

THAIFOODS GROUP PLC

No. 103/2019
3 July 2019

CORPORATES

Company Rating: BBB-
Outlook: Stable

Last Review Date: 14/06/18

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on Thaisfoods Group PLC (TFG) at “BBB-”. The rating reflects 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 rating also reflects the fact that TFG has continued to grow through vertical integration. TFG is expanding its market coverage both in Thailand and abroad, and adding more value-added products to its product mix.

TFG’s strengths are offset by a number of factors. These factors include volatile earnings caused by a relative reliance on commodity-like products, fluctuations in feed prices, and hefty debt-funded capital expenditures. TFG, like other poultry producers, is susceptible to the industry-specific risks such as poultry disease outbreaks, as well as changes in tariffs and import quotas imposed by importing countries.

KEY RATING CONSIDERATIONS

Proven track record

TFG has nearly two decades of expertise in the poultry producing industry. TFG’s market share of chicken exports from Thailand during 2018 was 20%, reported by the Thai Broiler Processing Exporters Association. In domestic market, TFG was the fifth-largest poultry processor, with a market share of 10%.

TFG started breeding and raising swine in 2013. By 2018, TFG was the third-largest swine producer, with a market share of 4%, as reported by the Swine Raisers Association of Thailand. TFG’s market share in this segment matches the size of many other medium-sized swine producers, but is much lower than the market shares of the top two major producers. The market leader holds about 40% market share, while the second-largest swine producer holds a 10% share.

Vertical integration growth strategy

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

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

More diversified market and value-added products

TFG is striving to expand its market coverage in Thailand and abroad. TFG exported 54,627 tonnes of frozen chicken meat in 2018. For the first three months of 2019, export volume grew by 27% 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 15%-19% of total sales during 2018 through the first quarter of 2019, up from 10% in 2016 and 13% in 2017.

Despite the rise in exports, TFG’s largest market is the domestic market. Sales in Thailand made up 81% of total revenue in 2018. TFG opened a new chicken processing plant in the last quarter of 2018. Now that the new plant

is operational, TRIS Rating forecasts TFG's export volume will grow to around 60,000-65,000 tonnes per year during 2019-2021. Export sales are slated to make up 25%-30% of total sales during 2019-2021.

TFG is widening its product mix to include more high-margin cooked products. By broadening its product line and increasing exports, sales will continue to grow and gross margin will rise.

Industry downturn hits profits

TFG's operating results fell below TRIS Rating's forecast in 2018. The operating results were negatively affected by a prolonged downturn in the livestock industry in Thailand. Swine prices fell to 10-year lows at the beginning of 2018 but rebounded by mid-2018. Broiler prices hit bottom in early 2018 but gradually improved during the first quarter of 2019. As a result, TFG's operating margin before depreciation and amortization declined to 6.7% in 2018, from 10.2% in 2017 and 11% in 2016.

Pork and chicken meat prices rebounded in early 2019. In the first quarter of 2019, the prices of pork jumped by 51% y-o-y while the price of chicken meat rose by 14%. TFG's financial results rebounded accordingly. Earnings before interest, tax, depreciation and amortization (EBITDA) rose to Bt559 million during the first three months of 2019, compared with Bt130 million during the same period of the prior year.

TRIS Rating believes TFG's performance will improve. The price of chicken meat is expected to climb slightly while the price of swine is forecast to remain high. Feed cost will be manageably controlled. In our base case forecast, the operating margin of TFG will be at 9%-10% during 2019-2021. The earnings before interest, tax, depreciation and amortization (EBITDA) will be around Bt2,500-2,900 million per annum.

High financial leverage but adequate cash flow protection

High capital expenditures and softening operating performance pushed high leverage in 2018. Adjusted debt surged to Bt11,188 million in 2018, from Bt8,096 million in 2017. The total debt to capitalization ratio rose to 58.8% in 2018, from 52.3% in 2017.

