THAI UNION GROUP PLC

No. 62/2016 27 June 2016

Company Rating:	AA-
Issue Ratings:	
Senior unsecured	AA-
Outlook:	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 existing senior unsecured debenture ratings of Thai Union Group PLC (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 company's 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, spreading 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 operations 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% of interest in Bumble Bee from Lion Capital with subject to approval under the 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 to Bt36,094 million from Bt46,534 million in 2014. 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 fund from operation (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 tuna prices and outbreak of disease among salmon. TU's operating performance is expected to improve in 2016, driven by a good performance in the tuna segment in the European Union (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-Bt180,000 million. 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 April 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 the 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. TU's revenue derived from exports from Thailand to the EU comprises approximately 5% of TU's total 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 is significantly weaker than expected, resulting in a weaker capital structure and deteriorating cash flow protection.

Thai Union Group PLC (TU)

Company Rating:	AA-
Issue Ratings:	
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 Bt6,000 million senior unsecured debentures due within 2023	AA-
Rating Outlook:	Stable

KEY RATING CONSIDERATIONS

Strengths/Opportunities

- World's largest canned tuna processor
- Diverse product line, geographically diverse customer and production bases
- Vertically integrated position in tuna segment
- Strong and 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

TU is the world's largest canned tuna processor and a leading worldwide seafood company. The company was founded in 1977 as Thai Union Manufacturing Co., Ltd. by the Chansiri family and was listed on the Stock Exchange of Thailand (SET) in 1994. As of March 2016, the Chansiri family remained the major shareholder of TU, holding a 20% stake. TU began business as a contract tuna packer. Over the decades, TU has enlarged its product portfolio to include a wide variety of seafood and seafood-related products. Apart from organic growth, TU has acquired a diverse seafood companies around the world to strengthen its core business categories. The acquisitions added several well-known brands to its portfolio as well as taking the company into new markets with new products.

From 1997 through 2001, TU set up Tri-Union Seafoods, LLC (COSI) to acquire "Chicken of the Sea" a well-known canned tuna brand in the US. In 2010, TU acquired a 100% interest in MW Brands Holdings SAS (MWB), one of Europe's leading manufacturers of canned seafood products. During 2012 and 2013, TU expanded its capacity of frozen shrimp by taking a 77% stake in Pakfood PLC (PPC), a Thai exporter of frozen seafood products. During 2014 through the first quarter of 2015, TU, through its subsidiaries, acquired several companies include MerAlliance SAS (MerAliance), the third largest smoked salmon producer in Europe, King Oscar AS (King Oscar), a well-known branded premium sardine producer, and Orion Seafood International (Orion), the world's largest supplier of lobster products.

Tuna products are the largest revenue contributor, accounting for 37% of TU's total revenue in 2015. Shrimp and shrimp-related products were the second-largest portion (29%), followed by salmon (9%), pet food (7%), sardines and mackerels (6%), and value added and other products (12%).

About 59% of TU's sales are from contract manufacturing, while the remaining 41% is from sales of its own brands. In terms of revenue by brand, Thai Union Europe's brands (formerly called MWB's brands) have become the top revenue generators, accounting for 17% of total revenue, while the Chicken of the Sea brand generated 9%. By market destination, the US remains the largest market for TU's products. About 42% of sales revenue was from the US, followed by 29% from the EU, with 8% from the domestic market and 6% from Japan.

Table 1: TU's Sales Breakdown by Product Line

Unit: %

Product	2012	2013	2014	2015	Jan-Mar 2016
Tuna	48	47	44	37	37
Shrimp and related products	23	25	27	29	26
Pet food	7	7	7	7	7
Sardines & mackerel	7	6	5	6	9
Salmon	4	4	5	9	9
Value-added and other products	11	11	11	12	11
Total	100	100	100	100	100
Total sales (Bt million)	**106,698**	**112,813**	**121,402**	**125,183**	**31,257**
Total sales (US$ million)	**3,441**	**3,663**	**3,750**	**3,716**	**871**

Source: TU

Note: Percentage is based in terms of Thai baht.

RECENT DEVELOPMENTS

- ***Termination of the Bumble Bee acquisition***

In December 2015, TU announced the termination of the acquisition of Bumble Bee. TU announced on 19 December 2014 it would acquire 100% of interest in Bumble Bee from Lion Capital with subject to approval under the US antitrust laws. The cancellation was announced because TU and Lion Capital concluded that the antitrust clearance was unlikely to be completed in the time stipulated in the Share Purchase Agreement. This cancellation has no breakup fee. However, there were transaction related expenses of Bt273 million and loan commitment fee for this acquisition worth Bt176 million.

