorded a utilization rate of ethanol plants of about 72% in 2022, compared to the industry average of about 61.3%. At the same time, domestic biodiesel consumption fell to 3.8 ML/D in 2022, suggesting an industry utilization of 43%. BBGI’s biodiesel plant outpaced the industry with its 62% utilization rate.

Advantageous position in supply and offtake agreements

BBGI holds a long-term contract for the supply of molasses, the main raw material for ethanol production, with Khon Kaen Sugar Industry (KSL). Under the contract, BBGI has the first right to purchase all molasses from KSL's four main sugar factories. We view the commitment as mitigating the risk of recent raw material shortages caused by disruption in the global food supply chain in 2022 and the ongoing warmer global climate. BBGI procured about 50% of molasses from KSL during 2019-2022. The company also leverages KSL's network to fulfill the molasses requirements for production.

With respect to the demand side, the long-term sales and purchase contracts of biofuels between BBGI and BCP gives the company an edge in terms of production flexibility. In 2021-2022, BBGI sold 80%-85% of its ethanol production and about 92%-95% of biodiesel production to BCP.

Risk of adverse regulatory changes

Adverse changes in government policy on the use of biofuel could weigh negatively on BBGI's biofuel sales volume. Demand for both biodiesel and ethanol hinge on the blending proportion and incentives as regulated by the government. The retail fuel market saw fuel prices rally to peaks at around mid-2022. The government retained its policy to cap the diesel retail price at THB35 per liter through several measures. These include reducing the mandated biodiesel content from B7 to B5, during February-October 2022. The policy change resulted in decreasing demand for biodiesel industry-wide during the period. However, we expect that the government will foster the use of biodiesel over the long term. Currently, biodiesel B7 is chosen as the primary diesel fuel.

Meanwhile, the government reduced the oil fund subsidy on gasohol E85 in the fourth quarter of 2022. This will result in a decrease in ethanol domestic demand in 2023. In the long term, however, the government plans to promote Gasohol E20 (20% blend of ethanol) usage over the E10 fuel options of both Gasohol 95 and Gasohol 91.

Acute pressure on earnings in 2023

BBGI remains highly susceptible to uncontrollable and volatile product spreads. In the first half of 2023, BBGI's operating performance continued to weaken and came in below our previous forecast. The company remained under acute pressures in both the ethanol and biodiesel businesses. BBGI's EBITDA dropped considerably by 41% year-on-year (y-o-y) to THB260 million. Its EBITDA margin fell to 4.3%, from 6.2% in the same period of 2022.

In the ethanol business, BBGI continued to suffer from elevated raw material prices. The prices of molasses continued to rise during 2022-2023, following global supply tightening. For the first half of 2023, the cost of raw material per litre of ethanol sold increased by 5% y-o-y. We expect the margin in the ethanol business to remain restricted throughout 2023.

In the biodiesel business, BBGI experienced a drop-off in the selling prices of biodiesel and its byproducts, refined and crude glycerin. With the global supply shortage of crude palm oil (CPO) being relieved, CPO prices fell in the first half of 2023. BBGI's purchase prices of CPO softened to THB31.2 per kg, a 42% y-o-y decrease. That said, the policy prices of biodiesel in Thailand changed proportionately to CPO prices. This resulted in lowering biodiesel prices, which will dent BBGI's profitability in 2023.

Potential increases in intra-group demand from ESSO

Notwithstanding the weaker-than-expected earnings, we expect BBGI's performance to improve. We view BCP's recent acquisition of ESSO as providing growth prospects for BBGI's ethanol and biodiesel businesses, given the expectation of heightening oil sales volume of the group. We expect the new demand for ethanol to absorb the recent expansion in ethanol capacity of 0.2 ML/D at the Nampong plant. We forecast BBGI's utilization in ethanol production to steadily rise from 55%-60% in 2023 to about 90% in 2025, based on the capacity of 0.8 ML/D. In our base case assumption, BBGI's ethanol sales volume will grow from about 145-155 ML in 2023 to 230-240 ML in 2025. Likewise, we also expect BBGI's biodiesel sales volume to rise from 260-270 ML in 2023, to 300-320 ML in 2025 when biodiesel plant utilization reaches 97%.

We moderate our view on BBGI's EBITDA growth, as compared to our previous forecast, to reflect a more conservative outlook on biofuel operating margins. We expect BBGI's performance to gradually recover in 2023-2025, based on our expectation of increasing biofuel productions to meet the demand from ESSO. Our base-case scenario estimates BBGI's EBITDA margin as between 4.8%-5.3% in 2023-2025, a marginal recovery from 4.7% in 2022. We forecast BBGI's EBITDA to stay in the THB 620-THB670 million range in 2023, before the ESSO demand in biofuel helps increase EBITDA to THB720-THB800 million per year in 2024-2025.

Investments in new s-curve growth

With respect to BBGI's long-term growth strategy, the company aims to expand toward bio-based high-value products (HVP) in health & well-being to create a new s-curve growth. In addition, the new businesses will leverage BBGI's key strengths in sourcing agricultural products and derivatives, as well as operating commercial-scale fermentation facilities for bio-based

products. BBGI's major investments in bio-based technology in 2023-2025 include the Contract Development and Manufacturing Organization (CDMO) business and an investment in Sustainable Aviation Fuel (SAF) under a joint venture led by BCP.

