

BERLI JUCKER PLC

No. 33/2013

2 May 2013

Company Rating: A+

Outlook: Stable

New Issue Rating: -

Rating History:

Date	Company	Issue (Secured/ Unsecured)
22/10/07	A+/Sta	-/A+
15/06/07	A+/Sta	

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Rating Rationale

TRIS Rating affirms the company and senior debenture ratings of Berli Jucker PLC (BJC) at "A+". The ratings reflect the company's strong competitive positions in its major business lines, its diverse range of business with portfolio of strong brand names, and its good relationships with suppliers and clients. The ratings also take into consideration the company's solid sales across all its businesses segments and the growth opportunities in the neighboring countries in Association of South East Asian Nations (ASEAN). These factors are partly offset by the intensely competitive environment, exposure to commodity price fluctuations, a rise in leverage due to a debt-financed expansion, and concerns over business risks in overseas markets.

BJC's history in Thailand dates back over a century. A major transformation happened in 2001, when TCC Holding Co., Ltd. became BJC's major shareholder. TCC Group, which owned a 70.06% stake in BJC as of March 2013, is a large Thai conglomerate whose business spans various industries. Thai Beverage PLC (ThaiBev) is TCC's flagship company in beverage industry.

BJC's operations include the distribution and manufacturing of its own products plus contract distribution and manufacturing for other firms. BJC's core lines of business comprise: 1) Packaging Supply Chain (PSC), offering glass bottles and aluminum cans packaging; 2) Consumer Supply Chain (CSC), manufacturing, marketing, and distributing food and consumer products; 3) Healthcare and Technical Supply Chain (HTSC), focusing on medical products, hospital equipment and supplies, specialty chemicals, graphics and printing products, stationery and etc.; and 4) other businesses, including international business, Asia Book, and information technology. In 2012, BJC's total sales reached Bt37,429 million, a 20% increase from 2011, supported by strong growth from all core business lines. PSC remained the biggest sales contributor, generating 45% of BJC's total sales. CSC contributed 29.5% of BJC's total sales, and HTSC made up 21.5%. The packaging segment was BJC's major profit generator, contributing about 60% of earnings before interest, tax, depreciation and amortization (EBITDA).

BJC's strong business profile is enhanced by its well-diversified portfolio of businesses and sources of income. The company has been ranked among top two major producers in the packaging and consumer products industries. BJC's packaging segment benefits from sizable and secured orders from ThaiBev which accounts for around 40% of BJC's total sales in the packaging segment. The business synergy is expected to enhance further, following TCC Group's acquisition of Fraser and Neave Limited (F&N), the Singapore-based conglomerate, spanning its business in food & beverages, properties and publishing and printing. BJC's consumer products portfolio consists of various strong brands, i.e., Cellox, Zilk, Tasto, Dozo, Parrot, and newly acquired brand, Activia. BJC has put a solid effort to introduce new products in order to strengthen competition edge and improve profitability.

BJC's business strategy is to become an extensive regional distributor, initially in Indo-China. At the same time, it seeks for business opportunity to expand its product portfolio. BJC currently has market access in Malaysia, Vietnam, Laos, Cambodia, and Myanmar. In recent years, Vietnam is viewed as strategic location where BJC has made substantial investment. Firstly, the company jointly invested and has operated with its partner, Owens-Illinois Inc. (O-I), in glass factories in Vietnam and Malaysia. The operation has been satisfied. Recently, BJC acquired

