



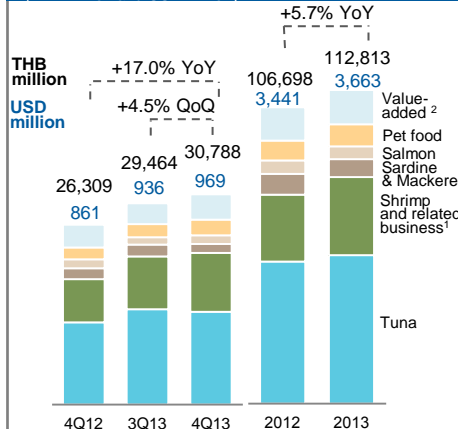
# THAI UNION FROZEN PRODUCTS

Investor Note

## Surviving the Perfect Storm

### Sales

(THB million and USD million)



Remark:  
 1 Shrimp & related business Includes frozen shrimp & shrimp feed  
 2 Value-added & other products includes Ready-to-eat (RTE) products, frozen cephalopod, canned seafood, local products, bakery products, and scraps.

### New sales record

- 4Q13 total sales rose by 17.0% YoY thanks mainly to higher sales of shrimp & related business<sup>1</sup>, higher sales of tuna, and weaker THB. On QoQ basis, total sales increased by 4.5% due to higher sales of shrimp & related business<sup>1</sup>, value added & other products, and pet food.
- 2013 total sales hit another record level of THB 112.8bn with 5.7% growth YoY due to higher sales of shrimp & related business<sup>1</sup>, tuna, and pet food. However, 2013 USD sales was 3.6% below USD3.8bn target due to challenging factors in tuna and shrimp & related business<sup>1</sup>.

### GPM excluding one-offs showed recovery sign since 3Q13

- 4Q13 GPM increased YoY to 12.9% thanks mainly to higher GPM of branded tuna (from more rational US market competition in 2013) and shrimp & related business<sup>1</sup>(from well-managed business operation in 2H13). However, GPM was lower QoQ from 13.9% due to one-time

### Stock Information

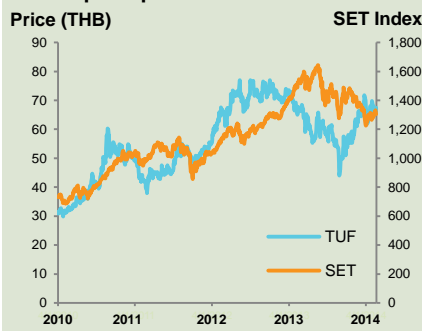
(Bloomberg/ Reuters)  
(TUF TB/ TUF.BK)

<b>Share price (21/02/2014) :</b>	THB 67.50
<b>Historical price :</b>	
52-week high	THB 71.75
52-week low	THB 43.75
<b>No. of Shares :</b>	1,147.6m
<b>Par value :</b>	THB 1.0
<b>Market Capitalization :</b>	THB 77.5b
<b>Avg. daily turnover (last 6 months) :</b>	THB 183.9m
<b>Free float :</b>	58.2%
<b>Foreign ownership :</b>	37.8%
<b>Foreign limit :</b>	45.0%

### Major shareholders :

(28/08/2013)	
Chansiri Family	22.59%
Niruttinanon Family	7.49%
Mitsubishi Corporation	7.58%
Thai NVDR Co., Ltd.	6.93%
Social Security Office	3.96%

### Share price performance :



Source: Settrade (21/02/14)

inventory write-offs at MWB (THB 238 mn from substandard stocks) and USPN (THB 344 mn from business restructure). Excluding these one-off items, 4Q13 normalized GPM should have improved QoQ to 14.8%.

- 2013 GPM dropped YoY to 12.6% due to lower GPM of 1) OEM tuna (from volatile raw material prices at high level) 2) pet food (from higher loss and one-time inventory write-off at USPN due to business restructure) and 3) frozen shrimp business (loss from export business in 1H13 due to EMS impact, but returned profitability in 2H13). 2H13 GPM improved to 13.4% (normalized 2H13 GPM was 14.4%) from 11.7% in 1H13.
- Excluding the one-off items in 4Q13, 2013 normalized GPM should have been 13.1%.

