TRIS RATING
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ASIAN SEA CORPORATION PLC

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CORPORATES

Company Rating:	BBB-
Outlook:	Stable

Last Review Date: 13/02/19

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on Asian Sea Corporation PLC (ASIAN) at "BBB-" with a "stable" rating outlook. The rating reflects the company's market position as a medium-sized seafood and pet food processor in Thailand and takes into account its relative diversification of products and geographic markets. However, these strengths are partially offset by the intense competition and highly volatile commodity prices of the frozen seafood industry, exchange rate fluctuations, global economic slowdown, and trade barriers imposed by importing countries.

KEY RATING CONSIDERATIONS

Industry downturn and Thai baht appreciation squeeze margins

A prolonged downturn in the frozen seafood industry, especially shrimp, has caused deterioration in ASIAN's financial performance. Increased shrimp production amongst the top shrimp-producing nations has brought about a demand-supply mismatch and induced a fall in prices.

Since approximately 55% of ASIAN's total sales are made up of exports to the United States (US), Canada, and Europe, the company is exposed to foreign exchange risk for some extent. The appreciation of the Thai baht has also adversely affected ASIAN's operations. The company's total revenue in terms of Thai baht was squeezed by 1% and 12% year-on-year (y-o-y), respectively, during 2018 and the first nine months of 2019. However, the risk is partially mitigated by the company's use of forward exchange contracts.

The company's earnings before interest tax depreciation and amortization (EBITDA) margin dropped to 5.9% during the first nine months of 2019, compared with 7.2% during 2017-2018. TRIS Rating forecasts that ASIAN's EBITDA margin will stay around 6% during 2020-2022, following a gradual increase in shrimp prices and use of a prudent hedging strategy.

Pet food segment remains a main revenue contributor

Currently, revenue from the pet food segment makes up 31% of the company's total revenue and remains a major contributor.

ASIAN's pet food buyers comprise international customers in many countries. The company exported 19,850 tonnes of pet food in 2018, compared with 18,487 tonnes in 2017, a 7.4% rise y-o-y, but this figure declined to 13,527 tonnes during the first nine months of 2019. The decline was due to some customers delaying their orders during the second and the third quarters of 2019. However, ASIAN expects that its export sales volumes will recover soon among both existing and prospective customers. Thus, the pet food segment is forecast to make up 32%-33% of ASIAN's total revenue during 2020-2022. ASIAN plans to penetrate the Chinese and European markets through its distribution channels from a joint venture.

Focus on value-added products

ASIAN is striving to add more value-added products, such as fried seafood products, to its frozen seafood segment while expanding its international marketing presence. Currently, ASIAN's gross profit margin for value-added products in the frozen segment is 12%-15%, while margins for commodity products are below 10%. In 2018 through the first nine months of 2019, sales of frozen seafood products accounted for 35%-39% of total revenue, while sales of value-added products were still minimal. Going forward, ASIAN aims to expand the contribution from value-added products to enhance profit margins and mitigate the volatile nature of the commodity prices.

Financial leverage will decline, but remain moderately high

ASIAN's total debt to capitalization ratio declined to 45.8% during the first nine months of 2019, down from about 50.7% at the end of 2018, owing to the lowering of its working capital needs. The company has budgeted capital expenditure of Bt200-Bt300 million per year in 2019-2020. However, capital expenditure is anticipated to decline to Bt100-Bt150 million per year in 2021-2022. As a result, TRIS Rating expects the company's total debt to capitalization ratio will stay at around 50% in 2019-2020, then decline gradually to 47%-49% in 2021-2022.

Relatively tight liquidity

ASIAN's liquidity is expected to remain tight over the next 12 months. Our base-case forecast assumes funds from operations (FFO) will be around Bt380 million over the next 12 months. The company has outstanding debts of Bt618 million over the same period. However, the company has cash and cash equivalents of Bt120 million and unused credit facilities of Bt2.70 billion, as of September 2019.

