THAI UNION FROZEN PRODUCTS PLC

No. 52/2015 26 June 2015

Company Rating: AA-

Issue Ratings:
Senior unsecured AA-

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
23/12/14	AA-	Alert Developing
08/01/13	AA-	Stable
14/01/11	A+	Stable
29/07/10	A+	Alert Developing
30/08/06	A+	Stable

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Rating Rationale

TRIS Rating affirms the company and senior unsecured debenture ratings of Thai Union Frozen Products PLC (TUF) at "AA-". 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). These factors are partially offset by the inherent volatility of TUF's raw material prices, the industry's exposure to the effects of disease outbreaks, fluctuations in foreign exchange rate, and changes in the regulatory frameworks regarding trade barriers, and the fishing industry around the world. The ratings also take into consideration TUF's latest move to acquire 100% of the equity of Bumble Bee Holdco S.C.A. (Bumble Bee).

The rating affirmation removes the CreditAlert with "developing" implication placed on TUF's company rating and issue ratings since 23 December 2014. The CreditAlert was issued following TUF's announcement on 19 December 2014 that it intended to acquire 100% interest in Bumble Bee for the base purchase price of US$1,510 million.

TUF was incorporated in 1988 by the Chansiri family. The company is one of the leading seafood companies in the world. Its product lines cover tuna, shrimp, sardines, salmon, pet food, and more. In 2014, tuna products generated 44% of the company's total revenue. Shrimp and shrimp-related products were the second-largest portion of total revenue (24%), followed by pet food (7%), sardines and mackerels (5%), salmon (5%), and value added and other products (15%).

Currently, TUF is the world's largest producer of canned tuna. The company produces about 300,000 tonnes of tuna per annum, approximately 18% of the 1.7 million tonnes of canned tuna produced worldwide. TUF's production bases are geographically diversified spread across seven countries in five continents. The main production facilities for TUF and its affiliates are located in Thailand, the US, Ghana, and the Seychelles islands. TUF also has production facilities in Vietnam, France, and Papua New Guinea. TUF's major market is the US, which comprised 44% of total revenue in 2014. Sales to European markets accounted for 29% of total revenue, followed by sales in Thailand (7%) and Japan (7%).

In 2014, TUF, through its subsidiaries, acquired MerAlliance SAS (MerAliance), the fourth largest smoked salmon producer in Europe and King Oscar AS (King Oscar), a well-known branded premium sardine producer. During the first quarter of 2015, TUF's subsidiary in the US also acquired the asset of Orion Seafood International (Orion), the world's largest supplier of lobster products. These acquisitions are in line with TUF's strategy to strengthen its core business categories as well as to expand into new markets with new products.

Despite facing volatile tuna prices and ongoing early mortality syndrome (EMS) outbreak in the shrimp segment, TUF's operation in 2014 improved significantly from the low level in 2013. Revenue grew by 7.6% year-on-year (y-o-y) to Bt121,402 million, due mainly to the growth in the shrimp, salmon, pet food, and value-added product segments. TUF also benefited from the depreciation of Thai baht against the US dollar. Shrimp remained in tight supply due to the EMS outbreak in several countries including Thailand. Nevertheless, TUF's US subsidiary has a strong global sourcing network so it could source raw materials from EMS-free countries. TUF's gross margin improved from 12.6% in 2013 to 15.7% in 2014. The branded tuna products segment recorded a good performance and the pet food segment recovered after undertaking a restructuring during 2014. TUF's operating margin (operating income before depreciation and amortization as a percentage of sales) climbed from a record low of 5.5% in 2013 to 7.8% in 2014. Earnings before interest, tax, depreciation, and amortization (EBITDA) soared by 37% y-o-y to Bt10,715 million in 2014. The company's cash flow protection improved. The EBITDA interest coverage ratio was 6.4 times in 2014, compared with a range of 4-4.7 times in 2011-2013. The funds from operations (FFO) to total debt ratio was 17.7% in 2014, compared with a range of 15.4%-24.4% in 2011-2013.