### Dampened EBITDA YoY from lower GPM and FX gain

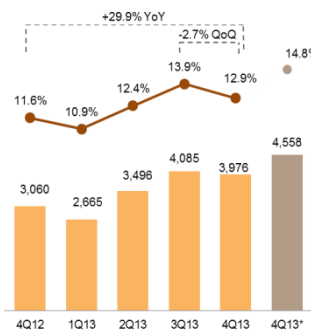
- 4Q13 EBITDA boosted by 44.8% YoY thanks to higher GPM and one-off gain from accounting treatment at subsidiary level (THB 327mn). On QoQ basis, EBITDA declined by 6.3% due to squeezed GPM, FX loss of THB 150 mn (compared to FX gain of THB 103 mn in 3Q13), and aforementioned one-off other income. %SG&A to sales were higher QoQ to 9.3% due mainly to higher sales promotion expense.
- 2013 EBITDA declined by 19.9% YoY due mainly to lower GP and lower FX gain (THB 52 mn in 2013 vs THB 497 mn in 2012) despite one-off gain from accounting treatment at subsidiary level.
- EBITDA margin dropped to 7.0% while %SG&A to sales were in-line with the budget (9.1% vs 9.0%).

### Recovery in 2H13 amid full year of challenges

- 4Q13 net profit increased by 33.1% YoY to THB 815 mn thanks mainly to improved GPM and one-off gain from accounting treatment at subsidiary level.
- However, net profit declined by 18.8% QoQ mainly as a result of lower GPM and FX loss.
- 2013 net profit dropped by 39.2% YoY due mainly to lower GPM, lower FX gain, and higher tax expense (2013 effective tax rate was 12.4% vs 2.1% in 2012 as a result of tax credit from operating loss of US subsidiaries in 2012).

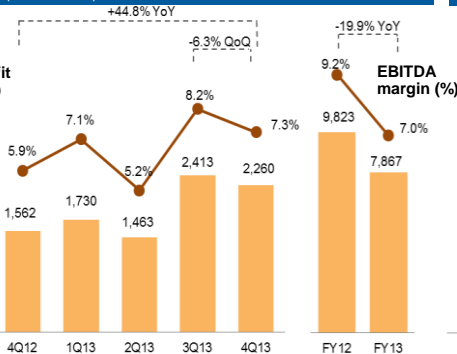
### Gross Profit and GPM

(THB million)



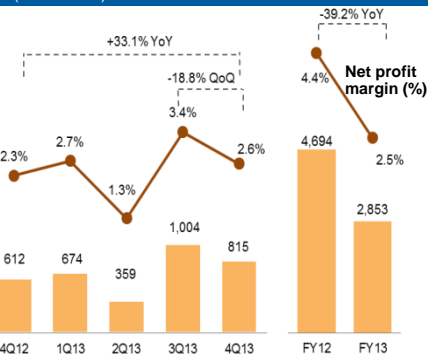
### EBITDA and EBITDA margin

(THB million)



