

# R&B FOOD SUPPLY PLC

No. 4/2023  
20 January 2023

## CORPORATES

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

**Last Review Date:** 17/01/22

Company Rating History:		
Date	Rating	Outlook/Alert
29/01/21	BBB+	Stable

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## 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 proven track record in the food ingredients industry underpinned by its technical expertise, research and development capabilities, continuing growth with innovative products, and strong financial profile. These strengths are partially offset by the company’s small earnings base, threat of new entrants to the market, and risks in overseas investments.

## KEY RATING CONSIDERATIONS

### Continuing revenue growth

RBF’s total revenue grew by 9% year-on-year (y-o-y) in 2021, and 20% in the first nine months of 2022. Expanding overseas operations to regional markets, especially Vietnam and Indonesia, was the company’s business direction. Overseas revenue grew by 53% in the first nine months of 2022 from the same period in 2021. Vietnam and Indonesia contributed 13% of total revenue in the first nine months of 2022, up from around 6%-10% during 2019-2021.

RBF has a strategic partnership with Thai Union Group PLC (TU, rated “A+/Positive”), one of the world’s leading seafood processors and the largest producer of shelf-stable tuna products. This is anticipated to create synergies and opportunities for expansion of the customer base in the food business.

RBF’s revenue is currently trending upwards and is expected to achieve high 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.

### Sound profitability

RBF’s earnings before interest, taxes, depreciation, and amortization (EBITDA) margin fell in the range of 23%-28% during 2019-2021. However, this declined to 22% in the first nine months of 2022. This was mainly due to rising raw material costs and staff costs, but the slower pace of price increases. However, the post-pandemic prospects of proper price adjustment and demand recovery will help the company maintain satisfactory operating performance over the next few years. We expect its EBITDA margins to range between 22%-24% in 2022-2024.

### Low financial leverage, sound liquidity

We expect RBF to remain debt-free for the next few years. The remaining proceeds of its initial public offering (IPO) are used to support overseas investment. The construction of a second plant in Indonesia is due to be completed by 2023, while there are no further big investments. The company’s funds from operations (FFO) should be adequate for operational needs and planned maintenances.

We expect RBF to have abundant liquidity over the next 12 months. EBITDA should range from THB880 million to THB1.1 billion. At the end of September 2022, the company had no priority debt, with cash on hand and short-term investments of THB727 million and undrawn committed credit facilities of THB220 million.

## 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 undertaking 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 and innovation

RBF's competitive edge is its proven track record 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 77% of total revenues in the first nine months of 2022. RBF is the only company owned and operated by Thais among the top 10 companies in this business.

Research and development (R&D) is RBF's core competency. 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 17% in 2022 and 7%-12% per annum in 2023-2024
- Gross profit margin in the 35%-37% range; EBITDA margin of 22%-24%.
- Total capital spending of THB400 million in 2022, THB400-650 million in 2023-2024.

## 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 2022, RBF's registered capital was THB2 billion and the Rattanapoompinyo family held approximately 62% of the company's total shares. (Note: The Rattanapoompinyo family owned a 72% stake in the company prior to selling 10% of the company's shares to TU in September 2021.) RBF had ten production plants: eight in Thailand, one in Vietnam, and one in Indonesia. Of the plants in Thailand, one is in Bangkok, six in Ayutthaya, and one in Chiangmai.

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. In June 2021, RBF divested all hotel businesses in Chiangmai and Chumphon, with total asset value of THB272 million. 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 January 2022, RBF established a new joint venture company, namely RBS-TU Food ingredients Private Limited, distributing high quality food ingredients in the Indian market. RBF held 51%, Srinivasa Cystine Private Limited (Avanti Group) 30%, and TU 19%.

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

Product	2018	2019	2020	2021	Jan-Sep 2021	Jan-Sep 2022
F&F, food coloring	36	36	37	35	37	32
Food coating	35	36	36	40	38	45
Dried products	6	6	6	6	7	7
Frozen products	4	4	3	2	2	2
Plastic packaging	1	1	1	1	1	1
Trading products	14	14	15	16	15	13
<b>Total food ingredients</b>	<b>96</b>	<b>97</b>	<b>98</b>	<b>100</b>	<b>100</b>	<b>100</b>
Hotel	4	3	2	-	-	-
<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>2,738</b>	<b>2,865</b>	<b>3,172</b>	<b>3,384</b>	<b>2,456</b>	<b>2,956</b>

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

Customer Type (%)	2018	2019	2020	2021	Jan-Sep 2021	Jan-Sep 2022
Manufacturers	85	86	85	86	84	85
Wholesalers	8	7	8	7	8	8
Retailers	7	7	7	7	8	7
<b>Total sales</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Market (%)	2018	2019	2020	2020	Jan-Sep 2021	Jan-Sep 2022
Domestic	86	84	86	83	84	79
Overseas	14	16	14	17	16	21
<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>2,633</b>	<b>2,776</b>	<b>3,116</b>	<b>3,384</b>	<b>2,456</b>	<b>2,956</b>

*Source: RBF*

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	Jan-Sep 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	2,962	3,388	3,117	2,881	2,747
Earnings before interest and taxes (EBIT)	497	607	703	482	437
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	661	817	869	675	636
Funds from operations (FFO)	560	690	731	543	516
Adjusted interest expense	7	10	9	40	29
Capital expenditures	297	344	424	148	326
Total assets	5,112	5,006	4,883	4,412	3,448
Adjusted debt	0	0	0	0	889
Adjusted equity	4,349	4,237	4,089	3,870	2,092
<b>Adjusted Ratios</b>					
EBITDA margin (%)	22.32	24.12	27.88	23.43	23.15
Pretax return on permanent capital (%) **	13.92	13.60	16.18	12.90	14.51
EBITDA interest coverage (times)	89.91	84.48	97.80	17.08	21.63
Debt to EBITDA (times)	0.00	0.00	0.00	0.00	1.40
FFO to debt (%) **	n.m.	n.m.	n.m.	n.m.	58.02
Debt to capitalization (%)	0.00	0.00	0.00	0.00	29.82

*n.m.* = Not meaningful

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

## RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

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

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

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