During the first quarter of 2015, TUF faced challenges from lower prices for tuna and shrimp. The average price of raw tuna continued to drop, reaching a five-year low of US$1,010 per tonne in March 2015. The shrimp price also slumped. The average shrimp price slid from Bt218 per kilogram (kg.) in 2013 and Bt223 per kg. in 2014 to Bt192 per kg. in the first quarter of 2015. Moreover, a steep depreciation of the euro against the Thai baht cut the revenues from TUF's European subsidiaries once the revenues were translated into Thai baht. In the first quarter of 2015, TUF's total revenue increased slightly, up by 2.4% y-o-y to Bt28,606 million. Revenue rose because TUF sold more salmon, shrimp, sardines, and mackerel, despite drops in tuna sales volume and tuna selling prices. The drop in shrimp prices worldwide cut TUF's profit margin. The gross margin declined to 13.8% in the first quarter of 2015, compared with 14.9% during the same period of 2014. The operating margin weakened to 5.5% in the first quarter of 2015, compared with 7.3% during the same period of 2014.

In December 2014, TUF announced a 100% acquisition of Bumble Bee for the base purchase price of US$1,510 million (equivalent to Bt49,830 million at Bt33/US$). This transaction is under the US antitrust review. The acquisition is expected to be completed in the fourth quarter of 2015. To finance this transaction, TUF's board of directors and shareholders approved a capital increase. TUF aims to obtain up to US$400 million (equivalent to Bt13,200 million) in new equity capital. The remainder (US$1,110 or Bt36,630 million) will be financed by debt. After the Bumble Bee acquisition, TUF's debt to capitalization ratio is expected to hover around 55%, up from 46.5% as of March 2015. TUF plans moderate capital expenditures of Bt3,500-Bt4,000 million per year in 2015-2017. Given expected EBITDA of Bt14,000-Bt16,000 million per year after the full consolidation with Bumble Bee, debt to capitalization ratio and cash flow protection are expected to improve to its normal level within the next one to two years.

Bumble Bee is the second-largest tuna producer in the US and the market leader in shelf-stable seafood in Canada. The acquisition of Bumble Bee is in line with TUF's long-term strategy of adding more branded seafood products to its portfolio. After the post-merger integration is completed, TUF's product mix will shift towards more high-margin branded products with stronger market position in North America. TUF expects it will realize some synergies with Bumble Bee, in terms of supply/processing, cost saving, innovation sharing, as well as operational efficiencies.

In April 2015, the European Commission issued yellow card to put Thailand on formal notice for not taking sufficient measures in the international fight against illegal, unreported and unregulated (IUU) fishing. Thailand will be given six months to implement a corrective action plan. Should the situation not improve, the European Union (EU) could resort banning fisheries imports from Thailand. Under the worst case scenario, the EU ban is expected to have limited impacts on TUF's business since approximately 7% of TUF's total revenue came from exports to the EU.

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 amidst the volatile tuna and shrimp prices as well as the looming challenges from trade and non-trade regulations. A rating upgrade would be likely if TUF can smoothly integrate Bumble Bee's operations and demonstrates its ability to make sustained improvement in its financial profile. A downgrade could occur should the group's operating performances be significantly weaker than expected, resulting in a weaker capital structure and deteriorating cash flow protection for longer period.

Thai Union Frozen Products PLC (TUF)

Company Rating:	AA-
Issue Ratings:	
TUF167A: Bt1,950 million senior debentures due 2016	AA-
TUF172A: Bt2,500 million senior debentures due 2017	AA-
TUF192A: Bt3,150 million senior debentures due 2019	AA-
TUF212A: Bt1,550 million senior debentures due 2021	AA-
TUF217A: Bt1,500 million senior debentures due 2021	AA-
TUF242A: Bt1,050 million senior debentures due 2024	AA-
Rating Outlook:	Stable

KEY RATING CONSIDERATIONS

Strengths/Opportunities

- World's largest canned tuna processor
- Diverse product line and geographically diverse customer base
- Vertically integrated tuna business
- Strong, reputable seafood brands
- Capable management team
- Worldwide network to source raw materials

Weaknesses/Threats

- Mature markets for canned tuna in the US and in European countries
- Exposure to fluctuations in commodity prices, especially raw tuna and shrimp
- Changes in regulations imposed by importing countries
- Exposure to outbreaks of disease
- Exposure to currency fluctuations

CORPORATE OVERVIEW

TUF is the world's largest canned tuna processor. It was established in 1988 by the Chansiri family and was listed on the Stock Exchange of Thailand (SET) in 1994. As of March 2015, the Chansiri family remained the major shareholder of TUF, holding a 21% stake. TUF began primarily as a contract tuna packer. Over the years, it has enlarged its product portfolio to include a wide variety of seafood and seafood-related products.