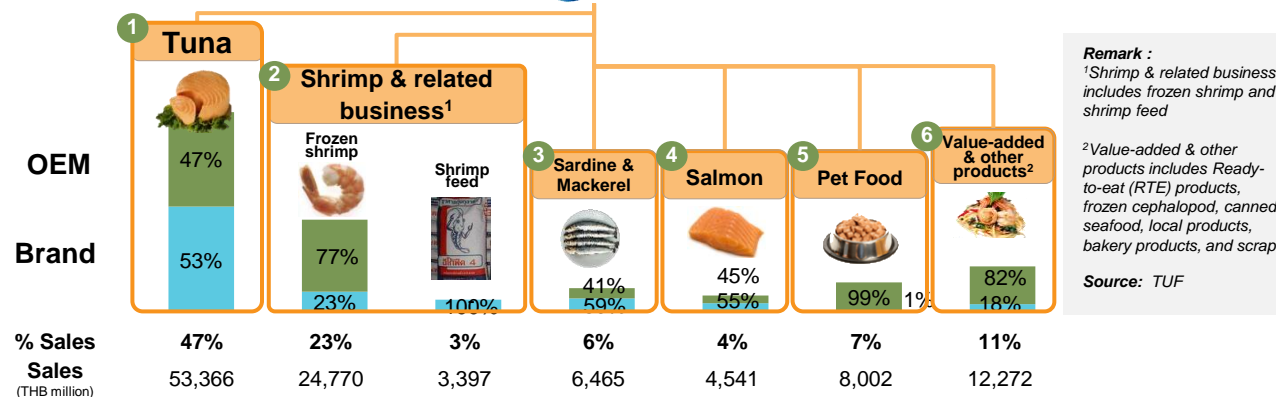
### Net Profit and NPM

(THB million)



## Performance by 6 Strategic Business Units

Total sales 2013: THB 112,813m (USD 3,663m)



**Remark :**  
<sup>1</sup>Shrimp & related business includes frozen shrimp and shrimp feed

<sup>2</sup>Value-added & other products includes Ready-to-eat (RTE) products, frozen cephalopod, canned seafood, local products, bakery products, and scrap

Source: TUF

### Tuna

- 2013 tuna sales increased by 4.4% YoY due mainly to price adjustment of branded business despite lower sales volumes of OEM and branded business. 2013 OEM sales volumes were lower than expected when customers delayed orders during 1H13 after facing volatile tuna raw material prices at the high level, followed by delay shipment to the Middle East countries in 3Q13 due to their political unrest. Despite the low season, 4Q13 tuna sales value dropped by 2.6% QoQ only thanks to the 3-year-low of raw material prices in late Nov drawing higher sales volumes of OEM business.

- In 4Q13, the average prices of Skipjack raw material were on the way down to USD1,580/ton (-15% from USD1,868/ton in 3Q13) due mainly to the higher supply after the FAD ban was over and from good tuna catches in winter. A continued QoQ decrease of tuna raw material prices in 4Q13 pressured GPM of OEM business despite higher sales volume. Excluding one-time inventory write-off at MWB from substandard stocks, GPM of branded business and total tuna should have been 18.9% and 13.5%, respectively.

- 2013 GPM declined to 12.5% from 14.8% in 2012 due mainly to lower GPM of OEM business from delayed orders during 1H13 despite reasonable GPM of branded business in both US (from more rational US market competition) and Europe (from the price adjustment). 2H13 GPM improved to 13.0% (normalized 2H13 GPM was 13.4%) from 11.9% in 1H13.

#### Outlook:

- The current low tuna raw material price environment should support retailers' promotion activities to stimulate consumption and entice higher sales volume of OEM business.
- In the longer term, the stable and reasonable tuna raw material prices should entice customers to increase orders as tuna remains the cheapest protein compared to other meat products.
- Under the current low tuna raw material prices, GPM of OEM business should improve when more orders come in. Branded business should also benefit from the current lowering cost of raw materials.

### Shrimp and Related Business<sup>1</sup>

- 2013 shrimp & related business<sup>1</sup> sales increased by 17.0% YoY despite prevailing EMS thanks mainly to higher sales of frozen shrimp business which were driven by 1) successful price adjustment of frozen shrimp for export in 2H13 amid supply shortage 2) consolidation of PPC since March 2013 and 3) strong performance of the US seafood trading unit thanks to its global sourcing network. Shrimp feed sales, on the other hand, were lower YoY due to EMS outbreak. 4Q13 shrimp & related business<sup>1</sup> sales continued to grow by 11.6% QoQ due to higher sales of frozen shrimp for export as well as strong performance of the US seafood trading unit despite lower QoQ domestic shrimp feed sales.

- 2013 GPM of frozen shrimp declined YoY to 8.9% from 11.7% in 2012 due mainly to the significant increase of shrimp raw material prices as a result of supply shortage from the EMS outbreak. White shrimp raw material prices rose by 60% YoY to an average of THB 218/kg (60 pcs) from THB 136/kg in 2012.

