

# THAIFOODS GROUP PLC

No. 75/2018  
14 June 2018

## CORPORATES

**Company Rating:** BBB-  
**Outlook:** Stable

### Company Rating History:

Date	Rating	Outlook/Alert
20/04/17	BBB-	Stable

### Contacts:

Jutatip Chitphromphan  
jutatip@trisrating.com

Nauwarut Temwattanangkul  
nauwarut@trisrating.com

Sasiporn Vajarodaya  
sasiporn@trisrating.com



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## RATIONALE

TRIS Rating affirms the company rating of Thaifoods Group PLC (TFG) at “BBB-”. The rating reflects the company’s market position as a medium-sized producer in Thai agribusiness and food industry, and its track record in the poultry producing industry in Thailand. The rating also reflects the fact that TFG is vertically integrated, from breeding poultry and swine through the production of finished food products. TFG plans to expand its market coverage both in Thailand and abroad, and add more value-added products to its product mix. These strengths are partially offset by volatile earnings caused by the relative reliance on basic commodity-type products, fluctuations in feed prices, debt-funding for capital expenditures, the exposure to disease outbreaks, as well as changes in tariffs and quotas of food in importing countries.

### KEY RATING CONSIDERATIONS

#### Track record as a poultry producer

TFG has nearly two decades of expertise in the poultry producing industry. TFG’s market share of chicken exports from Thailand during 2017 was 14%, as reported by the Thai Broiler Processing Exporters Association. In the domestic market, TFG is the third-largest poultry processor, with a market share of 11%. TFG started breeding and raising swine in 2013. By 2017, TFG was the third-largest swine producer, with a market share of 4%, as reported by the Swine Raisers Association of Thailand, close to most of medium-sized swine producers, but much lower than 15%-25% of top two major producers.

#### Vertically-integrated operations

TFG is a vertically integrated producer of both poultry and swine. TFG produces feed, breeds the parent stock, hatches, raises the poultry and swine, and puts the poultry into its slaughterhouses. Broilers and fatteners are raised under contract-farm agreements. TFG raised all parent, grandparent, and great grandparent stocks in its own farms located in Kanchanaburi, Chonburi, and Srakaew provinces. Larger producers of poultry and swine products are fully vertically integrated. TFG’s operations are not yet fully integrated. However, TFG plans to add swine processing plants so that it will be a fully integrated producer of swine over the next few years.

#### Moving to export market and widening its product mix to include value-added food products

TFG is striving to expand its market coverage in Thailand and abroad. TFG exported 37,078 tonnes of frozen chicken meat in 2017. Exports made up 13% of total sales in 2017, up from 10% in 2016. For comparison, domestic sales were still the largest contribution at 87% of total revenue in 2017. A new chicken processing plant is officially operational in June 2018. Export volume will rise to around 60,000 tonnes per year as a result. The company targets to boost revenue from export to 25% of total revenues in 2018. TFG is widening its product mix to include more high-margin cooked products. Overall, TFG’s aforementioned expansions are in order to keep sales growing and enhance its margins.

### Volatile operating margin

In 2017, the operating margin remained satisfactory at 10.3% following higher prices for chicken meat in export markets. However, the operating margin plunged to 0.99% in the first quarter of 2018. The price of chicken meat fell 8% year-on-year (y-o-y) while the price of swine and pork meat fell 9% y-o-y. TRIS Rating forecasts TFG's operating margin to hold at 8%-9% during 2018-2020 as the weak trend of domestic poultry prices is projected to continue in the medium term.

### High financial leverage but adequate cash flow protection

The total debt to capitalization ratio rose to 62.1% as the need for working capital rose. During 2018-2020, TFG's planned capital expenditures of Bt1,500-Bt2,000 million per year will require long-term funding. Planned expenditures will cover capacity expansions for a feed mill, new farms, a slaughterhouse for poultry, and ongoing investment in food processing plants. Earnings before interest, tax, depreciation and amortization (EBITDA) is forecast at Bt2,000-Bt2,500 million per year. TFG plans to fund the capital investments with new borrowing. As a result, leverage is expected to remain high over the next few years. The ratio of funds from operations (FFO) to total debt was 26.5% in 2017, rising from 22.2% in 2016 as the prices of chicken meat increased and feed cost fell. However, the FFO to total debt ratio declined to 20.7% following the plunges in the prices of livestock in Thailand during the first three months of 2018. Looking forward, TRIS Rating forecasts that FFO to total debt ratio of TFG to be 13%-16%. TFG has an acceptable liquidity buffer with cash in hand of approximately Bt1,400 million.

### RATING OUTLOOK

The "stable" outlook reflects the expectation that TFG will maintain its competitive position in the Thai poultry and swine industry. TFG is expected to maintain sufficient liquidity and credit facilities during the current industry downturn, and keep the total debt to capitalization ratio at around 60% as it expands.

### RATING SENSITIVITIES

TFG's credit upside may materialize if its earnings become less volatile on a sustainable basis, coupled with a successful expansion into high-margin product segments. The downside case could occur if profitability materially deteriorates or its performance weakens for an extended period. Any debt funded expansion, which will weaken its balance sheet and cash flow protection, is a negative factor for TFG's rating.

