

R&B FOOD SUPPLY PLC

No. 3/2024
16 January 2024

CORPORATES

Company Rating: BBB+
Outlook: Stable

Last Review Date: 20/01/23

| 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, the threat of new entrants to the market, and risks in overseas investments.

KEY RATING CONSIDERATIONS

Revenue continues to grow with sound profitability

RBF’s total revenue grew by 17% year-on-year (y-o-y) in 2022, and 11% in the first nine months of 2023. The increase in revenue was mainly attributed to sales of the flavor and fragrance (F&F) and coloring products to industrial customers, especially in China and India. The overseas revenue accounted for 28% of total revenue in the first nine months of 2023, up from 21% in the same period of 2022.

RBF’s earnings before interest, taxes, depreciation, and amortization (EBITDA) margin was in the range of 21%-28% during 2020-2022. EBITDA margin dropped to 21% in 2022 due to rising raw material and staff costs. However, for the first nine months of 2023, its EBITDA margin increased to 25% from more high-margin F&F and food coloring products, and lower raw material costs. We expect RBF to maintain its profitability with an EBITDA margin in the 23%-24% range in 2023-2025.

Low financial leverage, high liquidity

We expect RBF to remain debt-free for the next few years. The construction of the company’s second plant in Indonesia has been completed with the commencement of commercial operations in November 2023. Apart from its one new plant in Thailand, 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. EBITDA is forecast to range from THB1.1-THB1.2 billion. At the end of September 2023, the company had no priority debt, with cash on hand and short-term investments of THB670 million and undrawn credit facilities of THB1.1 billion.

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 F&F and food coloring products as well as food coatings, which contributed 82% of total revenues in the first nine months of 2023.

Research and development (R&D) is RBF’s core competency. The company’s strengths in R&D in F&F and food science ensures that it 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.

Exposure to customer concentration

The top-ten tenants have accounted for 37%-46% of RBF's total revenue in the past three years. However, RBF did not have any customer accounting for more than 15% of sales revenue. Thanks to the long-standing business relationships, some major customers have been placing orders more than 20 years. The company has sought to broaden its customer base to reduce the risk of customer concentration, including the increase of its overseas customer base.

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 has adopted a conservative approach in its overseas expansion. The company typically opens a sales office in a new target market before undertaking any major investments. Once the company is reasonably confident and the new market is deemed sizable and sustainable, the company may decide to establish a plant in the country.

BASE-CASE ASSUMPTIONS

- Revenue growth of 13% in 2023 and 7%-9% per annum in 2024-2025.
- Gross profit margin in the 36%-37% range; EBITDA margin of 23%-24%.
- Total capital spending of THB350 million in 2023, and THB350-THB550 million per annum in 2024-2025.

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 will generate incremental income without causing a material deterioration in profitability.

RATING SENSITIVITIES

A rating upgrade could occur if RBF is able to significantly enlarge revenue while maintaining its 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 Rattanapooping family. The company was listed on the Stock Exchange of Thailand (SET) in October 2019. As of September 2023, RBF's registered capital was THB2 billion and the Rattanapooping family held approximately 62% of the company's total shares. (Note: The Rattanapooping family owned a 72% stake in the company prior to selling 10% of the company's shares to Thai Union Group PLC (TU) in September 2021.) RBF has 12 production plants: eight in Thailand, one in Vietnam, two in Indonesia, and one in India (under construction). Of the plants in Thailand, one is in Bangkok, six in Ayutthaya, and one in Chiang Mai.

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 (34% of total revenue for the first nine months of 2023), food coatings (48%), dried products (6%), frozen products (2%), plastic packaging (1%), and trading products such as milk powder and sausage casings (9%). The hotel business was divested in May-June 2021.

In January 2022, RBF established a new joint venture (JV) company, RBS-TU Food Ingredients Private Ltd., distributing high-quality food ingredients in the Indian market. The JV company is 51% held by RBF, 30% by Srinivasa Cystine Private Ltd. (Avanti Group), and 19% by TU. The construction of the Indian plant under the JV started in 2023 and is expected to be completed in 2024.

