TRIS RATING

CreditNews ข่าวเครดิต

News for Investors

Announcement No. 756 14 January 2011

Contacts	E-mail Addresses
Rungrat Suntornpagasit	rungrat@trisrating.com
Yingyong Chiaravutthi, CFA	yingyong@tris.co.th
Sangdao Udomdejwatana	sangdao@tris.co.th
Kanokporn Nitnitiphrut	kanokporn@tris.co.th
Wiyada Pratoomsuwan, CFA	wiyada@tris.co.th

Thai Union Frozen Products Public Company Limited

Company Rating:	A+
Issue Ratings:	
TUF116A: Bt3,200 million senior debentures due 2011	A+
TUF13NA: Bt500 million senior debentures due 2013	A+
Rating Outlook:	Stable

Rating History:	**Company Rating**	**Issue Rating**	
		Secured	**Unsecured**
29 July 2010	A+/Alert Developing	-	A+
17 May 2007	A+/Stable	-	A+
30 Aug 2006	A+/Stable	-	-

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 the world’s leading tuna processors, its product and market diversification, and a number of valuable canned seafood brands. The ratings also take into consideration TUF’s latest move to acquire 100% of the equity of MW Brands Holdings Group (MWB) which will strengthen its position in the European market. These factors are partially offset by the maturity of the canned tuna industry in the United States (US) and European markets, exposure to tuna price volatility and fluctuations in the Thai baht. At the same time, the rating confirmation removes the CreditAlert with “developing” implications placed on the company and issue ratings of TUF since 29 July 2010, following TUF’s announcement to acquire MWB for a total of EUR680 million (or Bt28,496 million at Bt41.9055 for EUR1).

TUF is Thailand’s leading processor and exporter of canned and frozen seafood products with revenue in 2009 of Bt68,994 million. In 2009, TUF produced more than 200,000 tonnes of canned tuna, making TUF one of the top tuna processors in the world. Its supply chain has been strengthened through the integration of packaging and distribution networks. The company’s product portfolio is highly diverse. For the first nine months of 2010, tuna generated the largest portion of total revenue, or 39% of total sales in US dollar terms. Frozen shrimp was the second-largest at 23%, followed by canned seafood (9%), and canned pet food (9%). The company primarily exports to the US (49% of total revenue), Europe (12%), and Japan (12%). TUF’s management has experience of over two decades in the seafood processing industry. The company has a well-recognized canned tuna brand, “Chicken of the Sea”, the third-largest brand of canned tuna in the US.

A broad product line helped sustain TUF’s operating performance in the first nine months of 2010. Despite a 9% drop in tuna sales value, strong demand for shrimp, seafood and pet food products drove total sales 6% higher in US dollar terms compared with the same period in 2009. However, the strengthened baht against the US dollar resulted in flat revenue at Bt50,859 million for the first nine months of 2010. An increasing cost of shrimp, volatile tuna prices as well as a strong Thai baht decreased operating margin to 7.1% in the first nine months of 2010 from 7.6% over the same period in 2009. Including a foreign exchange gain of Bt679 million, net profit was down by 4% compared with the same period in 2009 to Bt2,521 million in the first nine months of 2010. The debt to capitalization ratio as of September 2010 increased slightly to 42.0%, from 40.0% in 2009 due to higher working capital needs. Liquidity was strong before the acquisition. Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage for the first nine months of 2010 was 10.4 times.

In October 2010, TUF acquired 100% of the equity of MWB for about EUR700 million including the transaction costs. About 87% of the consideration, approximately EUR611 million, was from debt financing and the remainder or 13% was from equity financing. TUF borrowed EUR211 million from domestic banks and MWB borrowed another EUR340 million from foreign banks. TUF also issued four-year convertible debentures worth EUR60 million. For the equity portion, TUF successfully issued 73 million new shares via a rights offering and private placement receiving EUR89 million in cash. After the acquisition, the debt to capitalization ratio of TUF rose substantially to approximately 60%, from the pre-acquisition level of 42% as of September 2010. This ratio is expected to improve to 50% within the next several years after the contribution from MWB has been fully realized.

