

# THAI UNION GROUP PLC

No. xx/2016

xx June 2016

<b>Company Rating:</b>	AA-
<b>Issue Ratings:</b>	
Senior unsecured	AA-
<b>Outlook:</b>	Stable

## Company Rating History:

Date	Rating	Outlook/Alert
24/06/15	AA-	Stable
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 current senior unsecured debenture ratings of Thai Union Group Public Company Limited (TU) at “AA-”. At the same time, TRIS Rating assigns the rating of “AA-” to TU’s proposed issue of up to Bt6,000 million in senior unsecured debentures. The proceeds from the new debentures will be used to repay TU’s existing debts and for planned capital expenditures. The ratings reflect TU’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 raw material prices, exposure to the industry-wide effects of disease outbreaks, fluctuations in foreign exchange rates, and changes in the regulatory frameworks regarding trade barriers and the fishing industry around the world.

TU was established in 1977 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 2015, tuna products generated 37% of total revenue. Shrimp and shrimp-related products were the second-largest portion of total revenue (29%), followed by salmon (9%), pet food (7%), sardines and mackerels (6%), and value added and other products (12%).

TU 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. TU’s production bases are geographically diversified, spread across seven countries on five continents. The main production facilities for TU and its affiliates are located in Thailand, the US, Ghana, and the Seychelles islands. TU also has production facilities in Vietnam, France, and Papua New Guinea. TU’s major market is the US, which accounted for 42% of total revenue in 2015. Sales in European markets accounted for 29% of total revenue, followed by sales in Thailand (8%) and Japan (6%).

TU posted strong operating results in 2015 even though the prices of tuna and shrimp products were low, and the euro underwent depreciation against the Thai baht. Thanks to recent acquisitions in other product lines, TU’s revenue grew by 3% year-on-year (y-o-y) to Bt125,183 million in 2015. TU’s profitability improved in all product segments, especially in tuna, and shrimp operation in Thailand. Moreover, a successful turnaround of the pet food business in a US subsidiary supported TU’s earnings. However, TU incurred a one-off expense for fishing fleet impairment amounting to Bt508 million in 2015. Despite the impairment charge, the operating margin before depreciation and amortization was 7.6% in 2015, compared with 7.8% in 2014 and 5.5% in 2013. Earnings before interest, tax, depreciation, and amortization (EBITDA) amounted to Bt10,514 million in 2015, compared with a record high of Bt10,715 million in 2014 and Bt7,815 million in 2013.

During the first quarter of 2016, revenue was Bt31,257 million, a 9% up from the same period of 2015. The growth was driven by a strong performance of branded tuna in Europe, a spike in tuna prices which boosted private label tuna sales, the ongoing improvement of the pet care segment, and a contribution from a recent acquisition, Rugen Fisch AG. TU also benefited as the Thai baht weakened against the euro and US dollar. TU’s operating profit margin remained strong, rising to 6.9% during the first quarter of 2016, compared with 5.5% during the

same period of a year earlier. The rise was driven mainly from the tuna, shrimp and pet food segments.

In December 2015, TU terminated the acquisition of Bumble Bee Foods, LLC (Bumble Bee). TU announced on 19 December 2014 it would acquire 100% interest in Bumble Bee from Lion Capital with subject to approval under US antitrust laws. The cancellation was announced because TU and Lion Capital concluded that the antitrust clearance was unlikely to come under the time stipulated in the Share Purchase Agreement.

TU's leverage has improved significantly. Leverage fell because of TU's strong operating performance, and better working capital management. At the end of March 2016, total debt declined from Bt46,534 million in 2014 to Bt36,094 million. The total debt to capitalization ratio improved from 49.5% in 2014 to 42.3% as of March 2016. TU's cash flow protection is satisfactory. The FFO to total debt ratio improved from 17.6% in 2014 to 21.5% in 2015 and 26.1% (annualized, from the trailing 12 months) during the first quarter of 2016. The EBITDA interest coverage ratio rose from 6.4 times in 2014 to 6.6 times in 2015 and 7.6 times in the first quarter of 2016.

