

BBGI PLC

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CORPORATES

Company Rating: A
Outlook: Stable

Last Review Date: 31/08/23

Company Rating History:

Date	Rating	Outlook/Alert
31/08/23	A-	Stable
19/01/23	A-	Alert Negative
27/10/22	A-	Stable
27/10/20	BBB+	Stable

Contacts:

Tern Thitinuang, CFA
tern@trisrating.com

Supasith Tiensuksai, CFA
supasith@trisrating.com

Parat Mahuttano
parat@trisrating.com

Sermwit Sriyotha
sermwit@trisrating.com



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RATIONALE

TRIS Rating upgrades the company rating on BBGI PLC (BBGI) to “A” from “A-” with a “stable” outlook. The upgrade follows the upgrade of the company rating on its parent company, Bangchak Corporation PLC (BCP) to “A+/Stable” from “A/Stable”. The company rating incorporates a rating enhancement of three notches from its “bbb” stand-alone credit profile (SACP) to reflect the company’s status as a “strategically important” member of the BCP group. Additionally, the rating on BBGI is capped at one notch below the “a+” group credit profile (GCP) of BCP.

BBGI’s SACP of “bbb” continues to reflect the company’s leading position in Thailand’s biofuel market, supported by secured feedstock and captive demand from its major shareholders, as well as its prudent approach to investment and funding.

However, the SACP is constrained by the company’s relatively small operating scale, lingering overcapacity in the Thai biofuel sector, uncertain government policies affecting industry profitability, and fluctuating product spread.

KEY RATING CONSIDERATIONS

Strategically important subsidiary of BCP Group

We view BBGI as a strategically important subsidiary of BCP due to its integration into the group’s operations. However, its scale and earnings contribution to the group are relatively small compared to the other subsidiaries.

BBGI is BCP’s flagship subsidiary for the biofuel and other bio-based businesses. Most of BBGI’s biofuel products are produced to support demand within the group. BBGI is also one of the vehicles supporting the group target of carbon neutrality.

BCP, via its Treasury Center, also provides a THB3 billion credit facility to BBGI. We believe BCP will continue to provide support to BBGI, if needed, based on its supply chain integration and close links to the group.

Leading position in biofuel market with secured feedstock and captive demand

BBGI maintains its position as a key player in Thailand’s biofuel market. The company ranks second and fourth in terms of production capacity for ethanol and biodiesel, respectively. The company owns and operates three ethanol plants, with total capacity of 0.8 million liters per day (ML/D). At the same time, BBGI owns and operates a biodiesel manufacturing complex with a total capacity of 1.0 ML/D. In 2023, BBGI produced 144 million liters (ML) of ethanol, capturing an 11% market share by production volume. The company also held a 17% share of the biodiesel industry, with total production amounting to 276 ML.

BBGI’s competitive edge derives from its secured feedstock and captive demand for its products. On the supply side, BBGI has the first right to purchase molasses from its second-largest shareholder, Khon Kaen Sugar Industry PLC (KSL), which partly mitigates the risk of raw material shortages. On average, BBGI procured about 70% of its molasses from KSL during the period 2019-2023.

On the demand side, although the biofuel industry continues to face lingering overcapacity issues, BBGI's biofuel plants maintain a high utilization rate. This is due to strong captive demand within the BCP Group, especially after BCP consolidated BSRC (Bangchak Sriracha PLC) into the group in late 2023. For the first half of 2024, BBGI's biodiesel sales volume increased to 237 ML, rising 78% year-on-year (y-o-y), while ethanol sales rose to 66 ML, up by 23% y-o-y. BBGI's overall plant utilization rates were 99% for biodiesel production and 64% for ethanol production. These were better than the industry utilization rates of 44% for biodiesel and 31% for ethanol in the same period.

Profitability vulnerable to raw material price volatility and adverse regulatory changes

In addition to industry oversupply, BBGI's profitability is highly susceptible to volatile raw material prices and regulatory changes. In the ethanol business, BBGI faces elevated costs of molasses and cassava chips, while the biodiesel business is impacted by fluctuations in crude palm oil (CPO) prices. For the first half of 2024, the cost of raw materials per liter of ethanol rose by about 10% y-o-y, while CPO prices increased by 6% y-o-y.

On the regulatory front, while biofuel demand generally follows petroleum demand, the government sometimes reduces biofuel content to control retail prices due to its higher costs. This can lower demand and exacerbate the oversupply situation, putting pressure on profitability across the industry. However, we expect the government to continue the use of biodiesel in the long term and maintain B7 biodiesel as the primary diesel fuel. Meanwhile, industry demand for ethanol has decreased since 2022 as the government reduced the oil fund subsidy on gasohol E85. In addition, the future of Gasohol E20 (a 20% blend of ethanol) remains uncertain. Nevertheless, we believe that E10 gasohol will continue to drive demand for ethanol.

Investments for new S-curve growths, if successful, could enhance earnings

As part of BBGI's long-term growth strategy, the company plans to expand into bio-based high-value products (HVP) in the health and well-being sector, aiming to create a new S-curve growth. The new business will leverage BBGI's strengths in sourcing agricultural products and derivatives, as well as its expertise in the fermentation process. Over 2024-2026, we expect BBGI to invest around THB2.0 billion in these new ventures, including the contract development and manufacturing organization (CDMO) business and sustainable aviation fuel (SAF). We expect returns from these biotechnology investments to materialize after 2026, contingent on the successful commercialization of the respective projects.

