

THAI UNION GROUP PLC

No. 163/2024
24 September 2024

CORPORATES

Company Rating:	A+
Issue Ratings:	
Senior unsecured	A+
Hybrid	A-
Outlook:	Stable

Last Review Date: 22/09/23

Company Rating History:

Date	Rating	Outlook/Alert
22/09/23	A+	Stable
28/09/21	A+	Positive
28/08/18	A+	Stable
24/06/15	AA-	Stable
23/12/14	AA-	Alert Developing
08/01/13	AA-	Stable
14/01/11	A+	Stable
29/07/10	A+	Alert Developing
30/08/06	A+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Thai Union Group PLC (TU) and the ratings on its senior unsecured debentures at “A+” and affirms the rating on its subordinated capital debentures (hybrid debentures) at “A-”, with a “stable” outlook.

The ratings continue to reflect TU’s strong market position as one of the world’s leading seafood processors, the diversity of its products and markets, and its strong brand portfolio in Europe and the United States (US). TU also has strategic investment in upstream and downstream businesses including food ingredient and feed business. The ratings also incorporate our concerns over the global economic slowdown as well as the fluctuating prices of commodity protein and foreign exchange rates.

KEY RATING CONSIDERATIONS

Recovery in operating performance

After experiencing sluggish operating performance in 2023, TU reported a recovery in the first half of 2024. Thanks to a resurgence in volume of pet care, as well as value-added and ambient seafood products on the back of restocking orders from its key customers, TU’s operating revenue rose by 2.6% year-on-year (y-o-y) to THB68.8 billion.

TU’s profitability improved, fueled by a product mix improvement and cost efficiency in the pet care business, together with falling raw material costs in feed and packaging businesses. The company’s margin also improved following downsizing of the low-margin frozen business in the US. As a result, EBITDA surged by 22.5% y-o-y to THB6.2 billion in the first half of 2024. The EBITDA margin was 9.1% in the same period, up from 8.8% in 2023.

Looking forward, we expect the company to maintain growth momentum with acceptable profit margin. Growth will be driven by increased capacity, market expansion, and the launch of new products. Under our base-case scenario, we project TU’s revenue to reach THB140-THB146 billion per annum in 2024-2026. EBITDA is projected to hover around THB13-THB14 billion per annum, while the EBITDA margin should remain around 9% during 2024-2026.

Impairment from Red Lobster exit decision

TU’s restaurant chain business under Red Lobster (RL) brand was severely impacted by the Coronavirus Disease 2019 (COVID-19) and has struggled in a highly competitive market, resulting in cumulative losses over several years. TU decided to impair the full amount of investment in RL of approximately THB18.4 billion (or USD530 million) and classified this investment, together with the share of losses related to RL, as discontinued operation in the last quarter of 2023.

We view the impairment as a one-off transaction, and TU’s bottom line is anticipated to improve from 2024 onwards as losses from RL are no longer a factor. This decision has also eliminated our concerns over the potential additional capital that would be needed to support RL’s operations.

Improving leverage

Given its improving operating performance, TU's leverage ratio has declined. The company's adjusted debt was THB57.8 billion as of June 2024, down from THB58.1 billion in 2023. The net debt to EBITDA ratio was 4.4 times in the first half of 2024, down from 4.8 times in 2023.

Going forward, we expect TU's leverage to further decline gradually. The company's operations should improve on the back of escalating revenue contributions from high-margin innovative products as well as from its performance enhancement and cost reduction programs. Nonetheless, in our base-case scenario, we project its debt to EBITDA ratio to remain around 4.4-4.8 times in 2024-2026. The debt to capitalization ratio is projected to be in the 47%-50% range during the same period.

Product diversification

TU is one of the world's leading seafood companies with diversified portfolio of seafood products. The products comprise tuna (36% of total sales in 2023), shrimp and shrimp-related products (24%), PetCare (11%), sardines and mackerel (8%), salmon (8%), as well as value-added and other products (12%).

TU's large-scale operations allow it to achieve cost competitiveness and greater negotiating power with raw material suppliers. TU also utilizes by-products to enhance its competitive position. For example, fish bones, skin, and oil, are processed into value-added products such as crude and refined tuna oil, and tuna bone calcium.

