TRIS RATING

CreditNews ข่าวเครดิต

THAI UNION FROZEN PRODUCTS PUBLIC PLC

No. 3/2013

8 January 2013

Company Rating: AA-

Outlook: Stable

New Issue Rating: -

Rating History:

Date	Company	Issue (Secured/ Unsecured)
14/01/11	A+/Sta	-/A+
29/07/10	A+/Alert Dev	-/A+
17/05/07	A+/Sta	-/A+
30/08/06	A+/Sta	-

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Rating Rationale

TRIS Rating upgrades the company and senior debenture ratings of Thai Union Frozen Products PLC (TUF) to “AA-” from “A+”. The upgrade reflects the company’s improved financial profile and its successful business consolidation of MW Brands Holdings Group (MWB), a vertically-integrated canned seafood producer in Europe. The ratings reflect TUF’s strong market position as one of the world’s leading tuna processors, as well as the diversity of its products and markets, and the group’s well-recognized brands in Europe and the United States (US). The ratings also take into consideration the inherent volatility of raw material cost, the industry’s exposure to disease outbreaks, and changes in regulatory framework regarding import tariff and fishing around the world.

TUF was incorporated in 1988 by the Chansiri Family. The company is one of the leading global seafood companies. Its products cover tunas, shrimp, sardines, salmons, and pet food, with 50% of revenue from tuna business. Currently, the company’s group revenues were from the US market (36%), the European Union (EU) market (31%), and 34% from the rest of the world.

In October 2010, TUF acquired 100% of the equity of MWB for a total investment of EUR680 million. MWB is a manufacturer of canned seafood products. It is vertically integrated, from fishing fleets to production facilities, through its distribution channels in Europe. The MWB acquisition brought a number of top European brand names, such as Petit Navire, John West, Mareblu, and Hyacinthe Parmentier, into TUF’s portfolio. These new brands complement the Chicken of the Sea brand that TUF has already owned. Chicken of the Sea is the third-largest canned tuna brand in the US.

TUF’s leading position in seafood industry was strengthened after the MWB acquisition. Currently, TUF produces about 300,000 tonnes of tunas per annum, almost one fifth of the 1.6-1.7 million tonnes of canned tunas produced worldwide. TUF’s production bases are located in 8 countries, covering five continents. The group’s main production facilities are located in Thailand, the US, Ghana, and Seychelles. TUF also has production facilities in Vietnam, Indonesia, France, and Papua New Guinea, the latest location. TUF’s market is geographically diversified and is now more balanced after the MWB acquisition. The US, TUF’s major market, represented 36% of total revenue in 2011 and 2012. Sales to European markets accounted for 31% of total revenue. Japan was the third largest market, comprising 9% of TUF’s total revenue. In terms of products, TUF’s portfolio remains well diversified. TUF sells a wide variety of seafood product lines, as well as pet food and shrimp feed. For the first nine months of 2012, tuna products generated 50% of total revenue. Shrimp and shrimp-related products were the second-largest (22%) portion of total revenue, followed by value added and other products (10%), pet food (7%), sardines and mackerels (6%), and salmons (4%).

For 2011 operations, TUF’s revenue base was broadened in most business segments. Total revenue in 2011 increased by 42.5% to US$3,232 million, inclusive of US$715 million from MWB. Excluding MWB's sales, TUF's sales rose by 15.8% year-on-year (y-o-y) to US$2,517 million in 2011. For the first nine months of 2012, higher tuna prices and strong demand for sardines and mackerels pushed TUF's total revenue higher by 7.7% in US dollar terms. Revenue reached US$2,581 million despite a fire accident in one of TUF's shrimp processing facilities. The fire accident, which occurred in the beginning of 2012, cut TUF's shrimp processing capacity by 10%.

