

SEAFRESH INDUSTRY PLC

No. 57/2022
11 April 2022

CORPORATES

Company Rating: BB+
Outlook: Stable

Last Review Date: 20/04/21

Company Rating History:

| Date | Rating | Outlook/Alert |
|----------|--------|---------------|
| 14/04/20 | BB+ | Negative |
| 10/04/19 | BBB- | Stable |
| 26/04/16 | BBB | Stable |

Contacts:

Jutatip Chitphromphan
jutatip@trisrating.com

Suchana Chantadisai
suchana@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Sasiporn Vajarodaya
sasiporn@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Seafresh Industry PLC (CFRESH) at “BB+” and revises the rating outlook to “stable” from “negative”. The outlook revision reflects the recovery of CFRESH’s financial profile resulting from pent-up demand, global economic recovery, improved operating efficiency, and the depreciation of the Thai baht in 2021, a trend that is likely to continue over the next few years.

The ratings continue to reflect CFRESH’s market position as a medium-sized shrimp processor in Thailand as well as the high standards of food safety and traceability the company has adopted throughout the supply chain. However, the ratings are constrained by the uncertainty of the post-Coronavirus Disease 2019 (COVID-19) situation, inherent volatility in the shrimp market and intense industry competition, as well as fluctuations in foreign exchange rates, and trade barriers.

KEY RATING CONSIDERATIONS

Improved profitability

CFRESH’s operating performance improved significantly in 2021. The gross profit margin widened to 13.8% in 2021, from around 8%-10% during 2018-2020. The improvement was due primarily to a more favorable product mix. Earnings before interest, taxes, depreciation, and amortization (EBITDA) also improved, increasing to THB550 million in 2021 compared with THB62-THB75 million in 2019-2020. As a result, CFRESH reported a net profit of THB335 million in 2021, compared with a net loss of THB205-THB240 million in 2019-2020.

CFRESH’s revenues were mainly driven by exports, especially to Europe. Export sales contributed 98% of CFRESH’s total revenues. The appreciation of the UK pound sterling and the US dollar also enhanced the company’s revenues. The average value of the pound sterling and US dollar rose by 9.6% and 2.2% against the Thai baht in 2021, respectively.

The company’s strategy going forward is to focus on high-margin products such as value-added products (VAP) products. CFRESH’s strategic focus on efficiency improvements and cost reductions as well as the prospect of an economic recovery will help the company maintain satisfactory operating performance over the next few years.

Looking forward, we expect CFRESH’s performance to gradually recover in 2022-2024. The company’s EBITDA margin should improve to 4%-5% in 2022-2024 following a rise in global shrimp demand and prices during the post-COVID-19 economic recovery.

Declining financial leverage

CFRESH’s total debt to capitalization ratio declined to 42.1% as of December 2021, down from 58.9% as of December 2020. The improvement was mainly due to higher retained earnings from the recovery of the shrimp industry, plus a successful capital increase from a right offering of THB463.5 million in May 2021. The capital increase enabled the company to pay off long-term debt and lower its working capital borrowing needs.

CFRESH’s capital expenditure during 2022-2024 is forecast to range from THB100 million to THB140 million per year. Most of capital expenditure is for

new machine replacement and maintenance. The total debt to capitalization ratio is forecast to be 36%-38% during 2022-2024. The EBITDA interest coverage ratio should remain adequate, in the range of 3-4 times during 2022-2024.

Adequate liquidity

We expect CFRESH's liquidity will remain adequate over the next 12 months. Our base-case forecast assumes funds from operations (FFO) of THB150-THB250 million over the next 12 months. The company has outstanding debt of THB58 million due in the same period. However, as of December 2021, the company had cash and cash equivalents of THB37 million and unused uncommitted credit facilities of THB485 million. Looking forward, CFRESH's FFO to total debt ratio is projected to be in the range of 11%-15% in 2022-2024.