A total of around THB3.0-THB4.0 billion is required for commitment in bio-technology investments, including CDMO, SAF, Win Ingredient, and bio-transformer oil manufacturing. We expect the returns from these bio-technology investments to materialize after 2025, a delay from our previous expectation, subject to BBGI's success in commercialization.

Financial leverage likely to escalate

We assess BBGI's financial leverage as prone to escalating, given the company's investment plans for its coveted bio-based HVPs. In our base case, we project BBGI to spend around THB3.8-THB4.1 billion spread over 2023-2025. If all projects in the pipeline go ahead as planned, the remaining proceeds from the initial public offering (IPO) of THB1.97 billion will gradually deplete over the forecast period. Hence, we expect the company to increase borrowings to meet the remaining funding requirements.

In our base forecast, we project BBGI's debt to capitalization ratio to reach 32% in 2025, from 6.2% as of June 2023. The debt to EBITDA ratio will soar from 1.6 times in 2023 to nearly 6 times in 2025 as the new investments have yet to pay off. Despite a tendency of a run-up in financial leverage, we expect that BBGI will maintain prudent financial discipline and keep investments in a range balanced with its operating cash flows and capital.

Ample liquidity

BBGI has ample liquidity, with a substantial amount of cash on hand from the remaining IPO proceeds set aside for planned investments. The company's sources of funds comprised cash on hand plus short-term investments totaling THB2.6 billion, and undrawn short-term credit facilities of about THB6.7 billion as of June 2023. We forecast BBGI's funds from operations (FFO) over the next 12 months to be THB520-THB570 million. Also, BCP's recently established Treasury Center provides BBGI with a credit facility of THB3 billion.

The company's liquidity sources are sufficient to service debt and lease liabilities coming due over the next 12 months of THB2.2 billion, plus about THB2.0 billion in capital expenditure and committed investments in the pipeline over the same period.

Debt Structure

At the end of June 2023, BBGI has THB3.2 billion in debts, including around THB2.4 billion of priority debt. BBGI's priority debt includes THB1.1 billion of secured debt and THB1.3 billion of unsecured debt owed by its subsidiaries. The ratio of priority debt to total debt was 74%, suggesting that the company's unsecured creditors could be significantly disadvantaged to the priority debt holders with respect to claims against the company's assets.

BASE-CASE ASSUMPTIONS

- Ethanol plant utilization (based on capacity of 0.8 ML/D) to consistently increase from 55%-60% in 2023 to about 90% in 2025.
- Biodiesel plant utilization rate of 80% in 2023, before ramping up to 97% in 2025.
- EBITDA margin to stay between 4.8%-5.3% in 2023-2025.
- Capital Expenditure (CAPEX) and investment for new projects over 2023-2025 to total THB3.8-THB4.1 billion.

RATING OUTLOOK

The "stable" outlook reflects our expectation that the operating performance of BBGI will gradually recover over 2023-2025. We also expect that the synergies from BCP's takeover of ESSO will benefit BBGI's biofuel business. As a result, BBGI's operating performance and financial leverage should be in line with our estimates.

RATING SENSITIVITIES

We could raise BBGI's SACP if the company can significantly enlarge its cash flow from existing operations and/or new businesses while maintaining its financial leverage at acceptable levels. Conversely, we could revise the SACP downward in case of a material deterioration of BBGI's operating performance or a deluge of debt-financed investments that are not captured in our base case.

Any material changes in the credit profile of BCP or the linkage between BBGI and BCP could also impact the rating on BBGI.

COMPANY OVERVIEW

BBGI was established in October 2017 by the amalgamation of the biofuel businesses of BCP and KSL. After the IPO in March 2022, BCP held 45% and KSL 30% of BBGI. Currently, there are two main biofuel business lines: ethanol and biodiesel. As of June 2023, BBGI's ethanol capacity reached 800 kiloliters per day (KL/D), while its biodiesel capacity was 1,000 KL/D. BCP is also the major off-taker for both ethanol and biodiesel, as these two products are mandated for blending with gasoline and regular diesel at specific proportions for sale as fuel across Thailand.

BBGI not only focuses on the biofuel business but also on entering the biotechnology business. In addition to Manus Bio and WIN Ingredients, BBGI has also committed to investing in the CDMO business, and in the sustainable aviation fuel business under a joint venture led by BCP.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	6,066	13,419	14,132	12,619	10,059
Earnings before interest and taxes (EBIT)	16	194	836	1,412	623
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	260	634	1,298	1,829	1,030
Funds from operations (FFO)	208	520	1,121	1,506	843
Adjusted interest expense	41	109	128	144	115
Capital expenditures	97	388	484	928	634
Total assets	13,965	14,106	12,907	12,731	11,494
Adjusted debt	650	541	4,347	5,055	4,804
Adjusted equity	9,874	10,281	6,904	6,504	5,537
Adjusted Ratios					
EBITDA margin (%)	4.28	4.72	9.18	14.49	10.24
Pretax return on permanent capital (%)	(0.13) **	1.56	7.12	12.69	6.49
EBITDA interest coverage (times)	6.30	5.81	10.15	12.72	8.96
Debt to EBITDA (times)	1.44 **	0.85	3.35	2.76	4.67
FFO to debt (%)	53.22 **	96.17	25.78	29.80	17.55
Debt to capitalization (%)	6.18	5.00	38.63	43.73	46.45

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

BBGI PLC (BBGI)

Company Rating:	A-
Rating Outlook:	Stable

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