

# ASIAN SEA CORPORATION PLC

No. 11/2022

18 February 2022

## CORPORATES

**Company Rating:** BBB  
**Outlook:** Stable

**Last Review Date:** 18/02/21

### Company Rating History:

Date	Rating	Outlook/Alert
13/02/19	BBB-	Stable

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## RATIONALE

TRIS Rating upgrades the company rating on Asian Sea Corporation PLC (ASIAN) to “BBB” from “BBB-”, with a “stable” outlook. The upgrade reflects the continuously improved operating performance of ASIAN. The rating also reflects the prospect of a significant change in the company’s product mix from commodity products to pet food products, a gradual recovery in the frozen seafood processing industry following the gradual easing of the pandemic induced restrictions, and improvements in efficiency and cost control.

The ratings continue to reflect the company’s market positions as a pet food producer and medium-sized seafood processor in Thailand. The rating also takes into consideration ASIAN’s diversification of products and geographic markets. However, these strengths are partially offset by the prolonged impact of the COVID-19 outbreak, intense competition and volatile prices in the frozen seafood industry, exchange rate fluctuations, and trade barriers imposed by importing countries.

## KEY RATING CONSIDERATIONS

### Robust operating results

ASIAN’s operating performance continued to improve during 2020 through the nine months of 2021, driven by the recovery in the frozen seafood processing industry following the gradual easing of the pandemic induced global restrictions, and a significant change in the company’s product mix from commodity products to pet food products.

ASIAN’s total operating revenue grew by 10% year-on-year (y-o-y) to THB7.1 billion in the first nine months of 2021. The revenue contribution from the pet food segment rose to 44%, compared with 40% over the same period of 2020.

Gross profit margin improved to 20.3% during the first nine months of 2021, up from 16.9% over the same period of the prior year. This improvement was the result of a more favorable product mix from the pet food and value-added products (VAP) segments, plus the depreciation of the Thai baht. ASIAN reported a net profit of THB779 million for the first nine months of 2021, compared with a net profit of THB607 million for the same period of the prior year.

We expect ASIAN to continue delivering sound operating results despite potential challenges in the coming years. The company’s strategy going forward is to focus on high-margin products such as wet pet food and VAP products. We expect the rising revenue contribution from pet food products, ASIAN’s strategic focus on efficiency improvements and cost reductions, and the prospect of an economic recovery to help the company maintain satisfactory operating performance over the next few years.

### Soaring demand in pet food market

According to the Ministry of Commerce, export sales of pet food (dogs and cats) from Thailand showed an average annual growth rate of 12% during 2015-2021, driven by the rise of pet humanization and an increasing dog and cat population.

ASIAN’s pet food sales volume jumped by 21% y-o-y to 23,873 tons in the first nine months of 2021. The company plans to expand its annual production capacity to 38,000 tons from 42,000 tons in 2022 to satisfy the anticipated

soaring demand for pet food over the next few years. ASIAN's strategy is to launch more than 200 new pet food products annually to expand the customer base in many regions as well as create more own brand products. The company is also aiming to penetrate the wet pet food market and expand into dry pet food over the next few years.

### Focus on value-added products

ASIAN is striving to add more VAP-frozen seafood segments and expanding its international market presence. Currently, ASIAN's gross profit margin for VAP is above 10%-20%, while margins for commodity products are below 10%. During 2020 through the first nine months of 2021, sales of VAP accounted for 72% of total revenue from the frozen seafood segment, up from 65% in 2020. Going forward, ASIAN aims to expand the contribution from VAP to enhance profit margins and mitigate the volatile nature of the commodity frozen seafood products.

### Subsidiary to list on SET

ASIAN plans to list its subsidiary, Asian Alliance International Co., Ltd (AAI), operating in the tuna and pet food businesses, on the the Stock Exchange of Thailand (SET) in the last quarter of 2022. ASIAN aims to offer the newly issued shares of AAI via the initial public offering (IPO), together with allocating the newly issued shares to ASIAN's existing shareholders. AAI and ASIAN will receive the net proceeds of THB3 billion from the fund raising. The company aims to use the proceeds to repay ASIAN's existing long-term loans, expand the company's capacity, and fund its working capital needs.

### Financial leverage to decline

ASIAN's total debt to capitalization ratio increased to 38.5% during the first nine months of 2021, up from about 32.5% at the end of 2020, owing to higher working capital needs during the high season. The company has budgeted capital expenditure of THB 440 million in 2021, rising to THB850 million - THB1.2 billion in 2022-2023. However, ASIAN will receive the net proceeds of THB3 billion from the IPO of AAI for funding the company's capital expenditures. We expect the company's total debt to capitalization ratio to remain below 40% over the next few years.

Most of ASIAN's debt is made up of secured bank loans. As of September 2021, the ratio of priority debt to total debt exceeded 50%, which implies a significant subordination risk for the company's senior unsecured obligations, according to TRIS Rating's "Issue Rating Criteria".