During 1997 through 2001, TUF set up Tri-Union Seafoods, LLC (COSI) to acquire "Chicken of the Sea" a well-known canned tuna brand in the US. In 2003, TUF invested in Empress International Ltd. (Empress), a US-based importer and distributor of frozen seafood. In 2010, TUF acquired a 100% interest in MWB from Trilantic Capital Partner, a private equity fund. MWB is recognized by consumers as one of Europe's leading manufacturers of canned seafood products. During 2012 through 2013, TUF built a 77% stake in Pakfood PLC (PPC), a Thai exporter of frozen seafood products. After integrating PPC into its existing operations, TUF became the second-largest shrimp exporter in Thailand.

In 2014, tuna and shrimp products accounted for approximately 44% and 27% of TUF's total revenue, respectively. MWB has become the top revenue generator. It contributed about 23% of total revenue, while the Chicken of the Sea brand generated 13%. About 59% of TUF's sales were from contract manufacturing, while the remaining 41% was from sales under its own brands. About 44% of sales revenue was from the US, followed by 29% from the EU, and 7% each from Thailand and Japan.

Table 1: TUF's Sales Breakdown by Product Line

Unit: %

Product	2011	2012	2013	2014	Jan-Mar 2015
Tuna	49	48	47	44	38
Shrimp and related products	24	23	25	27	28
Pet food	7	7	7	7	6
Sardines & mackerel	5	7	6	5	6
Salmon	5	4	4	5	9
Value-added and other products	10	11	11	11	12
Total	100	100	100	100	100
Total sales (Bt million)	**98,670**	**106,698**	**112,813**	**121,402**	**28,606**
Total sales (US$ million)	**3,232**	**3,441**	**3,663**	**3,750**	**876**

Source: TUF

Note: Percentage is based in terms of Thai baht. Some product lines have been reclassified since the first quarter of 2015; lobster sales were added to shrimp and related products.

RECENT DEVELOPMENTS

- ***Series of acquisitions strengthen market position***

In September 2014, TUF acquired 100% of MerAlliance SAS (MerAliance) for Bt1,618 million. MerAliance is a leading chill smoked-salmon producer in Europe. It has three production sites in France, Poland, and Scotland. In 2014, MerAliance's revenue reached Euro156 million, and EBITDA was Euro5 million.

During the same month, TUF bought 100% of King Oscar AS (King Oscar), a Norwegian premium sardine producer, with production bases in Norway and Poland. The King Oscar brand is one of the top 10 seafood brands in the world. King Oscar has strong market positions in Norway, the US, Poland, Belgium, and Australia, with leading positions in the premium sardine segment. TUF's acquisition of King Oscar adds branded products, with high margins to TUF's portfolio. The total consideration TUF paid was Bt1,832 million. In 2013, King Oscar generated revenue of US$80 million, and EBITDA was US$8 million.

During the first quarter of 2015, Chicken of the Sea Frozen Foods (COSFF), TUF's subsidiary in the US, entered into an agreement to acquire the assets of Orion Seafood International (Orion). Orion has more than 25 years of experience as a global leader in the supply of lobster, king crab, and snow crab.

These acquisitions are in line with TUF's growth strategy. The acquisitions strengthen position in its core business categories in several ways, such as sourcing raw materials, production and distribution, as well as broadening its product line and market coverage.

- ***Announced a 100% acquisition of Bumble Bee***

In December 2014, TUF announced a 100% acquisition of Bumble Bee for the base purchase price of US$1,510 million (equivalent to Bt49,830 million at Bt33/US$). Bumble Bee is owned by Lion/Big Catch Cayman L.P., a private equity fund. However, this transaction is subject to approval under the US antitrust laws. This acquisition is expected to be completed in the fourth quarter of 2015.

