TRIS RATING

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News for Investors

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Thai Union Frozen Products Public Company Limited

Company Rating:	A+
Issue Rating:	
TUF116A: Bt3,200 million senior debentures due 2011	A+
Rating Outlook:	Stable

Rating History:	**Company Rating**	**Issue Rating**	
		Secured	**Unsecured**
17 May 2007	A+	-	A+
30 Aug 2006	A+	-	-

Rating Rationale

TRIS Rating affirms the company and issue ratings of Thai Union Frozen Products PLC (TUF) at "A+". The ratings reflect the company's strong market position as one of the world's leading tuna processors, its product and geographic diversity, and solid valuable "Chicken of the Sea" canned tuna brand. The ratings also take into consideration the management team's proven track record in the seafood export business and conservative business expansion policy. These factors are partially offset by the maturity of the canned tuna industry in the US, high exposure to tuna price fluctuations, and threats from manufacturers in low-cost countries, as well as the implementation of import trade barriers by major trading countries, Thai baht fluctuations, and exposure to changes in consumer dietary habits.

TUF is Thailand's leading processor and exporter of canned and frozen seafood products with 2007 total sales of Bt55,507 million. As of March 2008, TUF's canned tuna production capacity was 309,000 tonnes per annum, making it one of the top tuna processors in the world. Its supply chain value has been strengthened through the integration of packaging and distribution networks. The company product portfolio is highly diverse. In 2007, canned tuna generated the largest revenue, about 47% of total sales, followed by frozen shrimp at 20%, canned seafood at 9%, and canned pet food at 8%. The company primarily exports to the US (55%), Japan (12%), and the EU (9%). Management has over two decades of experience in the seafood processing industry. The company has a solid position in canned tuna, "Chicken of the Sea", as the third-largest brand of canned tuna in the US. The full acquisition of the brand in 2001 enhanced TUF's business profile and almost doubled its revenue base. The brand strength also enables the company to capitalize on and introduce premium, value-added seafood products. Although the company's historical performance has been quite stable, various uncontrollable factors, including foreign exchange rates, climate change, and trade policies implemented by foreign governments, stand as threats to its operating performance. The worst impact from the new anti-dumping (AD) rate imposed on TUF is expected to be limited given shrimp export to the US accounts for about 7% of its total revenues.

TUF's financial profile is weakened. Record high tuna prices have exerted significant pressures on the company's operating margins and cash flow generations. In the first quarter of 2008, TUF's operating margin was 3.4%, dropped from 5.9% in 2007. Debt to capitalization ratio as of March 2008 was 45.4%, compared to 49.2% in 2007 and 39.9% in 2006. Liquidity remains acceptable despite slightly weakened. Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage for the first three months of 2008 was 4.5 times, dropped from 6.3 times in 2007. TRIS Rating expects that TUF's financial performance will continue to be under pressures from tuna price spikes, higher energy costs, and baht fluctuations over the intermediate term. TUF's margin has reached the point where it does not have much cushion left for further leverage increases without weakening its credit profile.

Rating Outlook

The "stable" outlook reflects TRIS Rating's view that TUF will continue to maintain its competitive strength through economies of scale and production efficiency, expand business operations in a conservative manner, and reduce its financial leverage in the intermediate term.

Key Rating Considerations

Strengths/Opportunities

- Strong competitive position as one of the world's largest canned tuna processors
- Product and geographic diversification
- Vertical integration
- Solid "Chicken of the Sea" brand equity
- Capable management team
- Conservative financial policy

Weaknesses/Threats

- Mature US canned tuna consumption
- Exposure to fluctuations in commodity prices, in particular the price of raw tuna
- Competition from lower-cost countries
- Tariff and non-tariff trade barriers
- Thai baht fluctuations
- Changing consumer dietary habits

Corporate Overview

TUF produces and exports canned and frozen seafood products, canned pet food, and shrimp feed. The company is one of the world's largest canned tuna processors.

