

# R&B FOOD SUPPLY PLC

No. 2/2022  
17 January 2022

## CORPORATES

**Company Rating:** BBB+  
**Outlook:** Stable

**Last Review Date:** 29/01/21

### Company Rating History:

Date	Rating	Outlook/Alert
29/01/21	BBB+	Stable

## RATIONALE

TRIS Rating affirms the company rating on R&B Food Supply PLC (RBF) at “BBB+” with a “stable” rating outlook. The rating reflects RBF’s long track record in the food ingredients industry underpinned by its technical expertise, research and development (R&D) capabilities, continuing growth with diversified and innovative products, and a strong financial profile. These strengths are partially offset by the company’s small earnings base, threat of new entrants to the market, and the risks in overseas investments.

## KEY RATING CONSIDERATIONS

### Continuing growth with little impact from the pandemic

RBF’s revenue is currently on an upward trend and expected to achieve double-digit annual growth over the next few years. RBF’s products are consumer items used widely in the food and beverage industry and non-food industries. We believe that the broad diversification of end-product categories helps mitigate cyclical risk and adds resilience to the company’s operating performance.

The Coronavirus Disease 2019 (COVID-19) pandemic and logistics issues have had little impact on the company’s overall performance. Total revenue grew by 11% in 2020 from 2019 and 7% in the first nine months of 2021 from the same period of 2020.

Expanding overseas especially to regional markets, such as Vietnam and Indonesia, has also helped maintain earnings growth. Overseas revenue accounted for approximately 15% of total revenue during 2018-2020 and the first nine months of 2021. Overseas revenue grew by 23% in the first nine months of 2021 from the same period in 2020. Vietnam and Indonesia contributed 10% of total revenue in the first nine months of 2021, up from around 6% during 2018-2020.

RBF is investing in the hemp business, which is expected to recognize earnings from 2022 onwards. Initially, the company is focusing on R&D into hemp-based food and beverage applications. However, the company also considers the cosmetics and medical segments as potential areas of interest.

Besides, the strategic partnership with Thai Union Group PLC (TU), one of the world’s leading seafood processors and the largest producer of shelf-stable tuna products, is anticipated to create synergies and opportunities for growth and expansion of customer base in the food business. RBF is expected to contribute through its R&D competencies, while TU will bring its experience in global markets.

### Consistent profitability

We expect RBF’s profitability from its current business to remain steady, and slightly improved after starting the hemp business. Thanks to RBF’s R&D capabilities and long-term relationships with suppliers and customers, we expect its earnings before interest, taxes, depreciation, and amortization (EBITDA) margin to remain in the 26%-28% range in 2021-2023.

RBF’s EBITDA margin was in the range of 23%-26% during 2017-2020 and reached 26% in the first nine months of 2021. Though the company has faced higher raw material and logistics costs, it has been able to manage costs and maintain its profitability.

### Contacts:

Suchana Chantadisai  
suchana@trisrating.com

Jutatip Chitphromphan  
jutatip@trisrating.com

Wajee Pitakpaibulkij  
wajee@trisrating.com

Sasiporn Vajarodaya  
sasiporn@trisrating.com



### **Favorable leverage and liquidity**

Under our base-case scenario, we project RBF to remain debt-free for the next few years. Cash proceeds of THB1.7 billion following listing on the Stock Exchange of Thailand (SET) were used to repay the company's outstanding debts, fund capital expenditure (CAPEX), and manage working capital. Remaining amounts are earmarked for overseas investment. Based on our discussions with management, construction of a second plant in Indonesia is expected to be completed by the end of 2022. No other major investments are planned for the next few years. The company's funds from operations (FFO) should be adequate for operational needs and planned investments.

We expect RBF to have abundant liquidity over the next 12 months. Under our base-case scenario, EBITDA should range from THB880 million to THB1.28 billion. As of the end of September 2021, the company had no priority debt, with cash on hand and short-term investment of THB1.09 billion and undrawn committed credit facilities of THB1.12 billion.

### **Moderate threat of new entrants**

We assess the threat of new entrants to the industry as moderate. The required capital investment is not prohibitively high and production processes do not require complex technologies. The keys to success are competence in R&D and effective cost management. Customer stickiness is low depending on levels of customer satisfaction. However, the company's industry experience and long track record should help protect its well-established position in the industry over the next three to five years.

### **Overseas investment risk**

Although there are opportunities to expand the revenue base, overseas investments come with political, economic, and exchange-rate risks associated with the targeted overseas markets as well as consumer behavior issues. However, RBF is conservative in its overseas expansion. The company typically operates a sales office in a new target market before making any major investments. Once the company is reasonably confident and the new market is sizable and sustainable, the company may decide to establish a plant in the country.

### **Long track record with expertise**

RBF's competitive edge is its proven performance of over 30 years in its main business, the manufacture and sale of flavors and fragrances (F&F), food colorings, and food coatings, which contributed 75% of total revenues in the first nine months of 2021. RBF is the only company owned and operated by Thais among the top 10 companies in this business.

RBF's management and staff possess in-depth experience and knowledge of the company's products and market trends. Thus, RBF is able to continually develop and offer high-quality products on a timely basis to satisfy customer needs. RBF supplies products to a number of well-known manufacturers as a result of its reliable performance.

### **Highly focused on R&D**

R&D is a core competency of RBF. The company has hired experts in F&F and food science to undertake R&D to ensure that the company stays abreast of emerging trends. With its R&D capabilities, RBF can respond quickly to customer requirements, serve and anticipate fast-changing consumer preferences, and suggest new cost-saving products to customers. R&D also helps RBF reduce costs by enabling the company to create its own ingredients instead of purchasing them from other sources.