### COMPANY OVERVIEW

TFG, established in 2001 and listed on the Stock Exchange of Thailand (SET) in 2015, raises and processes poultry and swine. TFG also produces feed with operations in Thailand and Vietnam. As of March 2018, Mr. Winai Tiewsomboonkij's group held 77.2% of the company's shares. TFG has its own research and development division to ensure product quality, cost effectiveness, preventive measures, and production efficiency. The poultry segment generates most of the revenue, followed by the swine and feed segments.

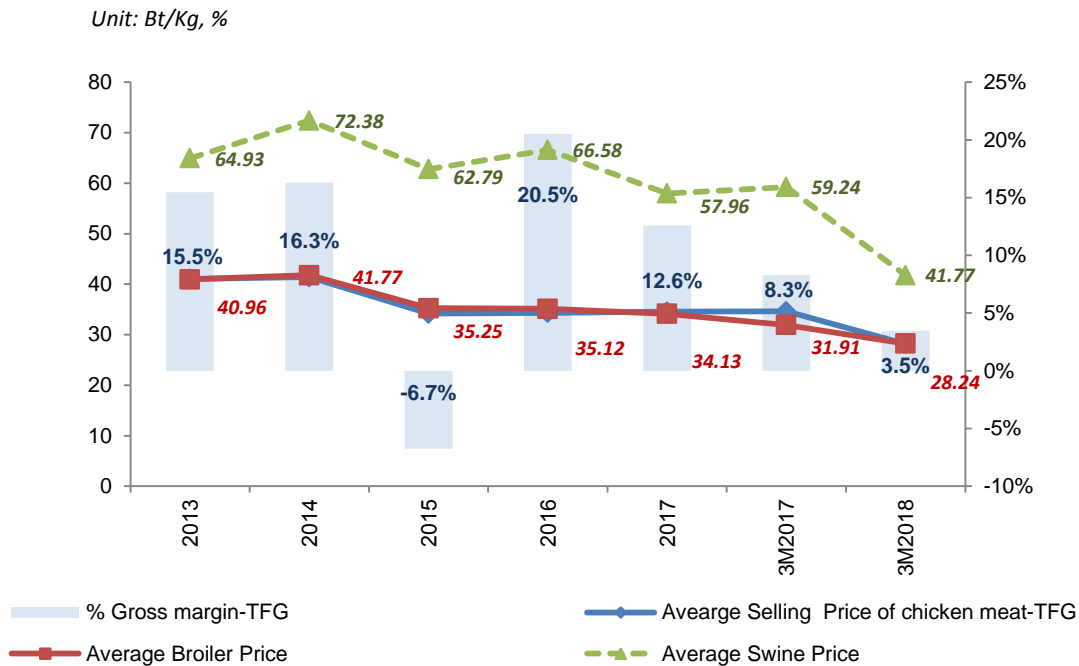
**Table 1: TFG's Product Types**

*Unit: %*

Product Types	2013	2014	2015	2016	2017	Jan-Mar 2018
Feed	9	6	7	9	10	14
Poultry	71	71	63	64	68	64
Swine	17	21	26	26	20	20
Food	-	-	-	1	1	2
Others	3	2	4	0	1	0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Total sales (Bt million)</b>	<b>15,770</b>	<b>17,067</b>	<b>17,371</b>	<b>20,626</b>	<b>25,789</b>	<b>6,521</b>

*Source: TFG; marking that others are revenue from vaccines and medical supply R&D services, including sales of animal feed sacks and plastic farming equipment*

Chart 1: TFG's Gross Margin, and the Average Prices of Broiler and Swine, by Year



Sources: TFG and Thai Feed Mill Association

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Bt million

	Jan-Mar 2018	Year Ended 31 December			
		2017	2016	2015	2014
Sales and service revenues	6,521	25,789	20,626	17,371	17,067
Gross interest expense	81	302	245	295	260
Net income from operations	(126)	1,562	1,461	(1,545)	948
Earnings before interest, tax, depreciation, and amortization (EBITDA)	66	2,602	2,271	(1,016)	1,790
Funds from operations (FFO)	(7)	2,298	1,775	(831)	1,611
Total capital expenditures and investments	949	1,880	714	733	815
Total assets	20,671	18,894	15,596	12,778	13,297
Total debt***	10,432	9,244	8,269	7,521	8,683
Shareholders' equity	7,255	7,371	6,127	4,652	3,898
Operating income before depreciation and amortization as % of sales	0.99	10.28	10.68	(6.00)	9.96
Pretax return on permanent capital (%)	10.03 **	13.57	14.77	(13.46)	12.25
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	0.75	7.95	8.63	(3.34)	6.62
FFO/total debt (%)	20.69 **	26.52	22.20	(10.02)	19.47
Total debt/capitalization (%)	62.09	58.91	62.20	68.24	75.01

Note: All ratios have been adjusted by operating leases.

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

\*\*\* Including guarantees of contract farmers' loan provided to financial institution

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**Thaifoods Group PLC (TFG)**

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<b>Company Rating:</b>	BBB-
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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