TUF was incorporated in 1988 by the Chansiri family with registered capital of Bt25 million and was listed on the Stock Exchange of Thailand in 1994. The company began as primarily a contract tuna packer and over the years has enlarged its product portfolio to include a wide variety of seafood and seafood-related products. In 1997, TUF set up a 50:50 joint venture to acquire Van Camp's assets, among which was the "Chicken of the Sea" canned tuna brand. TUF subsequently purchased the remaining stake in the joint venture in 2001. In 2003, TUF acquired Empress International Ltd. (Empress), a US-based importer and wholesaler specializing in frozen shrimp products. In 2006, TUF partnered with High Health Aquaculture, Inc. to build a shrimp breeding and hatchery farm in Phang-Nga, and set up Tri-Union Frozen Food, LLC (COSF) in the US as its seafood-product retail distributor. The same year, the company acquired PT Juifa International Foods Co., Ltd. in Indonesia to add additional canned tuna capacity, particularly for albacore tuna. In 2007, TUF began catching its own tuna by acquiring four purse seiners and one fish-searching vessel for Bt1.4 billion. As of March 2008, TUF's paid-up capital was Bt879 million with about 25.4% held by the Chansiri family.

TUF's business operations are divided into six groups:

1. Frozen and canned food products exported from Thailand – frozen tuna loins, canned tuna, canned pet food, frozen shrimp, frozen cephalopods, and canned seafood.
2. Packaging products – metal and aluminum cans for food, and package printing services.
3. Animal feed and agricultural products – shrimp feed and shrimp breeding stock.
4. Food products for the domestic market – snacks and canned tuna.
5. Overseas production – canned tuna and other seafood products, primarily under the "Chicken of the Sea" and "Xcellent" brands.
6. Fishing vessel operation.

Table 1: TUF's Sales Breakdown by Product

Unit: %

	2004	2005	2006	2007	1Q/08
Canned tuna	46	50	47	47	46
Frozen shrimp	21	19	20	20	19
Canned seafood	9	8	7	9	9
Canned pet food	8	7	9	8	8
Shrimp feed	4	6	7	6	5
Domestic products	4	4	5	5	4
Frozen tuna loin	5	3	3	3	4
Others	-	-	-	-	4
Frozen cephalopod	3	3	3	3	2
Total	100	100	100	100	100

Source: TUF

TUF derives the majority of its revenue from canned tuna and frozen shrimp, with "Chicken of the Sea" as the company's flagship brand. Its customer base is geographically diverse. In 2007, about 43% of TUF's production was contract manufacturing, while around 47% was for its US brands. The remaining 10% was for the company's Thai brands.

Table 2: TUF's Sales Breakdown by Customer Geography

Unit: %

	2004	2005	2006	2007	1Q/08
USA	59	58	57	55	53
EU	7	9	10	12	13
Japan	13	11	10	9	8
Thailand	8	9	10	10	8
Others	12	14	14	15	18
Total	100	100	100	100	100

Source: TUF

At the end of March 2008, the annual production capacities for canned tuna, canned pet food, frozen tuna loins, frozen shrimp, and frozen cephalopod were 309,000, 75,000, 34,000, 18,000 and 7,000 tonnes, respectively.

Over the last three years, market shares of canned tuna, frozen tuna loin, and canned pet food among Thai exporters were about 40% each. The market shares of frozen shrimp, frozen cephalopods, and canned seafood among Thai exporters were about 10% each.

Recent Developments

- ***Preliminary US AD rate revised higher***

In March 2008, TUF received a preliminary AD rate for the second AD annual review announced by the US Department of Commerce (DOC). The rate was 15.3%, in effect from 1 February 2006 to 31 January 2007. The preliminary rate is higher than the current rate of 5.95%. The final rate is expected to be announced in September 2008.

- ***Invested in a seafood processor in Vietnam***

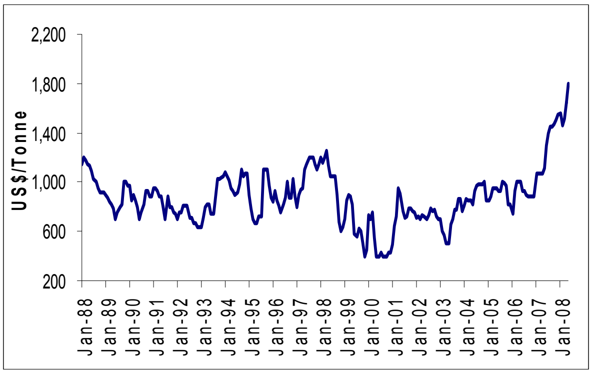
In December 2007, TUF purchased a 51% interest in Yeuh Chyang Canned Food Co., Ltd. (YCC), a seafood processor in Vietnam, for approximately Bt109 million. About half of YCC's revenue is from canned pasteurized crabmeat. The rest is from canned tuna and canned shellfish. The investment is aimed to diversify TUF's production base into a low-labor cost country.