During 2019-2021, TFG plans capital expenditures totaling Bt1,500-Bt2,000 million per year. The planned expenditures will cover capacity expansions for a meat and bone plant, a feed mill, a slaughterhouse for swine, and ongoing investments in other related businesses.

We forecast TFG will have EBITDA at Bt2,500-Bt2,900 million per year during 2019-2021. The total debt to capitalization ratio is expected to remain high at 55%.

Cash flow protection weakened in 2018. However, liquidity should not be concerned. The ratio of funds from operations (FFO) to total debt is forecast to improve to 18%-23% during 2019-2021. Currently, the company has undrawn credit facilities of Bt4,286 million and Bt186 million in cash on hand.

BASE-CASE ASSUMPTIONS

- TFG's revenues will drop by 2% in 2018, but will recover and grow around 5%-8% annually during 2020-2021.
- The gross profit margin is forecast at 9%-10%.
- Total capital spending and investment will be around Bt1,500-Bt2,000 million per year.

RATING OUTLOOK

The "stable" outlook reflects our expectation that TFG will maintain its competitive position in the Thai poultry and swine industries. TFG is expected to maintain its existing credit profile and adequate liquidity over the next 12-18 months, despite facing the challenges in the agribusiness and food industries, and aggressive plans for capital expenditures and other investments.

RATING SENSITIVITIES

Credit upside may materialize if the company enlarges and stabilizes earnings and cash flow generation on 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 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 2019, Tiewsomboonkij family held a

total 77.8% of the company's shares.

TFG has its own research and development division to ensure product quality, cost effectiveness, disease prevention measures, and production efficiency. Export made up 17% of its total revenue while domestic sales made up 83%.

Recent developments of TFG are as follows:

- In December 2018, TFG disposed of an investment in Big Food Group Co., Ltd. and received Bt60 million.
- In May 2019, the company received the proceed (of Bt1,077 million) from the exercise of outstanding warrants (TFG-W1).
- In June 2019, TFG acquired Food Blessing (1988) Co., Ltd., a producer of sauce and seasoning products sold in Thailand and abroad, for Bt280.56 million.

Table 1: TFG's Product Types

Unit: %

Product Types	2015	2016	2017	2018	Jan-Mar 2019
Feed	7	9	10	14	16
Poultry	63	64	68	61	53
Swine	26	26	20	22	26
Food	-	1	1	3	4
Others	4	0	1	1	0
Total	100	100	100	100	100
Total sales (Bt million)	17,371	20,626	25,789	27,986	6,770

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



Sources: TFG and Thai Feed Mill Association

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Bt million

	Jan-Mar 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	6,784	28,071	25,822	20,664	17,386
Operating income	525	1,874	2,628	2,267	(1,026)
Earnings before interest and taxes (EBIT)	287	860	1,960	1,820	(1,495)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	559	1,840	2,720	2,331	(904)
Funds from operations (FFO)	467	1,454	2,283	1,969	(922)
Adjusted interest expense	108	383	325	264	305
Capital expenditures	334	3,562	1,896	745	839
Total assets	22,659	22,711	18,894	15,596	12,778
Adjusted debt***	11,270	11,188	8,096	7,904	7,189
Adjusted equity	8,039	7,835	7,371	6,127	4,652
Adjusted Ratios					
Operating income as % of total operating revenues (%)	7.74	6.68	10.18	10.97	(5.90)
Pretax return on permanent capital (%)	6.56	4.78	12.60	13.67	(12.05)
EBITDA interest coverage (times)	5.15	4.81	8.28	8.83	(2.96)
Debt to EBITDA (times)	4.97	6.08	2.98	3.39	(7.95)
FFO to debt (%)	16.33	13.00	28.20	24.91	(12.82)
Debt to capitalization (%)	58.37	58.81	52.34	56.33	60.71

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*

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015
- Rating Methodology – Corporate, 31 October 2007

Thaifoods Group PLC (TFG)

Company Rating:	BBB-
Rating Outlook:	Stable

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