

# THAIFOODS GROUP PLC

No. 94/2021  
22 June 2021

## CORPORATES

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

Last Review Date: 26/06/20

### Company Rating History:

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

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## RATIONALE

TRIS Rating upgrades the company rating on Thaisfoods Group PLC (TFG) to “BBB” from “BBB-” and affirms the rating on TFG’s debentures guaranteed by the Credit Guarantee and Investment Facility (CGIF) at “AAA”, with a “stable” outlook. The issue rating reflects the credit worthiness of CGIF, rated “AAA/Stable” by TRIS Rating, as the guarantor of the guaranteed debentures.

The upgrade reflects the material improvement in TFG’s financial results and cash flow generation. The rating also reflects our expectation of a recovery in domestic demand for livestock products, TFG’s more diverse product mix, and its efficient cost management.

The ratings are, however, constrained by the volatility in commodity-like products, fluctuations in animal feed prices, and TFG’s aggressive debt-funded capital expenditure. TFG, like other poultry producers, is susceptible to industry-specific risks, such as poultry disease outbreaks and impacts from adverse changes of global economic condition.

## KEY RATING CONSIDERATIONS

### Improved operating performance

TFG’s operating performance in 2020 improved significantly, thanks to the rising prices of swine and poultry due to a shortage of swine and recovery in demand following the gradual reopening in several export markets in the second half of 2020. Falling animal feed costs also contributed to the company’s improved profitability in 2020. TFG’s gross profit margin widened to 14.1% in 2020, from 7.0%-12.6% during 2017-2019.

TFG’s earnings before interest, taxes, depreciation and amortization (EBITDA) jumped to THB5 billion in 2020, from THB1.8-THB3.1 billion in 2017-2019. EBITDA margin also improved to 16% in 2020, compared with 6.6%-10.8% in 2017-2019.

During the first quarter of 2021, although the average prices of animal feed jumped by 9%-13% year-on-year (y-o-y) according to the Thai Feed Mill Association, TFG was able to adjust its animal feed formulae to offset the soaring costs to some extent. Thus, TFG’s gross profit margin remained healthy in the first quarter of 2021 while EBITDA was flat at THB1.1 billion compared with the same period of the previous year.

We expect TFG’s total operating revenues to grow by 6%-9% per annum during 2021-2023 supported by revenue growth in the livestock segment and other businesses. TFG’s EBITDA margin should stay in the 11%-13% range in 2021-2023.

### Demand recovery in domestic and export markets

Domestic sales for poultry softened in the first half of 2020 following flagging demand caused by the Coronavirus Disease 2019 (COVID-19) pandemic lockdown. Domestic sales in the poultry segment declined to THB9.3 billion in 2020, a 12% drop y-o-y. However, TFG’s total domestic sales grew by 5% to THB25 billion in 2020, largely due to soaring revenues from the swine segment.

The domestic market remains TFG’s largest market. Sales in Thailand made up 80% of its total revenue during 2020 through the first quarter of 2021. However, the export market also grew over the same period. TFG exported

61,175 tonnes of frozen chicken meat and 7,227 tonnes of cooked chicken in 2020. For the first three months of 2021, export volume grew by 6% over the same period of the previous year. The rise was mainly due to a recovery in demand in many countries in Asia, especially Japan and China, and countries in Europe. Exports made up 20% of total sales during 2020 through the first quarter of 2021.

We expect TFG's domestic sales to grow by 7% y-o-y to around THB26.8 billion in 2021 and then increase slightly to THB29.3-THB32.4 billion during 2022-2023. However, TFG's export sales are expected to drop by 1% y-o-y to THB6.2 billion in 2021, then grow by 1% per annum during 2022-2023.

### Medium-sized livestock producer

TFG is a medium-scale producer in the Thai agribusiness and food industry with vertical integration in both poultry and swine businesses. TFG's market share is on par with most other medium-sized livestock producers. The company's market share accounts for about 8% of livestock feed, 10% of poultry products, and 5% of swine products. The market leader in Thailand holds more than one-third of the market for livestock feed and livestock products. In 2021, TFG's portfolio became increasingly diversified with higher revenue contributions from the swine, food, and other segments. The revenue contribution from the poultry segment declined during 2020 through the first quarter of 2021. Going forward, TFG aims to widen its product mix to cover more high-margin segments, including swine products, export products, and retail shops.

### Moderate financial leverage during the investment period

TFG's total debt to capitalization ratio declined to 47% in 2020, down from 50.1% in 2019, but slightly increased to 48.3% during the first three months of 2021 as TFG recorded strong cash flow from operations which allowed it to partly repay short-term loans. However, the company is planning for total capital expenditure of THB2.8-THB5.6 billion per year in 2021-2023, which is considerably higher than that of THB1.3-THB3.6 billion in 2018-2019. The planned expenditure will cover capacity expansions for the swine business, as well as ongoing investments in related businesses and the poultry business. As a result, we expect the company's total debt to capitalization ratio to hover around 51% in 2021-2023.