INDUSTRY ANALYSIS

Canned Tuna:

The price of raw tuna has continuously increased since mid-2007 and reached a record high in June 2008 at US$1,800 per tonne. The soaring prices were due to declines in tuna catches worldwide and rising operating costs, driven by climbing oil prices. Fuel accounts for about 80% of the total cost of fishing. As of July 2008, Thai skipjack tuna remained US$1,800 per tonne, up 39% from an average price of US$1295 per tonne in 2007. The dramatic rise in raw material costs puts significant pressure on canned tuna processors, as higher tuna prices cannot be totally passed on to consumers, particularly in mature markets. Thai canned tuna producers are facing an increasing challenge as their major export market is the US. In the US, canned tuna consumption per head has been declining over the past few years due in part to higher tuna prices and changes in consumer diets which now include other seafood products.

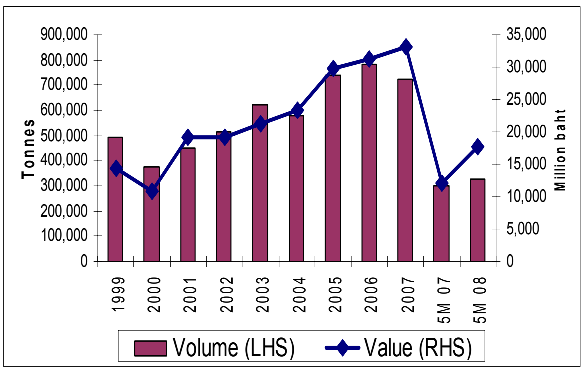
Chart 1: Thailand's Skipjack Tuna Price



Source: GLOBEFISH

Thailand, given its competitive advantage of low-cost labor, is the world's largest exporter of canned tuna, followed by Ecuador and Spain. Since the 1980s, canned tuna has been one of Thailand's major export food products.

Chart 2: Thailand's Frozen Tuna Imports



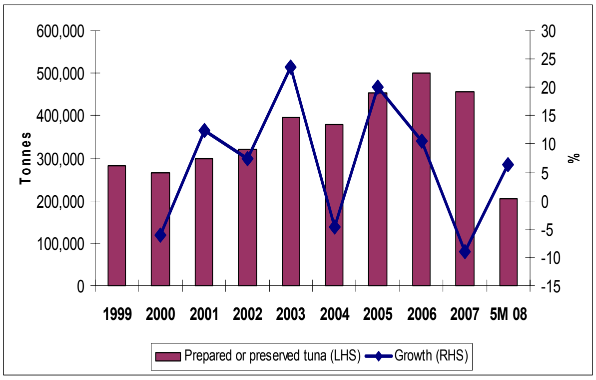
Source: Customs Department of Thailand

Thai tuna exporters rely heavily on imported frozen raw tuna due to the insufficient supply from the Thai fishing fleet. The major frozen raw tuna exporting countries are Taiwan, Vanuatu, South Korea, the Maldives, and Japan. Thailand's imports of frozen raw tuna have fluctuated, depending on tuna prices and world supply. In 2007, Thailand imported 725,237 tonnes of frozen tuna, a 7.4% decrease from the previous year, due to supply shortages. However, during January-May 2008, the import volume increased 8.5% year-on-year to 326,659 tonnes. The import value rose even higher, up 47% year-on-year due to higher tuna prices.

Production of canned tuna in Thailand grew at 7.6% per annum during 1999-2006. This is an impressive growth, considering that global production grew by only 2.4% per annum during the same period. Data from the Office of Industrial Economics shows that the total production of canned tuna in Thailand was about 370,502 tonnes in 2007, 92% of which was exported. In the first four months of 2008, canned tuna production was 115,869 tonnes, up 16.9% year-on-year.

In 2007, Thailand exported 456,468 tonnes of processed tuna, an 8.96% drop from 2006. About 80% of processed tuna was exported as canned tuna. The US is the biggest importer of Thai canned tuna, followed by Australia, Canada, and Japan. Canned tuna from Thailand also claims the biggest market share of total US canned tuna imports, with a 20% share in 2007. During January-May 2008, Thailand's processed tuna exports grew by 6.3% to 205,778 tonnes from the same period a year ago.

Chart 3: Thailand's Tuna Exports



Source: Customs Department of Thailand

Over the years, price competition has driven US canned tuna producers to relocate production plants to developing countries, such as American Samoa, Thailand, and Ecuador. These nations have lower wages or are subject to minimal US tariffs. As a US territory, products from American Samoa are exempt from US import duties. The general US import tariff rate for canned tuna in brine is 6% within the quota and 12.5% outside the quota. Canned tuna in oil carries a higher tariff rate at 35%. The yearly import quota of canned tuna is set at 20% of the volume of canned tuna produced during the preceding year in the US, excluding American Samoa. The quota volume is considered immaterial since most canned tuna produced in the US is from American Samoa.

There are three major canned tuna brands in the US: StarKist, Bumble Bee, and Chicken of the Sea. StarKist's market share has declined in recent years while Bumble Bee has risen. Chicken of the Sea's share has been relatively stable.

Table 3: US Canned Tuna Market Share

Unit: %

	2004	2005	2006	2007	Mar 08
StarKist	39.0	33.5	31.1	30.6	33.1
Bumble Bee	24.3	27.4	27.6	29.6	29.0
Chicken of the Sea	17.6	18.3	18.6	18.2	18.2

Source: TUF

Thailand has exported more canned tuna to the EU, partly because tuna is a protein substitute for poultry. Poultry consumption has dropped in the wake of the outbreaks of bird flu. In 2007, Thailand was the second largest canned tuna exported to the EU, after Ecuador. Thailand exported 65,304 tonnes in 2007, down 18% from 2006 as EU canned tuna imports slipped. Thai canned tuna producers are less competitive in the EU market due to a high tariff rate of 24%.

The new bilateral agreement between Thailand and Japan, also known as the Japan-Thailand Economic Partnership Agreement (JTEPA), was effective on 1 November 2007. Under the JTEPA, Japan will lower its import tariffs on Thai canned tuna to 0% within six years. The tariff currently starts at 9.6%.

Shrimp:

Shrimp products are the top export earner among all Thai fishery products; more than 70% of shrimp production is exported. In recent years, shrimp production has shifted away from black tiger shrimp to white shrimp or vannamei shrimp, because of the latter's higher survivability. Vannamei shrimp now accounts for almost all shrimp production.

The major export markets for Thai shrimp are the US, (50% of total shrimp export volume in 2007), followed by Japan (16%) and the EU (9%). Total shrimp export volume from Thailand grew 5.9% in 2007 and 4.89% during January-April 2008 from the same period a year ago due partly to the appreciation of the Thai baht and the slowing US economy.

As of June 2008, shrimp exported to the US from five countries (Thailand, China, Vietnam, India, and Brazil) are subject to AD duties. After the preliminary results of the second review, Thailand's AD rate will rise from an average of 5.95% to 6.09% from 1 February 2006 to 31 January 2007. The final rate will be announced in September 2008. In another development, the World Trade Organization (WTO) recently issued rulings in favor of Thailand and India concerning AD duties and the practice of continuous bonds (C-bond). C-bond is a measure imposed by the US Customs Border Protection Agency requiring importers to post 100% bank guarantee payments equal to the AD value of shrimp products imported from countries subject to AD duties. An immediate positive impact from the rulings is not expected since it is unclear how the US will respond to the rulings.

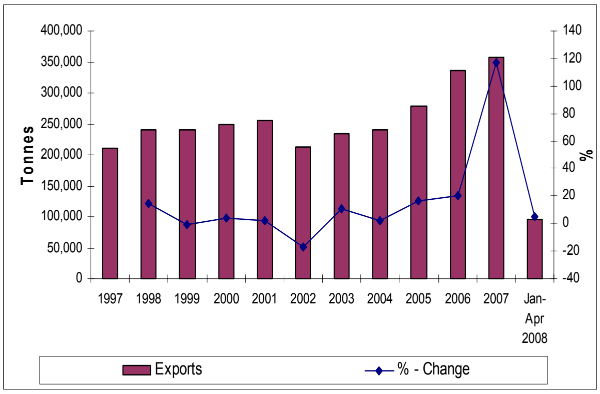
Despite the trade barriers, TRIS Rating believes that Thai shrimp exporters still have a competitive advantage and should be able to maintain the leading position in the US market as a result of its relatively lower AD rate than the rates of China, Vietnam, and Brazil. Two other strengths that bolster Thailand's competitive positions are an established market presence as the largest shrimp exporter to the US and high product quality.

Apart from the import barriers, shrimp exports were partially affected by the US economic slowdown triggered by the subprime mortgage crisis. According to the US Department of Agriculture's Foreign Agricultural Service (FAS), US imports of shrimp decreased by 5.7% in 2007 and 1.93% in the first quarter of 2008 from the same period a year earlier. Thai shrimp exports to the US decreased by 2.6% in 2007 and declined 11.82% in the first quarter of 2008 from the same period a year ago.

