

ASIAN SEA CORPORATION PLC

No. 12/2021
18 February 2021

CORPORATES

Company Rating: BBB-
Outlook: Stable

Last Review Date: 13/02/20

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 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 impact of the Coronavirus Disease 2019 (COVID-19) outbreak, intense competition and volatile commodity prices in the frozen seafood industry, exchange rate fluctuations, and trade barriers imposed by importing countries.

KEY RATING CONSIDERATIONS

Growing demand in pet food segment

According to the Ministry of Commerce, Thailand’s export volume of pet food products increased to 452,511 tonnes during the first nine months of 2020, an 11% growth year-on-year (y-o-y). Global demand for pet food products is driven by the major markets; the United States (US), Europe, and Japan.

ASIAN’s pet food sales volume jumped by 45% y-o-y to 19,646 tonnes in the first nine months of 2020. The company plans to expand its annual production capacity to 52,000 tonnes from 47,000 in 2021 in order to satisfy the anticipated soaring demand for pet food over the next few years.

Focus on value-added products

ASIAN is striving to add more value-added products (VAP) to its frozen seafood segment and expanding its international market presence.

Currently, ASIAN’s gross profit margin for VAP is 12%-15%, while margins for commodity products are below 10%. In the first nine months of 2020, sales of VAP accounted for 33% of total revenue from the frozen seafood segment, up from 18% over the same period of 2019. 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.

Improved financial results

ASIAN’s total operating revenue grew by 2% y-o-y to THB6.5 billion in the first nine months of 2020. The revenue contribution from the pet food segment rose to 40%, compared with 31% over the same period of 2019.

Gross margin improved to 16.9% during the first nine months of 2020, up from 8.1% over the same period of the prior year. The improvement was the result of a more favorable product mix from the pet food and VAP segments, plus the depreciation of the Thai baht. ASIAN reported a net profit of THB607 million for the first nine months of 2020, compared with a net profit of THB116 million for the same period of the prior year.

We forecast that ASIAN’s total operating revenues will grow by 5% in 2020, then by 2% per year in 2021-2022. Its gross margin is expected to reach 16% in 2020, dropping to 13% per annum in 2021-2022. As a result, EBITDA margin is forecast to improve to around 14% in 2020, then decline to 10% per annum in 2021-2022.

Operations as usual during the COVID-19 pandemic

Although ASIAN'S factories are located in Samut Sakorn province, which was hard hit by the COVID-19 lockdown, the company's business operations continued as normal under strict controls. ASIAN's management team has implemented strict measures to control the spread of COVID-19 since the beginning of 2020. The company required all temporary workers to be tested for COVID-19, wear masks, gloves, and lab coats while working in the factories, and to self-isolate for a full 14 to 21 days if necessary. As a result, none of the company's employees have so far tested positive for COVID-19.

Financial leverage will decline

ASIAN's total debt to capitalization ratio declined to 38.5% during the first nine months of 2020, down from about 43.6% at the end of 2019, owing to the repayment of long-term outstanding debts. The company has budgeted capital expenditure of THB200 million in 2020 rising to THB400 million in 2021. However, capital expenditure is anticipated to decline to the THB100-THB150 million range in 2022. We expect the company's total debt to capitalization ratio to stay at around 39% in 2020, rise to 41% in 2021, then decline gradually to 37% in 2022.

Adequate liquidity

We expect the company to maintain adequate liquidity over the next 12 months. The company has outstanding debts of THB619 million to be due over the next 12 months. Our base-case forecast projects funds from operations (FFO) to be THB760 million to THB1.1 billion over the same period. The company also had cash and cash equivalents of THB136 million and unused credit facilities of THB2.37 billion, as of September 2020.

Looking forward, ASIAN's FFO to total debt ratio is projected to stay in the 31%-47% range in 2020-2022 while the EBITDA interest coverage ratio is forecast to be 9-13 times over the same period.

BASE-CASE ASSUMPTIONS

- Revenue is forecast to grow by 5% in 2020, then by 2% per annum in 2021-2022.
- EBITDA margin is forecast to improve to around 14% in 2020, then decline to around 10% per annum in 2021-2022.

RATING OUTLOOK

The "stable" rating outlook reflects our expectation that ASIAN will sustain its market position in both main businesses, the frozen seafood and pet food processing. We also expect ASIAN to improve its operating performance and profitability as well as to keep its adjusted debt to capitalization ratio below 50% over the next three years.

RATING SENSITIVITIES

The rating could be upgraded if the company stabilizes cash flow generation while maintaining a strong balance sheet on a sustained basis. A well-diversified product mix and stable profit margin would also be positive factors for the rating upgrade. On the contrary, a downgrade scenario could occur if the company's financial performance weakens for an extended period. The FFO to total debt ratio should not fall below 15%. 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 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 September 2020, the Amornrattanachaikul family held 68.8% 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 38,000 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 23% of the company's total sales. The US is the company's largest export market, accounting for 51% of exports, followed by Europe (22%), 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 2020, revenues from pet food products contributed 40% of ASIAN's total revenues. The frozen segment contributed 30% while aquaculture feed products made up 16%. The tuna business contributed 13%. The sillago fish and distribution businesses each contributed 1%.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

| | Jan-Sep 2020 | -----Year Ended 31 December ----- | | | |
|---|-----------------|-----------------------------------|-------|-------|-------|
| | | 2019 | 2018 | 2017 | 2016 |
| Total operating revenues | 6,455 | 8,331 | 9,759 | 9,839 | 9,294 |
| Earnings before interest and taxes (EBIT) | 699 | 245 | 493 | 461 | 240 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 899 | 475 | 707 | 662 | 441 |
| Funds from operations (FFO) | 808 | 363 | 577 | 570 | 306 |
| Adjusted interest expense | 62 | 107 | 135 | 140 | 153 |
| Capital expenditures | 208 | 236 | 235 | 200 | 130 |
| Total assets | 6,394 | 5,822 | 6,542 | 6,811 | 6,326 |
| Adjusted debt | 2,055 | 2,171 | 2,844 | 3,473 | 3,176 |
| Adjusted equity | 3,287 | 2,810 | 2,765 | 2,539 | 2,217 |
| Adjusted Ratios | | | | | |
| EBITDA margin (%) | 13.94 | 5.70 | 7.25 | 6.73 | 4.74 |
| Pretax return on permanent capital (%) ** | 13.77 | 4.53 | 8.38 | 8.01 | 4.37 |
| EBITDA interest coverage (times) | 14.60 | 4.45 | 5.24 | 4.75 | 2.87 |
| Debt to EBITDA (times) | 2.06 | 4.57 | 4.02 | 5.24 | 7.21 |
| FFO to debt (%) ** | 42.96 | 16.74 | 20.29 | 16.42 | 9.64 |
| Debt to capitalization (%) | 38.47 | 43.58 | 50.70 | 57.77 | 58.88 |

Note: All ratios have been adjusted by operating leases.

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

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

Asian Sea Corporation PLC (ASIAN)

| | |
|------------------------|--------|
| Company Rating: | BBB- |
| Rating Outlook: | Stable |

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