Geographic diversification

TU's business risk is partly mitigated through the geographic diversity of its operations and markets. Production facilities are spread across 15 countries on four continents. Sales in North America, its major market, represented 40% of total revenue in 2023. Customers in Europe accounted for 30%, followed by Thailand (12%), Japan (6%) and others (13%). TU's ongoing efforts to broaden its geographic coverage aim to alleviate the potential impacts of disease outbreaks, trade barriers, and regulations governing the fishing industry.

Adequate liquidity

We assess TU's liquidity as adequate for the coming year. The company has scheduled long-term debt repayments of THB9.5 billion over the next 12 months, while planned capital spending will total approximately THB4-THB5 billion. The primary source of funds will come from cash flow from operations. We expect TU to generate fund from operations (FFO) of about THB8 billion in 2024. The liquidity buffer is supported by cash on hand and short-term investments totaling THB14 billion at the end of June 2024, as well as numerous undrawn credit facilities from several financial institutions.

Debt structure

As of June 2024, TU's total interest-bearing debt, including the full amount of hybrid debentures but excluding lease liabilities, was THB70.5 billion. The company's priority debt was THB1.1 billion, translating to a priority debt ratio of 2%.

BASE CASE ASSUMPTIONS

- Operating revenue to hover around THB140-THB146 billion per annum during 2024-2026.
- Gross profit margin and EBITDA margin to hover around 18% and 9%, respectively during 2024-2026.
- Total capital spending of THB4-THB5 billion per annum during 2024-2026.
- No material merger and acquisition (M&A) activities, though we believe the company could pursue bolt-on acquisitions.

RATING OUTLOOK

The "stable" outlook reflects our expectation that TU will maintain its competitive advantage stemming from economies of scale and production efficiencies. We expect the company to maintain its debt to EBITDA ratio at around 4-5 times.

RATING SENSITIVITIES

The ratings could be upgraded if the company delivers satisfactory operating performance while improving its capital structure with the adjusted debt to EBITDA ratio sustained well below 4 times, while improving EBITDA size to the level around THB25 billion. Conversely, a downgrade could occur if its operating performance is materially weaker than expected or if TU makes any sizable debt-funded investments that materially weaken its balance sheet.

COMPANY OVERVIEW

TU was established in 1977 by the Chansiri Family. TU is one of the world's leading seafood processors and the largest producer of shelf-stable tuna products. The company's product lines cover tuna, shrimp, lobster, sardines, salmon, pet care, and more. TU's major tuna production facilities are located in Thailand, the US, Ghana, and the Republic of Seychelles. TU also has production facilities in Vietnam, France, Germany, Norway, Poland, Portugal, and Lithuania. The company's worldwide annual sales were THB136.2 billion (USD3.9 billion) in 2023.

TU has strong market presences with well-known branded products in the US and the European Union (EU). Thai Union Europe (TUE), formerly MW Brands SAS, has several market-leading brands in Europe, such as "John West", "Petit Navire", "Mareblu", and "Parmentier". In the US, TU's "Chicken of the Sea" brand was ranked third in the canned tuna market. Thai brands include "SEAELECT", "FisHo", "Qfresh", "Monori", "Bellotta", and "Marvo".

TU announced its decision to exit its investment in Red Lobster, a US restaurant chain in which TU held a 25% equity stake and 24% in preferred shares and recorded a full impairment of approximately THB18.4 billion (or USD530 million) in the last quarter of 2023. Following this transaction, TU obtained a one-time waiver from its bondholders to exclude impairment from 2023 net income following the interest coverage ratio (ICR) and dividend payment restrictions.

KEY OPERATING PERFORMANCE

Table 1: TU's Sales Breakdown by Geographic Area

Unit: %

Market	2019	2020	2021	2022	2023	Jan-Jun 2024
US	40	42	43	43	40	38
EU	28	29	28	26	30	31
Thailand	12	10	10	10	12	11
Japan	5	5	5	6	6	6
Others	15	14	13	15	13	15
Total	100	100	100	100	100	100
Total sales (THB million)	126,275	132,402	141,048	155,586	136,153	68,503