MWB is a manufacturer of canned seafood products. Its business operation is vertically integrated from fleets to production facilities to distribution channels in Europe. Canned tuna contributed about 73% of MWB's total sales. Key production sites are located in Seychelles and Ghana. Major end markets are France, the United Kingdom (UK), Italy, Ireland and the Netherlands. During 2007-2010 (fiscal year ended March), MWB's sales were relatively flat at approximately EUR448-490 million per annum. However, improving profitability drove EBITDA from EUR57 million in 2007 to EUR83 million in 2010 which equalled to 70% of TUF's EBITDA in 2010. As of March 2010, MWB had total assets of EUR559 million and total liabilities of EUR462 million. Total equity stood at EUR97 million.

After MWB acquisition, TUF has become the top tuna processor with canned tuna production of 330,000 tonnes per annum, equivalent to one fifth of the global canned tuna production capacity. TUF now owns a number of well-established brands in Europe including Petit Navire, John West, Mareblu, and Hyacinthe Parmentier. The John West brand has the largest market share in canned seafood in UK, Ireland and the Netherlands. Petit Navire is ranked No. 1 in canned seafood in France in terms of retail sales. The full acquisition of the brands solidifies the revenue base as sales under branded products will rise to 60% of total revenue from the current level of 50%. TUF is more geographically diversified. Sales in European markets now account for 31% of total revenue from 12% before the acquisition. Even though the US remains the major market, it represents 38% of total revenue compared with 48% pre-acquisition. Future synergies could be achieved through centralized procurement, by-product management, and know-how sharing with MWB. The MWB acquisition also provides TUF an opportunity to penetrate into other countries in Europe by leveraging MWB's brands and current EU import duty exemption for tuna produced at Seychelles and Ghana. However, execution of MWB after acquisition remains a challenge. The key risk factors of the investment include saturated market for canned seafood in leading European countries and tough competition in UK.

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. A strengthened market position in Europe and greater geographic diversification will help stabilize operations despite volatile tuna prices and foreign exchange rates.

Key Rating Considerations

Strengths/Opportunities

- The world's largest canned tuna processor
- Product and geographic diversification
- Vertical integration
- Strong brand equity of seafood products
- Capable management team

Weaknesses/Threats

- Mature canned tuna market in US and leading countries in Europe
- Exposure to fluctuations in commodity prices, especially raw tuna
- Deteriorated capital structure after MWB acquisition
- Tariff and non-tariff trade barriers
- Thai baht fluctuations

Corporate Overview

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

TUF was incorporated in 1988 by the Chansiri family and was listed on the Stock Exchange of Thailand (SET) in 1994. The company began primarily as 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 joined with Tri-Marine International, Inc. and the Gann Family Trust to set up Tri-Union Seafoods, LLC (COSI) in order to acquire the assets of Van Camp Seafood Company, Inc., owner of the "Chicken of the Sea" canned tuna brand in the US. In 2001, TUF purchased all COSI holdings from the two partners. 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 province, and set up Tri-Union Frozen Food, LLC (COSF) in the US as a retail distributor of its seafood products. The same year, the company acquired PT Juifa International Foods Co., Ltd. in Indonesia to add additional canned tuna capacity, particularly for albacore tuna. As of October 2010, the Chansiri family remained the major shareholder, holding 25.9% stake.

Throughout 2009 and the first nine months of 2010, canned tuna and frozen shrimp accounted for approximately 40% and 20% of TUF's total revenue, respectively. "Chicken of the Sea" continued to be TUF's flagship brand. About 43% of total sales were from its US brands, while another 48% was derived from contract manufacturing for export. The remaining 9% was from TUF's Thai brands. About half of sales revenue was from the US. The other half was derived from four key markets: the EU, Japan, the domestic market, and other countries. Each of these four key markets represented around 10%-15% of total revenue.