- Frozen shrimp for export out of Thailand was under pressure with loss in 1H13 due to continued rising of raw material prices that challenged the price adjustment. However, GPM of frozen shrimp for export has returned to profit since 3Q13 thanks to well-executed operation (successful price adjustment, partial import of raw materials to fill capacity, and success of cost cutting and productivity boosting program). The US seafood trading unit, however performed well thanks to its global sourcing network. 2H13 GPM improved to 11.4% from 5.2% in 1H13.

#### Outlook:

- Expect to see 20% improvement of Thailand's shrimp output in 2014 despite EMS environment. However, the cooler than normal temperature in Jan 2014 should negatively affect the shrimp farming productivity and may delay the first harvest to June/July.
- As long as there is no real cure for the EMS, recovery of domestic shrimp supply will remain low.
- Domestic shrimp raw material prices should remain high until the new supply come out.
- GPM of frozen shrimp for export should improve thanks to generally improved pricing of new orders.

## Performance by 6 Strategic Business Units (cont'd)

### Sardine & Mackerel

- 2013 sales decreased YoY due to lower OEM sales from lower sales volume of certain customers.
- 2013 GPM are slightly lower YoY due mainly to declining OEM volume and lack of proper raw materials.

#### Outlook:

- More opportunities in emerging markets to support future business growth.

### Pet Food

- 2013 sales increased YoY due mainly to higher sales volume.
- 2013 GPM dropped YoY due to the continual loss at USPN operation and one-time inventory write-off from USPN business restructuring in 4Q13.

#### Outlook:

- Promising outlook as the market has grown with inelastic demand and relatively higher margin.
- Expect to see breakeven of USPN in 2014.

### Salmon

- 2013 sales were lower YoY due mainly to lower OEM sales of certain customers.
- 2013 GPM improved YoY thanks to price adjustment of branded business. A QoQ drop of OEM GPM in 4Q13 came from lower selling prices.

#### Outlook:

- Outlook for salmon is stable.

### Value-Added and Other Products<sup>2</sup>

- 2013 sales slightly increased YoY due mainly to higher sales of ready-to-eat (RTE) products.
- 2013 GPM declined YoY due mainly to lower margin of non-tuna products.

#### Outlook:

- Focus continues to be on higher margin RTE products.