two distribution companies: 75% of shares in Thai Corp International Vietnam Co., Ltd. (TCIVN) in September 2010, and 65% stake in Thai An Vietnam Joint Stock Company (Thai An) in March 2013. Both subsidiaries will provide the nationwide market coverage in Vietnam with around 200,000 sales points. A green field project under joint venture with Ball Corporation (BALL) to produce aluminum can in Vietnam, was commercially launched in May 2012. In addition, BJC, via its wholly-owned subsidiary (BJC International Co., Ltd.), acquired 75% stake in Ichiban Co., Ltd. (Ichiban) in early 2013. Ichiban is the manufacturer and distributor of tofu, or bean curd, and related products in Vietnam. Total investment in Thai An and Ichiban was approximately Bt1,130 million. In Thailand, BJC acquired 51% shares of Danone Dairy (Thailand) Co., Ltd. (Danone Dairy Thailand) from Groupe Danone SA in April 2012. The total investment was Bt210 million. Danone Dairy Thailand is a manufacturer of yogurt and dairy products under the Danone and Activia brands, two established global brands. This investment adds the health food segment to BJC's product portfolio, at the same time, strengthens its distribution network. The contribution from overseas markets accounted for 12% of BJC's total sales in 2012. The revenue generated from overseas will continue to grow further in 2013, upon the full consolidation of the aluminum can business and Thai An in Vietnam. Following a series of acquisition, the company faces challenges to maximize the return on investment, to activate business synergy with the group, and to manage the increased operating risk, especially in the overseas markets.

BJC's financial profile is highlighted by strong sales across all segments, a satisfactory level of liquidity, and a rise in leverage. BJC's operating income before depreciation and amortization as a percentage of sales was volatile in the narrow range, thanks to the firm's well-diversified product portfolio. In 2012, operating margin fell to 12.5%, compared with 15%-16% during 2010 and 2011. The drop was mainly due to several factors: the start-up cost of the aluminum can business in Vietnam, losses from Danone Dairy Thailand, and a softened profit margin in the Thai Malaya Glass factory. In addition, the selling and administrative expense as of sales was proportionately higher due to the intense competition especially in consumer product segment and healthcare product segment. The full utilization of the aluminum can factory in Vietnam is expected to improve its cost position in 2013.

BJC's funds from operations (FFO) was relatively flat at around Bt4,000 million during 2011 and 2012. Total debt rose from Bt11,110 million in 2011 to Bt13,171 million in 2012, to finance acquisition activities and its production capacity expansion, mainly in the packaging segment. BJC's financial leverage, as measured by the total debt to capitalization ratio, slightly rose from 43.3% in 2011 to 44.7% in 2012. Liquidity softened, though remained satisfactory, as the EBITDA interest coverage ratio dropped to 10.5 times in 2012, from 14.1 times in 2011. The FFO to total debt ratio was 29.9% in 2012, compared with 36.1% in 2011. BJC plans to spend Bt4,000-Bt7,000 million per annum in capital expenditures during 2013-2015. The projects for capital investment are to increase its packaging production capacity both for glass bottles and aluminum cans, as well as to expand its tissue paper production capacity, and relocate its glass factory. In addition, BJC is looking for opportunities to expand its distribution network. The increase in capital spending will likely raise its leverage in the medium term. Any large debt-financed acquisition will weaken the company's financial position and add pressure on the credit ratings. TRIS Rating expects BJC to well manage its capital structure and maintain a sufficient level of liquidity.

Rating Outlook

The "stable" outlook reflects the expectation that BJC could maintain its competitive strengths in key business segments. BJC is also expected to sustain its profit margins and enhance its ability to generate cash flow. Future investments or acquisitions, if any, should be prudently considered and not to jeopardize its financial strength.

Berli Jucker PLC (BJC)

Company Rating: A+

Issue Ratings:

BJC145A: Bt1,500 million senior debentures due 2014 A+

BJC165A: Bt1,000 million senior debentures due 2016 A+

Rating Outlook: Stable

KEY RATING CONSIDERATIONS

Strengths/Opportunities

- Well-diversified business portfolio
- Economies of scale
- Strong competitive positions in key business segments, with a portfolio of established brand names
- Strong relationships with suppliers and clients

Weaknesses/Threats

- Intense competition in key business segments
- Narrower profit margins
- Rising leverage from expansion and acquisitions

CORPORATE OVERVIEW

BJC is one of Thailand's leading conglomerates, founded in 1882. The company was originally engaged in various trading and service activities. BJC was listed on the Stock Exchange of Thailand (SET) in 1975. In 2001, TCC Holding Co., Ltd. purchased BJC from the First Pacific Group, a Hong Kong-based corporation, and became BJC's major shareholder. As of March 2013, TCC Group held directly 70.06% of BJC's shares. TCC Group is one of Thailand's largest conglomerates, whose businesses span a number of industries. ThaiBev, a leading Thai alcoholic beverages producer, is TCC Group's flagship company in the beverage industry and has been one of BJC's largest packaging customers.

