

SEAFRESH INDUSTRY PLC

No. 64/2023
21 April 2023

CORPORATES

Company Rating: BB+
Outlook: Stable

Last Review Date: 11/04/22

Company Rating History:

Date	Rating	Outlook/Alert
11/04/22	BB+	Stable
14/04/20	BB+	Negative
10/04/19	BBB-	Stable
26/04/16	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Seafresh Industry PLC (CFRESH) at “BB+”, with a “stable” outlook. The rating reflects the gradual recovery of CFRESH’s financial profile supported by improvements in the profit margin and leverage ratios, following the company’s strategy focusing on high-margin products, efficiency improvement, and cost rationalization.

The rating continues to reflect CFRESH’s market position as a medium-sized shrimp processor in Thailand and expected decline in its financial leverage. The rating also incorporates our concerns over inherent volatility in the shrimp market and intense industry competition, small revenue growth, fluctuations in foreign exchange rates, unfavorable economic sentiment in key markets, and trade barriers.

KEY RATING CONSIDERATIONS

Small revenue growth

The company’s total operating revenues were reported at THB6.8-THB7.0 billion in 2021-2022, up from THB5.5-THB5.9 billion in 2018-2020. Its earnings before interest, taxes, depreciation and amortization (EBITDA) increased to around THB450-THB550 million in 2021-2022, from below THB100 million in 2019-2020.

CFRESH’s revenues have mainly been driven by exports, especially to European Union (EU). Export sales contributed 97% of CFRESH’s total revenues in 2022. The appreciation of the UK pound sterling and the US dollar also enhanced the company’s revenues during 2021-2022. On average, the pound and the dollar rose by 4% and 6%, respectively, against the Thai baht in 2021-2022.

We expect CFRESH’s total operating revenue to be flat in 2023, then grow slightly by 2% per annum during 2024-2025. The small revenue growth is in line with our assumption of sluggish export sales in key markets such as EU and the United States (US), caused by the economic slowdown. However, this should be partially offset by higher export sales growth in Asia and the rest of the world over the next three years.

Improved profitability

CFRESH’s operating profitability improved significantly in 2021-2022, thanks to a more favorable product mix and well-managed cost control. To ensure the availability of raw materials, CFRESH sources most of its raw materials from both international and local suppliers, keeping its raw material costs low. The gross profit margin consequently widened to 14% in 2021-2022, from around 9%-10% during 2018-2020. EBITDA margin also improved, reaching 6.5%-8.0% in 2021-2022, from 1.0%-5.5% during 2018-2020. As a result, CFRESH reported net profit of THB209-THB335 million in 2021-2022, compared with a net loss of THB205-THB240 million in 2019-2020.

The company’s strategy going forward is to focus on high-margin products. CFRESH will also focus on efficiency improvements and cost reductions by cutting workforce and using machinery to carry out labor-intensive operations. The prospect of continued economic recovery should help the company maintain satisfactory operating performance over the next few years.

CFRESH's gross margin should stay at around 13%-14% and EBITDA margin should stand at 5%-6% in 2023-2025 following a rise in global shrimp demand and prices after a recovery of economic sentiment.

Declining financial leverage

We expect CFRESH's financial leverage to decline over the next three years. In 2022, CFRESH's adjusted net debt remained flat at THB1.8 billion, but down from THB2.2-THB2.4 billion in 2019-2020. This was due to lower capital expenditures, while EBITDA increased to around THB450-THB550 million in 2021-2022, from below THB100 million in 2019-2020 driven by the focus on high-margin products and efficiency improvement. Thus, CFRESH's net debt to EBITDA ratio improved to 3-4 times in 2021-2022, from above 30 times in 2019-2020.

Given its limited capital expenditures, CFRESH's net debt to EBITDA ratio is expected to hover at around 5 times in 2023-2025. The ratio of funds from operations (FFO) to total debt is likely to stay at around 14%-15%. We estimate the annual budget for capital expenditures at THB100 million in 2023-2025. This amount incorporates expenditure for new machines and maintenance.

Adequate liquidity

We expect CFRESH's liquidity to remain adequate over the next year. Due to information as of December 2022, CFRESH's anticipated uses of funds over the next 12 months will comprise debts due totaling THB52 million, planned capital expenditures of THB100-THB150 million, and a dividend payout ratio of 40%. CFRESH's sources of funds consisted of THB20 million in cash and cash equivalents and THB513 million in unused credit facilities. FFO is forecast to reach around THB270 million in 2023.

BASE-CASE ASSUMPTIONS

The key assumptions in TRIS Rating's base-case forecast for CFRESH's operations during 2023-2025 are as follows:

- Revenue of THB6.9-THB7.2 billion per annum.
- EBITDA margin of 5%-6%.
- Total capital spending of THB100 million per annum.

RATING OUTLOOK

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

RATING SENSITIVITIES

The rating on CFRESH could be upgraded if the company is able to sustain its profitability, with EBITDA above THB500 million and an adjusted net debt to EBITDA ratio below 5 times over the next few years. In contrast, downward rating pressure would emerge if the company's performance weakens for an extended period of time or if CFRESH makes any sizable debt-funded investments that materially weaken its balance sheet and cash flow protection.

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 2022, the Chia-apar family held 66% of the company's shares.

Due to the information as of December 2022, CFRESH owns and operates two shrimp processing plants, with a total capacity of 30,000 tonnes per year. One plant is located in Chumphon Province, Thailand, while the second is in Worcestershire, United Kingdom (UK). 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.

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 2022, value-added products contributed 35% of the company's total revenues, while cooked shrimp contributed 25%, frozen shrimp 22%, and other related seafood products 18% of total revenues.

KEY OPERATING PERFORMANCE
Table 1: CFRESH's Revenue Breakdown by Product Group

Unit: %

Product Group	2018	2019	2020	2021	2022
Value-added product	56	53	50	56	35
Cooked shrimp product	16	13	22	11	25
Frozen raw shrimp product	16	19	13	18	22
Other food-related product	12	15	16	15	18
Others	-	-	-	-	-
Total sales	100	100	100	100	100
Total sales (Mil. THB)	7,911	5,474	5,836	6,766	6,931

Source: CFRESH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	6,969	6,801	5,871	5,531	7,958
Earnings before interest and taxes (EBIT)	315	404	(91)	(81)	266
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	451	551	62	75	440
Funds from operations (FFO)	330	407	(57)	(29)	265
Adjusted interest expense	77	79	90	91	92
Capital expenditures	182	121	169	272	458
Total assets	5,253	4,907	4,458	4,725	4,800
Adjusted debt	1,859	1,810	2,256	2,395	2,026
Adjusted equity	2,609	2,487	1,575	1,803	2,069
Adjusted Ratios					
EBITDA margin (%)	6.47	8.10	1.06	1.35	5.52
Pretax return on permanent capital (%)	7.10	9.80	(2.23)	(1.90)	5.85
EBITDA interest coverage (times)	5.83	7.00	0.69	0.82	4.78
Debt to EBITDA (times)	4.12	3.28	36.23	32.02	4.61
FFO to debt (%)	17.73	22.51	(2.55)	(1.22)	13.10
Debt to capitalization (%)	41.61	42.12	58.88	57.05	49.47

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Seafresh Industry PLC (CFRESH)

Company Rating:	BB+
Rating Outlook:	Stable

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