Shrimp exports to the EU, on the contrary, demonstrate a brighter prospect. Since 1 January 2006, the EU's Generalised System of Preferences (GSP) rate has been reinstated for a 10-year period. Under GSP, the duty on frozen shrimp was reduced from 12% to 4.2% and the duty on processed shrimp was lowered from 20% to 7%. In 2007, Thai shrimp export volumes to the EU increased by 98% from a year ago as a result of the resumption of GSP.

Shrimp exports to Japan have also been encouraged under the JTEPA tariff reduction scheme. The import tariff on Thai shrimp fell to 0% in the first year following November 2007. This benefits Thailand, already one of the top shrimp exporters to Japan. In 2007, Japan's total imports of frozen shrimp, the largest segment of imported shrimp, declined by 9.9% because of an economic slowdown. Japan's imports of frozen shrimp from Thailand increased by 31.3% in 2007 and by 6.4% y-on-y in the first quarter of 2008 due to concerns over China's food safety.

Chart 4: Thailand's Shrimp Exports



Source: Department of Trade Negotiations

BUSINESS ANALYSIS

TUF's strong business profile is supported by its cost competitiveness, product and geographic diversification, solid canned tuna brand name, management's proven track record, and well-established distribution network in the US.

- ***Worst impacts from the new AD rate are expected to be limited***

TUF estimated that in the worst case, the new AD rate would be 15.3% and it would owe US$7.9 million in additional duty during the review period. In addition, exports to the US from September 2008 onward would be subject to the 15.3% rate until the third annual review rate is announced in September 2009. However, TUF management has expressed some confidence that after discussions with the US DOC, the final rate is likely to be lower than 15.3%.

TRIS Rating assumes that under the worst case, TUF's competitive position in sending shrimp to the US will deteriorate substantially compared with other Thai exporters. The deterioration will arise because of the large gap between the company's AD rate and the new rate imposed on Thailand at 6.09%. The hike will inevitably impact the bottom line but the extent is likely to be limited because shrimp exports to the US accounted for about 7% of TUF's total revenue in 2007. In addition, TUF's worldwide market presence should allow some of the shrimp products to be diverted elsewhere, such as Japan and the EU.

- ***Large production scale enhances cost competitiveness***

TUF's competitive strength is underpinned by large-scale production, particularly in canned tuna and shrimp products, which enhances cost competitiveness via economies of scale and bargaining power with trading partners. The company ranks among the largest canned tuna producers in the world.

Thailand is the largest exporter of canned tuna and shrimp products in the world. As of year end 2007, TUF's canned tuna production was over 261,000 tonnes, over a tenth of the world's canned tuna production. The company's canned tuna exports accounted for about 40% of Thailand's canned tuna exports. TUF's frozen shrimp exports in 2007 represented about 10% of Thailand's frozen shrimp exports.

Large production size not only helps TUF leverage production costs, but also strengthens raw material procurement capability. As raw tuna accounts for about two-thirds of the total production cost for canned tuna, TUF benefits tremendously from the bargaining power that comes from buying raw tuna in large volumes.

Table 4: Yearly World Exports of Canned Tuna

Unit: Thousand tonnes

	2002	2003	2004	2005	2006
World	829.2	928.6	942.2	1013.8	1078.1
Thailand	328.9	395.7	377.5	459.1	501.4
Ecuador	80.3	96.5	81.1	98.0	104.2
Spain	58.4	59.2	58.3	67.2	68.6
Mauritius	28.6	31.1	31.8	36.6	52.2
Indonesia	38.3	46.8	48.3	50.8	47.1

Source: FISHDAB - 20080515

- ***Diversification helps reduce revenue and cash flow variability***

TUF's strong business profile is supported by product and geographic diversification. Diversification plays an important role in helping reduce earnings and cash flow volatility and is considered a positive rating factor.

TUF generates about half of its revenue from canned tuna, while the rest is derived from a wide range of seafood and shrimp feed products. Over the past five years, revenue has grown impressively by an average of 12% per annum in baht terms and 21% in US dollar terms. While canned tuna and shrimp products, whose consumption rates are growing slowly in developed countries, provide a solid revenue base, the constant introduction of new and value-added product lines, such as canned sardines and mackerel, plays an important role in driving top-line growth.

In terms of geographic diversity, TUF generates about three-fourths of its revenues in the US, EU, and Japan. The solid portion of exports heading to developed countries is a favorable factor because it provides the company with a relatively stable source of revenue stream. In a way, although seafood consumption in developed countries is mature and growing slowly, TUF could still benefit from rising awareness in a health conscious diet, which will likely lead to higher seafood consumption. TUF's contract manufacturing business in other markets helps enhance the company's growth prospects. In some emerging markets, such as the Middle East and Africa, the appetite for seafood products is still growing. TUF has been successful in penetrating new markets. The revenue contribution from these markets has almost doubled from US$123 million in 2003 to US$238 million in 2007. However, these positive aspects will be counterbalanced by the slowdown in the global economy, which may affect seafood sales, particularly in the food service market segment.

Table 5: TUF's Canned Tuna Export Breakdown by Location

Unit: %

	2004	2005	2006	2007	1Q/08
USA	67	62	60	57	53
EU	11	13	16	17	21
Japan	5	5	4	3	2
Others	17	20	21	23	24
Total	100	100	100	100	100

Source: TUF

TUF benefits from having production facilities in four countries: Thailand, American Samoa, Indonesia, and Vietnam. Since the contributions from the latter two are relatively small, the benefits from geographical diversification are not yet material. The production base in Thailand yields low-cost, highly-skilled labor plus established ports and logistical infrastructure. Canned tuna processed in American Samoa is exempt from US import tariffs. However, there are some concerns over a new US regulation that took effect in 2007. The new rule requires the minimum wage in American Samoa to increase by US$0.5 per hour each year until the rate equals that of the mainland. This may compromise TUF's cost advantage in the long run.

In TRIS Rating's view, even with a good diversification, TUF's underlying business strength is facing the effects of radical changes in consumer preference toward canned tuna products, particularly in the US market.

- ***Meaningful vertical integration***

TUF benefits from being vertically integrated. The company procures raw tuna and shrimp from vendors and contract farmers, with whom it has established relationships. Raw tuna is purchased from traders who have contracts with several fishing fleets operating in the Pacific and Indian Oceans. TUF has some concentration risk in raw tuna procurement as the top five suppliers represented 40%-60% of total raw tuna purchases for the past three years. The company's tuna-catching vessels are expected to provide some flexibility in raw material procurement, updated data on tuna supply, and access to preferential tariff schemes. Involvement in the shrimp feed and hatchery businesses helps enhance the ability to ensure product quality and traceability, which is increasingly becoming one of the most important criteria imposed by major importing countries.

The ability to fully utilize raw materials provides TUF another competitive edge over smaller players. For instance, fish bones and skins, the by-products of tuna canning, are further processed as pet food and shrimp feed.

TUF has its own established canned tuna distributor in the US, which allows it to stay close to retailers and consumers. The top five buyers of TUF's canned tuna accounted for 20%-25% of total canned tuna sales for the past three years; no individual retailer purchased for more than 10% of the total. TUF exports shrimp products in the US through Empress for the wholesale channel and COSF for the retail segment.

- ***Strong brand equity***

TUF benefits from being the owner of the "Chicken of the Sea" brand, the third largest canned tuna brand in the US. The brand strength gives negotiating power over shelf space and pricing flexibility with large retailers. Owning a brand also allows the company to capitalize on the brand awareness by using it as a platform for other frozen, canned, and value-added seafood products. This helps the company steer away from the commoditized nature of shelf-stable products. In the first quarter of 2008, TUF's canned seafood sales growth was 44% from the same period a year ago.

- ***Experienced management team***

TUF's managers are highly experience in the 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 key factors in TUF's growth and will continue to be the main engine to drive the company's presence in the global seafood industry. TUF has followed a conservative acquisition strategy. The company has continually created value around its core business through supply chain extensions and the introduction of new and value-added products. Most of TUF's acquisition targets were initially trading partners with which the company had close business relations. TRIS Rating expects TUF to continue pursuing this strategy as a means to secure raw materials and build market presence in new and existing markets. In doing so, TUF should also try to balance its financial profile in terms of leverage and operating margins.

- ***Expected benefits from trade liberalization***

TUF stands to benefit from the trend towards global trade liberalization. The recent trade pact between Thailand and Japan, the WTO ruling over the unfair tariff barriers on shrimp imposed by the US, and the GSP privileges granted by the EU are all positive signs for Thai seafood exporters. In addition, global concerns over Chinese food safety standards could create short-term windfalls for high-quality seafood exporters, including TUF. Meanwhile, other cheap-labor countries are expected to become more competitive as global trade barriers gradually subside. TRIS Rating believes TUF will be able to retain its competitive position in the world market despite more intense global competition.

FINANCIAL ANALYSIS

TUF follows a conservative financial policy. Its key business strengths offset the thin profit margins that are inherent in the food processing business. About 90% of the company's revenue is in foreign currency. Foreign exchange exposure is 40%, naturally hedged by expenses in foreign currency, while 30% is hedged through derivative instruments.

- ***Margins pressured by soaring tuna costs***

Since mid-2007, the rapid rise in raw tuna prices has exerted a significant pressure on operating performance. The soaring tuna price is mainly driven by higher fuel costs, a weak dollar, and changes in the fish migration patterns due to climate change. For the first quarter of 2008, the earnings before interest, tax, depreciation and amortization (EBITDA) margin was 3.4%, a sharp decline from the three-year range of 5.9%-6.4%. Despite attempts to implement a series of canned tuna price increases, the speed of raw material cost increases has so far outpaced pricing actions.

TUF is confronting a growing challenge in reviving its margins. The pricing flexibility of canned tuna in the US is relatively low. Sluggish consumer spending in the US stymies further price increases. Aside from the soaring raw tuna prices, margins will also continue to be pressured by rising energy costs, marketing expenses, competition from neighboring countries, and the gradual expiration of corporate income tax privileges.

On the other hand, given its solid presence in the EU canned tuna market, the strong euro provides TUF a window of opportunity to sustain margins by exporting more to the EU. Margins will also improve due to the migration toward higher margin and value-added products and tariff savings from rules of origin enabled by Thai flagged vessels. However, all these benefits will be gradual and are not expected to make a significant contribution in the short term.

- ***Leverage expected to remain at current level***

TUF's management has in the past demonstrated a willingness to pursue a conservative financial policy. The total debt to capitalization ratio peaked at 62.2% in 1997, when the company set up a joint venture to take over the assets of Van Camp. The ratio fell afterward and had been in the 40%-43% range during 2004-2006. Leverage was up in 2007 and the first quarter of 2008, touching 49.2% and 45.4%, respectively. Vessel purchases, longer credit terms, and higher inventory financing pushed leverage higher. The rise in inventory was a result of higher tuna costs and a temporary stock buildup for promotional events.

In 2005, TUF lowered its dividend payout from 70% to 50% in order to conserve cash for future investments. In the medium term, the company's funds from operation (FFO) is expected to stabilize at approximately Bt3 billion per annum. Capital expenditures are expected to be Bt1.2-Bt1.3 billion per annum. TRIS Rating expects that TUF is capable of financing the business expansions with internal cash flows. Climbing production costs will likely stifle any chance for meaningful debt reduction in the near term. As a result, leverage is expected to remain at the current level in the intermediate term.

TRIS Rating believes that the record high tuna costs have tightened TUF's margins to the point where it does not have much cushion left for further leverage increases without weakening its credit profile.

Table 6: TUF's Long-term Debt Repayment Schedule as of 31 March 2008

Unit: Bt million

Borrower	Balance	2008 (Apr-Dec)	2009	2010
TUF	3,200	-	-	-
TUI	186	69	69	38
TFM	236	59	59	59
TFM	90	20	20	20
TUM	1,090	-	-	-
HHT	101	38	38	25
HHT	50	-	20	30
Total	**4,953**	**186**	**206**	**172**

Source: TUF

- ***Cash flow protection weaker though acceptable***

The interest coverage ratio has decreased from 6.3 times in 2007 to 4.5 times in the first quarter of 2008. The FFO to total debt ratio was 21.6% in 2007 and 6.5% (non-annualized) for the first quarter of 2008. Weaker cash flow coverage is the result of lower margins and higher leverage. In TRIS Rating's view, cash flow protection and the liquidity profile remain acceptable at the current level. Working capital financing is supported by strong and established relationships with financial institutions. There is no large principal debt repayment over the next 12 months. Even so, liquidity is expected to be tighter in the near term amid larger short-term funding requirements for working capital and rising interest rates.