- ***Step into Middle East***

In September 2015, TU formed a joint venture (JV) with Savola Foods Company (Savola Food) in order to offer innovative and quality seafood products in the Middle East countries. Savola Food is a wholly-owned subsidiary of the Savola Group, a Saudi public listed company and one of the largest food companies in the Middle East. In 2014, Savola Food generated revenues of SAR14.6 billion (approximately US$3.9 billion). The product lines for the JV will cover all seafood products, including ambient, frozen, and chilled seafood, as well as ready-to-eat meals. The JV brings together the sourcing, processing, and research and development (R&D) capabilities of TU, together with the marketing and distribution expertise in the Middle East region of Savola Food. This investment is aligned with TU's strategy to focus on the Middle East countries, one of the fastest growing seafood markets.

- ***Continued to strengthen market position via series of acquisitions and investments***

In February 2016, TU acquired a 51% equity stake in Rügen Fisch AG (Rugen Fisch) for Euro42.2 million (or Bt1,664 million at Bt39.44 per euro). Rugen Fisch is a market leader in shelf-stable canned seafood in Germany. Rugen Fisch supplies ambient and chilled fish, including herring, mackerel, and salmon, across Germany to all of the leading retailers under key brands such as Rügen Fisch, Hawesta, Ostsee Fisch, and Lysell. Rugen Fisch also has a private label business. In 2014, Rugen Fisch generated revenue of Euro140 million (or Bt5,600 million). This transaction strengthens TU's position in seafood markets in Germany, which is one of the largest seafood markets.

In March 2016, TU acquired 40% of Avanti Frozen Foods Private Ltd. in India (AFFPL) by purchasing the shares from Avanti Feed Ltd. (Avanti Feed), an affiliated company 25% owned by TU. After completing this transaction, TU holds directly 40% of AFFPL's shares and indirectly 15% through Avanti Feed. The total consideration TU paid for this acquisition was Indian Rupee1,254.1 million, or about Bt679 million. AFFPL is a shrimp processor and exporter in India. Currently, AFFPL is in the process of building a new facility to increase its capacity from 25 tonnes per day to 75 tonnes per day.

The AFFPL's acquisition will strengthen TU's shrimp segment by expanding its shrimp processing network in India and adding shrimp production capacity.

BUSINESS ANALYSIS

TU's strong business profile reflects its leading position in the global seafood industry. TU is the world's largest canned tuna processor and Thailand's leading shrimp exporter. The company has gradually strengthened its portfolio by adding more branded products via series of acquisitions. TU has diverse customer base, production base, and products. The diversification efforts will alleviate in part the volatile product price and possible challenges arising from changes in trade and non-trade barriers.

- ***Leading position in tuna and shrimp processing industries***

TU 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. TU 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 terms of shrimp product, TU is one of the top shrimp exporters in Thailand. The PPC acquisition helps strengthen TU's position in Thai shrimp industry. TU exported about one-fifth of all frozen shrimp exports from Thailand, compared with 9%-10% in the pre-acquisition period.

- ***Diverse production facilities***

TU 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. TU owns seven fishing vessels, which supply less than 5% of its annual raw tuna requirement. Its own fishing operations will provide in-depth information in the fishing industry and enhance efficiency in tuna procurement. However, TU 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 TU purchases.

TU owns tuna production facilities in many countries. TU also owns facilities that manufacture metal cans and print labels for its canned products, allowing better control of production costs. TU has well-established distribution channels for its own branded products in the US and the EU. These channels enable TU to stay connected with both retailers and consumers.

- ***Cost competitiveness***

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

In addition to economy of scales, TU's competitive edge is further enhanced by fully utilization of its by-product. For instance, fish bones and skins, as well as the by-products of tuna canning, are processed into more value added products such as pet food and shrimp feed.

- ***Product and geographic diversification***

TU'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: TU's Sales Breakdown by Geographic Area

Unit: %

Market	2012	2013	2014	2015	Jan-Mar 2016
USA	36	40	44	42	41
EU	30	30	29	29	32
Thailand	10	7	7	8	8
Japan	9	8	7	6	6
Others	15	14	13	14	13
Total	**100**	**100**	**100**	**100**	**100**
Total sales (Bt million)	**106,698**	**112,813**	**121,402**	**125,183**	**31,257**

Source: TU

TU's sources of revenue are diversified. Sales in the US, TU's major market, represented 42% of total revenue in 2015. Europe is the second-largest contributor, accounting for 29% of total revenue, followed by Thailand (8%) and Japan (6%). By selling to a broad range of markets, TU 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 (42%) in 2015, followed by "Bumble Bee" (26%), and "Chicken of the Sea" (14%). However, market share of Chicken of the Sea declined to 12% during the first quarter of 2016, as a result of TU's renewed strategy to focus on profit margin over price cutting to gain higher market share. This strategy improved profitability of COSI despite a weaker revenue in the first quarter of 2016.

Apart from "Chicken of the Sea", TU is one of the leading frozen shrimp traders under the brand "Chicken of the Sea Frozen Foods".

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

MWB, a TU's wholly-owned subsidiary, has a strong market presence and a high proportion of branded products in Europe. 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. In 2015, revenue from MWB totaled Bt24,992 million or 20% of TU's total sales and MWB generated about 30% of total TU's EBITDA.

Based on AC Neilsen's data provided by MWB's management, Petit Navire is the top-ranked brand of canned tuna and sardines in France, with a market share of 41% in terms of sales in 2015. 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 42%. John West is also ranked first in Ireland and the Netherlands, even though these markets are smaller than the markets in the UK and France.

- ***Experienced management team***

TU's management team is well-known in the global seafood industry. The company is established in 1977 and currently managed by the second generation of its founding family, which has been involved in the Thai canned tuna industry since the very early stage. During the past few years, acquisitions and investments were the main engines to enhance TU's presence in the global seafood industry. The management team has demon-strated a proven track record of making successful mergers and acquisitions as well as successful record of business integrations after the acquisitions, such as MWB, Pakfood, etc. This extensive experience would support the company in pursuing its strategy to grow business and strengthen its market position in the competitive seafood industry worldwide in the future.

- ***Diverse operating facilities will partly mitigate risk from trade barriers***

The Thai shrimp industry has encountered a number of non-tariff barriers over the past few years. Beginning in 2014, the EU disqualified Thailand for privileges under the generalized system of preferences (GSP). Under the GSP regime, the tariff for processed shrimp increased to 20% of the product value (from 7% previously) in January 2014, while the tariff for frozen shrimp climbed to 12% (from 4.2% previously) in January 2015. The withdrawal of GSP caused Thailand to lose its competitive edge in the shrimp industry to other trade rivals (i.e., Vietnam, India, and Ecuador). However, the impact of the GSP withdrawal is limited for TU, since TU's shrimp exports from Thailand to the EU accounted for less than 2% of TU's total revenue in 2015. In addition, TU has diversified its shrimp processing operations to India.

Since April 2015, Thailand has been placed a "yellow card" by the European Commission for not taking sufficient measures in the international fight against the IUU fishing. The Thai government is striving 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 red card will significantly hurt the Thai seafood industry, since fishery products, including fish, shrimp and cuttlefish, and agro-industrial seafood, exported from Thailand to the EU were worth approximately Bt28,000 million in 2014 and Bt21,000 million in 2015.

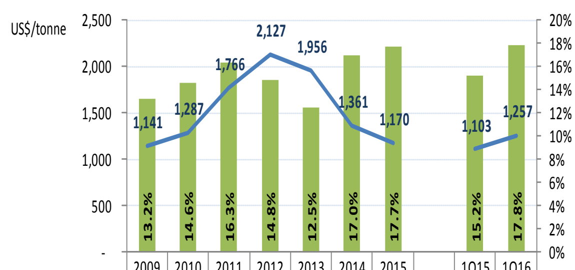
However, the EU ban is expected to have a limited impact on TU's business, since most of the products TU sells to the EU nations were from MWB. Approximately 5% of TU's total revenue came from exports to the EU.

- ***Improved profitability in tuna segment***

After reaching a record high in 2012, tuna prices have continually declined. The average skipjack tuna price was US$1,170 per tonne in 2015, sinking from US$1,956 per tonne in 2013 and US$1,361 per tonne in 2014. However, TU's gross margin in tuna segment has gradually improved. The gross margin in TU's tuna segment increased from 12.5% in 2013 to 17% in 2014 and 17.7% in 2015. The rise in gross margin was mainly attributable to an improved margin of branded tuna, efficient raw material sourcing, and more value-added products.