## 4Q13 & 2013 Financial Statement and Performance

### Consolidated Income Statement

(Million baht)	4Q13		4Q12		3Q13		4Q13/ 4Q12		4Q13/ 3Q13		2013		2012		2013 2012	
		% to sales		% to sales		% to sales	Change	Change		% to sales		% to sales		% to sales	Change	Change
Sales	30,788	100.0%	26,309	100.0%	29,464	100.0%	17.0%	4.5%	112,813	100.0%	106,698	100.0%	5.7%			
Cost of sales	(26,812)	-87.1%	(23,249)	-88.4%	(25,379)	-86.1%	15.3%	5.6%	(98,590)	-87.4%	(90,336)	-84.7%	9.1%			
<b>Gross profit</b>	<b>3,976</b>	<b>12.9%</b>	<b>3,060</b>	<b>11.6%</b>	<b>4,085</b>	<b>13.9%</b>	<b>29.9%</b>	<b>-2.7%</b>	<b>14,222</b>	<b>12.6%</b>	<b>16,362</b>	<b>15.3%</b>	<b>-13.1%</b>			
SG&A expenses	(2,864)	-9.3%	(2,179)	-8.3%	(2,591)	-8.8%	31.5%	10.5%	(10,234)	-9.1%	(9,493)	-8.9%	7.8%			
FX gain (loss)	(150)	-0.5%	7	0.0%	103	0.3%	-2315.9%	-245.4%	52	0.0%	497	0.5%	-89.6%			
Other income	701	2.3%	133	0.5%	228	0.8%	427.1%	207.8%	1,589	1.4%	555	0.5%	186.5%			
<b>EBIT</b>	<b>1,664</b>	<b>5.4%</b>	<b>1,021</b>	<b>3.9%</b>	<b>1,825</b>	<b>6.2%</b>	<b>62.9%</b>	<b>-8.8%</b>	<b>5,628</b>	<b>5.0%</b>	<b>7,921</b>	<b>7.4%</b>	<b>-28.9%</b>			
Finance cost	(521)	-1.7%	(390)	-1.5%	(406)	-1.4%	33.6%	28.4%	(1,655)	-1.5%	(2,329)	-2.2%	-28.9%			
<b>EBT</b>	<b>1,143</b>	<b>3.7%</b>	<b>632</b>	<b>2.4%</b>	<b>1,419</b>	<b>4.8%</b>	<b>81.0%</b>	<b>-19.5%</b>	<b>3,974</b>	<b>3.5%</b>	<b>5,592</b>	<b>5.2%</b>	<b>-28.9%</b>			
Tax	28	0.1%	116	0.4%	(266)	-0.9%	-75.8%	-110.6%	(495)	-0.4%	(120)	-0.1%	311.6%			
<b>Net income</b>	<b>1,171</b>	<b>3.8%</b>	<b>748</b>	<b>2.8%</b>	<b>1,154</b>	<b>3.9%</b>	<b>56.6%</b>	<b>1.5%</b>	<b>3,479</b>	<b>3.1%</b>	<b>5,471</b>	<b>5.1%</b>	<b>-36.4%</b>			
<b>Net income (loss) attributable to:</b>																
<b>Equity holders of the Company</b>	<b>815</b>	<b>2.6%</b>	<b>612</b>	<b>2.3%</b>	<b>1,004</b>	<b>3.4%</b>	<b>33.1%</b>	<b>-18.8%</b>	<b>2,853</b>	<b>2.5%</b>	<b>4,694</b>	<b>4.4%</b>	<b>-39.2%</b>			
Non-controlling interests of the subsidiaries	356	1.2%	136	0.5%	150	0.5%	162.5%	137.8%	626	0.6%	778	0.7%	-19.5%			
<b>Earnings per share</b>																
Basic earnings per share	0.71		0.48		0.87		48.0%	-18.8%	2.49		4.39		-43.3%			
Diluted earnings per share	0.69		0.48		0.87		44.7%	-20.6%	2.47		4.29		-42.4%			
<b>Exchange rate</b>																
THB/USD	31.77		30.56		31.49		4.0%	0.9%	30.80		31.00		-0.7%			

### Statement of Financial Position

(Million baht)	Consolidated				
	2013	% to total assets	2012	% to total assets	Change
Cash and cash equivalents	1,621	1.5%	1,400	1.5%	15.8%
Trade and other receivables	13,948	12.9%	11,918	12.6%	17.0%
Inventories - net	36,917	34.1%	33,290	35.1%	10.9%
Other current assets	3,058	2.8%	1,728	1.8%	77.0%
Total current assets	55,544	51.3%	48,337	51.0%	14.9%
Fixed assets	21,473	19.8%	17,923	18.9%	19.8%
Other non-current assets	31,273	28.9%	28,499	30.1%	9.7%
<b>Total assets</b>	<b>108,290</b>	<b>100.0%</b>	<b>94,759</b>	<b>100.0%</b>	<b>14.3%</b>
Bank overdrafts and short-term loans	29,375	27.1%	22,511	23.8%	30.5%
Trade and other payables	9,802	9.1%	10,545	11.1%	-7.0%
Current portion of long-term loans	4,077	3.8%	899	0.9%	353.5%
Other current liabilities	3,676	3.4%	1,594	1.7%	130.6%
Total current liabilities	46,930	43.3%	35,549	37.5%	32.0%
Long-term borrowings	9,598	8.9%	11,598	12.2%	-17.2%
Other non-current liabilities	8,414	7.8%	7,268	7.7%	15.8%
<b>Total liabilities</b>	<b>64,943</b>	<b>60.0%</b>	<b>54,415</b>	<b>57.4%</b>	<b>19.3%</b>
Non-controlling interests of the subsidiaries	3,811	3.5%	3,128	3.3%	21.8%
<b>Total shareholders' equity</b>	<b>43,347</b>	<b>40.0%</b>	<b>40,344</b>	<b>42.6%</b>	<b>7.4%</b>
<b>Total liabilities and shareholders' equity</b>	<b>108,290</b>	<b>100.0%</b>	<b>94,759</b>	<b>100.0%</b>	<b>14.3%</b>

### Relevant Financial Ratios

Ratio	4Q13	3Q13	2Q13	1Q13	4Q12	2013*	2012*
ROE <sup>1</sup>	8.4%	10.7%	3.9%	7.3%	6.6%	7.4%	15.2%
ROA <sup>2</sup>	6.3%	7.1%	3.7%	5.1%	4.4%	5.5%	8.9%
A/R Turnover (days)	38	41	42	43	41	40	38
Inventory Turnover (days)	123	126	125	138	121	128	119
Gearing Ratio <sup>3</sup>	1.50x	1.46x	1.49x	1.37x	1.35x	1.50x	1.35x
NDE Ratio <sup>4</sup>	0.96x	0.92x	0.97x	0.88x	0.83x	0.96x	0.83x

Remark: <sup>1</sup>ROE = Annualized quarterly net profit / Average total shareholders' equity

<sup>2</sup>ROA = Annualized quarterly EBIT / Average total assets

<sup>3</sup>Gearing ratio = Total liability / Total shareholders' equity

<sup>4</sup>NDE ratio = Net interest-bearing debt / Total shareholders' equity, Net interest-bearing debt = Total interest-bearing debt - Cash and Cash equivalents

\* Use annual figures to calculate the ratios

Source: TUF

### Financial Statement Analysis

2013 was a year of perfect storm for TUF with many challenges

- Lower tuna sales volume due to volatile tuna raw material prices at high level that dampened consumption and delayed OEM customer orders during the year until 4Q13.
- Rising shrimp raw material prices as well as the shortage of shrimp supply caused by EMS epidemic resulted in loss at frozen shrimp business for export during 1H13.
- Continued loss of pet food in the US (USPN) instead of target breakeven in 4Q13.

However, our branded tuna business showed resilient growth from 2012 thanks to the price adjustments in Europe and more rational market competition in the US. In addition, our frozen shrimp business for export returned to profitability since 3Q13 from 1H13 loss thanks to the successful price adjustment, partial import of shrimp raw materials to fill capacity (with customer acceptance), and success of cost cutting and productivity boosting program. Amid EMS epidemic, our seafood trading business in the US showed strong performance during the year thanks to its global sourcing ability. For USPN, we restructured its business in 2H13 that resulted in one-time inventory write-off in 4Q13 with the new breakeven target some time in 2014.

Despite a lower consolidated GPM YoY, 2H13 performance showed signs of recovery from 1H13 particularly in the tuna and shrimp & related business<sup>1</sup>. 2H13 consolidated GPM improved to 13.4% from 11.7% in 1H13. Excluding one-time inventory write-offs at MWB and USPN, the normalized consolidated GPM in 2H13 should have been 14.4%.

2013 net profit dropped YoY due mainly to lower GPM, lower FX gain, and higher tax expense.

#### Selling and administrative expense

- 2013 SG&A was 7.8% higher YoY mainly as a result of higher personnel and sales promotion expenses. %SG&A to sales was 9.1%, remained in-line with the 9% budget. 4Q13 %SG&A to sales was 9.3%. SG&A was higher by 31.5% YoY and 10.5% QoQ due mainly to higher personnel and sales promotion expenses.

#### FX Gain/loss

- 2013 FX Gain declined by 89.6% YoY to THB 52 million. There was a FX Loss of THB 150 mn in 4Q13 due to the rapid exchange rate movement and mark-to-market of hedging instruments during the quarter.

#### Other income (including share of income from investment in associates)

- 2013 other income significantly increased by 186.5% YoY due mainly to one-off gain from accounting treatment at subsidiary level booked in 4Q13 (THB 327 million), reimbursement of insurance compensation from the fire incident of the shrimp plant booked in 1Q13 (THB 215 million), an increase of share profit from investments in associates (THB 106 million), Business Interruption claim booked in 4Q13 (THB 73 million), and compensation from accounts payable.

