

THAIFOODS GROUP PLC

No. 91/2020
26 June 2020

CORPORATES

Company Rating:	BBB-
Issue Rating:	
Guaranteed	AAA
Outlook:	Stable

Last Review Date: 02/12/19

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on Thaifoods Group PLC (TFG) at “BBB-” and affirms the rating on TFG’s bond guaranteed by Credit Guarantee and Investment Facility (CGIF) at “AAA”, with a “stable” outlook. The ratings reflect the company’s market position as a medium-sized producer in the Thai agribusiness and food industries, and its proven track record as a poultry producer. The ratings also reflect the progress of TFG’s continued efforts to grow through vertical integration.

TFG’s strengths are offset by a number of factors including potential domestic earnings volatility caused by a relative reliance on commodity-like products, fluctuations in feed prices, and aggressive debt-funded capital expenditure. TFG, like other poultry producers, is susceptible to industry-specific risks such as poultry disease outbreaks, as well as concerns over a worldwide economic recession.

KEY RATING CONSIDERATIONS

More diversified markets

TFG is striving to expand its market coverage in Thailand and abroad but the domestic market remains its largest market. Sales in Thailand made up 79%-83% of total revenue during 2019 through the first quarter of 2020. TFG exported 53,823 tonnes of frozen chicken meat in 2019. For the first three months of 2020, export volume grew by 13% year-on-year (y-o-y). The rise was mainly due to higher demand from countries in Europe and Asia, especially Japan and China. Exports made up 17%-21% of total sales during 2019 through the first quarter of 2020, up from 13%-19% during 2017-2018.

TRIS Rating expects TFG’s domestic sales will decline by 5% year-on-year (y-o-y) to around Bt22.1 billion in 2020 and then grow slightly to Bt22.3-Bt22.5 billion during 2021-2022. However, TFG’s export sales are expected to grow by 4% y-o-y to Bt5.3 billion or accounted for 19% of total revenue in 2020 following a rise in demand for chicken meat. The surge in demand occurred during a period of swine shortages caused by an outbreak of African swine fever (ASF) in several countries. Export sales are then expected to stay at around Bt5.1 billion during 2021-2022, taking into account the worldwide economic recession.

TFG is widening its product mix to include more high-margin cooked products. TFG aims to grow its revenue and increase gross margins by broadening its product line and increasing exports.

Improving product diversification

TFG is becoming a vertically integrated producer of poultry and swine. TFG produces feed, breeds the parent stock, hatches and raises both the poultry and swine. Its parent stock extends back three generations at its farms located in Kanchanaburi, Chonburi, and Srakaew provinces. Broilers (poultry) and fatteners (swine) are raised under contract farm agreements.

However, as part of its aim to become a fully-integrated producer of swine, TFG plans to expand into swine processing within the next few years.

Recovering operating performance

TFG’s operating results in 2019 through the first quarter of 2020 rebounded from an oversupply situation during 2017-2018. The outbreak of ASF in

several countries during the second half of 2018 through the first quarter of 2020 caused a shortage of swine and soaring prices of swine and poultry. Falling feed costs also contributed to the improved results. TFG's earnings before interest, tax, depreciation and amortization (EBITDA) rose to Bt3.1 billion in 2019, from Bt1.8 billion in 2018. EBITDA margin also rose, to 10.8% in 2019, compared with 6.6% in 2018. For the first quarter of 2020, TFG's EBITDA jumped to Bt1.3 billion, a 131% increase y-o-y. EBITDA margin rose to 16.4%, compared with 8.2% in the same period of the prior year.

TRIS Rating's base-case projection has incorporated the potential economic impact of the coronavirus (COVID-19) outbreak and global economic recession. However, we view the impact on TFG's operating results is likely to be moderate, compared with most other industries. We expect TFG's EBITDA will hover around Bt3.2 billion during 2020-2022 and EBITDA margin to stay at around 12% over the same period.