Tuna prices fluctuated in 2016. After reaching a bottom at US$1,000 per tonne during November 2015 through January 2016, the price of skipjack tuna climbed by 17% to US$1,170 per tonne in February 2016 and surged by 37% to US$1,600 in March 2016. However, TU's profitability continued to rise in the first quarter of 2016. The gross margin of the tuna segment was 17.8%, compared with 15.2% during the same period of 2015. TU benefited from low tuna costs carried forward from late 2015, together with good sales of high margin branded tuna in Europe. Moreover, the US tuna business showed an improved profit margin as a result of TU's renewed strategy to focus on margin rather than market share.

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



	2009	2010	2011	2012	2013	2014	2015	1Q15	1Q16
Gross margin-Tuna	13.2%	14.6%	16.3%	14.8%	12.5%	17.0%	17.7%	15.2%	17.8%
Tuna price	1,141	1,287	1,766	2,127	1,956	1,361	1,170	1,103	1,257
%Chg. Tuna pice	-28.0%	12.8%	37.3%	20.4%	-8.0%	-30.4%	-14.0%	-9.9%	13.9%

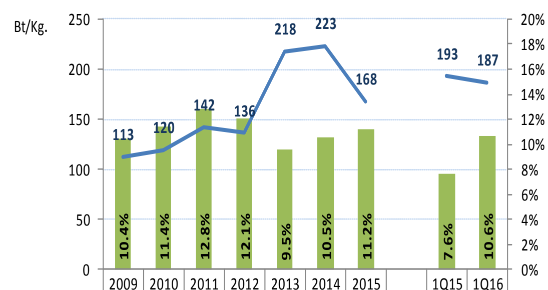
Source: TU

- ***Shrimp operation continued to recover***

Over the past few years, the Thai shrimp industry faced several challenges. An EMS outbreak has been spreading in the Thai shrimp farming since the second half of 2012, causing supply shortages and skyrocketing shrimp prices during 2013-2014. As a result, the average shrimp price surged by 60.3% y-o-y in 2013 and 2.3% y-o-y in 2014. The high cost of shrimp and supply shortages affected all Thai producers but TU has affected to a lesser degree than its peers. TU's shrimp trading units in its US subsidiaries and its global sourcing network helped TU alternatively secure shrimp from other sources. TU's US subsidiaries sourced raw materials from EMS-free countries (i.e., South America and India) and benefited from the rise in shrimp price. As a result, TU's sales volume of frozen shrimp declined only by 9% y-o-y in 2014, compared with about 50% reduction in Thai shrimp supply during the EMS outbreak. TU's gross margin in the shrimp segment also improved from 9.5% in 2013 to 10.5% in 2014.

The skyrocketing shrimp price attracted shrimp farmers in non-EMS countries, resulting in worldwide oversupply in 2015. The average shrimp price slumped by 24.7% y-o-y in 2015 and 3% y-o-y in the first quarter of 2016. However, the gross margin of TU's shrimp segment climbed to 11.2% in 2015 (compared with 10.5% in 2014) and 10.6% in the first quarter of 2016 (compared with 7.6% in the first quarter of 2015). The US shrimp trading business showed better performance because the cost of raw materials fell, following declining shrimp prices. Moreover, Thailand shrimp feed business reported better utilization because the operating unit diversified into production of fish feed.

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



	2009	2010	2011	2012	2013	2014	2015	1Q15	1Q16
Gross margin-Shrimp	10.4%	11.4%	12.8%	12.1%	9.5%	10.5%	11.2%	7.6%	10.6%
Shrimp price	113	120	142	136	218	223	168	193	187
%Chg. Shrimp pice	-1.5%	6.3%	18.8%	-4.3%	60.3%	2.3%	-24.7%	-29.0%	-3.0%

Note: Shrimp price is based on vannamei shrimp, 60 pieces/kg.
Source: TU

FINANCIAL ANALYSIS

Despite volatile tuna and shrimp prices, TU's earnings and cash flow continued to improve during 2015 through the first quarter of 2016. The growth was mainly supported by good performance in the branded tuna segment, improved performance in Thai shrimp operations, and a rebounded in the pet food segment. TU's leverage declined as profitability improves and because of better working capital management. However, TU's leverage is expected to stay at a moderate level as TU plans several investments ahead.