Looking forward, ASIAN's FFO to total debt ratio is projected to hover in the 13%-15% range in 2019-2022 while the EBITDA interest coverage ratio is forecast at 4-5 times over the same period.

BASE-CASE ASSUMPTIONS

- ASIAN's revenue will drop by 15% and 2% in 2019 and 2020, respectively, following the prolonged industry downturn and appreciation of the Thai baht. However, revenue will turn around and grow at 2% per annum during 2021-2022.
- EBITDA margin will stay in the 5.7%-5.9% range in 2019-2022.

RATING OUTLOOK

The "stable" rating outlook reflects the expectation of TRIS Rating that ASIAN will sustain its market position in frozen seafood and pet food processing. The outlook is based on our expectation that ASIAN can improve its operating performance and profitability as well as keep its adjusted debt to capitalization ratio at 50% over the next three years. ASIAN is also expected to maintain sufficient credit facilities and manage refinancing risk properly.

RATING SENSITIVITIES

Any rating upside is unlikely in the short term due to a prolonged industry downturn. On the contrary, a downgrade scenario could occur if the company's profitability noticeably deteriorates or its performance weakens for an extended period of time. The FFO to total debt ratio should not fall below 10% on a sustained basis. Any debt-funded expansion, which will lead to a significant deterioration in the balance sheet and weaken cash flow protection, would also be a negative factor for ASIAN's rating.

COMPANY OVERVIEW

ASIAN was established in 2001 and listed on the Stock Exchange of Thailand (SET) in July 1994. ASIAN is a medium-sized seafood and pet food processor in Thailand. As of October 2017, the Amornrattanachaikul family held 67.1% of the company's shares.

ASIAN has continuously expanded into tuna processing and aquaculture feed. In 2006, ASIAN purchased STC Feed Co., Ltd. (STC Feed), a shrimp-feed manufacturer at Bt275 million. ASIAN also completed construction of a Bt1.00-billion tuna plant in 2006. In 2010, ASIAN expanded into pet food segment by using the by-product from its tuna plant.

The company owns and operates two frozen seafood processing plants, with a total capacity of 26,400 tonnes per year. One plant is located in Samut Sakhon province and another plant is in Surat Thani province. One plant also operates tuna processing and pet food production with total capacities of 17,500 tonnes and 34,000 tonnes per year, respectively. The company also has an aquaculture feed plant, with a total capacity of 96,000 tonnes per year.

In terms of market, the domestic market makes up 23% of total. The US is the company's largest export market, accounting for 42% of exports, followed by Europe (28%), and Japan (12%). 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 2019, revenues from pet food products contributed 31% of total revenues. Frozen shrimp and frozen squid each contributed 14%-15% while aquaculture feed product made up 13%. The tuna business contributed

13%. The sillago fish and distribution businesses each contributed 6%-8%.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

		---------------Year Ended 31 December -----------			
	Jan-Sep 2019	2018	2017	2016	2015
Total operating revenues	6,319	9,798	9,888	9,348	8,094
Earnings before interest and taxes (EBIT)	203	493	510	289	362
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	375	707	711	490	590
Funds from operations (FFO)	289	577	619	355	411
Adjusted interest expense	82	135	140	153	172
Capital expenditures	181	235	200	130	118
Total assets	5,932	6,542	6,811	6,326	6,175
Adjusted debt	2,362	2,844	3,473	3,176	3,448
Adjusted equity	2,797	2,765	2,539	2,217	2,018
Adjusted Ratios					
EBITDA margin (%)	5.94	7.22	7.19	5.24	7.29
Pretax return on permanent capital (%)	5.92	8.38	8.87	5.27	6.62
EBITDA interest coverage (times)	4.58	5.24	5.10	3.19	3.44
Debt to EBITDA (times)	4.22	4.02	4.88	6.48	5.84
FFO to debt (%)	18.71	20.29	17.83	11.19	11.92
Debt to capitalization (%)	45.78	50.70	57.77	58.88	63.08

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

Asian Sea Corporation PLC (ASIAN)

Company Rating:	BBB-
Rating Outlook:	Stable

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