Bumble Bee, a leading packaged seafood operator in North America, is the second-largest seller of canned tuna in the US and one of the leading providers of shelf-stable seafood in Canada. Bumble Bee is a well-known consumer brand in the US. Tuna products comprise about 52% of its total sales. Apart from tuna products, the company produces and markets shelf-stable salmon, sardines, clams, and other specialty seafood products. Almost 90% of Bumble Bee's revenues came from its own brands, such as Bumble Bee, Clover Leaf, Brunswick, and Snow's. Its key production sites are located in the US, Canada, Fiji, Colombia, Mauritius, China, and Thailand. In 2014, Bumble Bee's revenue was US$990 million, and EBITDA was US$145 million.

In early 2015, TUF's board of directors and shareholders approved a capital increase to finance the Bumble Bee acquisition. TUF will make a preferential public offering (PPO), and issue up to 1,200 million shares to obtain US$400 million (equivalent to Bt13,200 million). The remainder of the Bumble Bee acquisition (US$1,110 million or Bt36,630 million) will be financed with new debt.

- ***Converted a euro denominated convertible bond***

In 2010, TUF issued a four-year euro convertible bond (ECB) worth Euro60 million to Standard Chartered Private Equity Limited (SCPE), as part of the funding scheme for the MW Brands Holdings Group (MWB) acquisition. The conversion ratio was 1.0584 common shares per ECB unit. The exercise price was Bt52.91 per share.

In October 2014, SCPE exercised its right to convert the whole ECB issue. As a result, TUF's shareholders' equity increased by Bt2,400 million from Bt40,562 million as of September 2014.

BUSINESS ANALYSIS

TUF's strong business profile reflects its leading position in the global seafood industry. TUF is the world's largest canned tuna processor and Thailand's largest shrimp exporter in 2014. The company has gradually strengthened its portfolio by adding more branded products into its portfolio. Diversification in production bases, customers, and products will partly alleviate the volatile tuna price and possible challenges from trade and non-trade barriers.

- ***Leading position among tuna and shrimp processors***

TUF is the largest tuna canner in the world and the largest tuna exporter in Thailand. The company processes about 300,000 tonnes of tuna per annum, approximately 18% of the 1.7 million tonnes of canned tuna produced worldwide. TUF exported 190,210 tonnes of canned tuna products in 2014, representing 32% of all canned tuna exports from Thailand. Thailand is the largest exporter of canned tuna in the world.

In 2014, TUF became the largest shrimp exporter in Thailand. The company exported about 29,213 tonnes of shrimp in 2014, representing 18% of all frozen shrimp exports from Thailand.

- ***Diverse production facilities***

TUF has vertically integrated its tuna supply chain to include processing, packaging, and distribution. Frozen raw tuna are purchased from traders which have contracts with several fishing fleets operating in the Pacific Ocean, the Indian Ocean, and the Atlantic Ocean. TUF owns seven fishing vessels, which supply approximately 7%-8% of its annual raw tuna requirement. The remainder is bought from traders and other local fleets. Its own fishing operations will provide in-depth information in the fishing industry and enhance its efficiency in tuna procurement. However, TUF faces some business concentration risk in raw tuna procurement. The top five suppliers of raw tuna provide 50%-60% of the total amount of raw tuna that TUF purchases.

TUF owns tuna production facilities in many countries. TUF also owns facilities that manufacture metal cans and print labels for its canned products, allowing better control of production costs. TUF has well-established distribution channels for its Chicken of the Sea, John West, Petit

Navire, and King Oscar brands in the US and the EU. These channels enable TUF to stay connected with both retailers and consumers.

TUF has a competitive edge over smaller producers because it can fully utilize its raw materials. For instance, fish bones and skins as well as the by-products of tuna canning, are processed into pet food and shrimp feed.

- ***Cost competitiveness from economies of scale***

TUF's cost competitiveness is enhanced by its large-scale production facilities, particularly for canned tuna and shrimp products. Being large not only helps TUF lower its production costs, it also strengthens TUF's ability to procure raw materials. Raw tuna accounts for about two-thirds of the total production cost for canned tuna products. TUF benefits tremendously from the bargaining power that comes from buying raw tuna in large volumes.

- ***Product and geographic diversification***

TUF's market risk is partly mitigated through its diverse product line and geographically diverse sources of revenue. The company's product portfolio includes not only canned and frozen seafood items, but also pet food and shrimp feed.

