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Issuer: Thai Beverage Public Company Limited

Security: Thai Beverage Public Company Limited

Meeting details:

Date: 31 January 2019

Time: 10.00 a.m.

Venue: Grand Hall I, 2nd Floor, The Athenee Hotel, a Luxury Collection Hotel, Bangkok No. 61 Wireless Road, Lumpini Sub-district, Pathumwan District, Bangkok 10330, Thailand

Company Description

Thai Beverage Public Company Limited, together with its subsidiaries, produces and distributes alcoholic and non-alcoholic beverages, and food products in Thailand and internationally. The company operates through Spirits, Beer, Non-Alcoholic Beverages, and Food segments. It offers liquor and beer products; spirits, including brown spirits, white spirits, herbs, and other products; and non-alcoholic beverages comprising drinking and soda water, electrolyte beverages, energy drinks, green and herbal tea, ready-to-drink coffee, carbonated soft drinks, isotonic, soya drinks, Asian and sparkling drinks, coconut water, cordials, pasteurized milk, UHT milk, sterilized milk, yoghurt, canned milk, pasteurized juice, ready-to-drink juice, ice cream, and cereal bars. The company also provides chilled and frozen food products, and snack products; and fertilizers and feeds, bricks, and oak barrels. In addition, it is involved in the trading of molasses; provision of transportation and distribution, advertising and marketing, training, consultancy, asset and brands management, public cold storage, and human resources and organization development services; operation of Japanese restaurants, bakeries, and social enterprise; and production and distribution of biogas. Further, the company is involved in the trading of bottles and supplies; distribution of beverages; and production of plastic packaging and related businesses. Thai Beverage Public Company Limited was founded in 2003 and is based in Bangkok, Thailand.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=Y92)

1. Would the board/management provide shareholders with better clarity on the following operational and financial matters? Specifically:

- (i) Saigon Beer - Alcohol - Beverage Corporation (“SABECO”): Can management help shareholders understand the group’s level of influence and control over the strategic, financial and operational matters of SABECO? Will SABECO be fully integrated with the rest of the group? What are the synergies arising from the acquisition of SABECO? Given the huge increase in finance cost to acquire SABECO, what are some of the low hanging fruits so that the group can generate some short term returns while working on the strategic growth plan?**
- (ii) SABECO (Loan Conversion): Can management confirm that, prior to the loan conversion by BeerCo Limited, the group’s effective interest in SABECO was just 26.26%? What is the impact on the group’s earnings and cash flow following the loan conversion?**
- (iii) SABECO (Goodwill): The group acquired SABECO in the financial year and recognised 148 billion Baht in additional goodwill. In total, the group’s goodwill increased by 164 billion Baht due to all the acquisitions (including Grand Royal Group and the KFC operations) made in the year (page 201). For reference, shareholders’ equity as at 30 September 2018 amounted to just 140.6 billion Baht. Can management help shareholders understand its approach to acquisition (including valuation and deal structuring)? How does management avoid overpaying to acquire assets and businesses? Did the board/Sustainability and Risk Management committee review and approve the acquisition of a 53.59% equity interest in SABECO for a cash consideration of VND 109,965,627.84 million?**
- (iv) Food business: The segment was expanded with the acquisition of 252 KFC franchises in Thailand and a stake in cold chain logistics and distribution expert, Havi Logistics (Thailand) Co., Ltd. Would management provide shareholders with an overview of the strategic growth plans of the food business? What would the segment look like in 5 years’ time?**

2. In the Financial highlights section, a summary of key performance ratios of the group is shown (page 7) and reproduced below:

		Oct - Sep 2018*	Oct - Sep 2017*
Profitability Ratio			
Gross Profit Margin	%	29.26	30.58
EBITDA Margin	%	15.75	23.74
EBIT Margin	%	13.24	21.47
Operating Cash Flows to Operating Profit Ratio	%	86.95	107.44
Net Profit Margin	%	9.02	18.25
Return on Equity	%	15.18	27.07
Efficiency Ratios			
Return on Assets	%	6.96	18.16
Return on Fixed Assets	%	39.26	71.95
Total Assets Turnover	times	0.77	1.00
Leverage Ratios			
Liability to Equity Ratio	times	1.86	0.47
Interest Bearing Debt to Equity Ratio	times	1.65	0.31
Net Interest Bearing Debt to EBITDA Ratio**	times	5.39	0.68
Interest Coverage Ratio**	times	7.63	45.96

