

THAI UNION GROUP PLC

No. 84/2017

25 July 2017

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 rating of Thai Union Group PLC (TU) and the ratings of TU's senior unsecured debentures at "AA-". The ratings still 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.

Founded in 1977 by the Chansiri family, TU is one of the leading seafood companies in the world. Its product line covers tuna, shrimp, sardine, salmon, pet food, and more. In 2016, tuna products generated 35% of the company's total revenue. Shrimp and shrimp-related products comprised the second-largest portion of total revenue (28%), followed by salmon (10%), sardine and mackerel (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 290,000 tonnes of tuna per annum, about one-sixth of total canned tuna produced worldwide. TU's canned tuna production bases are geographically diversified, spreading across six countries on four continents. TU's main production facilities are located in Thailand, the US, Ghana, and the Seychelles islands. TU also has production facilities in Vietnam, and Papua New Guinea. TU's major market is the US, which accounted for 39% of total revenue in 2016. Sales in European markets accounted for 33% of total revenue, followed by sales in Thailand (8%) and Japan (6%).

To pursue its growth strategy, TU is striving to broaden its portfolio of seafood products and distribution channels through mergers and acquisitions. The major transaction in 2016 was the investment in Red Lobster Master Holding, L.P. (Red Lobster), one of the leading casual dining seafood restaurants in North America. Red Lobster owns and operates 704 outlets in North America and 50 outlets internationally through franchisees. TU's investment comprised US\$230 million for a 25% equity stake and US\$345 million in the 10-years convertible preferred shares, for a total investment of US\$575 million (equivalent to Bt20,125 million). The preferred shares can be converted at any time into an additional 24% equity stake or redeemed at a predetermined amount at the end of 10 years. This investment will support TU's attempt to enter the food service industry, a move toward the forward integration and more direct access to consumers. TU will record interest income of 8% per annum on the convertible preferred shares.

In 2016, TU's operating results were weaker due to the rising raw material costs. Profitability declined. The operating profit margin before depreciation and amortization declined to 7.1% in 2016, compared with 8.3% a year earlier. The drop in the operating profit margin was mainly due to a rise in the cost of tuna, a key raw material, and a rapid rise in the price of salmon, the result of a disease outbreak. Earnings before interest, tax, depreciation, and amortization (EBITDA) amounted to Bt10,802 million in 2016, down from a record high of Bt11,299 million in 2015.

During the first quarter of 2017, revenue was Bt31,427 million, a 0.7% rise over the same period of 2016. Sluggish demand in European markets, combining with the weakening in the Euro and Great Britain Pound (GBP) currencies against

Thai baht, as well as rising tuna and shrimp costs, squeezed the profit margin. The operating profit margin before depreciation and amortization slid to 4.8% during the first quarter of 2017, from 6.9% during the same period a year earlier. Despite receiving equity income and interest income of Bt224 million from Red Lobster, EBITDA declined to Bt2,249 million, compared with Bt2,491 million during the same period in 2016.

TU's leverage has deteriorated. Leverage surged as a result of the debt-funded investment in Red Lobster. During late 2016, TU borrowed Bt12,500 million from several financial institutions and issued Bt12,000 million in debentures. At the end of March 2017, the total debt was Bt65,524 million compared with Bt41,026 million at the end of 2015. The total debt to capitalization ratio increased from 46.1% in 2015 to 57.8% as of March 2017. The ratio of funds from operations (FFO) to total debt dropped from 23.1% in 2015 to 13.8% in 2016 and 13.3% (annualized, from the trailing 12 months) during the first quarter of 2017. The EBITDA interest coverage ratio declined from 7.1 times in 2015 and 7.5 times in 2016 to 4.5 times in the first quarter of 2017.

Looking forward, TU's performance is expected to improve for the remainder of the year. Earnings are expected to improve after sales contracts in the salmon segment are repriced, prices of raw shrimp slip lower, pet care segment continues to show improved results, and value-added products generate higher contributions in terms of revenue and profits.

During 2017-2019, under TRIS Rating's base case scenario, TU's revenue will grow from Bt140,000-Bt160,000 million. The operating margin is expected to stay around 7.0%-8.5%. EBITDA is projected to range from Bt12,000-Bt15,000 million per annum. The total debt to capitalization ratio is expected to decline gradually to the level of approximately 50% over the next few years.

Rating Outlook

The "stable" outlook reflects the expectation that TU will maintain its competitive advantage, stemming from economies of scale and production efficiencies. The company's geographically diverse production bases, markets, and product line will help stabilize the income streams.

The rating or outlook upside is limited in the short term during deleveraging period. In contrast, the ratings or outlook could be revised downward if the operating performance is weaker than expected, resulting in a deteriorating capital structure and cash flow protection.

Thai Union Group PLC (TU)

Company Rating:	AA-
Issue Ratings:	
TU192A: Bt3,150 million senior unsecured debentures due 2019	AA-
TU197A: Bt6,000 million senior unsecured debentures due 2019	AA-
TU201A: Bt3,500 million senior unsecured debentures due 2020	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-
TU221A: Bt2,000 million senior unsecured debentures due 2022	AA-
TU237A: Bt2,000 million senior unsecured debentures due 2023	AA-
TU241A: Bt2,500 million senior unsecured debentures due 2024	AA-
TU242A: Bt1,050 million senior unsecured debentures due 2024	AA-
TU271A: Bt4,000 million senior unsecured debentures due 2027	AA-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Mar 2017	Year Ended 31 December				
		2016	2015	2014	2013	2012
Sales	31,427	134,375	124,904	121,402	112,813	106,698
Gross interest expense	498	1,440	1,589	1,673	1,655	2,329
Net income from operations	899	5,442	5,215	4,808	2,801	4,197
Funds from operations (FFO)	1,614	9,301	9,487	8,198	6,614	8,536
Total capital expenditures and investments	898	29,631	3,260	6,478	5,012	4,398
Total assets	140,613	142,365	110,911	115,443	108,290	94,759
Total debt	65,524	67,553	41,026	46,534	45,143	35,008
Shareholders' equity	47,900	47,436	47,970	47,467	43,347	40,344
Dividends	-	3,466	3,375	2,398	1,836	1,884
Operating income before depreciation, and amortization as % of sales	4.77	7.10	8.26	7.83	5.52	8.22
Pretax return on permanent capital (%)	7.96 **	7.91	9.59	8.98	6.81	10.44
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.52	7.50	7.11	6.40	4.72	4.00
FFO/total debt (%)	13.30 **	13.77	23.13	17.62	14.65	24.38
Total debt/capitalization (%)	57.77	58.75	46.10	49.50	51.01	46.46

* Consolidated financial statements

** Annualized with trailing 12 months

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