

# THAIFOODS GROUP PLC

No. 106/2024  
27 June 2024

## CORPORATES

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

Last Review Date: 30/06/23

### 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 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 reflects an improvement in the TFG’s business profile supported by the diversification in the retail market segment, operational efficiency, and cost control. While it 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

### Decline in livestock prices compresses margins

TFG reported total operating revenues at THB55.9 billion in 2023, up 7% from THB52.5 billion in 2022. The revenue growth was mainly driven by the surge in retail business resulting from the opening of new shops and an expanded range of products in stores. Revenues from retail shops, accounting for 31%, grew by more than 100% to THB17.5 billion. However, this growth was partially offset by a significant decline in livestock prices due to pork smuggling in Thailand and lower export demand for poultry. Revenues from poultry and swine products, accounting for 46% of total revenue, dropped by 19% year-on-year (y-o-y) to THB25.9 billion.

The decrease in livestock prices significantly impacted TFG's profitability, leading to a decline in gross profit margin from 19.4% in 2022 to 7.2% in 2023. However, in the first quarter of 2024, the gross profit margin improved to 8.9% following a recovery in livestock prices.

We expect TFG’s total operating revenue to gradually increase in 2024-2026 by 4%-6% annually, with the gross profit margin anticipated to reach 9%-10% over the same period. The growth in revenue and improvement in margin align with our assumption that the company will continue expanding its network of retail shops and benefit from a recovery in livestock prices.

### Diversification into retail business

The number of retail shops increased from 220 in 2022 to 350 in 2023. Going forward, TFG plans to expand its retail presence with approximately 100-150 new shops per year, focusing on provincial areas. Additionally, the company will enhance the availability of high-margin products in its shops.

With a strategic emphasis on the retail sector, TFG gains direct access to demand and can align production planning more effectively. We expect that the growth in the retail business will help stabilize the company’s profitability.

### Capital expenditures elevate financial leverage

The annual capital expenditures are estimated to be THB4.5-THB5.4 billion in 2024-2026. The capital expenditures will cover investments in retail shops and capacity expansions for the livestock and feed segments. As a result, the company’s debt to capitalization ratio is projected to increase to 65%-66% in 2024-2026.

Nonetheless, we expect the debt to EBITDA ratio to decline to 3.1-3.9 times in 2024-2026 from 4.5 times in 2023 from an increasing sales volume through its owned retail shops.

### **Adequate cashflow protection**

We expect TFG's liquidity to remain adequate over the next 12 months. TFG's uses of funds will comprise debts due totaling THB5.5 billion, planned capital expenditures of THB4.5 billion, and a dividend payout ratio of 50%. Primary source of repayment will be from the company's operating profit. Funds from operations (FFO) is forecast to reach around THB5.3 billion in 2024. TFG also has THB10.6 billion unused credit facilities and THB837 million cash and cash equivalents as of March 2024.

The key financial covenant on TFG's debt obligations requires its interest-bearing debt to equity ratio (IBD/E) to remain below 2.0 times and debt service coverage ratio (DSCR) above 1.2 times. The ratios at the end of 2023 were 1.9 times and 1.2 times, respectively. Though the ratio met the requirement, TFG had little headroom to ensure covenant compliance. The company is committed to closely monitor these ratios and, if necessary, request a covenant waiver from the lender.

As of March 2024, TFG's total interest-bearing debt (excluding lease liabilities) of THB21.2 billion included priority debt of THB7.4 billion. The company's priority debt to total debt ratio was at 35%, down from 42% in March 2023.

### **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 grow by 4%-6% per annum in 2024-2026.
- Gross profit margin to be around 9%-10% per annum in 2024-2026.
- Total capital spending and investment of around THB4.5-THB5.4 billion per year during 2024-2026.

### **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 will be able to manage its leverage in accordance with its financial policy and meet the requirement of financial covenants.

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

### **RATING SENSITIVITIES**

The ratings could be upgraded if the company is able to enlarge and stabilize its earnings and profitability 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, 12% for poultry products, and 9% for swine products. The market leader in Thailand holds more than one-third of the market for livestock feed and livestock products. In 2023, TFG's business 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 2024, the Tiewsomboonkij family held 77.9% of the company's shares. Exports made up 17% of its total revenue from sales while domestic sales made up 83%.

Recent developments:

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.

In Feb 2023, TFG established a new subsidiary, TFG Asset Management Co., Ltd., to operate integrated asset management, with registered capital of THB100 million.

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

Unit: Mil. THB

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	15,057	56,149	52,542	34,948	31,457
Earnings before interest and taxes (EBIT)	386	676	6,794	1,315	3,431
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,706	5,422	10,140	3,740	5,532
Funds from operations (FFO)	1,432	3,948	8,909	2,830	4,609
Adjusted interest expense	273	1,264	894	510	388
Capital expenditures	412	2,494	4,240	3,244	1,499
Total assets	44,663	47,146	45,670	35,567	26,091
Adjusted debt	23,109	24,495	22,544	18,527	10,081
Adjusted equity	13,935	13,696	15,587	11,570	11,140
<b>Adjusted Ratios</b>					
EBITDA margin (%)	11.3	9.7	19.3	10.7	17.6
Pretax return on permanent capital (%) **	(0.1)	1.7	19.0	4.9	16.2
EBITDA interest coverage (times)	6.2	4.3	11.3	7.3	14.2
Debt to EBITDA (times)	4.6	4.5	2.2	5.0	1.8
FFO to debt (%) **	16.2	16.1	39.5	15.3	45.7
Debt to capitalization (%)	62.4	64.1	59.1	61.6	47.5

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

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**Thaifoods Group PLC (TFG)**

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<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

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**TRIS Rating Co., Ltd.**

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