## **BASE-CASE ASSUMPTIONS**

- Revenue growth of 5% in 2021 and 16% per annum in 2022-2023 (organic growth from current business at 7%-10%, the rest from the hemp business).
- Gross profit margin in the 39%-41% range; EBITDA margin of 26%-28%.
- Total capital spending of THB400 million in 2021, THB800 million in 2022, and THB500 million in 2023.

## **RATING OUTLOOK**

The "stable" outlook reflects TRIS Rating's expectation that RBF will maintain its competitive position in its main business, as well as sustain its cash generation and profitability. We expect the company's overseas expansion and strategies to increase domestic revenues to generate incremental income without causing material deterioration to the current profitability level.

## **RATING SENSITIVITIES**

A rating upgrade could occur if RBF is able to significantly enlarge its revenue while maintaining profit margin and a prudent balance sheet. A rating downgrade, on the other hand, could arise from weaker-than-expected operating performance over a prolonged period or from overly aggressive, debt-funded investments.

**COMPANY OVERVIEW**

RBF was established in 1991 by the Rattanapoompinyo family. The company was listed on the SET in October 2019. As of September 2021, RBF's registered capital was THB2 billion and the Rattanapoompinyo family held approximately 62% of the company's total shares. (The Rattanapoompinyo family owned a 72% stake in the company prior to selling 10% of the company's shares to TU in September 2021.)

The main business of RBF and its subsidiaries is the manufacture and sale of food ingredients which can be categorized into six segments; F&F and food colorings (37% of total revenue for the first nine months of 2021), food coatings (38%), dried products (7%), frozen products (2%), plastic packaging (1%), and trading products such as milk powder and sausage casings (15%). The hotel business was divested in May-June 2021.

In 2021, RBF received licenses from the Food and Drug Administration (FDA) for the plantation and extraction of hemp for use in foods, beverages, cosmetics, herbs, and food supplements. As of December 2021, the company had expanded its hemp cultivation areas to more than 100 rai with a total of 340 rai available and licensed to grow hemp.

As of September 2021, RBF had ten production plants; eight in Thailand, one in Vietnam, and one in Indonesia. Of the plants in Thailand, one is located in Bangkok, six are in Ayutthaya, and one is located in Chiangmai.

**KEY OPERATING PERFORMANCE**
**Table 1: Revenue Breakdown by Product**

*Unit: %*

Product	2017	2018	2019	2020	Jan-Sep 2020	Jan-Sep 2021
F&F, food coloring	37	36	36	37	39	37
Food coating	31	35	36	36	35	38
Dried products	5	6	6	6	6	7
Frozen products	4	4	4	3	3	2
Plastic packaging	2	1	1	1	1	1
Trading products	17	14	14	15	15	15
<b>Total food ingredients</b>	<b>96</b>	<b>96</b>	<b>97</b>	<b>98</b>	<b>99</b>	<b>100</b>
Hotel	4	4	3	2	1	-
<b>Total sales</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Total sales (Mil. THB)</b>	<b>2,915</b>	<b>2,738</b>	<b>2,865</b>	<b>3,172</b>	<b>2,340</b>	<b>2,456</b>

Source: RBF

**Table 2: Food Ingredient Revenue Breakdown by Customer Type and Market**

Customer Type (%)	2017	2018	2019	2020	Jan-Sep 2020	Jan-Sep 2021
Manufacturers	88	85	86	85	86	84
Wholesalers	7	8	7	8	7	8
Retailers	5	7	7	7	7	8
<b>Total sales</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Market (%)	2017	2018	2019	2020	Jan-Sep 2020	Jan-Sep 2021
Domestic	90	86	84	86	86	84
Overseas	10	14	16	14	14	16
<b>Total sales</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Total food ingredients sales (Mil. THB)</b>	<b>2,808</b>	<b>2,633</b>	<b>2,776</b>	<b>3,116</b>	<b>2,305</b>	<b>2,456</b>

Source: RBF

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

Unit: Mil. THB

	Jan-Sep 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	2,461	3,183	2,881	2,747	2,918
Earnings before interest and taxes (EBIT)	476	648	482	437	524
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	633	845	675	636	714
Funds from operations (FFO)	534	713	543	516	588
Adjusted interest expense	7	16	40	29	18
Capital expenditures	186	426	148	326	264
Total assets	4,807	4,883	4,412	3,448	3,150
Adjusted debt	0	0	0	889	139
Adjusted equity	4,146	4,089	3,870	2,092	2,371
<b>Adjusted Ratios</b>					
EBITDA margin (%)	25.73	26.54	23.43	23.15	24.46
Pretax return on permanent capital (%)	13.04 **	14.91	12.90	14.51	20.05
EBITDA interest coverage (times)	93.99	54.35	17.08	21.63	40.30
Debt to EBITDA (times)	0.00 **	0.00	0.00	1.40	0.19
FFO to debt (%)	n.m. **	n.m.	n.m.	58.02	422.74
Debt to capitalization (%)	0.00	0.00	0.00	29.82	5.54

*n.m.* = Not meaningful

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology – Corporate, 26 July 2019

---

**R&B Food Supply PLC (RBF)**

---

<b>Company Rating:</b>	BBB+
<b>Rating Outlook:</b>	Stable

---

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2022, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at [www.trisrating.com/rating-information/rating-criteria](http://www.trisrating.com/rating-information/rating-criteria)