

THAIFOODS GROUP PLC

No. 89/2021

19 October 2021

CORPORATES

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

Last Review Date: 22/06/21

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” with a “stable” rating outlook. At the same time, TRIS Rating affirms the rating on TFG’s existing guaranteed bond and also assigns the rating to TFG’s newly proposed issue of up to THB1 billion guaranteed bonds at “AAA”. The bonds are fully guaranteed by Credit Guarantee and Investment Facility, a trust fund of the Asian Development Bank (CGIF). CGIF is rated “AAA” by TRIS Rating. The issue ratings reflect the creditworthiness of CGIF as the guarantor. The proceeds from the new bond issuance will be used to support TFG’s working capital needs.

The ratings assigned to the guaranteed bonds are equal to the rating on its guarantor, CGIF. Under the guarantee terms, CGIF provides an irrevocable and unconditional guarantee to cover 100% of the principal and interest payments and any bondholders' representative expenses of the guaranteed bonds. CGIF’s guarantee obligations rank at least pari passu with all its other present and future unsecured and unsubordinated indebtedness.

The ratings on the guaranteed bonds have taken into account the following conditions, the likelihood of which we view as extremely low:

- Payment acceleration risk by bondholders’ representative: the bondholders’ representative has the right to accelerate the guaranteed bond payments against the issuer upon an occurrence of the issuer’s non-payment whereby a demand for payment of the relevant guaranteed amount has been sent to CGIF and CGIF fails to pay such amount in accordance with the guarantee or any event of default other than the issuer’s non-payment. However, CGIF will no longer have obligations to make payments under the guarantee if the bondholders’ representative accelerates the bonds following an occurrence of any event of default other than an issuer’s non-payment.
- Foreign exchange rate risk: the bondholders might not receive the payment in Thai baht if CGIF determines that it is impossible or impracticable on commercially reasonable terms and in accordance with its policy to obtain the baht. In such an event, CGIF may make an equivalent payment in US dollars or other such currencies as it may determine.

The company rating on TFG still reflects our expectation of a recovery in domestic demand for livestock products, TFG’s more diverse product mix, and its efficient cost management. However, the rating is 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.

TFG’s financial results during the first six months of 2021 were in line with our forecast. Total operating revenue reached THB16.7 billion, rising by 11% year-on-year (y-o-y). The increase was mainly due to a rise in the prices of chicken and pork meat, together with increased sales volume from the swine and feed businesses. TFG’s gross profit margin remained healthy in the first half of 2021 at 14.5% while earnings before interest, taxes, depreciation and amortization (EBITDA) grew by 9% y-o-y to THB2.4 billion during the first six months of 2021.

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

TFG's total debt to capitalization ratio increase to 52% at the end of June 2021, from 47% at the end of 2020 to meet higher working capital needs in seasonal patterns. The company is planning for total capital expenditure of THB2.8-THB5.6 billion per year in 2021-2023. As a result, we expect the company's total debt to capitalization ratio to hover around 51% in 2021-2023.

The majority of TFG's debt was secured bank loans. As of June 2021, its ratio of priority debt to total debt exceeded 50%, which implies a significant subordination risk for the company's senior unsecured obligations with respect to claims against the company's assets, according to TRIS Rating's "Issue Rating Criteria".

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 current credit profile while facing challenges in executing its ambitious capital expenditure and investment plans.

The ratings and outlook on TFG's guaranteed bonds solely reflect the credit condition 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. On the contrary, a 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 ratings on TFG's guaranteed bonds may change if the rating on its guarantor, CGIF, changes.

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)

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

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