Table 1: TUF's Sales Breakdown by Product

Unit: %

Product	2006	2007	2008	2009	Jan-Sep 2010
Canned tuna	47	47	44	41	38
Frozen shrimp	20	20	19	20	23
Canned seafood	7	9	9	9	9
Canned pet food	9	8	9	8	9
Shrimp feed	7	6	5	6	7
Others	11	11	14	16	14
Total	**100**	**100**	**100**	**100**	**100**

Source: TUF

Recent Developments

- ***Acquired 100% of MWB***

In July 2010, TUF announced to acquire 100% of interest in MWB from Trilantic Capital Partner, a private equity fund, for a total consideration of EUR680 million. MWB is recognized by consumers as one of Europe's leading manufacturers of canned seafood products. Its operations are vertically integrated from fleets to production facilities to distribution channels in the European market. The portfolio of leading brands includes Petit Navire, John West, Mareblu, and Hyacinthe Parmentier. Sales of canned tuna contribute about 73% of total sales. Key production sites are located in Seychelles and Ghana. The major end markets are France, the UK, Italy, Ireland and the Netherlands. TUF received approval for the transaction from its shareholders in September 2010 and UK Office of Fair Trade in October 2010. The transaction was completed at the end of October 2010.

- ***Established a US pet food company***

In October 2010, TUF established US Pet Nutrition LLC., a processor and distributor of wet and dry pet food in the US. The investment was aimed at expanding its seafood-based pet food business in the US.

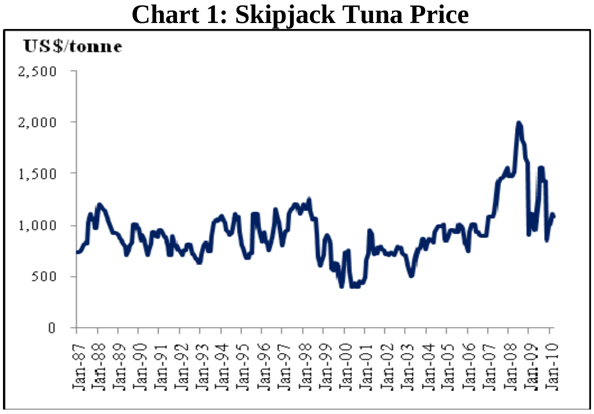
INDUSTRY ANALYSIS

Canned Tuna:

- ***Volatile tuna prices***

Canned tuna producers in Thailand rely solely on imports of raw tuna for their raw materials, the prices of which are determined primarily by world demand and supply. Since 2008, prices of raw tuna, especially skipjack tuna, most widely used for canned tuna, have been highly volatile. After peaking at US$1,990 per tonne in July 2008, skipjack tuna prices plunged below US$1,000 per tonne in January 2009 as the global economy slowed down. As prices of raw tuna weakened, canned tuna producers postponed orders, still waiting for lower price. Stability returned at the beginning of 2010 when prices held within the range of US$1,000 and US$1,100 per tonne.

Chart 1: Skipjack Tuna Price



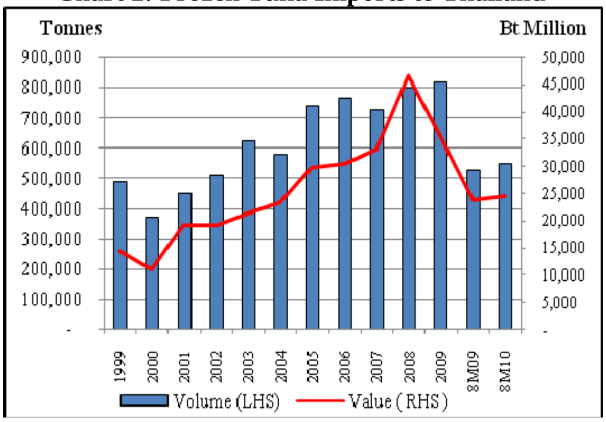
Source: GLOBEFISH

Prices once again reflected normal variation due to supply of the tuna catch and demand for tuna. Prices in 2010 increased due to lower supply of tuna resulted from changes in fishing conditions in the western and central Pacific.