TUF's profitability improved in 2011. Profitability remained high in the first nine months of 2012, despite pressure from record high raw tuna prices and higher labor costs in Thailand. TUF's operating margin before depreciation and amortization strengthened to 9.2% in 2011 and held at 9.1% in the first nine months of 2012, while its operating margin during 2006-2010 ranged from 5.6% to 7.6%. The success of the post-merger integration meant MWB's high margin products boosted TUF's overall margin in 2011. The high margin also reflected price increases for tuna products as the rising costs were passed through to consumers. Raw tuna prices jumped 37% in 2011 and 26% in the first nine months of 2012, reaching a record high of US$2,350 per tonne in September 2012. For shrimp products, the shorter order period helped maintain the profitability of the shrimp segment despite the rising shrimp cost. Improved profitability and higher sales powered earnings before interest, tax, depreciation, and amortization (EBITDA) higher by 90.5% y-o-y to Bt9,800 million in 2011. EBITDA further increased by 4.9% y-o-y to Bt7,771 million in the first nine months of 2012.

In May 2012, TUF strengthened its financial position by increasing capital by Bt9,563 million. The new capital was used to prepay loans, resulting in lowering leverage level. As of 30 September 2012, TUF's debt to capitalization ratio improved to 44.8% from a peak of 61.7% at the end of 2010. Looking forward, TUF plans to spend about Bt6,000 million per year during the next few years, in an effort to expand its production capacity. The company has a prudent policy to maintain the debt to capitalization ratio at approximately 50% while pursuing its growth strategy.

The EU announced the new criteria for granting generalized system of preferences (GSPs) for shrimp products. Thailand will be disqualified under the criteria of these new GSPs and tariff for products from Thailand will be revised back to 12% for frozen shrimp and 20% for processed shrimp from 1 January 2014 onwards. The end of the EU GSP privileges is expected to have limited impacts on TUF's business since only 1.4% of TUF's total revenue came from shrimp exports to the EU during the first nine months of 2012.

Rating Outlook

The "stable" outlook reflects TRIS Rating's view that TUF will continue to maintain its competitive advantages through economies of scale and production efficiency. The company's diversified base of markets and products is expected to stabilize its revenue streams. TUF's portfolio of highly recognizable brands will help TUF maintain its profitability despite the fluctuations in raw material costs.

Thai Union Frozen Products PLC (TUF)

Company Rating:	AA-
Issue Ratings:	
TUF13NA: Bt500 million senior debentures due 2013	AA-
TUF147A: Bt3,300 million senior debentures due 2014	AA-
TUF167A: Bt1,950 million senior debentures due 2016	AA-
TUF217A: Bt1,500 million senior debentures due 2021	AA-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Sep 2012	---------------------------- Year Ended 31 December ---------------------------- 2011	2010	2009	2008	2007
Sales	80,389	98,670	71,507	68,994	69,048	55,507
Gross interest expense	1,939	2,272	764	602	635	580
Net income from operations	3,591	4,770	2,067	2,992	2,116	1,639
Funds from operations (FFO)	6,780	8,946	4,444	5,020	3,944	3,071
Total capital expenditures	2,655	3,365	2,720	1,990	1,725	2,476
Total assets	89,703	83,230	74,777	35,870	39,781	33,576
Total debt	32,227	39,766	37,471	12,249	17,614	14,117
Shareholders' equity	39,744	27,069	23,235	18,411	16,231	14,570
Dividends	1,884	1,195	1,996	1,431	987	1,078
Operating income before depreciation, and amortization as % of sales	9.14	9.23	6.47	7.55	5.55	5.89
Pretax return on permanent capital (%)	9.23 **	12.83	8.62	14.05	10.32	10.34
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.01	4.31	6.74	9.31	6.66	6.28
FFO/total debt (%)	21.04 **	22.50	11.86	40.98	22.39	21.75
Total debt/capitalization (%)	44.78	59.50	61.73	39.95	52.04	49.21

* *Consolidated financial statements*

** *Non-annualized*

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