Source: TU

Table 2: TU's Sales Growth by Product

Unit: Mil. THB

Product (Year-on-Year)	2019	2020	2021	2022	2023	Jan-Jun 2024
Tuna	42,232	47,602	44,073	50,469	49,131	26,588
% change	(13)	13	(7)	15	(3)	6
Shrimp and related products	37,773	34,879	41,194	40,805	33,079	14,181
% change	3	(8)	18	(1)	(19)	(13)
Pet food	10,952	12,277	14,658	21,693	15,058	8,411
% change, y-o-y	2	12	19	48	(31)	(26)
Sardines & mackerel	9,195	10,519	10,435	10,912	10,439	5,651
% change	(3)	14	(1)	5	(4)	9
Salmon	9,853	9,679	10,425	11,549	11,481	5,461
% change, y-o-y	(8)	(2)	8	11	(1)	1
Value-added and other products	16,270	17,447	20,262	20,159	16,964	8,213
% change	(5)	7	16	(1)	(16)	1
Total sales	126,275	132,402	141,048	155,586	136,153	68,503
% change	(5)	5	7	10	(12)	3

Source: TU

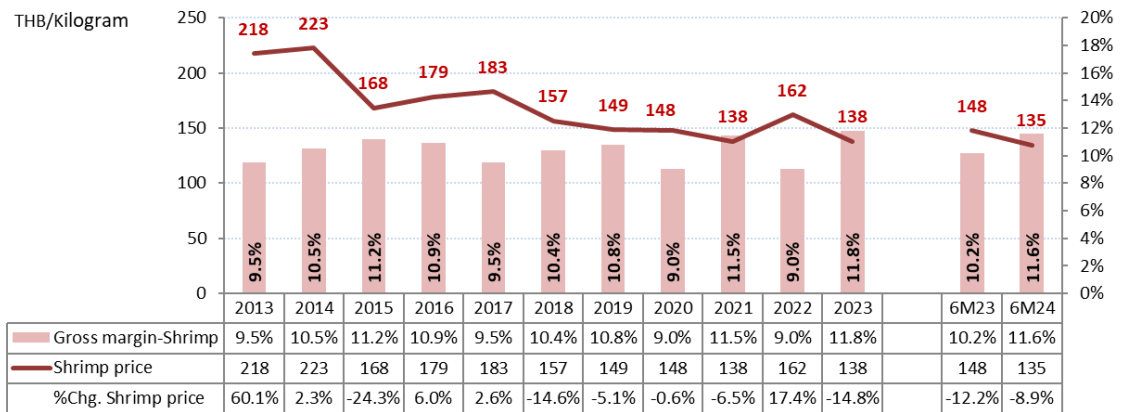
Note: Percentage is based in terms of Thai baht.

Chart 1: Global Price of Skipjack Tuna and Gross Margin of TU's Tuna Segment



Source: TU

Chart 2: Average Shrimp Price and Gross Margin of TU's Shrimp Segment



Note: Shrimp price is based on vannamei shrimp, 60 pieces/kg.

Source: TU

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	68,849	136,981	156,491	141,805	133,108
Earnings before interest and taxes (EBIT)	4,344	8,303	10,494	10,870	9,053
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	6,244	12,030	14,447	15,528	13,655
Funds from operations (FFO)	4,510	8,746	11,254	12,886	10,970
Adjusted interest expense	1,342	2,540	2,207	1,935	1,932
Capital expenditures	1,542	4,925	5,340	4,264	3,855
Total assets	161,496	165,450	182,569	166,604	144,575
Adjusted debt	57,846	58,107	55,749	67,654	57,799
Adjusted equity	59,527	63,042	85,157	59,239	52,762
Adjusted Ratios					
EBITDA margin (%)	9.1	8.8	9.2	11.0	10.3
Pretax return on permanent capital (%)	6.7 *	5.7	7.2	8.6	7.8
EBITDA interest coverage (times)	4.7	4.7	6.5	8.0	7.1
Debt to EBITDA (times)	4.4 *	4.8	3.9	4.4	4.2
FFO to debt (%)	16.6 *	15.1	20.2	19.0	19.0
Debt to capitalization (%)	49.3	48.0	39.6	53.3	52.3

* Annualized with trailing 12 months

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Hybrid Securities Rating Criteria, 28 June 2021
- Rating Methodology – Corporate, 26 July 2019

Thai Union Group PLC (TU)

Company Rating:	A+
Issue Ratings:	
TU26NA: THB2,000 million senior unsecured debentures due 2026	A+
TU26NB: THB4,500 million senior unsecured debentures due 2026	A+
TU271A: THB4,000 million senior unsecured debentures due 2027	A+
TU287A: THB5,000 million senior unsecured debentures due 2028	A+
TU29NA: THB4,000 million senior unsecured debentures due 2029	A+
TU31NA: THB1,500 million senior unsecured debentures due 2031	A+
TU19PA: THB6,000 million subordinated capital debentures	A-
Rating Outlook:	Stable

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