

# R&B FOOD SUPPLY PLC

No. 8/2021  
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## CORPORATES

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

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## RATIONALE

TRIS Rating assigns the company rating of “BBB+” to R&B Food Supply PLC (RBF) with a “stable” rating outlook. The rating reflects RBF’s long track record in the food ingredient industry with 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, moderate threat of new entrants in the market, and the risk inherent in overseas investment.

### KEY RATING CONSIDERATIONS

#### Long track record with expertise

RBF’s competitive edge is underscored by its track record of 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 2020. Among the top 10 in this business, RBF is the only company owned and operated by Thais, while other companies are all international brands.

The accumulated experience and knowledge of RBF’s management and staff have enabled the company to continually develop high-quality products on the timely basis to serve customer’s needs and supply products to a number of well-known manufacturers.

#### Highly focused on R&D

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. In addition, R&D helps RBF itself reduce costs by enabling the company to create its own ingredients instead of purchasing from other sources.

#### Continuing growth and positive impact during the pandemic

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

Expanding overseas to regional markets such as Vietnam and Indonesia also helps maintain earnings growth. The overseas revenue contribution from food ingredients rose to 16% in 2019 from 10% of total revenue in 2017. For the first nine months of 2020, revenues increased by 12% from the same period in 2019. The Coronavirus Disease 2019 (COVID-19) pandemic has had a positive impact on the overall company’s performance.

#### Consistent profitability

We expect RBF to maintain its profitability. Thanks to RBF’s R&D capabilities and long-term relationships with suppliers and customers, its earnings before interest, taxes, depreciation, and amortization (EBITDA) margin should remain in the 23%-25% range in 2020-2022, unchanged from 2017-2019.

For the first nine months of 2020, EBITDA margin was 29%, an increase of 5% from the same period in 2019. The increase was due to an incremental sales contribution from high-margin F&F products.

### **Favorable leverage and liquidity**

Under our base-case scenario, RBF should 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, invest in capital expenditure (CAPEX), and manage its working capital. Remaining amounts are earmarked for overseas investment. Based on discussions with management, no major investments are planned for the next few years. The company's funds from operations (FFO) are adequate for operational needs and planned investments.

RBF's liquidity is considered high and adequate for the next 12 months. Under our base-case scenario, EBITDA will range from THB790 million to THB860 million. As of the end of September 2020, the company had no priority debt, cash on hand of THB470 million and undrawn committed credit facilities of THB970 million.

### **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 R&D competence and cost management. Customer stickiness is low depending on levels of customer satisfaction. However, the company's industry experience and proven performance should help protect its well established position in the industry over the next 3-5 years.

### **Overseas investment risk**

Country risk in overseas markets is another concern. Despite the 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.

### **BASE-CASE ASSUMPTIONS**

- Revenue growth of 5%-10% per annum over the next 2-3 years.
- Gross profit margins in the 36%-38% range; EBITDA margin of around 23%-25%.
- Total capital spending of THB500 million per annum during 2020-2022.

### **RATING OUTLOOK**

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

### **RATING SENSITIVITIES**

A rating upgrade could occur if RBF is able to significantly enlarge its revenue while maintaining profit margins and a prudent balance sheet. A rating downgrade, on the other hand, could arise from weaker-than-expected operating performance for a prolonged period of time 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 2020, RBF's registered capital was THB2 billion and the Rattanapoompinyo family held approximately 72% of the company's total shares.

The main business segments of RBF and its subsidiaries are the manufacture and sale of food ingredients as well as investments in the hotel business, contributing 97% and 3% of total revenue in 2019, respectively. Food ingredients can be categorized into six segments, which are F&F and food colorings (36% of total revenue in 2019), food coatings (36%), dried products (6%), frozen products (4%), plastic packaging (1%), and trading products such as milk powder, and sausage casings (14%).

As of September 2020, RBF had nine production plants; seven in Thailand, one in Vietnam, and one in Indonesia. Of the plants in Thailand, one is located in Bangkok, five are located in Ayutthaya, and one is located in Chiangmai.

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

Unit: %

Product	2017	2018	2019	Jan-Sep 2020
F&F, food coloring	37	36	36	39
Food coating	31	35	36	35
Dried products	5	6	6	6
Frozen products	4	4	4	3
Plastic packaging	2	1	1	1
Trading products	17	14	14	15
<b>Total food ingredients</b>	<b>96</b>	<b>96</b>	<b>97</b>	<b>99</b>
Hotel	4	4	3	1
<b>Total sales</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>2,340</b>

Source: RBF

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

Customer Types (%)	2017	2018	2019	Jan-Sep 2020
Manufacturers	88	85	86	86
Wholesalers	7	8	7	7
Retailers	5	7	7	7
<b>Total sales</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Market (%)	2017	2018	2019	Jan-Sep 2020
Domestic	90	86	84	86
Overseas	10	14	16	14
<b>Total sales</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>2,305</b>

Source: RBF

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

Unit: Mil. THB

	Jan-Sep 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	2,346	2,881	2,747	2,918	2,639
Earnings before interest and taxes (EBIT)	513	482	437	524	471
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	676	675	636	714	617
Funds from operations (FFO)	559	546	520	593	513
Adjusted interest expense	17	40	29	18	14
Capital expenditures	241	148	326	264	321
Total assets	4,754	4,412	3,448	3,150	2,841
Adjusted debt	0	0	889	139	113
Adjusted equity	3,974	3,870	2,092	2,371	2,032
<b>Adjusted Ratios</b>					
EBITDA margin (%)	28.82	23.43	23.15	24.46	23.38
Pretax return on permanent capital (%)	16.90 **	12.90	14.51	20.05	19.22
EBITDA interest coverage (times)	39.93	17.08	21.63	40.30	43.77
Debt to EBITDA (times)	0.00 **	0.00	1.40	0.19	0.18
FFO to debt (%)	n.m. **	n.m.	58.53	426.47	455.38
Debt to capitalization (%)	0.00	0.00	29.82	5.54	5.25

*n.m. = Not meaningful*
*\* Consolidated financial statements*
*\*\* Annualized with trailing 12 months*
**RELATED CRITERIA**

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

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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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**TRIS Rating Co., Ltd.**

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