Table 3: TU's Sales Growth by Product

Unit: Bt million

Product	2012	2013	2014	2015	Jan-Mar 2016
Tuna	51,127	53,366	53,827	46,396	11,710
% Change, y-o-y	5	4	1	-14	6
Shrimp and related products	24,072	28,167	32,209	36,229	8,123
% Change, y-o-y	0	17	14	12	1
Pet food	7,175	8,002	8,894	8,159	2,219
% Change, y-o-y	11	12	11	-8	22
Sardines & mackerel	7,518	6,465	6,525	7,411	2,745
% Change, y-o-y	45	-14	1	14	49
Salmon	4,790	4,541	6,180	11,346	2,909
% Change, y-o-y	-2	-5	36	84	18
Value-added and other products	12,015	12,272	13,767	15,643	3,551
% Change, y-o-y	27	2	12	14	2
Total sales	**106,698**	**112,813**	**121,402**	**125,183**	**31,257**
% Change, y-o-y	**8**	**6**	**8**	**3**	**9**

Source: TU

Note: Percentage is based in terms of Thai baht.

▪ ***Revenue continues to rise***

In 2015, TU faced challenges from low prices for tuna and shrimp, as well as a weaker euro. The steep depreciation of the euro against the Thai baht capped the sales figures since about 30% of TU's sales made in euros were translated into Thai baht. TU's revenue grew merely by 3% y-o-y to Bt125,183 million in 2015. The rise was mainly driven by the recent acquisitions (Orion, Merallliance, and King Oscar), which pushed up sales of the shrimp, salmon, and sardine businesses.

During the first quarter of 2016, revenue was Bt31,257 million, a 9% rise from the same period of 2015. The increase was driven by the strong performance of branded tuna in Europe, a spike in tuna prices which boosted private label tuna sales, and the improved operating performance of the pet care segment after restructuring. The contribution from a recent acquisition (Rugen Fisch) also boosted sales of sardines, mackerel, and salmon. TU also benefited from a weaker Thai baht during the first three months of 2016.

Going forward, TRIS Rating expects TU's revenues continue to grow, ranging from Bt145,000-Bt180,000 million during 2016-2018. The company plans to broaden its revenue base through organic growth and acquisitions. Additionally, TU will focus more on emerging market (i.e., Middle-East nations, China, and Southeast Asian countries), and maintain its market position in existing market.

▪ ***Strong operating profits***

TU posted strong operating results in 2015. Profitability improved in all product segments, especially in tuna and shrimp operations in Thailand. Moreover, TU's satisfactory earnings were supported by a successful turnaround of the pet food business in a US subsidiary. However, TU incurred a one-off expense of Bt508 million for fishing fleet impairment. 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. EBITDA amounted to Bt10,514 million in 2015, compared with the record highs of Bt10,715 million in 2014 and Bt7,815 million in 2013.

During the first quarter of 2016, the operating margin was 6.9%, up from 5.5% during the same period of the earlier year. The rise in the operating margin was driven mainly from the tuna, shrimp, and pet food segments. Going forward, TU has strategy to focus on innovation and branded products, which generate higher margins than contract manufacturing. Under TRIS Rating's base case scenario, TU's operating margin is expected to hover around 7.2%-7.5% in 2016-2018.

▪ ***Capital structure improves***

TU's leverage has improved significantly, supported by a strong operating profit margin and better working capital management, as well as no sizable debt-funded acquisition. Total debt slipped from Bt46,534 million in 2014 to Bt36,094 million at the end of March 2016. The total debt to capitalization ratio declined from 49.5% in 2014 to 42.3% as of March 2016.

During 2016-2018, TU's leverage is expected to stay at a moderate level as the company plans capital expenditures of Bt3,500-Bt4,000 million per year. Apart from capital expenditures, TU continues to grow by mergers and acquisitions. Despite pursuing a growth strategy, TRIS Rating expects TU to maintain its financial discipline. The total debt to capitalization ratio is expected to stay below 50% over the next three years.

▪ ***Sound cash flow protection***

TU's cash flow protection remains satisfactory. The strong operating margin and lower debt improved cash flow protection and liquidity. FFO soared by 7.4% y-o-y to Bt8,808 million in 2015 and surged by 38.7% y-o-y to Bt2,202 million during the first three months of 2016. EBITDA amounted to Bt10,514 million in 2015, close to the record high of Bt10,715 million in 2014 and jumped by 29.6% y-o-y to Bt2,491 million in the first quarter of 2016.

The FFO to total debt ratio improved, rising 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 to 7.6 times in the first quarter of 2016.

Under TRIS Rating's base case scenario, EBITDA is projected to grow gradually from Bt11,000 million in 2016 to Bt14,000 million in 2018. FFO is expected to rise from Bt8,000 million in 2016 to Bt10,000 million in 2018. During

2015-2018, the EBITDA interest coverage ratio is expected to stay at around 7 times, and the FFO to total debt ratio will range between 18%-19%.

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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