

THAI UNION GROUP PLC

No. 180/2023
22 September 2023

CORPORATES

Company Rating:	A+
Issue Ratings:	
Senior unsecured	A+
Hybrid	A-
Outlook:	Stable

Last Review Date: 29/09/22

Company Rating History:

Date	Rating	Outlook/Alert
28/09/21	A+	Positive
28/08/18	A+	Stable
24/06/15	AA-	Stable
23/12/14	AA-	Alert Developing
08/01/13	AA-	Stable
14/01/11	A+	Stable
29/07/10	A+	Alert Developing
30/08/06	A+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Thai Union Group PLC (TU) and the ratings on its senior unsecured debentures at “A+” and affirms the rating on its subordinated capital debentures (hybrid debentures) at “A-”, but revises the rating outlook to “stable” from “positive”.

The downward outlook revision reflects the company’s weaker-than-expected operating performance caused by rising raw material costs, high inflation, interest rate hikes, coupled with weakened demand globally. We see decreasing likelihood of TU’s ability to attain the rating upgrade threshold, that is a ratio of adjusted debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) of below 4 times, in the next 12-18 months.

The ratings continue to reflect TU’s strong market position as one of the world’s leading seafood processors, the diversity of its products and markets, and its well-known product brands in Europe and the United States (US). The ratings also incorporate our concerns over the global economic slowdown, as well as geopolitical risks.

KEY RATING CONSIDERATIONS

Outlook constrained by weaker-than-expected operating results

TU’s operating performance in the first half of 2023 fell below our expectation. Operating revenue fell by 11.4% year-on-year (y-o-y) to THB67.1 billion, owing to softened demand and lower sales volumes across all product categories.

TU’s profitability declined following a steep rise in raw material costs, especially tuna, combined with higher production costs and persistently high inflations as well as a change of product mix in the pet care business. As a result, EBITDA dipped by 17.3% y-o-y to THB6.1 billion in the first half of 2023. The EBITDA margin was low at 9% in 2022 through the first half of 2023, down from 10%-11% in 2020-2021.

Our base-case scenario revises down TU’s total operating revenue to THB133 billion in 2023, a 15% decline, following weakened demand and an appreciation of the Thai baht, before ramping up to THB137-THB142 billion per annum in 2024-2025. EBITDA is projected to hover around THB12-THB13 billion per annum, while the EBITDA margin should remain around 9% range during 2023-2025.

Some improvement in operations of “Red Lobster” but challenges remain

“Red Lobster” (RL), a US restaurant chain in which TU holds a 49% shareholding, comprising a 25% equity stake and 24% in preferred shares, was materially affected by the Coronavirus Disease 2019 (COVID-19) variants and stagflation in 2022.

However, there have been signs of improvement in 2023, driven by its cost-reduction efforts, streamlined operations, lower shrimp costs, and stepped-up marketing activities to draw traffic. TU posted a loss of THB169 million from its investment in RL during the first half of 2023, compared with a THB718 million loss during the same period of 2022.

Going forward, despite the improvement, we anticipate pressure on RL’s profitability will remain owing to the weak macroeconomic prospects in the

US, dampened by inflationary pressure and high labor costs as well as intense competition in the restaurant business. This is in addition to the prolonged high interest rate which will affect RL's funding costs and lower TU's fair value of investments. The prospect of RL's operation remains uncertain in TRIS Rating's view. We anticipate more time will be needed to significantly improve traffic and operating margins to reach breakeven levels.

Rising leverage from high inventory costs despite capital base expansion

TU's equity base expanded, while its leverage decreased following the successful spin-off of its pet food subsidiary, i-Tail Corporation PLC (ITC), and its listing on the Stock Exchange of Thailand (SET) in late 2022 with total proceeds of THB21 billion. As a result, TU's adjusted debt declined to THB55.8 billion in 2022 from THB67.7 billion in 2021. The adjusted debt to capitalization ratio decreased to 39.6% in 2022 from 53.3% in 2021.

However, TU's financial leverage rose materially in the first half of 2023 owing mainly to high levels of inventory, following a steep rise in raw material costs. TU's adjusted debt stood at THB61.9 billion as of June 2023, up from THB55.8 billion in 2022. The debt to capitalization ratio rose to 43.5% at the end of June 2023 from 39.6% in 2022. With a lower EBITDA and higher leverage, the net debt to EBITDA ratio rose to 4.7 times in the first half of 2023, from 3.9 times in 2022.

Going forward, we expect TU's leverage to improve gradually. The company's operations should improve on the back of escalating revenue contributions from high-margin innovative products as well as from its performance enhancement and cost reduction programs. In our base-case scenario, we project its debt to EBITDA ratio to remain around 4.3-4.6 times in 2023-2025. The debt to capitalization ratio is projected to hover around 40% during the same period.

Product diversification

As the world's largest tuna canner, the company processes about 0.6 million tons of tuna per annum, approximately one-fifth of the canned tuna produced worldwide. TU is also one of the world's leading seafood companies. Apart from tuna, TU's largest revenue contributor (33% of total sales in 2022), the company's product portfolio comprises shrimp and shrimp-related products (26%), PetCare (14%), sardines and mackerel (7%), salmon (7%), and value-added and other products (13%).

