

THAIFOODS GROUP PLC

No. 101/2022
29 June 2022

CORPORATES

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

Last Review Date: 19/10/21

Company Rating History:

Date	Rating	Outlook/Alert
22/06/21	BBB	Stable
20/04/17	BBB-	Stable

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RATIONALE

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

The company rating on TFG reflects our expectation of a gradual recovery in domestic demand for livestock products following the easing of Coronavirus Disease 2019 (COVID-19) restrictions, TFG’s increasingly diverse product mix, and its efficient cost management.

The rating is, however, constrained by the volatility in commodity-like products, fluctuations in animal feed prices, and TFG’s aggressive debt-funded capital expenditure.

KEY RATING CONSIDERATIONS

Financial performance rebounds in 2022

TFG’s operating performance in 2021 was pressured by the impacts of the COVID-19 lockdowns in the second half of the year, combined with a steep rise in animal feed costs. The lockdowns caused supply chain disruptions in some food processing plants, while sluggish demand resulted in a plunge in livestock prices.

TFG’s gross profit margin narrowed to 10.3% in 2021, from 14.7% in 2020. Earnings before interest, taxes, depreciation, and amortization (EBITDA) dropped by 32.7% year-on-year (y-o-y) to THB3.4 billion in 2021 and EBITDA margin also declined to 9.7% in 2021, compared with 16% in 2020.

During the first quarter of 2022, although the average prices of animal feed jumped by 12%-23% y-o-y according to the Thai Feed Mill Association, TFG was able to adjust its animal feed proportion to offset the soaring costs. Thus, TFG’s gross profit margin remained healthy in the first quarter of 2022. EBITDA also increased by 34% y-o-y to THB1.5 billion compared with the same period of the prior year.

We expect TFG’s financial performance to rebound in 2022. Although feed costs remain high, most livestock prices are also high due to pent-up demand following the easing of COVID-19 restrictions in both the domestic and export markets. The company’s operating revenues are expected to grow by 20% in 2022, then by 6%-7% annually in 2023-2024, driven by revenue growth in the livestock segment and other businesses. TFG’s EBITDA margin should stay in the 10%-12% range in 2022-2024.

Demand recovery in domestic and export markets

The domestic market remains TFG’s largest market. Sales in Thailand made up 75%-80% of its total revenues during 2021 through the first quarter of 2022. However, for the first three months of 2022, export volume grew by 27% over the same period of the previous year. The rise was mainly due to a recovery in demand in Asia, especially Japan and China, and countries in Europe.

We expect TFG’s domestic sales to grow by 14% y-o-y to around THB31.7 billion in 2022 and then to THB35-THB38 billion per annum during 2023-2024. TFG’s export sales are expected to grow by 45% y-o-y to THB10 billion in 2022, then stay at around THB9 billion annually in 2023-2024.

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 holds a market share of about 10% for livestock feed, 11% for poultry products, and 7% for 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 feed and other segments, especially retail. Going forward, TFG aims to widen its product mix to cover more high-margin segments, including swine products, export products, and retail shops.

Rising financial leverage

TFG's total debt to capitalization ratio rose to 61.6% at the end of 2021, from 47.5% at the end of 2020, but declined slightly to 60.3% at the end of March 2022 as TFG recorded higher cash flow from operations which allowed it to partly repay short-term loans. However, the company is planning total capital expenditure of THB3.5-THB5.0 billion per year in 2022-2024, which is considerably higher than the THB1.5-THB3.2 billion spent in 2020-2021. The planned expenditure will cover capacity expansions for the livestock and feed segments, and investment in retail shops. We project the company's total debt to capitalization ratio to increase to 59% in 2022, then gradually decline to 56%-57% during 2023-2024.

Ample cash-flow protection

We expect TFG to maintain adequate liquidity over the next 12 months. The company has outstanding debts of THB752 million due in the next 12 months. Our base-case forecast projects funds from operations (FFO) of around THB4.4 billion in 2022. The company had cash and cash equivalents of THB523 million and unused credit facilities of THB9.2 billion, as of March 2022.

Looking forward, we project TFG's FFO to total debt ratio to be 20%-23% in 2022-2024 while the EBITDA interest coverage ratio to be 7-8 times over the same period.

Credit profile of CGIF

The rating on CGIF reflects its status as a multilateral 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 20% in 2022, then grow by 6%-7% annually in 2023-2024.
- Gross profit margin to be 13%-15% and EBITDA margin to be 10%-12% during 2022-2024.
- Total capital spending and investment of around THB3.5-THB5.0 billion per year during 2022-2024.

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 ratings and outlook on TFG's guaranteed debentures solely reflect the creditworthiness of its guarantor, CGIF.

RATING SENSITIVITIES

The ratings could be upgraded if the company materially enlarges and stabilizes its cash generation while maintaining a strong balance sheet on a sustained basis. An upgrade could also happen if the company is able to deliver financial performance as per TRIS Rating's projection and maintain a debt-to-EBITDA ratio below 3 times on a sustained basis. On the contrary, the downside case could occur if TFG's profitability deteriorates materially or its performance weakens for an extended period. We could also lower the ratings if the company's debt-to-EBITDA ratio rises above 5 times for an extended period.

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

COMPANY OVERVIEW

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 its total revenue while domestic sales made up 80%.

Recent developments:

In October 2021, TFG invested 96% in Logis Boy Co., Ltd. (LGB), a company involved in transit system software and IT solutions. The total investment cost was THB8 million.

In March 2022, TFG established a new subsidiary, My Pet Co., Ltd., to operate the integrated pet food business, with registered capital of THB2 million.

In March 2022, TFG established a new subsidiary, Thaifoods Renewable Co., Ltd., to generate electricity using renewable energy, with registered capital of THB100 million.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	10,473	34,948	31,457	29,016	28,019
Earnings before interest and taxes (EBIT)	1,002	1,738	3,595	1,956	860
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,475	3,377	5,021	3,122	1,840
Funds from operations (FFO)	1,157	2,482	4,116	2,570	1,370
Adjusted interest expense	163	495	370	427	383
Capital expenditures	933	3,244	1,499	1,315	3,562
Total assets	37,466	35,567	26,091	22,787	22,711
Adjusted debt	18,498	18,527	10,081	9,935	11,188
Adjusted equity	12,199	11,570	11,140	9,886	7,835
Adjusted Ratios					
EBITDA margin (%)	14.08	9.66	15.96	10.76	6.57
Pretax return on permanent capital (%) **	7.19	6.47	16.94	9.86	4.78
EBITDA interest coverage (times)	9.02	6.83	13.55	7.30	4.81
Debt to EBITDA (times)	4.93	5.49	2.01	3.18	6.08
FFO to debt (%) **	15.20	13.40	40.82	25.87	12.25
Debt to capitalization (%)	60.26	61.56	47.50	50.12	58.81

Note: All ratios have been adjusted by operating leases.

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Thaifoods Group PLC (TFG)

Company Rating:	BBB
Issue Ratings:	
TFG251A: THB2,000 million guaranteed bond due 2025	AAA
TFG26NA: THB1,000 million guaranteed bond due 2026	AAA
Rating Outlook:	Stable

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