Moderate financial leverage during the investment period

TFG's total debt to capitalization ratio declined to 50.1% in 2019 and 48.8% during the first three months of 2020, down from 58.8% in 2018, as TFG recorded strong cash flow from operations to repay short-term and long-term loans. However, the company is planning for total capital expenditure of Bt2.7-Bt2.8 billion per year in 2020-2022, which is considerably higher than the Bt1.3 billion in 2019. The planned expenditure will cover capacity expansions for the swine business, as well as ongoing investments in other related businesses and the poultry business. As a result, TRIS Rating expects the company's total debt to capitalization ratio will stay at around 53% in 2020-2022.

Adequate cash flow protection

We expect TFG to have adequate liquidity over the next 12 months. Our base-case forecast projects funds from operations (FFO) to be around Bt2.7 billion over the next 12 months. The company has outstanding debts of Bt1.7 billion due over the same period. However, the company had cash and cash equivalents of Bt390 million and unused credit facilities of Bt4 billion, as of March 2020.

Looking forward, TFG's FFO to total debt ratio is projected to range 22%-24% in 2020-2022 while the EBITDA interest coverage ratio is forecast to be 7 times over the same period.

BASE-CASE ASSUMPTIONS

- TFG's revenues to drop by 6% in 2020, but to grow at about 1% annually during 2021-2022.
- The gross profit margin at 11%-12% and EBITDA margin to stay at 12% during 2020-2022.
- Total capital spending and investment of around Bt2.7-Bt2.8 billion per year during 2020-2022.

RATING OUTLOOK

The "stable" outlook reflects our expectation that TFG will maintain its competitive position in the Thai poultry and swine industries. We expect TFG to maintain its existing credit profile and adequate liquidity over the next 12-18 months, despite facing challenges in the agribusiness and food industries, and ambitious plans for capital expenditure and investment.

RATING SENSITIVITIES

We could upgrade TFG's ratings if the company continues to demonstrate its product diversity and market position while maintaining its financial strength, with its debt to EBITDA ratio to fall below 3.5 times on a sustained basis. The downside case could occur if profitability deteriorates materially or if TFG's performance weakens for an extended period. Any debt-funded expansion, which will weaken the company's balance sheet and cash flow protection, is a negative factor for TFG's ratings.

COMPANY OVERVIEW

TFG, established in 2001 and listed on the Stock Exchange of Thailand (SET) in 2015, raises and processes poultry and swine, and produces feed. The company has operations in Thailand and Vietnam. TFG has established its own research and development division to ensure product quality and cost effectiveness, develop disease prevention measures, and enhance productivity.

As of March 2020, the Tiewsomboonkij family held 75.7% of the company's shares. Exports made up 21% of total revenue while domestic sales made up 79%.

Recent developments of TFG are as follows:

- In June 2019, TFG acquired Food Blessing (1988) Co., Ltd., a producer of sauce and seasoning products sold in Thailand and abroad, for Bt280.6 million.
- In September 2019, Thai National Logistic Co., Ltd. (TNL) was renamed Thai Foods Green Energy Co., Ltd. (TFGE)

- In November 2019, TFG acquired 40% of TF Tech Co., Ltd., which sells electricity from renewable energy and is involved in structural engineering and technology development (Floating Solar). The total investment cost was Bt28.8 million.

