Press Release

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TRIS Rating Assigns Company Rating of "TFG" at "BBB-" with "Stable" Outlook

TRIS Rating has assigned the company rating of Thaifoods Group PLC (TFG) at "BBB-" with "stable" outlook. The rating reflects the company's market position as a medium-scale producer in Thai agribusiness and food industry, its track record in the poultry producing industry in Thailand, its vertically-integrated operation in poultry and swine businesses, plus its plan to expand market coverage and widen its product offerings to include value-added products. These strengths are partially offset by volatile earnings caused by a heavy reliance on basic commodity-type products, fluctuations in the prices of grain, relatively high leverage, exposure to disease outbreaks, as well as changes in the tariffs of food importing countries.

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

TFG's credit upsides may happen if the company demonstrates lesser degree of earnings volatility on a sustainable basis. The downside risk could occur if its profitability noticeably deteriorates or its performance weakens for an extended period. Any debt funded expansion, which will deteriorate the balance sheet and weaken cash flow protection, is also a negative factor for TFG's credit rating.

Established in 2001 by Mr. Winai Tiewsomboonkij, TFG is a medium-sized vertically-integrated producer of poultry and swine products in Thailand. It also has a small swine production in Vietnam. The company was listed on the Stock Exchange of Thailand (SET) in October 2015. As of March 2017, Mr. Winai Tiewsomboonkij's group held 77.3% of the company's shares. TFG raised all parent, grandparent and great grandparent stocks in its own farms located in Kanchanaburi, Chonburi, and Srakaew provinces. Broilers and fatteners are raised under contract-farm agreements. The poultry segment accounted for two-thirds of total revenue in 2016 while the swine segment made up one-fourth. TFG's main products are primary protein products. The commodity-like domestic farm products, including fresh chicken meat, and live hogs, made up 80% of total revenue in 2016. Sales to outside customers of feed segment accounted for 9% of total revenues in 2016. TFG's food segment remains small, accounting for only 1% of revenue in 2016 because its sausage production plant has just started operation in April 2015. TFG is striving to expand its market coverage both domestically and abroad. In December 2015, TFG established a joint venture with a Japanese partner in order to develop export channels. TFG owns 45.7% of Seven Foods Co., Ltd. Seven Foods imports, exports, processes, and sells of chicken meat and chicken products in Japan. Export sales grew rapidly during 2015 through 2016. TFG exported 22,987 tonnes of frozen chicken meat in 2016. Exports made up 10% of total sales in 2016 while domestic sales contributed 90% of total sales. TFG's market share was 11% of chicken exports from Thailand during 2016. In the domestic market, TFG was ranked the fourth-largest poultry processor, with a market share of 10%, and was the third-largest swine processor with a market share of only 4% in 2016.

Owing to its larger exposure to commodity-like farm products, TFG's performance demonstrates a higher degree of cyclicality than other major livestock producers. After meat prices reached a cyclical peak in 2011, the falling meat prices, coupled with rising raw material prices, dampened operating margin with a contribution to a loss of 14.4% in 2012 and a loss of 6.5% in 2015, compared with the margins of 9.9% in 2013 and 9.4% in 2014. Earnings before interest tax depreciation and amortization (EBITDA) was negative Bt1,246 million in 2012, and negative Bt1,026 million in 2015, compared with EBITDA of Bt1,723 achieved in 2013 and Bt1,780 million achieved in 2014 during the industry turnaround. Cash flow protection swings in tandem with earnings momentum in each cycle of the livestock industry. The ratios of funds from operations (FFO) to total debt were negative 19.7% in 2012 and negative 11.3% in 2015, compared with 24.1% in 2013 and 18.8% in 2014. In 2016, the oversupply situation in the livestock industry abated somewhat. The drop in cost of grain also supported higher profitability of livestock producers including TFG. In addition, TFG has improved operational efficiency by increasing the

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productivity of the parent stocks of poultry and swine as well as implementing some cost reduction programs. TFG's operating margin improved to 10.3% in 2016, compared to negative 6.5% in 2015. EBITDA moved back to Bt2,253 million in 2016 from a Bt1,026 million loss in EBITDA in the prior year. EBITDA interest coverage ratio rose to 9.2 times and the FFO to total debt ratio recovered to 22.4% in 2016.

TFG's leverage level is relatively high. The total debt to capitalization ratio (including financial guarantees of contract farmers' loan) improved from approximately 82% in 2012-2013 to 74.5% in 2014 and 67.3% in 2015, owing to a capital increase. TFG received new capital, net of dividend payments, of Bt560 million in 2014 and the proceeds from the initial public offering (IPO) totaling Bt2,081 million in late 2015. As of December 2016, the debt to capitalization ratio improved to 59.9% as earnings recovered.

During 2017-2019, the company's capital expenditures are set at Bt1,000-Bt1,500 million per year, largely for yearly routine maintenance expenditures, normal capacity expansion, and slaughterhouse for swine. In addition, the company plans to invest in a further processing plant of 1,600 million during 2017. TFG plans to broaden its product categories to include more value-added goods in order to enhance profit margin and partly alleviate the volatile nature of the prices of raw meat and live pork in the longer term.

TFG's profitability and EBITDA are expected to hold up well in 2017. The improving domestic poultry prices supported by strong export demand, improving productivity of parent-stocks, and low grain cost will offset the weaker operation in the swine segment. TRIS Rating expects the company to sustain the current rate of its EBITDA in 2017. With expected total EBITDA and planned investments, the company's leverage is expected to remain high over the next few years.

As of December 2016, the company had uncommitted working capital and long-term credit facilities totaling Bt5,100 million from a number of domestic banks. All credit facilities are collateralized by the company's assets. The total secured debt to total assets ratios exceeded 20%. On top of the borrowing from banks, TFG issued bills of exchange and bonds totaling Bt1,950 million. About Bt2,100 million in bills of exchange, bonds, and long-term debt are scheduled for repayment in 2017. The scheduled repayments will be partially repaid by cash flow from operation. However, the company had undrawn credit facilities of Bt3,000 million and Bt309 million in cash on hand to support its liquidity needs. In addition, TFG has 501.3 million warrants outstanding. The warrant holders are entitled to buy one common share at Bt2.5 per warrant unit. The exercise price is significantly lower than the current market price of Bt6.4. The warrants can be exercised every six months and will expire in May 2019. If all the warrants are exercised, TFG will receive Bt1,277 million in new equity capital.

Thaifoods Group PLC (TFG)

Company Rating:	BBB-
Rating Outlook:	Stable

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