Table 2: TUF's Sales Breakdown by Geographic Area

Unit: %

Market	2011	2012	2013	2014	Jan-Mar 2015
USA	36	36	40	44	43
EU	32	30	30	29	28
Thailand	10	10	7	7	9
Japan	10	9	8	7	6
Others	12	15	14	13	14
Total	**100**	**100**	**100**	**100**	**100**

Source: TUF

Note: Percentage is based in terms of Thai baht.

TUF's sources of revenue are diversified. Sales in the US, TUF's major market, represented 44% of total revenue in 2014. Europe is the second-largest contributor, accounting for 29% of total revenue, followed by Thailand (7%) and Japan (7%). By selling to a broad range of markets, TUF should, to some extent, reduce the volatility of its earnings and cash flow.

- ***Well-known brand in the US***

"Chicken of the Sea", a well-known US canned tuna brand, ranks third in the US tuna market. "Starkist" had the largest market share (43%) during the 52-weeks ending May 2015, followed by "Bumble Bee" (26%), and "Chicken of the Sea" (13%). Currently, TUF is in the process of conducting the US antitrust clearance for the Bumble Bee acquisition. If the acquisition is successful, TUF will have a larger market share and a stronger market presence in the US and Canada.

- ***Strong market positions in Europe***

The MWB acquisition in 2010 benefited TUF by bringing well-recognized brands and more revenue from branded products into TUF's portfolio. Approximately 80% of MWB's sales are generated from branded products. The largest portion was from MWB's brands, namely Petit Navire, John West, Mareblu, and Hyacinthe Parmentier. Sales of these MWB brands totaled Bt22,838 million or 19% of TUF's total sales in 2014.

Based on AC Neilsen data provided by MWB's management, Petit Navire is the top-ranked brand of canned tuna and sardine in France, with a market share of 40% in terms of sales in 2014. John West is another well-recognized brand of MWB. It is the top brand in the United Kingdom (UK), with a market share of about 36%. John West is also ranked the first in Ireland and the Netherlands, even though these markets are smaller than the markets in the UK and France.

- ***Branded products enhance bargaining power and improve profitability***

TUF has several strong brand names. The strength of its brands gives TUF more negotiating power over shelf space and greater pricing flexibility with large retailers. TUF can capitalize on the awareness of its individual brands by using each brand name as a platform for other frozen, canned, and value-added seafood products. The strength of its brands helps steer away from the commodity-like nature of shelf-stable products. Because branded products comprise a large portion of its sales, TUF's revenue stream is more stable and its profitability has improved.

TUF plans to acquire 100% of Bumble Bee. If this acquisition is successful, TUF's business will shift towards more high-margin branded products. Branded products will account for about 52% of TUF's sales after the merger, compared with about 41% currently. In addition, TUF will have a stronger market position in North America after the merger.

- ***Experienced management team***

TUF's management team is well-known in the global seafood industry. The company is currently managed by the second generation of its founding family, which has been involved in the Thai canned tuna industry since the very early stages. Acquisitions and investments have been the two key factors that drove TUF's growth in the past. Acquisitions and investments will continue to be the main engine to enhance the company's presence in the global seafood industry. The management team has a proven track record of making successful investments, as well as a successful record of mergers and acquisitions. The company has continually created value around its core business by extending its supply chain and introducing new and value-added products. TRIS Rating expects TUF to continue pursuing this strategy as a means to secure its sources of raw materials and to build its market presences in new and existing markets. In pursuing this strategy, the company is expected to balance its financial profile in terms of leverage and cash flow protection.

- ***Limited impact from withdrawal of GSPs status***

Thailand was disqualified in 2012 under the EU's new criteria for granting generalized system of preferences (GSPs). As a result, the tariff imposed on shrimp products exported from Thailand to the EU nations has risen. The tariff for frozen shrimp increased to 12% of the product value (from 4.2% previously) in January 2014, while the tariff for processed shrimp has climbed to 20% (from 7% previously) in January 2015. The impact of the GSP withdrawal is limited for TUF, since shrimp exports to the EU accounted for less than 2% of TUF's total revenue in 2014.