KEY OPERATING PERFORMANCE

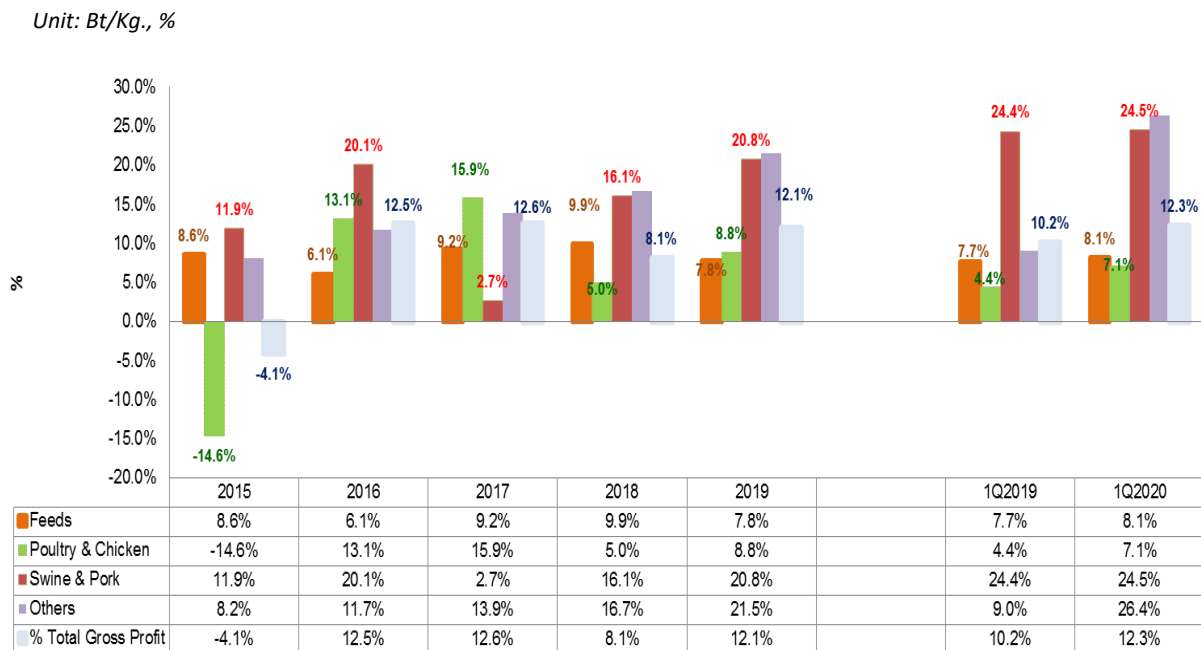
Table 1: TFG’s Product Types

Unit: %

Product Types	2016	2017	2018	2019	Jan-Mar 2020
Feed	9	10	14	14	15
Poultry	64	68	61	58	50
Swine	26	20	22	24	28
Food	1	1	3	3	6
Others	0	1	1	1	1
Total	100	100	100	100	100
Total sales (Bt million)	20,626	25,789	27,986	28,236	7,821

Source: TFG; marks that “others” are sales from vaccines and medical supply as well as R&D services.

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



Source: TFG

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Jan-Mar 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	7,856	29,016	28,019	25,822	20,664
Earnings before interest and taxes (EBIT)	901	1,956	860	1,960	1,820
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,292	3,122	1,840	2,720	2,331
Funds from operations (FFO)	1,061	2,589	1,454	2,283	1,969
Adjusted interest expense	83	427	383	329	264
Capital expenditures	526	1,315	3,562	1,896	745
Total assets	23,367	22,787	22,711	18,894	15,596
Adjusted debt	8,925	9,935	11,188	8,096	7,904
Adjusted equity	9,354	9,886	7,835	7,371	6,127
Adjusted Ratios					
EBITDA margin (%)	16.44	10.76	6.57	10.53	11.28
Pretax return on permanent capital (%)	13.40	9.86	4.78	12.6	13.67
EBITDA interest coverage (times)	15.49	7.30	4.81	8.28	8.83
Debt to EBITDA (times)	2.32	3.18	6.08	2.98	3.39
FFO to debt (%)	35.66	26.06	13.00	28.20	24.91
Debt to capitalization (%)	48.83	50.12	58.81	52.34	56.33

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

Thaifoods Group PLC (TFG)

Company Rating:	BBB-
Issue Rating:	
TFG251A: Bt2,000 million guaranteed bond due 2025	AAA
Rating Outlook:	Stable

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