TU's large-scale operation allows it to achieve cost competitiveness and greater negotiating power with raw material suppliers. TU also utilizes by-products to enhance its competitive position. For example, fish bones, skin, and oil, are processed into value-added products such as crude and refined tuna oil, and its patented, new product development - tuna bone calcium.

Geographic diversification

TU's business risk is partly mitigated through the geographic diversity of its operations and markets. Production facilities are spread across 11 countries on four continents. Sales in North America, its major market, represented 43% of total revenue in 2022. Customers in Europe accounted for 26%, followed by Thailand (11%) Japan (6%) and others (14%). TU's ongoing efforts to broaden its geographic coverage aim to alleviate the potential impacts of disease outbreaks, trade barriers, and regulations governing the fishing industry.

Adequate liquidity

The company has scheduled long-term debt repayments of THB5.6 billion, while planned capital spending will total approximately THB5.5 billion, for the next 12 months. The primary source of funds will come from cash flow from operations. We forecast TU to generate FFO of about THB8 billion in 2023. The liquidity buffer is supported by cash on hand and short-term securities totaling THB11.8 billion at the end of June 2023, as well as numerous undrawn credit facilities from several financial institutions. Additionally, TU has sizable equity investments in ITC and Thai Union Feedmill PLC (TFM). As of August 2023, TU held a 79% stake in ITC and 51% in TFM. The market values of TU's equity interest in ITC and TFM were around THB44.5 billion and THB2.1 billion, respectively. As these sizable equity investments are marketable securities, they serve as a source of financial flexibility.

BASE CASE ASSUMPTIONS

- Operating revenue to decrease by 15% in 2023, and edge up by 3%-5% per annum during 2024-2025.
- Gross profit margin to be in the 16.6%-17.3% range; EBITDA margin to remain in the 8.6%-9.0% range during 2023-2025.
- Total capital spending of THB5.5-THB6.5 billion per annum during 2023-2025.

RATING OUTLOOK

The “stable” outlook reflects our expectation that TU will maintain its competitive advantage stemming from economies of scale and production efficiencies, as well as its strategy to focus on high-value innovative products.

RATING SENSITIVITIES

The ratings could be upgraded if the company delivers satisfactory operating performance while improving its capital structure with the adjusted debt to EBITDA ratio sustained below 4 times. Conversely, a downgrade could occur if its operating performance is materially weaker than expected or if TU makes any sizable debt-funded investments that materially weaken its balance sheet, such that the adjusted debt to EBITDA ratio sustained above 7 times without prospects of reversal.

COMPANY OVERVIEW

TU was established in 1977 by the Chansiri Family. TU is one of the world's leading seafood processors and the largest producer of shelf-stable tuna products. The company's product lines cover tuna, shrimp, lobster, sardines, salmon, pet care, and more. TU's major tuna production facilities are located in Thailand, the US, Ghana, and the Republic of Seychelles. TU also has production facilities in Vietnam, France, Germany, Norway, Poland, Portugal, and Lithuania. The company's worldwide annual sales exceed THB155.6 billion (USD4.4 billion).

TU has strong market presences with well-known branded products in the US and the European Union (EU). Thai Union Europe (TUE), formerly MW Brands SAS, has several market-leading brands in Europe, such as “John West”, “Petit Navire”, “Mareblu”, and “Parmentier”. The John West brand is ranked first in the United Kingdom (UK) (31% market share), Ireland (41%), and the Netherlands (26%), according to data from AC Nielsen and an IRI Report provided by TU's management. Petit Navire, another well-recognized top-ranking brand, has a 42% market share in France. In the US, TU's “Chicken of the Sea” brand was ranked third in the canned tuna market with an 8% market share in terms of sales value in 2022. Starkist is the largest canned tuna processor (50%), followed by Bumble Bee (21%). Thai brands include “SEAELECT”, “FisHo”, “Qfresh”, “Monori”, “Bellotta”, and “Marvo”.

ITC, which is a subsidiary of TU, successfully raised funds via an initial public offering (IPO) on the SET in December 2022. After the IPO, TU's stake in ITC was 78%. Net proceeds from the IPO transaction of THB21 billion were used to repay existing debts, fund a planned capacity expansion in the pet food segment, as well as for working capital and payments for treasury stocks.