- ***Diverse operating facilities will partly help lessen looming challenge from human trafficking concern***

In mid-2014, Thailand was downgraded to Tier 3, the lowest ranking of the US Trafficking in Persons (TIP) report. Until now, TIP's report has had very little effect on TUF's products sold to the US. The report does not contain any trade sanctions or restrictions and TUF has good relationship with its suppliers. However, being on the Tier 3 list creates a negative image for the country's seafood and fishery industry. Plus, there are uncertainties surrounding possible negative actions against Thailand's fishery trade.

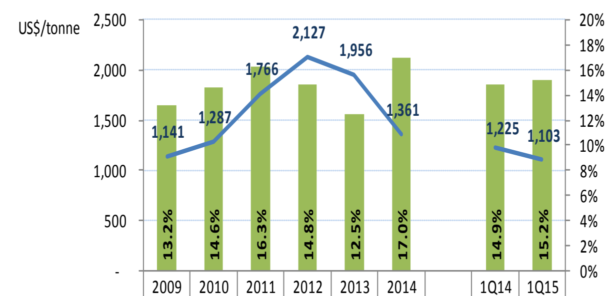
In April 2015, the European Commission put Thailand on formal notice for not taking sufficient measures in the international fight against illegal, unreported and unregulated (IUU) fishing. Thailand will be given six months to implement a tailor-made corrective action plan. Should the situation not improve, the EU could resort to banning fishery imports from Thailand. Currently, the Thai government is putting its effort into solving this problem before the deadline in October 2015. If the government fails to do so, Thailand will get handed a red card and will be banned from exporting fishery products to Europe. Even under the worst case scenario, the EU ban is expected to have a limited impact on TUF's business. Most of the products TUF sells to the EU nations were from MWB, while only 7% of TUF's total revenue came from exports to the EU.

- ***Ability to maintain profitability in tuna segment***

After reaching a peak in 2012, tuna prices gradually declined throughout 2013. The gross margin in TUF's tuna segment declined significantly, sliding from 15%-16% in 2011-2012 to 12.5% in 2013. The margin fell as a result of high inventory costs carried forward and delayed tuna orders from some customers in the contract manufacturing segment. During 2014 through the first quarter of 2015, tuna price remained low.

However, TUF's gross margin improved in the tuna segment. The improvement was mainly attributed by strong performance from the branded tuna products as a result of lower tuna costs. The gross margin of the tuna segment increased to 17% in 2014 (from 12.5% in 2013) and 15.2% in the first quarter of 2015 (from 14.9% during the first quarter of 2014).

Chart 1: Global Price of Skipjack Tuna and The Gross Margin of TUF's Tuna Segment



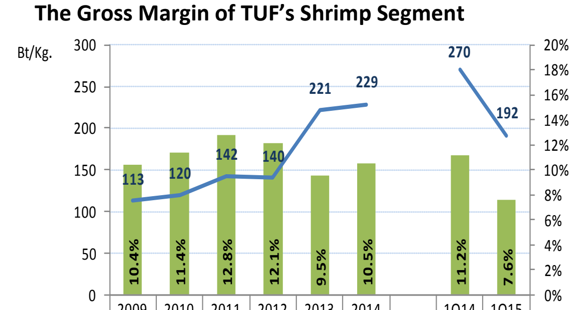
	2009	2010	2011	2012	2013	2014	1Q14	1Q15
Gross margin-Tuna	13.2%	14.6%	16.3%	14.8%	12.5%	17.0%	14.9%	15.2%
Tuna price	1,141	1,287	1,766	2,127	1,956	1,361	1,225	1,103
%Chg. Tuna pice	-28.0%	12.8%	37.3%	20.4%	-8.0%	-30.4%	-44.3%	-9.9%

Source: TUF

- ***Profit margin of shrimps squeezed***

The shrimp industry in Thailand has struggled with an EMS outbreak since the second half of 2012. The outbreak took a severe toll on the shrimp industry, causing supply shortages.