- ***Increase in import volume***

The major exporting countries sending frozen raw tuna to Thailand are Taiwan, the US, Vanuatu, South Korea, Japan and the Maldives. In 2009, Thailand imported more frozen raw tuna: a total of 819,922 tonnes, or 2.5% more than the previous year. Import volume grew in line with increased demand on Thailand tuna products. Thai tuna products turned to be more attractive after tuna price fell. Frozen tuna imports grew further in the first eight months of 2010 rising by 3.8%, or 548,606 tonnes, from the same period in the previous year. In the same period, frozen tuna import value increased 3.8% over the same period of last year to Bt24,451 million. Thailand tuna importers also benefited from a stronger baht.

Chart 2: Frozen Tuna Imports to Thailand

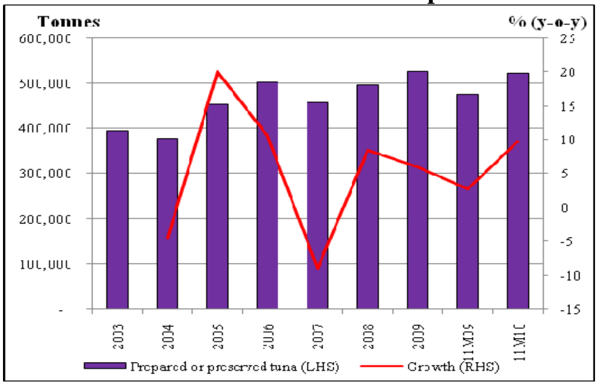


Source: Customs Department of Thailand

- ***Canned tuna export volume also grew but value dropped***

In terms of export destinations, the US is the biggest market, consuming 23% of total canned tuna exports, followed by Australia (8%), Canada (6%), and Japan (5%). In 2009, the volume of canned tuna exported totaled 485,206 tonnes, or a growth of 0.27% compared with the previous year. The volume of exported canned tuna in the first 11 months increased further by 7.96% over the same period in the previous year to 474,032 tonnes. However, the value of canned tuna exports from Thailand reported a 14.7% decline to Bt52,083 million during 2009 and a 0.16% decline to Bt47,591 million during the first 11 months of 2010. The lower tuna price and the strengthening of the Thai baht relative to the US dollar were the major factors responsible for the decline.

Chart 3: Thailand Tuna Exports

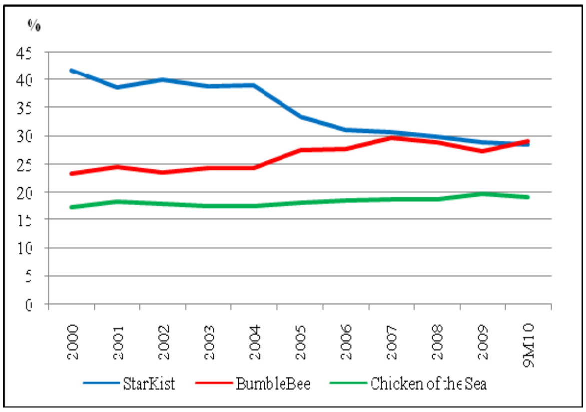


Source: Ministry of Commerce

- ***Thailand: the world largest canned tuna exporter***

Since the 1980s, canned tuna has been one of Thailand's major export food products. Thailand is the world's largest exporter of canned tuna**,** followed by Ecuador and Spain. Thailand has competitive advantages in terms of low-cost labor, logistic infrastructure and economies of scale in the cannery industry. Thailand is also the leader in the US tuna market, supplying about 47% of total US tuna imports in the first 10 months of 2010, or 277,464 tonnes, while the Phillippines, Indonesia, Vietnam, and Ecuador have about 9%, 9%, 8% and 6%, respectively.

Chart 4: US Canned Tuna Market Share



Source: TUF

In the US, there are three dominant canned tuna brands: StarKist, Bumble Bee, and Chicken of the Sea. StarKist, the long-time leader, has lost share in recent years, while the market shares of other brands have risen, especially Bumble Bee. Cost competitiveness is one of the key success factors for canned tuna producers. Canned tuna producers tend to locate their production plants in areas with tax exemptions or in countries with relatively low labour costs.

Shrimp:

- ***Shrimp exports continued to grow up amid economic slowdown***

Shrimp products are the top export earner among all Thai fishery products; more than 70% of domestic 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 99% of total shrimp production in Thailand.