Most of TFG's debt was made up of secured bank loans. As of March 2021, the ratio of priority debt to total debt exceeded 50%, which implies a significant subordination risk for the company's senior unsecured obligations, according to TRIS Rating's "Issue Rating Criteria".

### Sound cash flow protection

We expect TFG to maintain adequate liquidity over the next 12 months. The company has outstanding debts of THB547 million due in 2022. Our base-case forecast projects the company's funds from operations (FFO) of around THB3.6 billion in 2022. The company had cash and cash equivalents of THB304 million and unused credit facilities of THB11 billion, as of March 2021.

Looking forward, TFG's FFO to total debt ratio is projected to range from 26%-29% in 2021-2023 while the EBITDA interest coverage ratio is forecast to be 9-10 times over the same period.

### Credit profile of CGIF

The rating on CGIF reflects its status as a supranational institution owned by the governments of the ASEAN+3 countries and Asian Development Bank (ADB), together referred to as "contributors". We believe there is a high likelihood 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 6%-9% per annum in 2021-2023.
- Gross profit margin to range from 9%-11% and EBITDA margin from 11%-13% during 2021-2023.
- Total capital spending and investment of around THB2.8-THB5.6 billion per year during 2021-2023.

### 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 rating and outlook for TFG's guaranteed debentures solely reflect the creditworthiness of its guarantor, CGIF.

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**RATING SENSITIVITIES**

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The rating could be upgraded if the company materially enlarges and stabilizes its cash generation while maintaining a strong balance sheet on a sustained basis. On the contrary, the downside case could occur if TFG's profitability deteriorates materially or if its performance weakens for an extended period. Any debt-funded expansion, which materially weakens the company's balance sheet and cash flow protection, could also lead to a downgrade scenario.

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

**COMPANY OVERVIEW**

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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 2021, the Tiewsomboonkij family held 75.4% of the company's shares. Exports made up 20% of total revenue while domestic sales made up 80%.

In June 2019, TFG acquired Food Blessing (1988) Co., Ltd., a producer of sauce and seasoning products sold in Thailand and abroad, for THB280.6 million.

In September 2019, one of TFG's subsidiary, Thai National Logistic Co., Ltd. (TNL), was renamed Thai Foods Green Energy Co., Ltd. (TFGE).

In November 2019, TFGE 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 THB28.8 million.

In August 2020, T Paragon Holding Co., Ltd., a subsidiary of TFG, established a new subsidiary, Thai Foods Fresh Market Co., Ltd. (TFM), to sell consumer products. Currently, TFG is expanding its 14 stores in Bangkok and surrounding areas. TFG held a 100% stake in TFM.

In October 2020, T Paragon Holding established a new associated company, Thaisfoods Nucleus Genetics Co., Ltd. (TFNG), to operate a great grandparent breeder swine farm. The total investment cost was THB250-THB300 million. TFG held a 50% stake in TFNG.

In November 2020, TFG established a new subsidiary, namely Money Hub Services (MHS) Co., Ltd., to provide loans to its customers. TFG held 88.50% of MHS's total shares while an employee group held the remaining 11.50%.

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

Unit: Mil. THB

	Jan-Mar 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	8,352	31,457	29,016	28,019	25,822
Earnings before interest and taxes (EBIT)	733	3,595	1,956	860	1,960
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,111	5,021	3,122	1,840	2,720
Funds from operations (FFO)	837	4,001	2,589	1,454	2,283
Adjusted interest expense	101	370	427	383	329
Capital expenditures	629	1,499	1,315	3,562	1,896
Total assets	28,261	26,091	22,787	22,711	18,894
Adjusted debt	10,839	9,877	9,935	11,188	8,096
Adjusted equity	11,599	11,140	9,886	7,835	7,371
<b>Adjusted Ratios</b>					
EBITDA margin (%)	13.30	15.96	10.76	6.57	10.53
Pretax return on permanent capital (%) **	16.03	17.02	9.86	4.78	12.60
EBITDA interest coverage (times)	11.02	13.55	7.30	4.81	8.28
Debt to EBITDA (times)	2.24	1.97	3.18	6.08	2.98
FFO to debt (%) **	34.85	40.50	26.06	13.00	28.20
Debt to capitalization (%)	48.31	47.00	50.12	58.81	52.34

Note: All ratios have been adjusted by operating leases.

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

**Thaifoods Group PLC (TFG)**

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

**TRIS Rating Co., Ltd.**

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