Chart 2: Average Shrimp Price and The Gross Margin of TUF's Shrimp Segment



	2009	2010	2011	2012	2013	2014	1Q14	1Q15
Gross margin-Shrimp	10.4%	11.4%	12.8%	12.1%	9.5%	10.5%	11.2%	7.6%
Shrimp price	113	120	142	140	221	229	270	192
%Chg. Shrimp pice	-1.5%	6.3%	18.8%	-1.5%	58.0%	3.4%	55.8%	-29.0%

Source: TUF

According to the Thai Frozen Foods Association, Thailand's supply of shrimp declined significantly, tumbling from 500,000-600,000 tonnes in 2011 to 250,000 tonnes in 2013 and 230,000 tonnes in 2014. As a result of supply shortages, the prices of shrimp increased significantly. However, TUF's shrimp trading units in its US subsidiaries make a strong contribution to its profits, and TUF's global sourcing network helps secure its source of supply. TUF's US subsidiaries can source raw materials from EMS-free countries (i.e., South America and India) and benefit from the rise in price of shrimp. This helps partly offset the impact of EMS in Thailand operation.

The gross margin of TUF's shrimp segment declined from 12% in 2012 to 9.5% in 2013. The Thailand unit operated at loss in the first half of 2013. The cost of shrimp rose, while TUF carried fixed-price contracts with customers. However, TUF's US subsidiaries reported strong performance in 2013.

The gross margin of the shrimp segment improved from 9.5% in 2013 to 10.5% in 2014. The results of the Thailand unit improved after TUF implemented price increases and efficiency programs. TUF's gross margin fell again in the first quarter of 2015 as a result of the recent plunge in the price of shrimp. The sharp drop was due mainly to a flood of exports from a major shrimp exporting country. The average price of shrimp declined by 29% y-o-y to Bt192 per kg. in the first quarter of 2015. The gross margin of the shrimp segment declined to 7.6% in the first quarter of 2015 from 11.2% during the same period of 2014.

FINANCIAL ANALYSIS

Despite volatile tuna prices and an EMS outbreak in the shrimp segment, TUF's earnings and cash flow in 2014 improved significantly from a low level in 2013. The rebound was underpinned by good performance in the branded tuna segment and improved performance in the pet food segment. TUF's leverage is considered moderate. The total debt to capitalization ratio was 46.5% as of March 2015.

Table 3: TUF's Sales Growth by Product

Unit: % Change, y-o-y

Product	2011	2012	2013	2014	Jan-Mar 2015
Tuna	69	5	4	1	-18
Shrimp and related products	17	0	17	14	24
Pet food	7	11	12	11	-23
Sardines & mackerel	113	45	-14	1	19
Salmon	87	-2	-5	36	137
Value-added and other products	-14	27	2	12	12
Total	38	8	6	8	2
Total sales (Bt million)	**98,670**	**106,698**	**112,813**	**121,402**	**28,606**

Source: TUF
Note: Percentage is based in terms of Thai baht.

Looking forward, if TUF successfully acquires Bumble Bee, leverage is expected to increase. However, the debt to capitalization ratio and the cash flow protection measures are expected to return to normal levels within the next one to two years.

- ***Revenue continues to rise***

Although TUF faced challenges from volatile tuna prices and an ongoing EMS outbreak in the shrimp segment, TUF's operations in 2014 improved significantly from 2013. Revenue grew by 7.6% y-o-y to Bt121,402 million. The rise was due mainly to growth in the shrimp, salmon, pet food, and value-added product segments. TUF also benefited from the depreciation of the Thai baht against the US dollar. Supply of shrimp in Thailand remained tight because of the EMS epidemic. However, revenue rose in the shrimp segment was driven higher by sales from TUF's US trading operation. TUF's US subsidiary has a strong global sourcing network so it could source raw materials from EMS-free countries.

In the first quarter of 2015, the tuna and shrimp prices declined. The average price for skipjack tuna continued to drop, falling by 10% y-o-y to US$1,103 per tonne, while the price of white shrimp slumped by 29% y-o-y to Bt192 per kg. Moreover, a steep depreciation of the euro against the Thai baht squeezed the sales figures as sales made in euro were translated into Thai baht. Despite these several negative factors, TUF's revenue increased by 2.4% y-o-y to Bt28,606 million. Revenue from salmon, shrimp, sardines, and mackerel units increased, partly due to several acquisitions made during late 2014-2015.

- ***Profits rebound from 2013***

TUF's gross margin improved from 12.6% in 2013 to 15.7% in 2014. The operating margin (operating income before depreciation and amortization as a percentage of sales) climbed from a record low of 5.5% in 2013 to 7.8% in 2014. The improvement was driven by the good performance of branded tuna products, as a result of lower fish costs. Additionally, the pet food segment recovered after a production restructuring during 2014.

