

# THAIFOODS GROUP PLC

No. 118/2023  
30 June 2023

## CORPORATES

<b>Company Rating:</b>	BBB
<b>Issue Ratings:</b>	
Guaranteed	AAA
<b>Outlook:</b>	Stable

**Last Review Date:** 29/06/22

### Company Rating History:

Date	Rating	Outlook/Alert
22/06/21	BBB	Stable
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 ratings on TFG’s debentures guaranteed by the Credit Guarantee and Investment Facility (CGIF) at “AAA” with a “stable” outlook. The issue ratings reflect the credit worthiness of CGIF, rated “AAA/stable”, as the guarantor of the guaranteed debentures.

The company rating on TFG reflects the improvement in the company’s financial profile supported by the record-high pork and poultry prices in Thailand, diversification in the retail market segment, and the operational efficiency and cost control.

TFG is a medium-sized producer in the Thai agribusiness and food industry with vertical integration in both the poultry and swine businesses. The rating also incorporates our concerns over inherent volatility in commodity-like products, fluctuations in animal feed prices, and TFG’s aggressive debt-funded capital expenditure.

## KEY RATING CONSIDERATIONS

### Expect revenue growth to slow down

TFG’s total operating revenues were reported at THB52.5 billion in 2022, up from THB34.9 billion in 2021. Revenues from the pork and poultry products, accounting for 61% of total revenue, grew by 36% year-on-year (y-o-y) to THB31.9 billion. Revenues from retail shops, accounting for 15%, grew by more than 400% to THB7.8 billion. The remaining segments were feed, food, and others, at 16%, 7%, and 1%, respectively, which grew by 12%-30% y-o-y. The revenue growth was driven by the jump in the average selling prices of livestock products. Its earnings before interest, taxes, depreciation and amortization (EBITDA) surged to THB8.8 billion in 2022, growing by 159% y-o-y.

We expect TFG’s total operating revenue to fall slightly in 2023, then grow by 4%-10% per annum during 2024-2025. The small revenue growth is in line with our assumption that the company will expand its retail shops in the provincial areas with rising sales from the feed segment while revenues from livestock products will decline following lower livestock prices. The average selling prices of pork products declined due to an oversupply of swine, imported from Europe and South Africa. Also, prices of poultry dropped following the delayed consumption from higher stock levels in key markets.

### Improved profitability driven by record-high meat prices

TFG’s gross profit margin peaked at 18.4% in 2022, from 8%-15% in 2017-2021. This was driven by the record-high meat prices in Thailand arising from the ongoing supply shortage and escalating demand boosted by the revival in tourism. However, the company’s gross margin continued to come under pressure from a steep rise in grain costs in the first quarter of 2023. TFG’s gross profit margin declined to 12.6% in the first quarter of 2023, compared with 14.8% over the same period of the prior year.

We expect TFG’s gross margin to be at decent levels. Imported feed costs will likely decline after an ease of impact from the Russia-Ukraine conflict. Going forward, TFG aims to widen its product mix to cover more high-margin segments and retail shops. Thus, we expect TFG’s gross margin to remain at around 11%-13% in 2023-2025.

### Capital expenditures to push up financial leverage

TFG's total debt to capitalization ratio increased slightly to 62% at the end of March 2023. However, annual capital expenditures are estimated at around THB3.8-THB5.5 billion in 2023-2025 which will likely push up financial leverage. The planned capital expenditures will cover capacity expansions for the livestock and feed segments, and investment in retail shops. Given its plan to continually launch 100-120 retail stores covering the Bangkok metropolitan and provincial areas, its total debt to capitalization ratio will likely remain in the 56%-58% range. Also, TFG's net debt to EBITDA ratio is expected to hover at around 3-3.6 times in 2023-2025. The ratio of its funds from operations (FFO) to total debt ratio is likely to decline to the 23%-26% range from 33% in 2022.

### Adequate cashflow protection

We expect TFG's liquidity to remain adequate over the next 12 months. As of March 2023, TFG's anticipated uses of funds will comprise debts due totaling THB4.6 billion, planned capital expenditures of THB5.5 billion, and a dividend payout ratio of 40%. TFG's sources of funds consisted of THB897 million in cash and cash equivalents and THB4.8 billion in unused credit facilities. FFOs are forecast to reach around THB5.7 billion in 2023.

