

SEAFRESH INDUSTRY PLC

No. 57/2021
20 April 2021

CORPORATES

Company Rating:	BB+
Issue Rating:	
Senior unsecured	BB+
Outlook:	Negative

Last Review Date: 14/04/20

Company Rating History:

Date	Rating	Outlook/Alert
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) and the rating on CFRESH's senior unsecured debenture at "BB+", with a "negative" outlook.

The "negative" outlook reflects our concerns over the prospect of CFRESH's operations continue to be affected by a prolonged downturn in the shrimp industry in 2021. Global demand and supply for shrimp products have appeared to be weaker-than-expected, owing to the impact of the Coronavirus Disease 2019 (COVID-19) pandemic. The unfavorable market condition will likely continue for the rest of 2021.

The ratings continue to reflect CFRESH's market position as a medium-sized shrimp processor in Thailand and the company's strategy to adopt the highest standards of food safety and traceability through the whole supply chain. However, the ratings are constrained by the company's heavy reliance on shrimp products that are subject to inherent market volatility and intense competition in the industry, as well as fluctuations in foreign exchange rates, and trade barriers.

KEY RATING CONSIDERATIONS

Weakening financial results

CFRESH's operating performance deteriorated significantly in 2020. The gross profit margin narrowed to 8.3% in 2020, from around 9%-10% during 2018-2019. The ratio of selling general and administrative expenses (SG&A) remained high at 9.8% in 2020. As a result, the earnings before interest tax depreciation and amortization (EBITDA) margin declined to 1.4%-1.8% in 2019-2020, compared with 4.8%-5.5% during 2017-2018. CFRESH reported a net loss of THB282 million in 2020, compared with a net loss of THB218 million in 2019 and a net profit of THB20 million in 2018. The further deterioration in the company's financial performance was mainly due to a surge in Vannamei shrimp raw material costs, coupled with the prolonged slump in export sales to the major markets during 2019-2020.

CFRESH's total revenues were mainly driven by exports, especially to Europe. Export sales contributed 96% of CFRESH's total revenues. The remaining 4% came from domestic sales. Although export sales increased to THB5.6 billion in 2020, a 4% rise year-on-year (y-o-y), the company's total export sales volume declined to 9,864 tonnes, a 4% drop y-o-y. Export sales volume to Europe remained low at 5,652-5,737 tonnes in 2019-2020, compared with 8,127-9,120 tonnes in 2017-2018. The appreciation of the UK pound sterling and the US dollar helped, but marginally. The average value of the pound sterling and US dollar rose by 1% against the Thai baht in 2020.

The revenue contribution from the domestic market jumped to THB239 million in 2020, a 233% rise y-o-y. Pent-up demand from the reprocessing plants and retailers drove domestic sales significantly, while the temporary closures of restaurants drastically reduced revenues from the food services industry during the same period. CFRESH plans to make further inroads into the domestic market in the next few years.

Looking forward, we expect CFRESH's performance to gradually recover in 2021-2023. We forecast that CFRESH's EBITDA margin should improve to 3%-4% in 2021-2023 following a steady increase in global shrimp demand and

prices.

Uncertainty clouds 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. The company is 34% directly and indirectly held by CFRESH. In 2020, BAL recorded a major loss. However, CFRESH did not record an equity loss as the accumulated loss of the joint venture was higher than the cost.

As of December 2020, CFRESH had total outstanding exposure to BAL amounting to THB883 million, including other accounts receivable of THB317 million, interest receivable of THB62 million, an inter-company loan of THB325 million, and allowance for doubtful of THB179 million. CFRESH is considering whether to divest the asset or to seek partners to continue business operations in the longer term.

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 THB5.86 billion in 2020, from THB2.42 billion in 2010, a compound annual growth (CAG) rate of 9%. 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.

Lower working capital requirement to push down financial leverage

CFRESH's inventory level declined to 103 days in 2020, from an average of 123 days in 2017-2019. However, the adjusted net debt to net capitalization ratio increased to 58.9 % in 2020, from 57.1% in 2019. The rise was mainly due to lower retained earnings during the downturn in the shrimp industry. However, capital expenditure and investment declined to THB193 million in 2020, compared with THB324-THB485 million per year during 2018-2019. Going forward, annual capital expenditure is expected to decline to THB50-THB140 million during 2021-2023. As a result, the company's debt to capitalization ratio is expected to stay below 50% during 2021-2023.

Adequate liquidity

We expect CFRESH's liquidity to remain adequate over the next 12 months. Our base-case forecast assumes funds from operations (FFO) to be THB70-THB150 million over the next 12 months. The company has outstanding debt of THB538 million due in the same period. However, as of December 2020, the company had cash and cash equivalents of THB333 million and unused uncommitted credit facilities of THB490 million. A capital increase from a right offering of THB463.5 million is also anticipated in May 2021. Looking forward, CFRESH's FFO to total debt ratio is projected to hover in the range of 4%-9% in 2021-2023 while the EBITDA interest coverage ratio is forecast at 2-3 times over the same period.

BASE-CASE ASSUMPTIONS

- Revenue to be THB6.3-THB6.8 billion per annum during 2021-2023.
- Gross profit margins in the 9%-10% range and EBITDA margin 3%-4% during 2021-2023.
- Other assumptions in line with historical trend.

RATING OUTLOOK

The "negative" outlook reflects our concerns over the prospect of CFRESH's operation continue to be affected by a prolonged downturn in the shrimp industry in 2021, with an unfavorable market condition to continue for the rest of 2021.

RATING SENSITIVITIES

The "negative" outlook could be reverted back to "stable" if CFRESH's operating and financial performances recover on a sustained basis. On the contrary, CFRESH's ratings could be downgraded if the company's financial results continue to weaken materially for an extended period.

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, and value-added shrimp products.

In 2020, value-added products contributed 50% of the company's total revenues, while cooked shrimp contributed about 22%, frozen raw shrimp 13%, and other products 16% of total revenues.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December-----				
	2020	2019	2018	2017	2016
Total operating revenues	5,871	5,531	7,958	7,521	7,614
Earnings before interest and taxes (EBIT)	(50)	(81)	266	196	584
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	103	75	440	358	730
Funds from operations (FFO)	(21)	(50)	263	221	534
Adjusted interest expense	90	91	92	87	93
Capital expenditures	169	272	458	163	224
Total assets	4,458	4,725	4,800	5,616	5,001
Adjusted debt	2,256	2,395	2,026	2,496	2,045
Adjusted equity	1,575	1,803	2,069	2,167	2,246
Adjusted Ratios					
EBITDA margin (%)	1.76	1.35	5.52	4.76	9.59
Pretax return on permanent capital (%)	(1.23)	(1.90)	5.85	4.21	13.02
EBITDA interest coverage (times)	1.14	0.82	4.78	4.12	7.83
Debt to EBITDA (times)	21.84	32.02	4.61	6.98	2.80
FFO to debt (%)	(0.94)	(2.10)	12.99	8.85	26.11
Debt to capitalization (%)	58.88	57.05	49.47	53.53	47.66

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Seafresh Industry PLC (CFRESH)

Company Rating:	BB+
Issue Rating:	
CFRESH215A: THB500 million senior unsecured debentures due 2021	BB+
Rating Outlook:	Negative

TRIS Rating Co., Ltd.

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