#### Finance cost

- 2013 finance cost was lower by 28.9% YoY thanks to lower interest expense after MWB loan repayment in 2Q12. 2013 effective interest rate was lower to 4.2% from 6.2% in 2012. 4Q13 financial cost increased by 28.4% QoQ due to increasing interest bearing debts both short-term and long-term during the quarter.

#### Income tax expense

- 2013 income tax expense increased significantly by 311.6% YoY with the higher effective tax rate of 12.4% compared to 2.1% in 2012 due to higher taxable income of overseas operations in 2013 while there was tax credit from operating loss at US subsidiaries in 2012. The effective tax rate in 4Q13 was -2.5% due to tax credit from loss at USPN.

#### ND/E ratio

- 2013 Net debt-to-equity rose to 0.96x from 0.92x in 3Q13 and 0.83x in 2012 due mainly to higher short term debts for higher working capital needs as a result of high raw material prices during the year. However, the ratio is still within the target of 1.0x.

#### Inventory days

- 2013 inventory days were higher to 128 days compared to 119 days in 2012 due to higher inventory of branded business. For quarterly basis, 4Q13 inventory days were on lower QoQ to 123 days from 126 days, 125 days and 138 days in 3Q13, 2Q13 and 1Q13 respectively thanks to better inventory turnover during the year.

#### Accounts receivable days

- 2013 accounts receivable days were higher to 40 days from 38 days in 2012. 4Q13 accounts receivable days were lower QoQ to 38 days from 41 days, 42 days and 43 days in 3Q13, 2Q13, and 1Q13 due to higher accounts receivable turnover during the year.

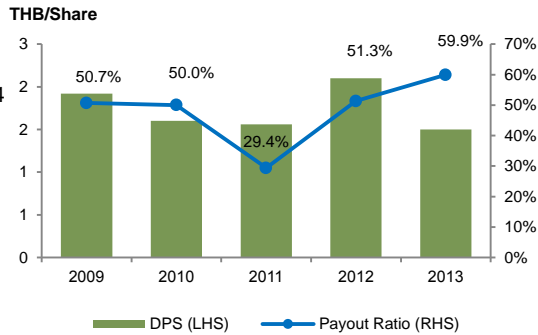
Remark: <sup>1</sup> Shrimp & related business Includes frozen shrimp & shrimp feed

## Dividend Payment

### 59.9% payout for 2013 performance

- TUF announced the interim payment for the operating results during 1 Jul 2013 to 30 Dec 2013 as per the resolution of the Board of Directors dated 24 Feb 2014.
- Details of dividend payment are as follows:

DPS	THB 0.89
XD	6 Mar 2014
Book closing date	11 Mar 2014
Payment date	18 Apr 2014



## News Update:

**TRIS RATING** maintained TUF's rating at "AA-/Stable" in January 2014

TRIS Rating affirmed the company and senior debenture ratings of Thai Union Frozen Products PLC (TUF) at "AA-".

The ratings reflect TUF's strong market position as one of the world's leading tuna processors, the diversity of its products and markets, and the group's well-known brands in Europe and the United States. The ratings also take into consideration the inherent volatility of TUF's raw materials, the industry's exposure to the effects of disease outbreaks, and changes in regulatory frameworks regarding import tariffs and fishing around the world.

The "stable" outlook reflects TRIS Rating's view that TUF will continue to maintain its competitive advantages through economies of scale and production efficiency. The company's diversified base of markets and products will help stabilize its revenue streams during the volatile periods of tuna and shrimp products. The company is expected to maintain its financial discipline to keep leverage at moderate level amidst the challenging industry environment.

**TUF's Successfully issued THB debentures worth THB 8,250mn in February 2014.**

TUF successfully issued THB debentures with 3 year, 5 year, 7 year and 10 year maturities totally amounted THB 8,250mn to a group of institutional and high net worth investors. The debenture received overwhelming demand from investors as the subscription was 4.5 times of the initially planned issuance size. The proceeds will be mainly used to refinance the portion of long term debts that will be due later this year as well as optimizing the balance of the company's short and long term debts.

### TUF Investor Relations Department

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