The major export markets for Thai shrimp are the US, (43% of total shrimp export volume), followed by Japan (19%) and Canada (5%). Despite the global economic downturn in 2009, the growth in shrimp exports from Thailand was partially supported by the reduction of production in Vietnam and Indonesia owing to shrimp infection epidemics. The total export volume of shrimp from Thailand rose by 10.1% in the first 11 months of 2010 from a 8.8% growth in 2009, according to the Ministry of Commerce. Shrimp exports in the first 11 months of 2010 equalled to 391,612 tonnes.

- ***Shrimp exporters faced import barriers from overseas***

Shrimp exported to the US from the top five exporting countries (Thailand, Indonesia, Ecuador, China, and Vietnam) are subject to antidumping (AD) duties. The fourth AD administrative review covered Thailand shrimp imported into the US from 1 February 2008 to 31 January 2009 (POR4). In the final ruling of this review, Thailand's AD duty rate was decreased to 2.61% from the previous rate of 4.71%. This rate is now lower than Vietnam (4.27%) and India (2.67%). A lower AD duty rate may indicate the potential of a competitive advantage for Thai producers in the future. Moreover, on 1 April 2009, the US Custom and Border Protection (CBP) withdrew the enhanced bonding requirement, or continuous bond (C-bond). The C-bond was required for importers subject to AD duties. Importers had to maintain a minimum bond at 100% of the AD duty rate multiplied by the value of imports over the previous 12 months. Exporters of shrimp from Thailand to the US are now required to post only a basic bond amount equivalent to the greater of US$50,000 or 10% of the duties, taxes and fees paid during the preceding year. Despite the trade barriers, TRIS Rating believes that Thai shrimp exporters still have competitive advantages and should be able to maintain their leading position in the US market due to an established market presence and high product quality.

- ***Shrimp exports rose in 2009 and 2010***

Because of the US economic slowdown which started at the end of 2008, US imports of shrimp in 2009 dropped to 552,211 tonnes, down from 566,490 tonnes in 2008. In the first 10 months of 2010, the import volume was similar to the amount of shrimp imported in the same period of 2009, or about 450,000 tonnes. In contrast, exports of shrimp from Thailand to the US rose by 5.1% in 2009 and 5.9% in the first 10 months of 2010. The jump came because some major shrimp producers lowered their production due to negative factors such as disease, mass mortality of shrimp, and the oil spill in the Gulf of Mexico. The market share of Thai exporters to the US market rose steadily from 34.9% in 2009 to 36% in the first 10 months of 2010.

Shrimp exports to the EU tell an even brighter story. 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 and processed shrimp were reduced from 12% and 20% to 4.2% and 7%, respectively. In 2009, Thai shrimp exports to the EU increased by 14.5% to 44,316 tonnes.

Chart 5: Thailand Shrimp Exports

Source: Ministry of Commerce

Exports to Japan have also been encouraged under the tariff reduction scheme of Japan-Thailand Economic Partnership Agreement (JTEPA). The import tariff on Thai shrimp fell to 0% in the year following November 2007. This benefited Thailand, already one of the top shrimp exporters to Japan. Exports of shrimp from Thailand to Japan in 2009 increased by 28.6% to

32,081 tonnes, as imports from Vietnam, Indonesia, and China fell.

BUSINESS ANALYSIS

TUF's business profile reflects its leading position in the tuna and shrimp processing industries. A broad and diverse product portfolio helps stabilize revenue despite volatile tuna prices. The acquisition of MWB further strengthens its position as the largest canned tuna processor. Its footprint in Europe has also expanded firmly with the acquisition of MWB. A larger and more diversified portfolio with strong brand equity enhances revenue predictability to TUF.