We expect significant growth in BBGI's EBITDA during 2024-2026, mainly driven by increasing biofuel production to meet the additional demand from BSRC. BBGI's EBITDA is projected to rise to approximately THB0.9-THB1.0 billion in 2024-2025, a significant growth from THB0.7 billion in 2023. As the returns from the HVP project begin materializing, we expect the company's EBITDA to reach THB1.2 billion in 2026. However, we have moderated our EBITDA margin expectations to around 4.5%-5.5% for 2024-2026 due to limited demand growth potential in the biodiesel industry amid regulatory uncertainties.

Financial leverage to rise, but remain in line with current rating

We expect BBGI's financial leverage to increase from the current level due to the company's ongoing investments. In our base case, we project its investments to total THB3.3-THB3.7 billion over 2024-2026, which includes maintenance capital expenditure (CAPEX), investments in new businesses, and a provisional investment budget of about THB1.0 billion. Notable investments include equity in the SAF project, the CDMO project, and the acquisition of a 30% minority stake in BBGI Biodiesels Co., Ltd. BBGI will partly fund its investments with the remaining proceeds of THB1.1 billion from the initial public offering (IPO), as well as through debt financing.

As a result, we expect BBGI's debt to capitalization ratio to increase to the 20%-25% range, up from 14.5% as of June 2024. The debt to EBITDA ratio is projected to rise to 2.9-3.3 times in 2024-2025, before declining to below 2.5 times in 2026 as new investments begin generating returns.

Adequate liquidity

We view BBGI's liquidity as adequate. As of June 2024, the company's sources of funds included THB1.8 billion in cash on hand, undrawn short-term credit facilities from financial institutions of about THB4.3 billion, and an undrawn credit facility of THB3.0 billion from BCP's Treasury Center. We forecast funds from operations (FFO) of THB820-THB870 million over the following 12 months.

These liquidity sources are sufficient to meet scheduled debt obligations and CAPEX over the following 12 months, totalling THB5.0 billion. This includes THB2.5 billion in short-term borrowings and THB0.4 billion in the current portion of long-term loans, along with THB2.1 billion in capital expenditures and potential investments during this period.

Debt Structure

At the end of June 2024, BBGI had total debt of THB3.4 billion, THB2.7 billion of unsecured debt and THB0.7 billion of secured debt owed by its subsidiaries. This suggests that the company's unsecured creditors could be disadvantaged compared to priority debt holders regarding claims against the company's assets.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating's base-case forecast for 2024-2026 are as follows:

- Ethanol plant utilization to increase from 70% in 2024 to about 90% in 2025-2026.
- Biodiesel plant utilization rate of about 97%-99%.
- Revenue growth of around 56% in 2024, then about 2% per annum in 2025-2026.
- EBITDA margin to range from 4.5%-5.5%.
- CAPEX and investment for new projects to total about THB3.3-THB3.7 billion, including a provisional budget of about THB1.0 billion.

RATING OUTLOOK

The "stable" outlook reflects our expectation that BBGI's cash flow generation will improve during 2024-2026, driven by increased captive demand for biofuel and the anticipated returns from investments in the HVP business. We also expect BBGI to manage its funding and investment activities prudently to ensure financial leverage remains aligned with our base-case projection, with the debt to EBITDA ratio remaining below 3.5 times.

RATING SENSITIVITIES

A rating downgrade could occur if BBGI's SACP or BCP's GCP is revised downward, as the company rating uplift has already reached the maximum limit of three notches above its SACP. Conversely, the potential for rating upside is limited since the company rating on BBGI is capped at one notch below the GCP.

A downgrade on BBGI's SACP may occur if its operating performance negatively deviates from our base-case scenario or if there is a rise in debt-financed investment. However, the SACP could be revised upward if the company can substantially increase its cash flow from operations while maintaining its debt-to-EBITDA ratio below 3.5 times on a sustained basis. Additionally, a change in BBGI's group member status could lead to a change in the company rating on BBGI.

COMPANY OVERVIEW

BBGI was established in October 2017 through the amalgamation of the biofuel businesses of BCP and KSL. After an IPO in March 2022, BCP and KSL held 45% and 30% stakes in BBGI, respectively. Currently, there are two main biofuel business lines—ethanol and biodiesel. As of June 2024, BBGI's ethanol production capacity was 0.8 ML/D, while its biodiesel capacity was 1.0 ML/D. BCP Group is the primary off-taker for both the ethanol and biodiesel, as these products are mandated to be blended with gasoline and regular diesel in specific proportions for sale as fuel across Thailand.

BBGI not only focuses on the biofuel business but is also entering the biotechnology sector. Notable projects include the CDMO business, and an investment in SAF manufacturing through a joint venture led by BCP.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	10,199	13,846	13,419	14,132	12,619
Earnings before interest and taxes (EBIT)	255	223	194	836	1,412
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	506	717	634	1,298	1,829
Funds from operations (FFO)	454	611	520	1,121	1,506
Adjusted interest expense	39	82	109	128	144
Capital expenditures	44	218	388	484	928
Total assets	15,132	13,635	14,106	12,907	12,731
Adjusted debt	1,706	321	236	4,347	5,055
Adjusted equity	10,032	9,937	10,281	6,904	6,504
Adjusted Ratios					
EBITDA margin (%)	5.0	5.2	4.7	9.2	14.5
Pretax return on permanent capital (%)	3.3 **	1.7	1.6	7.1	12.7
EBITDA interest coverage (times)	12.9	8.7	5.8	10.1	12.7
Debt to EBITDA (times)	1.8 **	0.4	0.4	3.3	2.8
FFO to debt (%)	48.9 **	190.3	220.5	25.8	29.8
Debt to capitalization (%)	14.5	3.1	2.2	38.6	43.7

* 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

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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