BJC's operations include the manufacturing and distribution of its own products, as well as the distribution services for the third party. BJC's major lines of business are PSC, CSC, HTSC, and others. In 2012, sales in the PSC segment comprised around 45% of total revenue. The CSC segment generated 29.5% of total sales, while sales in the HTSC segment contributed a total of 21.5%. The remainder was from international business, Asia Book, and the information technology segment. In terms of profitability, the packaging segment is major earning generator, contributing around 60% of total EBITDA.

Table 1: BJC's Revenue Contributions by Line of Business

Line of Business	2010		2011		2012	
	Bt Mil.	%	Bt Mil.	%	Bt Mil.	%
1. Packaging Supply Chain (PSC)	12,236	48	14,624	47	16,865	45
2. Consumer Supply Chain (CSC)	7,641	30	9,253	30	11,039	30
3. Healthcare and Technical Supply Chain (HTSC)	5,334	21	6,506	21	8,046	22
4. Others	489	2	1,145	4	1,650	4
5. Intra-group eliminations	(75)	0	(293)	(1)	(172)	(0)
Total	25,625	100	31,235	100	37,429	100

Source: BJC

BJC has a large production base. Its glass packaging production base in Thailand comprises three main plants at Bang Plee, Rat-Burana, and Saraburi. Glass production capacity per annum was about one million tonnes in 2012. BJC plans to relocate a glass plant from the Rat-Burana area to the Saraburi area, and will close its Rat-Burana plant within 2014. In addition, BJC joined with O-I to operate two glass packaging production plants in Vietnam

and Malaysia. Thai Beverage Can Co., Ltd. (TBC), BJC's subsidiary, produces aluminum cans in Saraburi province and jointly invested with BALL in Vietnam. Both plants have a combined capacity of around 2,735 million cans and 1,745 million ends in 2012. BJC also owns factories that produce tissue paper and snacks. The capacity of its tissue production facility is around 50,000 tonnes per annum.

BJC's distribution network in Thailand is mainly operated by BJC Logistics Co., Ltd. (BJL), BJC's wholly-owned subsidiary. BJL has two major distribution centers with a combined capacity of over 25,000 pallets, covering more than 7,600 active stock-keeping units (SKUs). The distribution network supplies products to hypermarkets, supermarkets, the modern retail trade channel, and retailers nationwide. BJC expanded its distribution network into Vietnam through its subsidiaries, TCIVN and Thai An, to support its regional expansion efforts.

RECENT DEVELOPMENTS

▪ *Acquiring 51% of Danone Dairy Thailand*

In mid-2012, BJC purchased 51% of Danone Dairy Thailand, a manufacturer of yogurt and dairy products sold under the Danone and Activia brands. The investment value was Bt210 million. The investment is in line with BJC's growth strategy: to extend the range of products in its food product segment, and broaden its distribution network.

▪ *More establishment of distribution network in Vietnam*

In the beginning of 2013, BJC purchased 65% of Thai An. The total investment was Bt989.96 million. Thai An is one of the key trading company in Vietnam, handling food and non-food products. Its network covers 160,000 retail shops, mainly in the north and middle parts of Vietnam.

BJC also purchased a 75% equity stake in Ichiban through its wholly-owned subsidiary, BJC International Company Limited (BJIHK). The investment value was Bt140 million. Ichiban is the manufacturer and distributor of tofu, or bean curd, and its related products in Vietnam.

▪ *Commencing its first aluminum can plant in Vietnam*

BJC's aluminum can plant in Vietnam started commercial operation in May 2012. This plant is the cooperation between BJC and BALL. BALL has provided support on both equity injection and manufacturing technology. The plant's total production capacity is 850 million cans per annum. In 2012, the utilization rate was about 40%. The company expects that the plant will run at full capacity in 2013.

INDUSTRY ANALYSIS

- **Private consumption grew satisfactorily in 2012, and is expected to grow moderately in 2013**

In 2012, the consumer product industry benefited from a rise in private sector spending. Spending grew more slowly in 2011 because of the severe flooding in the last quarter of the year. Private consumption expenditure in Thailand rebounded in 2012 and grew by 6.6%, compared with growth of 1.3% in 2011. The rise in 2012 was due to the strong economic recovery after the flood, rising consumer confidence, plus the economic stimulus policies of the government.

The latest consumer confidence index (CCI) reported by the Center for Economic and Business Forecasting (CEBF) of the University of the Thai Chamber of Commerce showed a slightly positive outlook. The CCI rose for a sixth straight month to 84.8 in March 2013 from 77.0 in September 2012. However, the index remained below 100, reflecting concern over the high cost of living, domestic political uncertainty, and global economic problems caused by European debt crisis.

Table 2: Growth Rates (Y-O-Y) for GDP and Private Consumption

Unit: %

	2010	2011	2012	2012				2013p
	Full Year			Q1	Q2	Q3	Q4	
GDP	7.8	0.1	6.4	0.4	4.4	3.1	18.9	5.1
Private consumption	4.8	1.3	6.6	2.9	5.3	6.0	12.2	4.7

p = Projection

Sources: 1) Office of the National Economic and Social Development Board (NESDB)
2) Bank of Thailand (BOT)

Private sector spending is expected to grow moderately in 2013. Recently, the Bank of Thailand (BOT) projected private consumption in 2013 will grow by 4.7%. The gross domestic product (GDP) growth estimate for 2013 is 5.1%. Rising pressure from inflation and domestic political uncertainty are the major concerns limiting the growth of private consumption and the growth of the overall economy for the remainder of 2013.

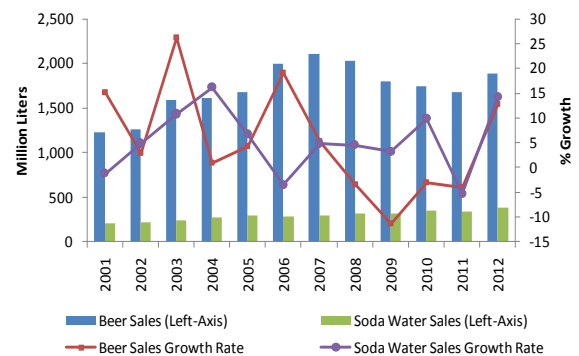
Glass Containers:

Demand for glass containers is mainly driven by demand for their end use products, such as food, alcoholic drinks, non-alcoholic beverages, pharmaceuticals, and cosmetics. New glass bottles are also needed to replace used bottles already in circulation. In Thailand, alcoholic beverage manufacturers are the largest users of glass bottles, using about 40% of the total amount of glass containers produced. Other large users of bottles include manufacturers of non-alcoholic drinks, food, and energy

drinks. In 2012, demand for new glass containers was 2.05 million tonnes, 3.8% higher than the previous year. The demand prospects for glass containers by beverage segment are expected to be positive. In 2012, beer consumption was expected to rise by 12.8%, according to the Office of Industrial Economics. Sales of soda water also increased, rising by 14.2%. TRIS Rating expects that a growing economy will boost consumption of beverages and food, and thus increase the sales of the packaging industry.

Competition among glass container producers is not so intense, since major producers primarily supply products to their own group's businesses which make alcoholic beverages and energy drinks. Currently, the glass container industry has three large producers: Bangkok Glass Industry Co., Ltd., Thai Glass Industries PLC, and Siam Glass Industry Co., Ltd. The barriers to entry for this industry are high, due to the need for a sufficiently large customer base to justify the huge capital investments and high production cost. Over the past two decades, glass containers have faced increasing challenges from substitute materials, e.g., aluminum and polyethylene terephthalate (PET).

Chart 1: Domestic Sales of Beer and Soda Water in Thailand



Source: Office of Industrial Economics (OIE)

Aluminum Cans:

Similar to glass containers, demand for aluminum cans is driven by demand for beverages. In Thailand, aluminum cans are used mainly by beer manufacturers, followed by producers of energy drinks and carbonated soft drinks. In 2012, total volume sold was approximately 3,442 million cans, a 33.4% increase from 2011. Currently, there are three major aluminum can manufacturers: Bangkok Can Manufacturing Co., Ltd., Thai Beverage Can Ltd., and Crown Bevcan and Closures (Thailand) Co., Ltd. The oligopolistic characteristics of the can industry parallel the glass container industry: a large customer base is required.

Tissue Paper:

In 2012, the value of Thailand's tissue paper market was approximately Bt7,300 million, up 9.6% from 2011. Population growth and income growth are the primary factors determining the quantity and quality of tissue paper purchased and used. An economic slowdown can cause changes in buying patterns, inducing consumers to trade down from premium products to medium cost or budget products. The market can be divided into the consumer category, which comprises 74% of the total value of tissue paper sold, and the institutional category (26%). The consumer category comprises four segments: toilet tissue paper, facial tissue paper, towels, and napkins. The institutional category includes tissue paper supplied wholesale to janitorial supply companies, hotels, offices, restaurants, factories, airports, schools, and government offices. The largest segment of the consumer category is toilet tissue paper, which accounted for 63% of the total sales in the consumer category.

Kimberly-Clark, the manufacturer of Scott and Kleenex, and BJC Cellox, the manufacturer of Cellox and Zilk, are the two largest producers. In 2012, together these two firms commanded over 75% of the market. Across the whole tissue paper market, Kimberly-Clark is the market leader, whereas BJC Cellox is the leader in the toilet tissue paper segment. Competition in the toilet tissue paper segment is rather intense because brand loyalty is relatively low. Producers and distributors use pricing and promotional campaigns to attract buyers. There is also competition from supermarkets and hypermarkets, which have launched private label brands to compete with the branded products.

Snacks:

The value of Thailand's snack market was approximately Bt25,700 million in 2012, up 10.0% from 2011. Extruded snacks accounted for the largest portion of the market, followed closely by potato chips. Other snack categories included fish snacks, peanuts, prawn crackers, cuttlefish, rice crackers, popcorn, and seaweed snacks. The rise in snack consumption in 2012 was driven by a rising number of retail outlets and the manufacturers' continuous introductions of new products.

In terms of sales value, Frito-Lay was the market leader, followed by BJC Foods, Useful Food, Friendship, and Premier Marketing. Prices, promotional campaigns, and product placement on store shelves are the typical competitive tools used to gain or at least retain market share in this industry. Heavy advertising spending and continuous marketing activities are used to maintain brand awareness. Substitution effects can happen within the snack industry itself or from other categories of edible products, such as biscuits, cookies, crackers, and wafers. A

key entry barrier for newcomers to the snack market is the difficulty in building brand awareness and acquiring shelf space. Recently, health consciousness has become an important social issue which will raise the growth potential of the healthy snack market. In response to the demand shift, snack producers have started making healthier products

BUSINESS ANALYSIS

BJC's business profile is strong, supported by a well-diversified portfolio of products and its proven market positions in its core business segments. Economies of scale in production and high facility utilization rates make BJC's cost competitive, particularly in packaging products and tissue paper. However, BJC faces intense competition, especially in the consumer products and healthcare segment. On top of growth strategy and expansion efforts, the company also faces a challenge to maximize returns, to realize group-wide synergies from its new investments, and manage the increased operating risk, especially in the overseas markets.

- ***Diversified portfolio of products and broad market coverage***

BJC's product portfolio is well-diversified across its three key segments: packaging products, consumer products, and healthcare products. The three major lines of business have low degrees of correlation, which help mitigate any negative effects during an economic downturn. Each segment also covers a wide range of products and customers. Each segment also has broad market coverage and a nationwide distribution channels.

BJC provides three types of packaging products: glass bottles, aluminum cans, and rigid plastic containers. The packaging segment offers containers in a variety of sizes and designs. The products available cover a wide range of end use industries: alcoholic beverages, non-alcoholic beverages, energy drinks, and the non-cyclical food segment. ThaiBev, TCC Group's flagship beverage company, is BJC's largest customer. ThaiBev bought around 50% of the glass containers produced by BJC and around 32% of the aluminum cans in 2012. The recent F&N share acquisition by ThaiBev and the TCC Group will push further demand within the Group. Besides supplying packaging products to the Group, BJC has maintained good relationships with broad base of customers in order to maximize its plant utilization.

