

Press Release

No. 65/2017
7 April 2017

TRIS Rating Affirms Company & Senior Unsecured Debt Ratings and Outlook of "CFRESH" at "BBB/Stable"

TRIS Rating has affirmed the company rating and the ratings of the senior unsecured debentures of Seafresh Industry PLC (CFRESH) at "BBB" with "stable" outlook. The ratings reflect the market position as a medium-sized shrimp processor, long track record in shrimp processing industry in Thailand, moderate level of diversification with respect to markets served and production site. The ratings also reflect the company's strategy to comply with the highest standards of food safety and traceability along the whole supply chain. The strengths are partially offset by the company's reliance on shrimp products, the inherent volatility and intense competition in the shrimp industry, the risk of disease outbreaks, plus fluctuations in foreign exchange rate, and the changing nature of the regulatory frameworks governing trade barriers.

The "stable" outlook reflects TRIS Rating's expectation that CFRESH will maintain its competitive position and market position in the shrimp industry. CFRESH's credit upsides may happen if the company has more diversified customer base or market and improves cash flow generation noticeably on the sustainable basis. The credit downside risk could emerge if the depreciation of foreign currencies worsens CFRESH's competitive position and reduces profitability significantly or if the company's performance weakens for an extended time.

CFRESH is a medium-sized shrimp processor and exporter in Thailand. It was established in 1982 by the Chia-apor family. The company was listed on the Stock Exchange of Thailand (SET) in August 1993. As of March 2016, the Chia-apor family held 66.1% of the company's shares. CFRESH has expanded its businesses abroad by acquiring shrimp processing company in the United Kingdom (UK) in 2011 and joined with a partner to invest in a fully-integrated shrimp operation in Belize, Central America in 2012. CFRESH's main product lines comprise frozen raw shrimp, cooked shrimp, and value added shrimp products. In 2016, value added products contributed 53% of the company's total revenues, frozen raw and cooked shrimp contributed about 24% and 13%, respectively. The remaining 10% came from other seafood products. CFRESH is moderately diversified in terms of production sites and markets served, despite a concentration in shrimp products. The company owns and operates two shrimp processing plants, with a total capacity of 30,000 tonnes per year. One plant is located in Chumphon province, Thailand, while the second plant is in Worcestershire, UK. CFRESH's production and supply chain have been certified by several international organizations because the production facilities and supply chain meet the food safety, traceability, and environmental management standards. Compliance with international standards of food safety and supply chain integrity helps qualify CFRESH's products for sale to leading retailers worldwide. However, CFRESH carries some customer concentration risk because its major revenue comes from limited number of customers.

CFRESH's financial performance for 2016 was fair, supported by the gradual recovery from an early mortality syndrome (EMS) in shrimp business in Thailand. The cost of raw shrimp lowered on the back of increasing shrimp supply after abating EMS impact. However, the pound sterling depreciated notably after the UK voted to leave the European Union. The devaluation adversely affected CFRESH's operations in the second half of 2016. In the second half of 2016, the value of the pound sterling dropped by 11.8% against baht, compared with the first half of 2016, and falling by 17.6%, compared with the same period of the prior year. The devaluation reduced revenues and profits in baht terms as about 70% of CFRESH's sales were quoted in the pound sterling at that time. Sales to the European market, mainly to the UK, dropped by 14.5% over the same period of the prior year to Bt2,606 million in the second half of 2016 albeit sales volume was relatively flat. The impact of devaluation was alleviated somewhat by greater penetration into the US market. Total sales in the second half of 2016 fell by 9.8% over the same period of the prior year to Bt3,821 million. The depreciation of the pound sterling hurt profitability even though CFRESH re-priced the contracts to reflect the depreciation of the pound sterling. CFRESH's operating margin before depreciation and amortization declined to 8.3% in the second half of 2016, from 9.1% in the first half of 2016 and 8.7% in 2015. Because operating results were sound in the first half of 2016,

(Continue on page 2)

total sales shrank by only 2.9% from 2015 to Bt7,579 million in 2016. The operating margin was fair at 8.1% in 2016, compared with 8.4% in 2015. Earnings before interest tax depreciation and amortization (EBITDA) improved to Bt645 million in 2016 from Bt625 million in 2015. The rise was because no equity losses from the joint venture (JV) in Belize were recognized in 2016. The JV contributed an equity loss of Bt100 million in 2015. In 2016, CFRESH did not record an equity loss because the accumulated loss of the JV was higher than the cost. However, CFRESH made a partial provision of Bt54.3 million in 2016, as a loan to the JV, from a total amount of Bt496 million.

CFRESH's balance sheet remained moderate. The debt to capitalization ratio slightly improved to 47.9% in 2016 from 50% during 2014 and 2015. The ratio of the funds from operations (FFO) to total debt declined to 21.1% in 2016 from 35% in 2014 and 30.3% in 2015. The EBITDA interest coverage ratio stood at 7.1 times in 2016 compared with 11 times in 2014 and 9.8 times in 2015.

The pound sterling is expected to depreciate further now that the UK government officially submitted the letter of notification to the European Council of its intention to withdraw from the European Union (EU). CFRESH strived to reduce its pound sterling exposure by making sales contract in the US dollar terms with some customers. Only 40% of sales are now denominated in pound sterling, compared with 70% in 2015. On top of these efforts, CFRESH plans to expand its footprint in the US market to diversify its markets destination and currency.

CFRESH's earnings are expected to be volatile in the short term given the expected fluctuations in foreign currencies and cost of shrimp. However, the continued recovery from EMS infestation in Thailand will boost the supply of shrimp. Other shrimp-producing nations, such as Vietnam, China, and India, are suffering through disease outbreaks. The outbreaks in other nations would boost exports from Thailand. The performance of the JV in Belize improved gradually. It reported a lower loss of Bt108 million in 2016, compared with a loss of Bt244 million in 2015. CFRESH's EBITDA is anticipated to rise to approximately Bt550-Bt700 million per year during 2017-2019 under the assumptions in TRIS Rating's base case scenario. CFRESH's capital expenditures are set lower at about Bt120 million per year during 2017-2019, compared with Bt217 million spent in 2016. With limited capital spending, the company's leverage is expected to gradually improve, but remain moderate over the next few years. The FFO to total debt ratio is forecast to range from 25%-30% and the EBITDA interest coverage ratio will hover around 8-12 times in 2017-2019.

Seafresh Industry PLC (CFRESH)

Company Rating:

BBB

Issue Rating:

CFRESH215A: Bt500 million senior unsecured debentures due 2021

BBB

Rating Outlook:

Stable

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