# THAI UNION FROZEN PRODUCTS PUBLIC PLC

No. 6/2014 | 16 January 2014

**Company Rating:** AA-

**Outlook:** Stable

**New Issue Rating:** AA-

**Rating History:**

| Date | Company | Issue (Secured/ Unsecured) |
|---|---|---|
| 08/01/13 | AA-/Sta | -/AA- |
| 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 affirms the company and senior debenture ratings of Thai Union Frozen Products PLC (TUF) at "AA-". At the same time, TRIS Rating assigns a rating of "AA-" to TUF's proposed issue of up to Bt8,250 million in senior debentures. The proceeds from the new debentures will be used to refinance TUF's long-term debentures and to finance working capital requirements and planned capital expenditures.

The ratings reflect TUF's strong market position as one of the world's leading tuna processors, the diversity of its products and markets, and the group's well-known brands in Europe and the United States (US). The ratings also take into consideration the inherent volatility of TUF's raw materials, the industry's exposure to the effects of disease outbreaks, and changes in the regulatory frameworks regarding import tariffs and fishing around the world.

TUF was incorporated in 1988 by the Chansiri family. The company is one of the leading seafood companies in the world. Its products cover tuna, shrimp, sardines, salmon, pet food, and others. For the first nine months of 2013, tuna products generated 49% of total revenue. Shrimp and shrimp-related products were the second-largest portion of total revenue (24%), followed by pet food (7%), sardines and mackerels (6%), and other products (14%).

Currently, TUF produces about 300,000 tonnes of tuna per annum, almost one fifth of the 1.6-1.7 million tonnes of canned tuna produced worldwide. TUF's production bases are geographically diversified in seven countries, covering five continents. The main production facilities for TUF and its affiliates are located in Thailand, the US, Ghana, and the Seychelles. TUF also has production facilities in Vietnam, France, and Papua New Guinea. In terms of market, TUF's major market is the US, which represented 40% of total revenue in the first nine months of 2013. Sales to European markets accounted for 30% of total revenue, followed by sales in Thailand (8%) and Japan (7%).

During the first nine months of 2013, TUF's performance was hurt by the volatile tuna prices and the early mortality syndrome (EMS) outbreak in shrimp farming in Thailand. Volatilities in tuna prices delayed tuna orders from some customers in the contract manufacturing segment. However, increasing sales in the branded tuna segment, which accounts for about 50% of the total volume of tuna sold, helped stabilize total tuna sales. The EMS outbreaks lowered sales volume of TUF's shrimp feed by 30% and also cut frozen shrimp sales volume of Thailand operation by 18.7% during the first nine months of 2013. However, TUF was able to record a 9.1% increase in the volume of frozen shrimp products sold during the first nine months of 2013. The rise was due to healthy growth in the shrimp market in the US. In addition, TUF has completed the acquisition of Pakfood Co., Ltd. (PPC) and consolidated PPC into the group since March 2013. As a result, total revenue in the first nine months of 2013 inched up to US$2,694 million, a 4.4% year-on-year (y-o-y) rise compared with the same period of the previous year.

TUF's profitability deteriorated during the first nine months of 2013, but the figures improved quarter by quarter. The profit margin was hurt by the volatility of tuna prices and the skyrocketing costs of shrimp after the EMS outbreak. After reaching US$2,325 per tonne in March 2013, raw tuna prices plummeted to US$1,875 per tonne in September 2013 and further down to US$1,400 per tonne in December 2013. TUF's operating margin, defined as operating profit before depreciation and amortization, weakened to 5.5% in the first nine months of 2013, while its operating margin during 2008-2012 ranged from 5.6% to 9.2%. However, TUF's operating margin in the third quarter of 2013 improved to 7.1% from a low of 3.8% in the first quarter of 2013. The recovery in the operating margin was due to the price adjustments for shrimp products to reflect rising shrimp costs. The improved margin of branded tuna products also rose as raw material costs declined. Earnings before interest, tax, depreciation, and amortization (EBITDA) in the third quarter improved by 23% from the second quarter of 2013 to Bt2,217 million, close to TUF's normal EBITDA per quarter of Bt2,500 million. The EBITDA interest coverage ratio recovered to an acceptable level at 5.5 times in the third quarter of 2013.

As of 30 September 2013, TUF's debt to capitalization ratio weakened, but remained acceptable at 49%. TUF decided to lower its capital expenditure plan from Bt6,000 million per year in 2013-2015 to about Bt3,500-Bt4,500 million in responding to business uncertainty. Looking forward, TRIS Rating expects the recovery of tuna demand, particularly from the contract manufacturing segment, after tuna prices declined to the three-year lowest level of US$1,400 per tonne in December 2013. Baht depreciation should partly help improve profitability in the short term. The EMS problem in shrimp industry is expected to ease gradually and the shrimp supply is expected to increase by 20%-25% in 2014. Because capital expenditures have been reduced, TUF's cash flow protection and its debt to capitalization ratio should improve to normal levels in the near future.

**Rating Outlook**

The "stable" outlook reflects TRIS Rating's view that TUF will continue to maintain its competitive advantage through economies of scale and production efficiency. The company's diversified base of markets and products will help stabilize its revenue streams during the volatile periods of tuna and shrimp products. The company is expected to maintain its financial discipline to keep leverage at moderate level amidst the challenging industry environment.

## Thai Union Frozen Products PLC (TUF)

| | |
|---|---|
| **Company Rating:** | AA- |
| **Issue Ratings:** | |
| 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- |
| Up to Bt8,250 million senior debentures due within 2024 | AA- |
| **Rating Outlook:** | Stable |

## Financial Statistics and Key Financial Ratios*

*Unit: Bt million*

| | Jan-Sep 2013 | ---------------------------- Year Ended 31 December ---------------------------- 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| Sales | 82,025 | 106,698 | 98,670 | 71,507 | 68,994 | 69,048 |
| Gross interest expense | 1,134 | 2,329 | 2,272 | 764 | 602 | 635 |
| Net income from operations | 1,621 | 4,197 | 4,770 | 2,067 | 2,992 | 2,116 |
| Funds from operations (FFO) | 4,580 | 8,536 | 8,946 | 4,444 | 5,020 | 3,944 |
| Total capital expenditures | 3,375 | 3,624 | 3,365 | 2,720 | 1,990 | 1,725 |
| Total assets | 103,135 | 94,759 | 83,277 | 74,777 | 35,870 | 39,781 |
| Total debt | 40,233 | 35,008 | 39,766 | 37,471 | 12,249 | 17,614 |
| Shareholders' equity | 41,860 | 40,344 | 27,117 | 23,235 | 18,411 | 16,231 |
| Dividends | 1,835 | 1,884 | 1,195 | 1,996 | 1,431 | 987 |
| Operating income before depreciation, and amortization as % of sales | 5.51 | 8.22 | 9.23 | 6.47 | 7.55 | 5.55 |
| Pretax return on permanent capital (%) | 4.51 ** | 10.44 | 12.83 | 8.62 | 14.05 | 10.32 |
| Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times) | 4.58 | 4.00 | 4.31 | 6.74 | 9.31 | 6.66 |
| FFO/total debt (%) | 11.38 ** | 24.38 | 22.50 | 11.86 | 40.98 | 22.39 |
| Total debt/capitalization (%) | 49.01 | 46.46 | 59.46 | 61.73 | 39.95 | 52.04 |

* *Consolidated financial statements*
** *Non-annualized*

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