TRIS RATING

CreditUpdate เครดิตวาระ

THAI UNION FROZEN PRODUCTS PLC

No. 32/2011

20 July 2011

Company Rating: A+

Outlook: Stable

New Issue Rating: A+

Rating History:

Date	Company	Issue (Secured/Unsecured)
14/01/11	A+/Sta	-/A+
29/07/10	A+/Alert Dev	-/A+
17/05/07	A+/Sta	-/A+
30/08/06	A+/Sta	-

Contacts:

Rungrat Suntornpagasit
rungrat@trisrating.com

Sangdao Udomdejwatana
sangdao@tris.co.th

Kanokporn Nitnitiphrut
kanokporn@tris.co.th

Wiyada Pratoomsuwan, CFA
wiyada@tris.co.th

WWW. TRISRATING.COM

Rating Rationale

TRIS Rating affirms the company and existing 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 Bt6,750 million in senior debentures. The proceeds from the new debentures will be used to refinance existing loan. The ratings reflect TUF's strong market position as one of the world's leading tuna processors, as well as the diversity of its products and markets. The ratings also take into consideration its valuable "Chicken of the Sea" canned tuna brand name in the United States (US), as well as a number of well-recognized canned seafood brands in Europe. These factors are partially offset by the maturity of the canned tuna industry in the US and European markets, volatility of raw tuna prices, and fluctuations in the Thai baht.

TUF was incorporated in 1988 by the Chansiri family. The company's management has an experience of over two decades in the seafood processing industry. TUF is Thailand's leading processor and exporter of canned and frozen seafood products with revenue of Bt71,507 million in 2010. In 2010, TUF produced and sold 220,000 tonnes of canned tuna. Its supply chain was strengthened through the integration of packaging and distribution networks. In October 2010, TUF acquired 100% of the equity of MW Brands Holdings Group (MWB). MWB is a manufacturer of canned seafood products. Its business operation is vertically integrated from fleets to production facilities and distribution channels in Europe. Key production sites are located in Seychelles and Ghana. Major end markets are France, the United Kingdom (UK), Italy, Ireland, and the Netherlands. MWB brought a number of top European brand names, such as Petit Navire, John West, Mareblu, and Hyacinthe Parmentier into TUF's portfolio in addition to "Chicken of the Sea", the third-largest brand of canned tuna in the US.

After full consolidation with MWB in November 2010, TUF's leading position has increasingly strengthened. In the first quarter of 2011, TUF produced more than 85,000 tonnes of tuna or about 330,000 tonnes per annum, equivalent to one fifth of global tuna production. TUF is more geographically diversified. Sales in European markets accounted for 33% of total revenue in the first quarter of 2011 as opposed to 16% in 2010. The US remains TUF's major market, representing 37% of total revenue in the first quarter. Japan contributed the third largest market with a 9% share. The company's product portfolio is diverse. For the first three months of 2011, tuna products generated 52% total revenue. Frozen shrimp was the second-largest at 17%, followed by canned pet food (7%), and canned seafood (4%).

TUF's revenue base rose significantly in the first three months of 2011. TUF reported sales of US$743 million in the first quarter of 2011 or a jump of 49% over the same period of the previous year. Sales under MWB were US$174 million in the first quarter of 2011 or accounted for 23% of total sales. TUF's sales excluding MWB's rose by 14% year-on-year (y-o-y) to US$569 million in the first three months of 2011 while sales of MW Brands increased by 16% y-o-y. Mix of better margin of MWB boosted operating margin before depreciation and amortization in the first quarter of 2011 to 7.4% from 6.5% in 2010. However, it was weaker

CreditUpdate reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

CreditUpdates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

than expectations due to the rising cost of tuna and shrimp. TUF's operating income was also hurt by an additional EUR2.8 million inventory cost from the accounting adjustment of an inventory reappraisal when it acquired MWB. In the first quarter of 2011, earnings before interest, tax, depreciation, and amortization (EBITDA) grew by 34% y-o-y to Bt1,822 million in line with the growth in total revenue. The debt to capitalization ratio as of March 2011 slightly increased to 62.2% from 61.7% at the end of 2010. An increase of leverage was due to working capital needs and a weaker baht. EBITDA interest coverage was low at 3.5 times in the first three months of 2011. Looking forward, profitability and cash flow protection will improve as high inventory cost from accounting adjustment was sold out in the first quarter of 2011. Gradual price adjustment to reflect rising raw material cost will recover its profitability. In addition, shortened order period for shrimp products will help TUF to have timely price adjustments to restore the profitability of the shrimp business.

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. The diversified base of markets and more contribution from branded products are expected to generate more stable profits. Currently high debt to capitalization ratio is expected to fall below its stated policy of 50% in the intermediate term.

Thai Union Frozen Products PLC (TUF)

Company Rating:	A+
Issue Ratings:	
TUF13NA: Bt500 million senior debentures due 2013	A+
Up to Bt6,750 million senior debentures due within 2021	A+
Rating Outlook:	Stable

Financial Statistic and Key Financial Ratio*

Unit: Bt million

		------------------------- Year Ended 31 December -------------------------				
	Jan-Mar 2011	2010	2009	2008	2007	2006
Sales	22,706	71,507	68,994	69,048	55,507	55,039
Gross interest expense	522	764	602	635	580	608
Net income from operations	753	2,067	2,992	2,116	1,639	1,814
Funds from operations (FFO)	1,454	4,444	5,020	3,944	3,071	2,711
Total capital expenditures	644	2,720	1,990	1,725	2,476	1,425
Total assets	78,268	74,777	35,870	39,781	33,576	26,800
Total debt	38,497	37,471	12,249	17,614	14,117	9,123
Shareholder equity	23,401	23,235	18,411	16,231	14,570	13,768
Dividends	-	1,996	1,431	987	1,078	950
Operating income before depreciation and amortization as % of sales	7.42	6.47	7.55	5.55	5.89	6.39
Pretax return on permanent capital (%)	2.29 **	8.62	14.05	10.32	10.34	12.88
Earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage (times)	3.49	6.74	9.31	6.66	6.28	6.29
FFO/total debt (%)	3.78 **	11.86	40.98	22.39	21.75	29.72
Total debt/capitalization (%)	62.19	61.73	39.95	52.04	49.21	39.85

* *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 the fundamental creditworthiness of the company. The rating outlook will be announced in conjunction with the credit rating. In most cases, the outlook of each debt obligation is equal to the outlook assigned to the issuer or the obligor. The categories for "Rating Outlook" are as followed:

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.

TRIS Rating may announce a **"CreditAlert"** as a part of its monitoring process of a publicly announced credit rating when there is a significant event that TRIS Rating considers to potentially exerting a substantial impact on business or financial profiles of the rated entity. Due to an insufficient data or incomplete developments of the event, such as merger, new investment, capital restructuring, and etc., current credit rating remains unchanged. The announcement aims to forewarn investors to take a more cautious stance in investment decision against debt instruments of the rated entity. CreditAlert report consists of a "Rational" indicating warning reasons, a "CreditAlert Designation", and a current credit rating. Rating Outlook is withheld in the announcement.

CreditAlert Designation illustrates a short-term rating outlook indicative of the characteristics of impacts on the credit rating in one of the three directions (1) *Positive* (2) *Negative* and (3) *Developing.*

TRIS Rating Co., Ltd.
Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com

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