### Ample liquidity

We expect the company to maintain ample liquidity over the next 12 months. The company has outstanding debts of THB584 million due over the next 12 months. Our base-case forecast projects funds from operations (FFO) to be THB1.0 -THB1.3 billion over the same period. The company also had cash and cash equivalents of THB90 million and unused credit facilities of THB1.67 billion, as of September 2021. Looking forward, ASIAN's FFO to total debt ratio is projected to stay in the 36%-80% range in 2021-2023 while the EBITDA interest coverage ratio is forecast to be 13-21 times over the same period.

### BASE-CASE ASSUMPTIONS

- Revenue is forecast to grow by 10% in 2021, then decline to 1% per annum in 2022, and grow by 7% in 2023.
- EBITDA margin is forecast to improve to around 12%-16% during 2021-2023.
- Total capital spending to be THB440 million in 2021, THB850 million in 2022, and THB1.2 billion in 2023.

### RATING OUTLOOK

The "stable" rating outlook reflects our expectation that ASIAN sustain its market position in both its main businesses, i.e., frozen seafood and pet food processing. We also expect ASIAN to improve its operating performance and profitability as well as keep its adjusted net debt to EBITDA ratio below 4 times over the next three years.

### RATING SENSITIVITIES

We could raise the rating if ASIAN were to see significant growth and successful diversification in product mix, leading to larger and stabilized income generation comparable with those of higher-rated peers, while maintaining an acceptable balance sheet. Conversely, a downgrade scenario could occur if the company's financial performance weakens for an extended period. Any debt-funded expansion which leads to a significant deterioration in the balance sheet and weakens cash flow protection would also be a negative factor for ASIAN's rating.

### COMPANY OVERVIEW

ASIAN was established in 1964 and listed on the SET in July 1994. ASIAN is a medium-sized seafood and pet food processor in Thailand. As of September 2021, the Amornrattanachaikul family held 65.7% of the company's shares.

Currently, the company owns and operates two frozen seafood processing plants, with a total capacity of 26,400 tonnes per year. The plants are in Samut Sakhon and Surat Thani provinces. One plant also operates tuna processing and pet food production with total capacities of 17,500 and 42,000 tonnes per year, respectively. The company also has an aquaculture feed plant, with a total capacity of 96,000 tonnes per year.

The domestic market makes up 20% of the company's total sales. The US is the company's largest export market, accounting for 52% of exports, followed by Europe (27%), and Japan (10%). Currently, ASIAN produces and sells under customer brands. Nonetheless, the company is striving to develop its own brands for more premium goods in order to enhance its profit margin and mitigate the volatile nature of commodity prices.

During the first nine months of 2021, revenues from pet food products contributed 44% of ASIAN's total revenues. The frozen segment contributed 32% while aquaculture feed products made up 15%. The tuna business contributed 8%. Other business contributed 1%.

## KEY OPERATING PERFORMANCE

**Table 1: ASIAN's Revenue Breakdown by Business**

*Unit: %*

Products	2017	2018	2019	2020	9M2021
Petfood and Fishmeal	28	32	30	40	44
Frozen Business	46	45	42	31	32
Aquacultural Feed	15	11	13	16	15
Tuna Business	11	11	13	13	8
Others	-	1	2	-	1
<b>Total sales</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: ASIAN

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

*Unit: Mil. THB*

	-----Year Ended 31 December -----				
	Jan-Sep 2021	2020	2019	2018	2017
Total operating revenues	7,101	8,719	8,258	9,759	9,839
Earnings before interest and taxes (EBIT)	901	903	242	493	461
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,093	1,154	473	707	662
Funds from operations (FFO)	957	1,076	366	572	517
Adjusted interest expense	50	78	107	135	140
Capital expenditures	365	244	236	235	200
Total assets	7,265	6,232	5,822	6,542	6,811
Adjusted debt	2,371	1,686	2,171	2,844	3,473
Adjusted equity	3,782	3,498	2,810	2,765	2,539
<b>Adjusted Ratios</b>					
EBITDA margin (%)	15.39	13.24	5.73	7.25	6.73
Pretax return on permanent capital (%) **	18.87	17.19	4.48	8.38	8.01
EBITDA interest coverage (times)	21.68	14.85	4.43	5.24	4.75
Debt to EBITDA (times)	1.76	1.46	4.59	4.02	5.24
FFO to debt (%) **	50.44	63.84	16.84	20.13	14.88
Debt to capitalization (%)	38.54	32.53	43.58	50.70	57.77

Note: All ratios have been adjusted by operating leases.

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

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**RELATED CRITERIA**

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

**Asian Sea Corporation PLC (ASIAN)**

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<b>Company Rating:</b>	BBB
<b>Rating Outlook:</b>	Stable

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