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Mar 2008	2007	2006	2005	2004	2003
		------------- Year Ended 31 December				--------------
Sales	15,416	55,507	55,039	53,643	46,751	40,343
Gross interest expense	143	580	608	361	220	140
Net income from operations	134	1,639	1,873	2,058	1,970	2,047
Funds from operations (FFO)	822	3,050	3,182	3,354	2,757	3,019
Capital expenditures	452	2,476	1,425	1,030	1,744	848
Total assets	32,155	33,576	27,136	26,994	23,950	20,687
Total debt	12,677	14,117	9,123	9,536	8,631	6,627
Shareholders' equity	13,692	13,086	12,648	11,695	10,706	9,937
Operating income before depre. and amort. as a % of sales	3.35	5.89	6.39	6.36	6.19	7.88
Pretax return on permanent capital (%)	1.43 **	10.34	12.88	13.69	12.95	17.46
Earnings before interest, tax, depre. and amort. (EBITDA) interest coverage (times)	4.48	6.28	6.29	10.40	14.49	24.53
FFO/total debt (%)	6.48 **	21.60	29.51	35.17	31.94	45.56
Total debt/capitalization (%)	45.42	49.21	39.85	42.66	42.18	37.81

* *Consolidated financial statements*
** *Non-annualized*

Rating Symbols and Definitions

TRIS Rating uses eight letter rating symbols for announcing medium- and long-term credit ratings. The ratings range from AAA, the highest rating, to D, the lowest rating. The medium- and long-term debt instrument covers the period of time from one year up. The definitions are:

AAA The highest rating, indicating a company or a debt instrument with smallest degree of credit risk. The company has extremely strong capacity to pay interest and repay principal on time, and is unlikely to be affected by adverse changes in business, economic or other external conditions.

AA The rating indicates a company or a debt instrument with a very low degree of credit risk. The company has very strong capacity to pay interest and repay principal on time, but is somewhat more susceptible to the adverse changes in business, economic, or other external conditions than AAA rating.

A The rating indicates a company or a debt instrument with a low credit risk. The company has strong capacity to pay interest and repay principal on time, but is more susceptible to adverse changes in business, economic or other external conditions than debt in higher-rated categories.

BBB The rating indicates a company or a debt instrument with moderate credit risk. The company has adequate capacity to pay interest and repay principal on time, but is more vulnerable to adverse changes in business, economic or other external conditions and is more likely to have a weakened capacity to pay interest and repay principal than debt in higher-rated categories.

BB The rating indicates a company or a debt instrument with a high credit risk. The company has less than moderate capacity to pay interest and repay principal on time, and can be significantly affected by adverse changes in business, economic or other external conditions, leading to inadequate capacity to pay interest and repay principal.

B The rating indicates a company or a debt instrument with a very high credit risk. The company has low capacity to pay interest and repay principal on time. Adverse changes in business, economic or other external conditions could lead to inability or unwillingness to pay interest and repay principal.

C The rating indicates a company or a debt instrument with the highest risk of default. The company has a significant inability to pay interest and repay principal on time, and is dependent upon favourable business, economic or other external conditions to meet its obligations.

D The rating for a company or a debt instrument for which payment is in default.

The ratings from AA to C may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within a rating category.

TRIS Rating's short-term ratings focus entirely on the likelihood of default and do not focus on recovery in the event of default. Each of TRIS Rating's short-term debt instrument covers the period of not more than one year.The symbols and definitions for short-term ratings are as follows:

T1 Issuer has strong market position, wide margin of financial protection, appropriate liquidity and other measures of superior investor protection. Issuer designated with a "+" has a higher degree of these protections.

T2 Issuer has secure market position, sound financial fundamentals and satisfactory ability to repay short-term obligations.

T3 Issuer has acceptable capacity for meeting its short-term obligations.

T4 Issuer has weak capacity for meeting its short-term obligations.

D The rating for an issuer for which payment is in default.

All ratings assigned by TRIS Rating are local currency ratings; they reflect the Thai issuers' ability to service their debt obligations, excluding the risk of convertibility of the Thai baht payments into foreign currencies.

TRIS Rating also assigns a *"Rating Outlook"* that reflects the potential direction of a credit rating over the medium to long term. In formulating the outlook, TRIS Rating will consider the prospects for the rated company's industry, as well as business conditions that might have an impact on its fundamental creditworthiness. The rating outlook will be announced in conjunction with the credit rating. In all cases, the outlook assigned to a company will apply to all debt obligations issued by the company. The categories for *"Rating Outlook"* are as follows:

Positive The rating may be raised.
Stable The rating is not likely to change.
Negative The rating may be lowered.
Developing The rating may be raised, lowered or remain unchanged.