- ***Leading producer of tuna and shrimp***

TUF's canned tuna sales are about 200,000 tonnes per annum, over a tenth of the world's annual canned tuna production of approximately 1.6-1.7 billion tonnes. In 2009, TUF exported approximately 160,000 tonnes of canned tuna, or about 40% of all canned tuna exports from Thailand. Given that Thailand is the largest exporter of canned tuna in the world, TUF is considered one of the leading producers of canned tuna. TUF's leading position in canned tuna is further strengthened after it acquired MWB in October 2010. MWB produces about 100,000 tonnes of canned tuna per year. Once combined with MWB, production volume of TUF now stands at 300,000 tonnes per year, or about one fifth of total global tuna production.

TUF is also one of key players in shrimp business. The company exported about 23,000 tonnes of shrimp in the first nine months of 2010, representing 7.8% of frozen shrimp exports from Thailand.

- ***Vertically integrated operation***

TUF procures raw tuna and shrimp from vendors and contract farmers, with which it has established relationships. Frozen raw tuna is purchased from traders who have contracts with several fishing fleets operating in the Pacific Ocean and the Indian Ocean. In addition, it procures about 8% of total raw tuna need from its four own fleets. TUF has some concentration risk in raw tuna procurement as the top five suppliers have represented 40%-60% of total raw tuna purchases for the past three years.

The ability to fully utilize raw materials provides TUF another competitive edge over smaller producers. 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 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 more than 10% of the total. TUF exports shrimp products in the US through Empress in the wholesale channel and COSF in the retail segment.

- ***Economies of scale and vertical integration enhance cost competitiveness***

Large scale production, particularly of canned tuna and shrimp products, and vertical integration in tuna business enhance cost competitiveness for TUF. A large 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.

- ***Diversification reduces revenue and cash flow variability***

The recent global economic crisis made raw tuna prices and foreign exchange rates quite volatile. However, a broad and diverse product line supported TUF's revenue during 2009 through the first nine months of 2010. Falling prices of raw tuna and the global economic crisis depressed sales of tuna products by 11% in 2009. However, the decline was offset by growth in domestic sales and sales of canned sardines and mackerel in the same period. Total revenue of TUF in 2009 was flat at Bt68,994 million. During the first nine months of 2010, the need to build inventory at its new plant in Georgia lowered sales of tuna products by 9% to US$611 million. The dull in tuna sales was moderated by strong demand in shrimp products of Thailand caused by supply disruptions in other major exporting countries as well as 10%-12% growth in sales of canned seafood and pet food. Total sales of TUF in US dollar terms rose by 6% compared with the same period of 2009. However, the baht has strengthened against the US dollar since the end of 2009. As a result, revenue in baht terms remained flat at Bt50,859 million for the first nine months of 2010.

- ***More geographic diversification with less dependence on the US***

In terms of geographic diversity, the US, EU, and Japan combined constitute about three-fourths of TUF's revenues, with the US accounts for as much as 49% of total revenue. After MWB consolidation, TUF is more geographically diversified. Sales in European markets account for 31% of total revenue, up from 12% before the acquisition. Even though the US remains the major market, it represents 38% of total revenue compared with 49% pre-acquisition.

Table 2: TUF's Sales Breakdown by Geography

Unit: %

Market	2006	2007	2008	2009	Jan-Sep 2010
USA	57	55	50	49	49
EU	10	12	15	13	12
Japan	10	9	10	11	12
Thailand	10	10	9	11	12
Others	14	15	16	16	15
Total	**100**	**100**	**100**	**100**	**100**
Total sales (US$ million)	**1,447**	**1,607**	**2,062**	**2,013**	**1,581**

Source: TUF

- ***Solid market position in Europe***

On top of owning the "Chicken of the Sea", the third largest canned tuna brand in US, TUF has become the owner of a number of top European brands of seafood products after MWB acquisition.

Table 3: Summary of MWB's Key Brands in Europe

	France	UK	Italy	Ireland	Netherlands
Seafood market size in 2009 (EUR mil.)	773	534	910	39	66
Key brand	Petit Navire, H. Parmentier	John West	Mareblu	John West	John West
Market position	#1,#3	#1	#3	#1	#1
Market share	29%	33%	5%	70%	34%

Source: TUF

Petit Navire is ranked first in France with a market share of 29% in terms of retail sales. John West is another recognized brand of MWB. It is tops in the UK with a market share of 33%. John West is also ranked first in Ireland and the Netherlands even though these markets are smaller than the UK and France. As 80% of MWB's revenues are derived from these well-established brands in Europe, TUF's market position in Europe becomes more concrete.

- ***Increasing portfolio with brand equity***

Consolidation with MWB benefits TUF with more brand equity in the portfolio. Sales under branded products are expected to rise as high as 60% from about 50% previously. Rising sales with brands enable revenue of TUF to become more predictable. The brand strengths also provide 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.

- ***More synergies from MWB integration***

In addition to the stronger market position in Europe from MWB, TUF is expected to have further benefits after taking full control of MWB. TUF's fishing sources will spread to the western Indian Ocean and the Atlantic Ocean in addition to the Indian Ocean and west Pacific Ocean region at present. TUF now accesses almost 100% of the sources of tuna catches worldwide. Four of TUF's fleets with a total capacity of 45,000 tonnes will be transferred to and operated by MWB's subsidiary in Seychelles. The cost of fish procurement will fall as Seychelles is closer to fishing grounds in the Indian Ocean. More synergies can be achieved through centralized procurement of non-fish products. MWB's by-products will be more effectively managed and converted to more value-added products such as shrimp feed or pet food. As one of the most efficient tuna processors, TUF can exchange know-how with MWB to improve yields in tuna production. These synergies will help improve TUF's profitability in the long term.

- ***Experienced management team***

TUF's managers are highly experienced 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 that drive growth and will continue to be the main engine to propel the company's presence in the global seafood industry. 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 the 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 sources of raw materials and to build its market presences in new and existing markets. In pursuing this strategy, the company should also try to balance its financial profile in terms of leverage and operating margins.

FINANCIAL ANALYSIS

Broad product diversification helps maintain TUF's revenue. Efficient and effective cost management kept operating margin at satisfactory level of 7% during 2009-2010 despite the volatilities of raw material prices and foreign exchange rates. The MWB acquisition will expand TUF's sales base and profitability considerably. Leverage and cash flow protection weakened after MWB acquisition, but will gradually improve within the next few years.

- ***Diversification stabilizes revenue***

TUF's revenue throughout 2009 and the first nine months of 2010 was relatively flat with total revenue in 2009 of Bt68,994 million. An 11% revenue decline in the tuna business in 2009 was offset by growth in sales of domestic products and canned sardine and mackerel in the same period. In the first nine months of 2010, spectacular growth in the shrimp-related businesses, canned seafood, and pet food offset a decline in the tuna business and the stronger baht impact. Total revenue in baht terms was at Bt50,859 million, down by merely 1.8% compared with the same period of 2009.

Looking forward, with the contribution from MWB and the global economic recovery, TUF's total revenue is expected to grow over the next few years. TUF can enhance growth by penetrating into other countries in Europe by leveraging MWB's existing brands, and the current EU import duty exemption for tuna produced at Seychelles and Ghana as per the Cotonou Partnership Agreement. TUF plans to expand to emerging markets, such as Latin America, Russia, Africa and the Middle East of which the appetite for seafood products is expected to increase. These growth opportunities should partly mitigate the impact of flat tuna consumption and competitive environment in the US and leading European countries such as France and UK.

- ***High shrimp cost and volatile tuna price lowered operating margin in 2010***

The price of raw tuna was volatile during the first nine months of 2010. Fewer catches in the western and central Pacific fishing grounds and the imminent fishing restrictions in the east and west of the Pacific Ocean caused the prices of raw tuna to rise significantly. The price of skipjack tuna jumped to US$1,700 dollar per tonne in June 2010 from approximately US$1,000 dollar per tonne in the beginning of the year. Most buyers had delayed purchases following price hikes. Raw tuna price collapsed and fell to US$1,100 by October 2010. More catches from the western Pacific also depressed raw tuna price. In the shrimp business, stronger-than-expected demand for shrimp products drove up prices for raw shrimp significantly while sales prices remained fixed according to presales contracts. In addition, the baht to US dollars exchange rate strengthened by 6% in baht terms compared with average rate in 2009. These factors caused TUF's operating margin before depreciation and amortization to slip to 7.1% compared with 7.6% during the same period of last year.

