

SEAFRESH INDUSTRY PLC

No. 43/2018
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CORPORATES

Company Rating:	BBB
Issue Rating:	
Senior unsecured	BBB
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
26/04/16	BBB	Stable

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RATIONALE

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

KEY RATING CONSIDERATIONS

A decades-long track record in shrimp processing industry

CFRESH has grown continuously over the past three and a half decades as a processor and exporter of shrimp. Total revenues rose from Bt2,034 million in 2007 to Bt7,495 million in 2017, a compound annual growth (CAG) rate of 14%. The company’s production facilities and supply chain have been certified by a number of international organizations. The certifications cover food safety, traceability, and environmental management. Thus, CFRESH’s products are qualified for sale at leading retailers worldwide.

Moderate level of diversification

CFRESH is moderately diversified, in terms of markets served and production bases, despite a heavy reliance on shrimp products. CFRESH has two shrimp processing plants, one located in Chumphon province, Thailand, and the other in Worcestershire, United Kingdom (UK), with a total capacity of 30,000 tonnes per year. The utilization rate in 2017 was 50%. The European Union (EU) is CFRESH’s largest market. Sales in the EU ranged from 69%-74% of total revenue during 2015-2017. Over the same three periods, sales in the United States (US) and Canada were 13%-16%, while sales in Asia were 12%-14%. Sales in other nations made up just 1%.

Competition and foreign exchange losses cut into profits

Gross margin dropped slightly from 14.4% in 2016 to 12.2% in 2017. The variation in gross margin is the result of a number of factors, such as fluctuation in the price of raw shrimp, anti-dumping duties, changes in the Generalized System of Preferences (GSP), competitiveness of other export countries, and changes in product mix of value-added products, such as sushi and commodity products, such as frozen raw shrimp.

The devaluation of the UK pound sterling and the US dollar adversely affected CFRESH’s operations in 2017. The value of the UK pound sterling and the US dollar dropped by 9% and 4% against baht, respectively. CFRESH reported a foreign exchange loss of Bt146 million, resulting in a net loss of Bt8 million in 2017.

Higher working capital requirement raises financial leverage

CFRESH's inventory level jumped to exceed 140 days in 2017 versus an average of 120 days during 2015 and 2016. CFRESH needed approximately Bt400-Bt500 million of more short-term debts to finance the rise. As a result, the debt to capitalization ratio rose to 55.4% in 2017 from 48.3% in 2015 and 50.6% in 2016. Capital expenditures are forecast at Bt120 million per year during 2018-2020. Leverage is expected to improve gradually because capital spending will be limited and earnings before interest, tax, depreciation and amortization (EBITDA) is forecast at Bt500-Bt600 million a year.

Cash flow protection will improve

The ratio of funds from operations (FFO) to total debt declined to 10.3% in 2017 from 21.0% in 2016. The EBITDA interest coverage ratio declined, but remained healthy at 6.1 times in 2017, compared with 7.4 times in 2016.

Looking forward, sales will be volatile in the short term given the forecast fluctuations in foreign currencies and in the cost of shrimp. The shrimp industry in Thailand is gradually recovering from two outbreaks of shrimp diseases: early mortality syndrome (EMS) and the enterocytozoon hepatopenaei (EHP). Recoveries from the outbreaks will boost the supply of shrimp and the cost of shrimp is expected to fall. Cash flow protection is expected to improve as a result. Under TRIS Rating's base case scenario, CFRESH's FFO to total debt ratio is projected to range from 20%-25% in 2018-2020 while the EBITDA interest coverage ratio is forecast at 6-10 times over the same period.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that CFRESH will maintain its competitive status and market position in the shrimp industry. CFRESH's financial profile is supported by moderate leverage and adequate coverage of interest expense.

RATING SENSITIVITIES

An upgrade is unlikely in the short term. Improvements in profitability and liquidity would give protection against the inherent volatility of the company's operations. Improvement in these two areas would need to be materialized before an upgrade could be considered. A rating downgrade could be considered if losses from exchange rate further erode CFRESH's competitive position and cut profits significantly, or the company's performance weakens for an extended period of time.

COMPANY OVERVIEW

CFRESH is a medium-sized shrimp processor and exporter in Thailand. It was established in 1982 by the Chia-apar family. The company was listed on the Stock Exchange of Thailand (SET) in August 1993. As of March 2018, the Chia-apar family held 66.1% of the company's shares. CFRESH's main product lines comprise frozen raw shrimp, cooked shrimp, and value-added shrimp products. In 2017, value-added products contributed 57% of the company's total revenues, while the frozen raw and cooked shrimp contributed about 19% and 15%, respectively.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	-----Year Ended 31 December-----				
	2017	2016	2015	2014	2013
Sales and service revenues	7,495	7,587	7,817	8,391	6,889
Gross interest expense	85	92	65	61	44
Net income from operations	188	222	382	380	(304)
Earnings before interest, tax, depreciation, and amortization (EBITDA)	551	695	671	669	(119)
Funds from operations (FFO)	258	436	727	602	(118)
Total capital expenditures and investments	157	217	143	206	303
Total assets	5,616	5,001	5,264	4,230	3,804
Total debt	2,694	2,097	2,285	1,746	1,568
Shareholders' equity	2,167	2,246	2,232	1,684	1,218
Operating income before depreciation and amortization as % of sales	6.91	8.79	8.95	7.35	(2.31)
Pretax return on permanent capital (%)	8.51	12.44	13.15	16.99	(9.24)
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	6.07	7.39	10.11	10.67	(2.95)
FFO/total debt (%)	10.33	21.01	32.20	34.95	(6.58)
Total debt/capitalization (%)	55.43	48.28	50.58	50.90	56.29

Note: All ratios have been adjusted by operating leases.

* Consolidated financial statements

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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