We expect TFG to comply with the financial covenants on its debt obligations. The company's interest-bearing debt to equity ratio at the end of March 2023 was 1.7 times, below the covenant limit of 2 times.

TFG's total interest-bearing debt of THB27.9 billion included priority debt of THB9.18 billion. The company's priority debt to total debt ratio was at 42%

### Credit profile of CGIF

The rating on CGIF reflects its status as a multilateral institution owned by the governments of the ASEAN+3 countries and Asian Development Bank (ADB), together referred to as the "contributors". We believe it is highly likely that CGIF will receive financial support from its major contributors in times of financial distress. The rating also reflects CGIF's solid capital, conservative risk management framework, and strong liquidity.

### BASE-CASE ASSUMPTIONS

- Revenues to drop by 2% in 2023, and to grow by 4%-10% per annum in 2024-2025.
- Gross profit margin to be around 11%-13% per annum in 2023-2025.
- Total capital spending and investment of around THB3.8-THB5.5 billion per year during 2023-2025.

### 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 while facing challenges in executing its ambitious capital expenditure and investment plans.

The outlook on TFG's guaranteed debentures solely reflect the creditworthiness of its guarantor, CGIF.

### RATING SENSITIVITIES

The ratings could be upgraded if the company is able to deliver financial performance as per TRIS Rating's projection and maintain a debt-to-EBITDA ratio below 3 times on a sustained basis. Conversely, a rating downgrade could occur if the company's debt-to-EBITDA ratio rises above 5 times for an extended period.

The ratings on TFG's guaranteed debentures may change if the rating on its guarantor, CGIF, changes.

### COMPANY OVERVIEW

TFG, established in 2001 and listed on the Stock Exchange of Thailand (SET) in 2015, is a medium-scale producer in the Thai agribusiness and food industry with vertical integration in both the poultry and swine businesses. TFG's market share is on par with most other medium-sized livestock producers: about 11% for livestock feed, 11% for poultry products, and 10% for swine products. The market leader in Thailand holds more than one-third of the market for livestock feed and livestock products. In 2022, TFG's portfolio became increasingly diversified with higher revenue contributions from retail shops. 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 2023, the Tiewsomboonkij Family held 77.2% of the company's shares. Exports made up 20% of its total revenue from sales while domestic sales made up 80%.

#### Recent developments:

In October 2021, TFG invested 96% in Logis Boy Co., Ltd. (LGB), a company involved in transit system software and information technology (IT) solutions. The total investment cost was THB8 million.

In March 2022, TFG established a new subsidiary, My Pet Co., Ltd., to operate the integrated pet food business, with registered capital of THB2 million.

In March 2022, TFG established a new subsidiary, Thaifoods Renewable Co., Ltd., to generate electricity using renewable energy, with registered capital of THB100 million.

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

Unit: Mil. THB

	Jan-Mar 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	13,770	52,542	34,948	31,457	29,016
Earnings before interest and taxes (EBIT)	1,075	6,467	1,738	3,595	1,956
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,820	8,755	3,377	5,021	3,122
Funds from operations (FFO)	1,311	7,546	2,467	4,098	2,528
Adjusted interest expense	286	871	510	388	469
Capital expenditures	895	4,259	3,244	1,499	1,315
Total assets	49,829	45,670	35,567	26,091	22,787
Adjusted debt	26,140	22,674	18,527	10,081	9,935
Adjusted equity	16,025	15,587	11,570	11,140	9,886
<b>Adjusted Ratios</b>					
EBITDA margin (%)	13.22	16.66	9.66	15.96	10.76
Pretax return on permanent capital (%)**	17.18	18.06	6.47	16.94	9.86
EBITDA interest coverage (times)	6.36	10.05	6.62	12.92	6.65
Debt to EBITDA (times)	2.87	2.59	5.49	2.01	3.18
FFO to debt (%)**	29.46	33.28	13.32	40.65	25.45
Debt to capitalization (%)	61.99	59.26	61.56	47.50	50.12

Note: All ratios have been adjusted by operating leases.

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

#### RELATED CRITERIA

- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Corporate Rating Methodology, 15 July 2022
- Issue Rating Criteria, 15 June 2021

**Thaifoods Group PLC (TFG)**

<b>Company Rating:</b>	BBB
<b>Issue Ratings:</b>	
TFG251A: THB2,000 million guaranteed bond due 2025	AAA
TFG26NA: THB1,000 million guaranteed bond due 2026	AAA
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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