Ample asset value in joint venture

CFRESH expanded its overseas operations by jointly investing in a fully integrated shrimp operation, Belize Aquaculture Ltd. (BAL), in Central America in 2012. In 2021, CFRESH recorded an equity loss in other accounts receivable, inter-company loans, and interest receivable.

As of December 2021, CFRESH had total outstanding exposure to BAL amounting to THB804 million, including other accounts receivable of THB374 million, interest receivable of THB72 million, and an inter-company loan of THB358 million. However, CFRESH has ample asset value to cover the debt obligations over the next few years.

Long track record in shrimp processing

CFRESH has grown continuously over the past three and a half decades as a processor and exporter of shrimp. The company's total operating revenues reached THB6.79 billion in 2021, from THB3.6 billion in 2011, a compound annual growth (CAG) rate of 6.5%. The company's processing facilities and supply chain have been certified by a number of international organizations. The certifications cover food safety, traceability, and environmental management. Thus, CFRESH's products are qualified for sale through leading retailers worldwide.

BASE-CASE ASSUMPTIONS

- Revenue of THB7 billion per annum during 2022-2024.
- EBITDA margin of 4%-5% during 2022-2024.
- Other assumptions are in line with historical trend.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that CFRESH will maintain its competitive status and market position in the shrimp industry. The financial profile is supported by moderate leverage and adequate debt servicing coverage.

RATING SENSITIVITIES

CFRESH's ratings could be upgraded if its operating performance and profitability recover on a sustained basis and the company keeps its adjusted net debt to EBITDA ratio below 5 times over the next few years. In contrast, a downward rating pressure would emerge if the company's performance weakens for an extended period of time.

COMPANY OVERVIEW

CFRESH is a medium-sized shrimp processor and exporter in Thailand. It was established in 1982 and listed on the Stock Exchange of Thailand (SET) in August 1993. As of March 2021, the Chia-apar family held 61.3% of the company's shares. CFRESH's main product lines comprise frozen raw shrimp, cooked shrimp, value-added shrimp products, and other related seafood products such as squid, salmon and scallop.

In 2021, value-added products contributed 56% of the company's total revenues, while frozen shrimp contributed about 18%, cooked shrimp made 11%, and other related seafood products made 15% of total revenues.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

| | -----Year Ended 31 December ----- | | | | |
|--|-----------------------------------|--------|--------|-------|-------|
| | 2021 | 2020 | 2019 | 2018 | 2017 |
| Total operating revenues | 6,800 | 5,871 | 5,531 | 7,958 | 7,521 |
| Earnings before interest and taxes (EBIT) | 402 | (91) | (81) | 266 | 196 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 550 | 62 | 75 | 440 | 358 |
| Funds from operations (FFO) | 406 | (57) | (29) | 265 | 215 |
| Adjusted interest expense | 79 | 90 | 91 | 92 | 87 |
| Capital expenditures | 121 | 169 | 272 | 458 | 163 |
| Total assets | 4,907 | 4,458 | 4,725 | 4,800 | 5,616 |
| Adjusted debt | 1,810 | 2,256 | 2,395 | 2,026 | 2,496 |
| Adjusted equity | 2,487 | 1,575 | 1,803 | 2,069 | 2,167 |
| Adjusted Ratios | | | | | |
| EBITDA margin (%) | 8.09 | 1.06 | 1.35 | 5.52 | 4.76 |
| Pretax return on permanent capital (%) | 9.77 | (2.23) | (1.90) | 5.85 | 4.21 |
| EBITDA interest coverage (times) | 6.99 | 0.69 | 0.82 | 4.78 | 4.12 |
| Debt to EBITDA (times) | 3.29 | 36.23 | 32.02 | 4.61 | 6.98 |
| FFO to debt (%) | 22.45 | (2.55) | (1.22) | 13.10 | 8.61 |
| Debt to capitalization (%) | 42.12 | 58.88 | 57.05 | 49.47 | 53.53 |

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology – Corporate, 26 July 2019

Seafresh Industry PLC (CFRESH)

| | |
|------------------------|--------|
| Company Rating: | BB+ |
| Rating Outlook: | Stable |

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2022, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria