

Thai Union Frozen Products Public Company Limited

Company Rating:	A+
Issue Ratings:	
TUF116A: Bt3,200 million senior debentures due 2011	A+
Up to Bt4,000 million senior debentures due within 2013	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+". At the same time, TRIS Rating assigns the rating of "A+" to TUF's proposed issue of up to Bt4,000 million in senior debentures. 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 economic slowdowns in major import countries, 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 June 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. For the first half of 2008, canned tuna generated the largest revenue, about 50% of total sales, followed by frozen shrimp at 18%, canned seafood at 8%, and canned pet food at 8%. The company primarily exports to the US (51%), Europe (13%), and Japan (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. TUF's final anti-dumping (AD) rate announced by the US Department of Commerce in August 2008 was encouraging. The new rate was set at 2.85%, lower than preliminary rate at 15.3% and average rate for Thai exporters at 3.18%. This ensures a continuing competitive strength in the company's shrimp export to the US. TUF's shrimp export to the US accounts for about 7% of its total revenues.

TUF's financial profile weakened slightly. Record high tuna prices have exerted significant pressures on the company's operating margins and cash flow generations. In the first half of 2008, TUF's operating margin was 5.3%, dropped from 5.9% in 2007. Debt to capitalization ratio as of June 2008 was

47.0%, compared with 49.2% in 2007 and 39.9% in 2006. The ratio is expected to increase slightly from the new bond issuance, part of the proceeds will be used to replace short-term financing. Liquidity remains acceptable despite slightly weakened. Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage for the first half of 2008 was 7.3 times, up 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. Current global economic turmoil places TUF in an increasingly difficult market environment in terms of dampened household spending, tighter short-term financing and greater volatility of Thai baht. However, the company's cash flow is not expected to be severely impacted given a broad diversification and inexpensive product offerings.

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 improve its financial profile in the intermediate term.

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Jun 2008	----- Year Ended 31 December -----			
		2007	2006	2005	2004
Sales	32,208	55,507	55,039	53,643	46,751
Gross interest expense	262	580	608	361	220
Net income from operations	866	1,639	1,873	2,058	1,970
Funds from operations (FFO)	1,692	3,050	3,182	3,354	2,757
Capital expenditures	835	2,476	1,425	1,030	1,744
Total assets	33,732	33,576	27,136	26,994	23,950
Total debt	13,538	14,117	9,123	9,536	8,631
Shareholders' equity	13,665	13,086	12,648	11,695	10,706
Operating income before depreciation and amortization as a % of sales	5.26	5.89	6.39	6.36	6.19
Pretax return on permanent capital (%)	4.94**	10.34	12.88	13.69	12.95
Earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage (times)	7.25	6.28	6.29	10.40	14.49
FFO/total debt (%)	12.50**	21.60	29.51	35.17	31.94
Total debt/capitalization (%)	47.02	49.21	39.85	42.66	42.18

* 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. 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 degrees 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.

For subscription information, contact

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