KEY OPERATING PERFORMANCE

Table 1: TU's Sales Breakdown by Geographic Area

Unit: %

Market	2018	2019	2020	2021	2022	Jan-Jun 2023
US	38	40	42	43	43	39
EU	31	28	29	28	26	29
Thailand	11	12	10	10	10	12
Japan	6	5	5	5	6	6
Others	14	15	14	13	15	14
Total	100	100	100	100	100	100
Total sales (THB million)	133,285	126,275	132,402	141,048	155,586	66,709

Source: TU

Table 2: TU's Sales Growth by Product

Unit: THB million

Product (Year-on-Year)	2018	2019	2020	2021	2022	Jan-Jun 2023
Tuna	48,472	42,232	47,602	44,073	50,469	24,970
% change	2	(13)	13	(7)	15	2
Shrimp and related products	36,739	37,773	34,879	41,194	40,805	16,379
% change	(2)	3	(8)	18	(1)	(18)
Pet food	10,721	10,952	12,277	14,658	21,693	6,663
% change, y-o-y	5	2	12	19	48	(33)
Sardines & mackerel	9,510	9,195	10,519	10,435	10,912	5,204
% change	(11)	(3)	14	(1)	5	(5)
Salmon	10,702	9,853	9,679	10,425	11,549	5,399
% change, y-o-y	(5)	(8)	(2)	8	11	11
Value-added and other products	17,141	16,270	17,447	20,262	20,159	8,094
% change	(3)	(5)	7	16	(1)	(23)
Total sales	133,285	126,275	132,402	141,048	155,586	66,709
% change	(1)	(5)	5	7	10	(11)

Source: TU

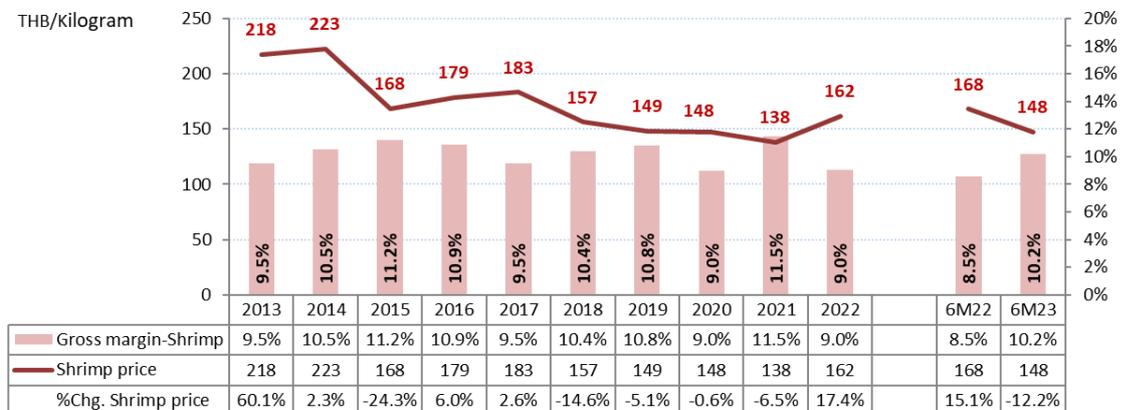
Note: Percentage is based in terms of Thai baht.

Chart 1: Global Price of Skipjack Tuna and Gross Margin of TU's Tuna Segment



Source: TU

Chart 2: Average Shrimp Price and Gross Margin of TU's Shrimp Segment



Note: Shrimp price is based on vannamei shrimp, 60 pieces/kg.

Source: TU

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	67,083	156,491	141,805	133,108	126,922
Earnings before interest and taxes (EBIT)	3,950	8,866	10,870	9,053	6,681
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	6,066	14,447	15,528	13,655	9,995
Funds from operations (FFO)	4,617	11,254	12,886	10,970	7,702
Adjusted interest expense	1,157	2,207	1,935	1,932	2,135
Capital expenditures	2,478	5,340	4,264	3,855	4,669
Total assets	182,343	182,569	166,604	144,575	141,909
Adjusted debt	61,910	55,762	67,654	57,799	60,731
Adjusted equity	80,366	85,157	59,239	52,762	48,820
Adjusted Ratios					
EBITDA margin (%)	9.04	9.23	10.95	10.26	7.87
Pretax return on permanent capital (%)	5.61 **	6.11	8.58	7.83	5.83
EBITDA interest coverage (times)	5.24	6.55	8.02	7.07	4.68
Debt to EBITDA (times)	4.70 **	3.86	4.36	4.23	6.08
FFO to debt (%)	16.04 **	20.18	19.05	18.98	12.68
Debt to capitalization (%)	43.51	39.57	53.32	52.28	55.44

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Hybrid Securities Rating Criteria, 28 June 2021
- Rating Methodology – Corporate, 26 July 2019

Thai Union Group PLC (TU)

Company Rating:	A+
Issue Ratings:	
TU241A: THB2,500 million senior unsecured debentures due 2024	A+
TU242A: THB1,050 million senior unsecured debentures due 2024	A+
TU26NA: THB2,000 million senior unsecured debentures due 2026	A+
TU26NB: THB4,500 million senior unsecured debentures due 2026	A+
TU271A: THB4,000 million senior unsecured debentures due 2027	A+
TU287A: THB5,000 million senior unsecured debentures due 2028	A+
TU29NA: THB4,000 million senior unsecured debentures due 2029	A+
TU31NA: THB1,500 million senior unsecured debentures due 2031	A+
TU19PA: THB6,000 million subordinated capital debentures	A-
Rating Outlook:	Stable

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