* Twelve-month period from October 2017 to September 2018 and from October 2016 to September 2017.
 ** EBITDA for 12 months from October 2017 to September 2018 included EBITDA of business acquisition of Baht 2,530 million

(Source: Company annual report)

To support the group's growth, and to achieve the "Vision 2020" strategic roadmap, the group scaled up rapidly with several acquisitions, including SABECO, Grand Royal Group, KFC operations, Havi Logistics and Spice of Asia.

As a result, the financial leverage of the group has increased significantly while the profitability of the group has slipped. As seen in the table above, while gross profit margin slipped marginally to 29.26% in FY2018, EBIT margin dropped from 21.47% to 13.24%. Net profit margin has been halved to 9% while the return on equity dropped from 27.07% to 15.18%.

The efficiency ratios (return on assets, return on fixed assets, total assets turnover) all slipped while the leverage ratios showed significant increases. Interest bearing debt to equity ratio increased fivefold, from 0.31x to 1.65x whereas net interest bearing debt to EBITDA ratio jumped from 0.68x to 5.39x.

- (i) Can the board help shareholders understand if the group's Vision 2020 is focused on growth, revenue and market leading positions? Can the board elaborate further on how long term shareholder value is generated under the Vision 2020 strategic road map?
- (ii) What guidance has the board provided to management on the importance of maintaining the level of profitability and the quality of its earnings even as the group expands?
- (iii) Does the board expect the group to make any more major acquisitions to achieve the group's Vision 2020? What is the amount of debt headroom for any further acquisitions?
- (iv) Has the board set an internal limit to the group's gearing ratio/leverage?

3. In the company's Corporate Governance Report, on page 149, the remuneration of the directors is shown in the table and reproduced below:

Name of Directors (non-executive capacity)	Total Remuneration (SGD)	Directors' fees (%)	Salaries (%)	Type of Remuneration		
				Bonuses as well as funds paid based on the operating results of the Company (%)	Other benefits (%)	Compensation in a form of shares and long-term benefits (%) ⁽⁵⁾
10. Mr. Prasit Kovilaikool	275,000	55	-	45	-	-
11. Prof. Kanung Luchai	137,000	55	-	45	-	-
12. Mr. Manu Leopairote	165,000	55	-	45	-	-
13. Mr. Ng Tat Pun	110,000	55	-	45	-	-
14. Mr. Michael Lau Hwai Keong	64,000	55	-	45	-	-
15. Prof. Pornchai Matangkasombut	64,000	55	-	45	-	-
16. Gen. Dr. Choo-Chat Kambhu Na Ayudhya	64,000	55	-	45	-	-
17. Ms. Potjanee Thanavarant ⁽²⁾	26,000	100	-	-	-	-
18. Dr. Chatri Banchuin ⁽³⁾	26,000	100	-	-	-	-
19. Assoc. Prof. Dr. Kritika Kongsompong ⁽⁴⁾	26,000	100	-	-	-	-
20. Mr. Vivat Tejapaibul	64,000	55	-	45	-	-
21. Mr. Panote Sirivadhanabhakdi	64,000	55	-	45	-	-

(Source: Company annual report)

It is observed that the non-executive directors all received bonuses that made up 45% of their total remuneration in the year. In the past two financial years, the non-executive directors received bonuses of 46%.

As seen in the table above, the bonuses are paid "based on the operating results of the company".

- (i) Can the remuneration committee (RC) help shareholders understand the performance indicators used to determine the bonus of the non-executive directors?**
- (ii) Would the RC elaborate further on the stable level of bonuses despite the fluctuating results of the group?**

The Code of Corporate Governance recommends that the remuneration of non-executive directors be made appropriate to the level of contribution, taking into account factors such as effort, time spent, and responsibilities.

- (iii) Has the RC evaluated how the award of bonuses to the independent non-executive directors may interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement in the best interests of the company?**