Despite the drop, an operating margin at 7.1% is considered satisfactory compared with margins that ranged from 5.5%-6.4% during 2005-2008. The rise in margin reflected TUF's efficient and effective cost control. In the future, TUF's operating margin is expected to improve notably due to the consolidation of MWB. In 2010 (fiscal year ended March) MWB generated an EBITDA margin of 18.2%, higher than TUF's EBITDA margin of 8.0% in the first nine months of 2010.

- ***Weaker capital structure is expected***

TUF's debt level was typically maintained at 40%-50% of capitalization during the last five years. The amount of leverage varied on the working capital requirements, which mainly hinged on the cost of inventory. Leverage rose to around 50% in 2007 and 2008, pushed up by vessel purchases and higher inventory costs. As of December 2009 and September 2010, the total debt to capitalization ratio stood at 40.0% and 42.0%, respectively. The lower leverage level was a result of falling raw material prices, which in turn led to lower inventory and lower working capital requirements.

TUF's financial strengths deteriorated after the acquisition of MWB with total worth of EUR700 million in October 2010. The acquisition increased leverage significantly as 87% of the consideration or approximately EUR611 million was from debt financing; the remainder or 13% was from equity financing. TUF borrowed EUR211 million from domestic banks and MWB borrowed another EUR340 million from foreign banks. TUF also issued four-year convertible debentures worth EUR60 million. For the equity portion, TUF successfully issued 73 million new shares via a rights offering and a private placement, receiving EUR89 million in cash. After the acquisition, the debt to capitalization ratio of TUF rose substantially to approximately 60%, from the pre-acquisition level of 42% as of September 2010. This ratio is expected to improve to 50% within the next few years after the contribution from MWB has been fully realized.

- ***Satisfactory liquidity and cash flow protection***

TUF's liquidity measures are considered strong for the first nine months of 2010. EBITDA interest coverage ratio was at 10.4 times. The funds from operation (FFO) to total debt ratio was 25.8% (non-annualized). Working capital financing is supported by strong and established relationships with financial institutions.

Cash flow protection will fall after the consolidation of MWB but it will remain at an acceptable level. The EBITDA interest coverage ratio will fall to approximately five times compared with six to seven times during 2006-2008. Liquidity is considered adequate. During 2011-2013, TUF has scheduled debt repayments of Bt2,000-Bt3,500 million per year. According to the bank loan covenants, capital expenditures of TUF must be less than Bt3,000 million per annum and dividend payments are limited to Bt1,200 million per year. The planned repayments and capital expenditures will be partly funded by its operating cash flow. TUF generates EBITDA of approximately Bt9,000-Bt10,000 million per year. In addition, as of December 2010, TUF had credit facilities of Bt13,000 million from several banks to support additional funding needs.

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Sep 2010	------------- Year Ended 31 December 2009	2008	2007	2006	2005 --------------
Sales	50,859	68,994	69,048	55,507	55,039	53,643
Gross interest expense	393	602	635	580	608	361
Net income from operations	1,843	2,992	2,116	1,639	1,814	2,058
Funds from operations (FFO)	3,573	5,020	3,944	3,071	2,711	3,354
Capital expenditures	1,970	1,990	1,725	2,476	1,425	1,030
Total assets	38,403	35,870	39,781	33,576	26,800	26,994
Total debt	12,812	12,249	17,614	14,117	9,123	9,536
Shareholders' equity	19,138	18,411	16,231	14,570	13,768	12,820
Operating income before depreciation and amortization as a % of sales	7.13	7.55	5.55	5.89	6.39	6.36
Pretax return on permanent capital (%)	10.18 **	14.05	10.32	10.34	12.88	13.69
Earnings before interest, tax, depreciation and amortization (EBITDA) interest coverage (times)	10.38	9.31	6.66	6.28	6.29	10.40
FFO/total debt (%)	25.77 **	40.98	22.39	21.75	29.72	35.17
Total debt/capitalization (%)	42.01	39.95	52.04	49.21	39.85	42.66

* *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 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.

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.*