For the consumer products segment, BJC's products can be divided into food and non-food consumer products, such as snacks, tissue paper, and personal care products. BJC's consumer products are positioned across all market segments, from economy to premium. Currently, the company has extended its product line to offer cosmetics

and health foods. BJC distributes its products through hypermarkets and retailers nationwide. The company also offers sales and marketing services for products made by other companies, to maximize the utilization of its distribution network and strengthen its product portfolio.

BJC's healthcare segment offers a wide range of medical treatment products, including original and generic drugs, medical imaging machinery, surgical equipment, and medical supplies. BJC supplies these products to both government and private hospitals.

▪ **Strong competitive position in Thailand**

BJC's strong business profile is supported by its market positions. BJC is one of the top two producers of glass bottles, aluminum cans, tissue paper, and snacks in Thailand. Based on sales of glass containers, BJC had roughly 41% market share in 2012, very close to the share held by the market leader. The volume and value of aluminum cans sold by TBC have grown strongly. TBC has maintained its market-leading position in the aluminum can industry and reported a continuous growth in the volume and value sales.

BJC is the second-largest producer of tissue paper and snacks. BJC's consumer product brands, i.e., Cellox, Zilk, Tasto, Dozo, Parrot, and Activia, are well recognized in the Thai market. BJC's ability to counter the intense competition has strengthened its brand equity and brand awareness in the market. Product innovation has been one of the key successes.

BJC continues to improve the quality of its products, develop new products, and introduce attractive packaging in order to capture changes in consumer preferences. In 2012, BJC launched new flavors of snacks, such as Tasto Crab Claypot, and offered a health food product, Activia yogurt. BJC uses new packaging for its tissue paper as a gimmick to draw customers. BJC introduced Paul Frank-themed packaging for boxes and soft-packs of Cellox Purify Tissue. BJC also renewed brand and re-launched Parrot Gold Shower Cream. In addition, the company introduced Premedica, a line of skincare, and Berli Pop's body lotion in 2012.

▪ **Economies of scale**

BJC is among the biggest producers of packaging products in Thailand. BJC has a combined annual capacity of around one million tonnes of glass. TBC had an annual production capacity of 2,735 million cans and 1,745 million ends in 2012. The annual utilization rates of the packaging plants were very high, over 90%. The annual capacity of BJC's tissue production was around 50,000 tonnes in 2012 with a 91% utilization rate. BJC's sizable production facilities and its established customer base enable the company to maintain high facility utilization rates, which

give BJC competitive cost position. In 2012, the margin in the packaging segment was softened mainly due to the start-up costs of a new facility in Vietnam. The utilization rate for a new aluminum can factory in Vietnam was about 40%. The cost position and margins are expected to improve in 2013, as volume increases.

▪ **Potential for growth in Vietnam and other ASEAN nations, but operating risks will rise**

BJC is striving to be a regional distributor, especially in Indo-china. At the same time, BJC continues to expand its manufacturing base to extend its presence and brands throughout the region.

BJC's expansion efforts and investments have intensified during the past five years. In 2008, BJC invested in Jacy Food (a snack business) in Malaysia. In 2010, BJC invested in Thai Corp International (Vietnam). The company has jointly invested with O-I to operate glass bottle plants in Malaysia and Vietnam. In addition, BJC has jointly invested with BALL, to establish an aluminum can production facility in Vietnam. In the beginning of 2013, BJC continued to expand its distribution network in Vietnam by purchasing Thai An and Ichiban.

In 2012, BJC's sales from overseas markets comprised approximately 12% of total sales, compared with the level of around 7% in 2010. With its efforts to expand overseas, the revenue contribution from international operations is expected to grow. In 2013, the nation contributing the largest portion of international sales will be Vietnam, after the full consolidation of Thai An and once the Vietnam aluminum can facility is fully utilized. The overseas businesses will diversify BJC's market coverage and also prepare the company for the intensified competition which will result from the Asean Economic Community (AEC) initiative. However, the company will face challenges to maximize the returns on its overseas investments, to realize group-wide synergies from its new investments, and to manage the increased operating risk.