In 2023, RBF completed the construction of the second plant in Indonesia and started commercial operations.

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown by Product

Unit: %

| Product | 2019 | 2020 | 2021 | 2022 | Jan-Sep 2022 | Jan-Sep 2023 |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| F&F, food coloring | 36 | 37 | 35 | 33 | 32 | 34 |
| Food coating | 36 | 36 | 40 | 45 | 45 | 48 |
| Dried products | 6 | 6 | 6 | 7 | 7 | 6 |
| Frozen products | 4 | 3 | 2 | 1 | 2 | 2 |
| Plastic packaging | 1 | 1 | 1 | 1 | 1 | 1 |
| Trading products | 14 | 15 | 16 | 13 | 13 | 9 |
| Total food ingredients | 97 | 98 | 100 | 100 | 100 | 100 |
| Hotel | 3 | 2 | - | - | - | - |
| Total sales | 100 | 100 | 100 | 100 | 100 | 100 |
| Total sales (Mil. THB) | 2,865 | 3,172 | 3,384 | 3,961 | 2,956 | 3,271 |

Source: RBF

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

| Customer Type (%) | 2019 | 2020 | 2021 | 2022 | Jan-Sep 2022 | Jan-Sep 2023 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Manufacturers | 86 | 85 | 86 | 85 | 85 | 82 |
| Wholesalers | 7 | 8 | 7 | 8 | 8 | 8 |
| Retailers | 7 | 7 | 7 | 7 | 7 | 10 |
| Total sales | 100 | 100 | 100 | 100 | 100 | 100 |
| Market (%) | 2019 | 2020 | 2021 | 2022 | Jan-Sep 2022 | Jan-Sep 2023 |
| Domestic | 84 | 86 | 83 | 79 | 79 | 72 |
| Overseas | 16 | 14 | 17 | 21 | 21 | 28 |
| Total sales | 100 | 100 | 100 | 100 | 100 | 100 |
| Total food ingredients sales (Mil. THB) | 2,776 | 3,116 | 3,384 | 3,961 | 2,956 | 3,271 |

Source: RBF

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

| | Jan-Sep 2023 | -----Year Ended 31 December ----- | | | |
|---|-----------------|-----------------------------------|-------|-------|-------|
| | | 2022 | 2021 | 2020 | 2019 |
| Total operating revenues | 3,277 | 3,967 | 3,388 | 3,117 | 2,881 |
| Earnings before interest and taxes (EBIT) | 638 | 614 | 607 | 703 | 482 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 813 | 837 | 817 | 869 | 675 |
| Funds from operations (FFO) | 684 | 712 | 690 | 731 | 543 |
| Adjusted interest expense | 9 | 10 | 10 | 9 | 40 |
| Capital expenditures | 340 | 397 | 344 | 424 | 148 |
| Total assets | 5,499 | 5,204 | 5,006 | 4,883 | 4,412 |
| Adjusted debt | 0 | 0 | 0 | 0 | 0 |
| Adjusted equity | 4,723 | 4,397 | 4,237 | 4,089 | 3,870 |
| Adjusted Ratios | | | | | |
| EBITDA margin (%) | 24.80 | 21.09 | 24.12 | 27.88 | 23.43 |
| Pretax return on permanent capital (%) ** | 15.67 | 13.51 | 13.60 | 16.18 | 12.90 |
| EBITDA interest coverage (times) | 89.16 | 84.04 | 84.48 | 97.80 | 17.08 |
| Debt to EBITDA (times) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| FFO to debt (%) ** | n.m. | n.m. | n.m. | n.m. | n.m. |
| Debt to capitalization (%) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

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

R&B Food Supply PLC (RBF)

| | |
|------------------------|--------|
| Company Rating: | BBB+ |
| Rating Outlook: | Stable |

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