

ASIAN SEA CORPORATION PLC

No. 22/2023
28 February 2023

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 18/02/22

Company Rating History:

Date	Rating	Outlook/Alert
18/02/22	BBB	Stable
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” outlook. The rating reflects ASIAN’s strengthened capital base, the prospects for growth in the pet food business, and a gradual recovery in the aquacultural feeds segment following improvements in the company’s internal efficiency and acceptable operating performance. The rating continues to reflect the company’s market standing 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 tempered somewhat by intense competition and volatile prices in the frozen seafood industry, exchange rate fluctuations, and trade barriers imposed by importing countries.

KEY RATING CONSIDERATIONS

Strengthened in capital structure

In November 2022, Asian Alliance International PLC (AAI), which is a subsidiary of ASIAN, successfully raised funds via an initial public offering (IPO) on the Stock Exchange of Thailand (SET). About 45% of this capital injection will be used for repayment of existing debts and the remainder is slated for capacity expansion and working capital needs.

ASIAN became debt-free at the end of 2022, with its net debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio dropping sharply from 1.5 times at year-end 2021. With the fresh capital and anticipated capital expenditures of THB730 million-THB1.4 billion per annum, ASIAN’s net debt to EBITDA ratio is projected to improve substantially in 2023-2024, while the debt to capitalization ratio should remain low.

Growing demand for pet food

According to the Frost & Sullivan Analysis, the global pet food market showed an average annual growth rate of 5.5%-5.8% during 2016-2021, driven by the rise of pet humanization and an increasing dog and cat population.

ASIAN’s pet food sales volume jumped by 28% year-on-year (y-o-y) to 30,445 tonnes in the first nine months of 2022. The company plans to expand its annual production capacity to 81,750 tonnes, which is expected to be completed in 2025, from 48,000 tonnes 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 its customer base in many regions as well as create more own-brand products.

Going forward, the global pet food market is expected to continue to grow by 5%-7% per annum in 2021-2026. We expect growth in the company’s pet food segment of 4%-6% annually in 2023-2024.

Focus on value-added products

Currently, ASIAN’s gross profit margin for value-added products is in the range of 10%-20%, while margins for commodity products are below 10%. During 2021 through 2022, sales of value-added products accounted for 80% of total revenue from the frozen seafood segment, up from 69% in 2021. Going forward, ASIAN aims to expand the contribution from value-added products to enhance profit margins and mitigate the volatility inherent in commodity frozen seafood products.

Acceptable operating results

ASIAN's operating performance remained acceptable during 2021 through 2022, driven by growth in demand in the pet food and frozen seafood processing segments. ASIAN's total operating revenue grew by 18% y-o-y to THB11.3 billion in 2022.

However, gross profit margin declined to 18.2% in 2022, down from 19.8% in 2021. This drop was the result of less favorable product mixes. ASIAN reported a net profit of THB1,034 million in 2022, flat compared to the same period of the prior year.

We forecast that ASIAN's total operating revenue will decline to 4%-7% annually in 2023-2024. Its gross profit margin is expected to range from 16%-17% in 2023-2024.

Financial leverage to decline

ASIAN's total debt to capitalization ratio was very low at the end of 2022 after the IPO of AAI. The company has budgeted capital expenditure of THB650 million in 2022, rising to THB730 million-THB1.4 billion annually in 2023-2024. However, ASIAN received net proceeds of THB3.5 billion from the IPO of AAI which can be used to fund the company's capital expenditures. We expect the company's total debt to capitalization ratio to remain below 10% over the next few years.

Sound liquidity

The company has outstanding debts of THB378.4 million due over the next 12 months. Our base-case forecast projects funds from operations (FFO) of THB1.0-THB1.2 billion over the same period. The company also had cash and cash equivalents of THB1.9 billion and unused credit facilities of THB1.4 billion, as of December 2022. Looking forward, ASIAN's FFO to total debt ratio is projected to stay high in 2023-2024 while the EBITDA interest coverage ratio is forecast to remain above 25 times over the same period.

BASE-CASE ASSUMPTIONS

- Revenue is forecast to decline by 4% in 2023 and by a further 7% in 2024.
- EBITDA margin is forecast to remain around 12%-14% during 2023-2024.
- Total capital spending to be THB730 million-THB1.4 billion annually in 2023-2024.

RATING OUTLOOK

The "stable" rating outlook reflects our expectation that ASIAN will 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 upgrade the rating if ASIAN is able to attain significant growth and successful diversification in product mix, while maintaining an acceptable balance sheet. This could occur if ASIAN's EBITDA size is enlarged to over THB2.0 billion and its debt to EBITDA ratio is below 2.0 times on a sustained basis. 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 the 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 16,400 tonnes per year. The plants are in Samut Sakhon and Surat Thani provinces. One plant also processes tuna and pet food with total capacities of 17,500 and 48,000 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 15% of the company's total sales. The US is the company's largest export market, accounting for 58% of exports, followed by Europe (23%), and Japan (8%). 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 2022, revenues from pet food products contributed 54% of ASIAN's total revenues. The frozen segment contributed 28% while aquaculture feed products made up 8%, the tuna business 9% and other businesses 1%.

AAI, which is a subsidiary of ASIAN, successfully raised funds via an IPO on the SET on 1 November 2022. After the IPO, ASIAN held 70% of AAI. Net proceeds from the IPO of THB3.53 billion will primarily be used to repay existing debts, fund a planned capacity expansion in the pet food segment and for the establishment of a new automatic warehouse. The remainder of the IPO proceeds will be used for working capital.

KEY OPERATING PERFORMANCE

Table 1: ASIAN's Revenue Breakdown by Business

<i>Unit: %</i>					
Products	2018	2019	2020	2021	2022
Petfood and Fishmeal	32	30	40	44	53
Frozen Business	45	42	31	32	29
Aquacultural Feed	11	13	16	13	8
Tuna Business	11	13	13	9	9
Others	1	2	-	2	1
Total sales	100	100	100	100	100

Source: ASIAN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	11,262	9,559	8,719	8,258	9,759
Earnings before interest and taxes (EBIT)	1,315	1,194	903	242	493
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,610	1,455	1,154	473	707
Funds from operations (FFO)	1,366	1,299	1,076	366	572
Adjusted interest expense	73	69	78	107	135
Capital expenditures	650	490	244	236	235
Total assets	9,946	7,355	6,232	5,822	6,542
Adjusted debt	0	2,204	1,686	2,171	2,844
Adjusted equity	7,827	4,044	3,498	2,810	2,765
Adjusted Ratios					
EBITDA margin (%)	14.30	15.22	13.24	5.73	7.25
Pretax return on permanent capital (%)	17.33	20.29	17.19	4.48	8.38
EBITDA interest coverage (times)	21.98	21.12	14.85	4.43	5.24
Debt to EBITDA (times)	0.00	1.52	1.46	4.59	4.02
FFO to debt (%)	n.m.	58.92	63.84	16.84	20.13
Debt to capitalization (%)	0.00	35.28	32.53	43.58	50.70

Note: All ratios have been adjusted by operating leases.

n.m. = Not meaningful

* Consolidated financial statements

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Asian Sea Corporation PLC (ASIAN)

Company Rating:	BBB
Rating Outlook:	Stable

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