

THAI UNION GROUP PLC

No. 59/2016

24 November 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 Bt10,000 million in senior unsecured debentures. The proceeds from the new debentures will be used to repay TU's existing debts and fund 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.

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. During the first nine months of 2016, tuna products generated 36% of total revenue. Shrimp and shrimp-related products were the company's second-largest portion of total revenue (27%), followed by salmon (9%), sardines and mackerels (8%), pet food (7%), 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 39% of total revenue in the first nine months of 2016. Sales in European markets accounted for 33% of total revenue, followed by sales in Thailand (8%) and Japan (6%).

TU's revenue in the first nine months of 2016 stood at Bt100,825 million, up 9.8% compared with the same period of 2015. The growth was mainly driven by the consolidation of newly acquired Rugen Fisch, a strong performance of branded tuna in Europe, and the continued improvement of the pet care segment. TU's operating profit margin slightly weakened. The operating profit margin in the first nine months of 2016 was 7.4%, down from 8.0% during the same period of a year earlier. The drop in profitability was mainly caused by skyrocketing salmon cost from Chilean Algae bloom, high tuna cost during the second quarter of the year, as well as price competition in private label tuna segment. Earnings before interest, tax, depreciation, and amortization (EBITDA) improved to Bt8,418 million in the first nine months of 2016, from Bt8,120 million during the same period of 2015, supported by rising revenue.

During the first nine months of 2016, TU has completed several merger and acquisitions, totaling approximately Bt25,000 million. As a result, the total debt to capitalization ratio increased from 46.1% in 2015 to 48.9% as of September 2016. TU's cash flow protection has dropped modestly. The FFO to total debt ratio declined from 21.5% in 2015 to 19.1% (annualized, from the trailing 12 months)

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during the first nine months of 2016. However, the EBITDA interest coverage ratio rose from 6.6 times in 2015 to 8.8 times in the first nine months of 2016, following the lower cost of funds.

In October 2016, TU announced it has completed an investment in Red Lobster Master Holding, L.P. (Red Lobster), at a total cost of US\$575 million (equivalent to Bt20,125 million). The investment comprises US\$230 million for a 25% equity stake and US\$345 million in 10-years convertible preferred shares. The preferred shares can be converted at any time into an additional 24% equity stake or redeemed at an agreed amount after 10 years. This investment is in line with TU's long-term strategy to enter into food service industry, allowing the company to have forward integration, obtaining direct access to consumers. TU will receive a return of 8% per annum on the convertible preferred shares, or about US\$22 million after tax (equivalent to Bt770 million) annually. Moreover, the company expects to build on its existing business relationship with Red Lobster. TU has long been supplying seafood worth more than US\$50 million per year to Red Lobster. This investment will modestly weaken TU's financial profile in the short term since this transaction is 100% debt-funded. However, TRIS Rating expects TU will gradually manage its debt to capitalization to fall below the company's stated policy of 50% and improve its cash flow protection in the intermediate term.

In the short term, TU could be challenged by volatile raw material costs, as well as fluctuating in currencies in key markets, especially the US and Europe, including the United Kingdom (UK). The recent depreciation of Great Britain Pound (GBP) against Thai Baht will impact TU's business since approximately 10% of TU's total revenue came from products sold to the UK. According to the management, TU plans to negotiate its product prices to mitigate the impact, together with launching new value-added products to the UK and other markets. Funds from operations (FFO) are forecast to soften in 2016 and will gradually improve to approximately Bt10,000 million in 2017-2019. TRIS rating expects TU's FFO to total debt to hover around 15%-20% in 2017-2019.

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.

TU's ratings upside is limited after its recent debt-funded acquisition. 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:	
TU172A: Bt2,500 million senior unsecured debentures due 2017	AA-
TU192A: Bt3,150 million senior unsecured debentures due 2019	AA-
TU197A: Bt6,000 million senior unsecured debentures due 2019	AA-
TU212A: Bt1,550 million senior unsecured debentures due 2021	AA-
TU217A: Bt1,500 million senior unsecured debentures due 2021	AA-
TU217B: Bt2,000 million senior unsecured debentures due 2021	AA-
TU237A: Bt2,000 million senior unsecured debentures due 2023	AA-
TU242A: Bt1,050 million senior unsecured debentures due 2024	AA-
Up to Bt10,000 million senior unsecured debentures due within 2027	AA-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Sep 2016	Year Ended 31 December				
		2015	2014	2013	2012	2011
Sales	100,825	125,183	121,402	112,813	106,698	98,670
Gross interest expense	952	1,592	1,673	1,655	2,329	2,272
Net income from operations	4,086	4,290	4,808	2,801	4,197	4,770
Funds from operations (FFO)	7,087	8,808	8,198	6,614	8,536	8,946
Total capital expenditures and investments	7,638	5,325	6,478	5,012	4,398	3,410
Total assets	118,815	110,958	115,443	108,290	94,759	83,277
Total debt	44,702	41,026	46,534	45,143	35,008	39,766
Shareholders' equity	46,666	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	7.36	7.56	7.83	5.52	8.22	9.23
Pretax return on permanent capital (%)	8.77 **	8.56	8.98	6.81	10.44	12.83
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	8.84	6.60	6.40	4.72	4.00	4.31
FFO/total debt (%)	19.13 **	21.47	17.62	14.65	24.38	22.50
Total debt/capitalization (%)	48.93	46.07	49.50	51.01	46.46	59.46

* Consolidated financial statements

** Annualized with trailing 12 months

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