Looking forward, TU's performance is expected to improve in 2016, even though TU could be challenged by fluctuating prices for tuna and outbreak of disease among salmon. TU's earnings will be bolstered by three factors: good performance in the tuna segment in the EU, a recovery from an outbreak of early mortality syndrome (EMS) at shrimp farms in Thailand, and continued improvement in the pet care segment. During 2016-2018, under TRIS Rating's base case scenario, TU's revenue is expected to grow, ranging from Bt145,000 million-Bt180,000 million. The growth is driven by organic growth and acquisitions. The operating margin is expected to stay around 7.2%-7.5%. EBITDA is projected to range from Bt11,000-Bt14,000 million per annum. Despite pursuing a growth strategy, the company is expected to maintain its financial discipline. The total debt to capitalization ratio is expected to stay below 50%.

Sustainability and human trafficking issues remain the key challenges for the Thai seafood industry. Thailand has been placed a "yellow card" by the European Commission for not taking sufficient measures in the international fight against illegal, unreported and unregulated (IUU) fishing since mid-2015. The Thai government is attempting to solve this problem. If the government fails to do so, Thailand will get handed a red card and will be banned from exporting fishery products to Europe. The effect of a red card will sting the Thai seafood industry, since fishery products including fish, shrimp and cuttlefish, plus agro-industrial seafood, exported from Thailand to EU nations was worth approximately Bt28,000 million in 2014 and Bt21,000 million in 2015. However, the impact of a "red card" on TU's operating performance will be limited. TU has several overseas operations. The revenue derived from exports from Thailand to the EU comprises less than 2% of TU's revenue.

### Rating Outlook

The "stable" outlook reflects the expectation that TU will sustain the strong operating performance and maintain its competitive advantage through economies of scale and production efficiency. The company's diversified production bases, markets and products will help stabilize its revenue streams despite the volatile prices of some products as well as the looming challenges from trade and non-trade regulations.

TU's ratings and/or outlook could be upgraded if TU's financial profile and its market position are strengthened. On the contrary, the ratings and/or outlook could be downgraded if TU's operating performance or financial profile are significantly weaker than expected, resulting in a weaker capital structure and deteriorating cash flow protection.

### Thai Union Group PLC (TU)

<b>Company Rating:</b>	AA-
<b>Issue Ratings:</b>	
TU167A: Bt1,950 million senior debentures due 2016	AA-
TU172A: Bt2,500 million senior debentures due 2017	AA-
TU192A: Bt3,150 million senior debentures due 2019	AA-
TU212A: Bt1,550 million senior debentures due 2021	AA-
TU217A: Bt1,500 million senior debentures due 2021	AA-
TU242A: Bt1,050 million senior debentures due 2024	AA-
Up to Bt10,000 million senior unsecured debentures due within 2023	AA-
<b>Rating Outlook:</b>	Stable

### Financial Statistics and Key Financial Ratios\*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Mar 2016	2015	2014	2013	2012	2011
Sales	31,257	125,183	121,402	112,813	106,698	98,670
Gross interest expense	329	1,592	1,673	1,655	2,329	2,272
Net income from operations	967	4,290	4,808	2,801	4,197	4,770
Funds from operations (FFO)	2,202	8,808	8,198	6,614	8,536	8,946
Total capital expenditures and investments	2,197	5,325	6,478	5,012	4,398	3,410
Total assets	109,108	110,958	115,443	108,290	94,759	83,277
Total debt	36,094	41,026	46,534	45,143	35,008	39,766
Shareholders' equity	49,229	48,017	47,467	43,347	40,344	27,117
Dividends	-	2,720	2,398	1,836	1,884	1,195
Operating income before depreciation, and amortization as % of sales	6.90	7.56	7.83	5.52	8.22	9.23
Pretax return on permanent capital (%)	9.57**	8.56	8.98	6.81	10.44	12.83
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	7.58	6.60	6.40	4.72	4.00	4.31
FFO/total debt (%)	26.10**	21.47	17.62	14.65	24.38	22.50
Total debt/capitalization (%)	42.30	46.07	49.50	51.01	46.46	59.46

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

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