During the first quarter of 2015, the operating margin weakened to 5.5%, from 7.3% during the same period of 2014. The margin squeeze was mainly due to the significant drop in shrimp prices worldwide, the translation impact from the weakening of the euro against Thai baht, and one-off expenses relating to mergers and acquisitions.

TRIS Rating expects TUF's operating margin will recover to normal levels of 7%-8% as EMS problem in Thailand is gradually solved. However, if the Bumble Bee acquisition is successful, TUF's operating margin will likely improve further. The acquisition will add more branded products, which generate higher margins than contract manufacturing products, to TUF's portfolio.

- ***Cash flow protection improves***

TUF's cash flow protection improved. FFO soared by 24% y-o-y to Bt8,198 million in 2014. EBITDA achieved a record high of Bt10,715 million in 2014, up from Bt7,815 million in 2013. The FFO to total debt ratio was 17.7% in 2014, compared with a range of 15.4%-24.4% in 2011-2013. The EBITDA interest coverage ratio was 6.4 times in 2014, compared with a range of 4-4.7 times in 2011-2013. However, the lower operating margin cut the company's EBITDA in the first quarter of 2015. EBITDA declined by 18% y-o-y to Bt1,833 million. The EBITDA interest coverage ratio was 4.5 times, down slightly from 4.7 times during the first quarter of 2014. However, the FFO to total debt improved as TUF's total debt declined. FFO to total debt increased from 17.7% in 2014 to 19.7% (annualized from the trailing 12 months) during the first quarter of 2015.

- ***Capital structure improves***

TUF's debt to capitalization ranged between 46%-50% in 2012-2014, improving from a peak of 60% on the back of the debt-financed acquisition of MWB in 2010-2011. The ratio improved largely because TUF raised new equity capital to prepay a long-term loan in 2012. Total debt to capitalization was 46.5% as of March 2015.

In December 2014, TUF announced it would acquire Bumble Bee for US$1,510 million (equivalent to Bt49,830 million at Bt33/US$). To finance this transaction, TUF's board of directors and shareholders approved a capital increase. TUF will raise new equity capital equal to approximately 26% of the total consideration paid to Bumble Bee's owner (approximately Bt13,200 million). The remaining portion or 74% of the purchase price will be financed with new debt. However, this transaction is subject to the US antitrust approval. With the post-acquisition capital structure, TUF's debt to capitalization ratio is expected to stay around 55% upon the completion of the Bumble Bee acquisition, up from 46.5% as of March 2015. TUF also plans moderate capital expenditures of Bt3,500-Bt4,000 million per year in 2015-2017. Assuming EBITDA of Bt14,000-Bt16,000 million per year after the full consolidation of Bumble Bee, the debt to capitalization ratio and cash flow protection are expected to improve to normal levels within the next one to two years.

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		------------------------- Year Ended 31 December -----------------------				
	Jan-Mar 2015	2014	2013	2012	2011	2010
Sales	28,606	121,402	112,813	106,698	98,670	71,507
Gross interest expense	412	1,673	1,655	2,329	2,272	764
Net income from operations	463	4,808	2,801	4,197	4,770	2,067
Funds from operations (FFO)	1,481	8,198	6,614	8,536	8,946	4,444
Total capital expenditures	679	3,267	4,210	3,624	3,365	2,720
Total assets	109,258	115,443	108,290	94,759	83,277	74,777
Total debt	41,389	46,248	43,050	35,008	39,766	37,471
Shareholders' equity	47,641	47,467	43,347	40,344	27,117	23,235
Dividends	-	2,398	1,836	1,884	1,195	1,996
Operating income before depreciation, and amortization as % of sales	5.54	7.83	5.52	8.22	9.23	6.47
Pretax return on permanent capital (%)	8.49 **	9.10	6.90	10.44	12.83	8.62
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.45	6.40	4.72	4.00	4.31	6.74
FFO/total debt (%)	19.73 **	17.73	15.36	24.38	22.50	11.86
Total debt/capitalization (%)	46.49	49.35	49.83	46.46	59.46	61.73

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

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