FINANCIAL ANALYSIS

The highlights of BJC's financial profile are growing sales, ample liquidity, and a rise in leverage. BJC's operating margin narrowed in 2012 mainly due to the start-up costs from the aluminum can factory in Vietnam, and losses from Danone Dairy Thailand. BJC's level of leverage increased as the company invested more, following its growth strategy.

▪ **Strong sales across business lines but narrower profit margins**

Revenue has grown strongly during the last two years, rising from Bt25,625 million in 2010, to Bt31,235 million in 2011, and Bt37,429 million in 2012. Sales in 2012 were

driven by growth in all its business segments and the acquisition of Danone Dairy Thailand.

BJC's overall corporate margin was volatile in the narrow range, thanks to the firm's well-diversified product portfolio, cost control initiatives, and new product introductions. Operating profit margins in 2012 fell to 12.5%, compared with 15% in 2011 and 16% in 2010. The drop was due mainly to a start-up costs in the new aluminum can plant in Vietnam, losses from Danone Dairy Thailand, and softened gross margin in the Thai Malaya Glass factory. In addition, the selling and administrative expenses as of sales were proportionately higher due to intense competition, especially in the consumer product segment and the healthcare product segment. In the medium term, operating margins will remain under pressure, largely due to intense competition and exposure to commodity price fluctuations. Sales promotion and marketing expenditures are estimated to remain at high level in order to boost sales in the consumer products and healthcare segments.

BJC's revenue in 2013 is expected to continue to grow, driven mainly by the expansion in aluminum can packaging production in Thailand, the rising utilization rate in the Vietnam aluminum can plant, and a sales contribution from Thai An. The packaging segment will remain the biggest sales contributor in the medium term. Among BJC's core businesses, the consumer product segment reported the lowest operating profit margin. The margin of the consumer product segment was thin, at about 10% during 2011 and 2012. Through its extensive network and expertise, TRIS Rating expects BJC to achieve the profit margin of medium level.

▪ ***Rise in leverage***

BJC's leverage has continued to rise due to its expansions in the packaging segment and its recent acquisitions. Total debt rose from Bt8,075 million in 2010 to Bt13,171 million in 2012. The total debt to capitalization ratio worsened in 2012, climbing from 38.4% in 2010 to 44.7% in 2012.

BJC plans capital expenditure of Bt4,000-Bt7,000 million per annum during 2013-2015. The rise in capital spending will likely pushes leverage higher in the medium term. BJC is expected to maintain appropriate capital structure if making any huge investment. Any large debt-financed investment will negatively pressure the credit ratings.

▪ ***Acceptable cash flow protection***

BJC's cash flow protection in 2012 remained satisfactory, supported by its sustained ability to generate cash. FFO was relatively flat at around Bt4,000 million during 2011 and 2012, derived mainly from the packaging segment. Cash flow protection remained acceptable, although the EBITDA interest coverage ratio dropped from 14.5 times in 2011 to 10.5 times in 2012. The FFO to total debt ratio was 30% in 2012, compared with 36% in 2011.

The focus of BJC's growth strategy is pursuing expansion its businesses in Thailand and Indochina. This strategy is expected to generate more cash flow and bring more growth prospects. However, these positive outcomes could be offset by higher leverage and rising interest expense. BJC is expected to reserve a sufficient level of liquidity at all times.

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Year Ended 31 December				
	2012	2011	2010	2009	2008
Sales	37,429	31,235	25,625	22,428	22,243
Gross interest expense	503	366	227	222	230
Net income from operations	2,328	2,110	1,858	1,230	981
Funds from operations (FFO)	3,944	4,013	3,830	2,602	2,349
Total capital expenditures	3,611	2,607	1,107	619	2,269
Total assets	38,260	32,999	27,677	23,036	22,813
Total debt	13,171	11,110	8,075	6,013	6,620
Shareholders' equity	16,284	14,530	12,934	11,374	10,590
Operating income before depreciation and amortization as % of sales	12.5	15.0	16.3	13.2	11.9
Pretax return on permanent capital (%)	12.8	14.5	15.9	11.1	10.6
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	10.5	14.1	19.7	14.7	12.7
FFO/total debt (%)	29.9	36.1	47.4	43.3	35.5
Total debt/capitalization (%)	44.7	43.3	38.4	34.6	38.5

* Consolidated financial statements

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