

# THAI UNION GROUP PLC

No. 156/2021  
28 September 2021

## CORPORATES

<b>Company Rating:</b>	A+
<b>Issue Ratings:</b>	
Senior unsecured	A+
Hybrid	A-
<b>Outlook:</b>	Positive

**Last Review Date:** 16/07/21

### Company Rating History:

Date	Rating	Outlook/Alert
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 outstanding senior unsecured debentures at "A+", and subordinated capital debentures (hybrid debentures) at "A-" and revises the rating outlook to "positive" from "stable".

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, the well-known brands of its supplies in Europe and the United States (US), and barriers to market entry including fishing quotas, and high capital investment. The ratings also take into consideration concerns over the impacts of container shortages and the uncertainty surrounding the development of the Coronavirus Disease 2019 (COVID-19) pandemic.

The outlook revision reflects TU's strengthening financial profile supported by the improvement in the leverage ratio and profit margin, following the company's strategy to focus on innovative and value-added products, efficiency improvement and cost rationalization.

## KEY RATING CONSIDERATIONS

### Solid operating results

TU's operating performance improved in the first half of 2021, driven by the recovery of its frozen and chilled seafood business, combined with strong operating results from the PetCare and value-added product segments.

Thanks to the vaccination progress and opening of economies, particularly in the US and European markets, TU's frozen and chilled seafood business recovered strongly after bottoming out in 2020. The PetCare and value-added product categories continue to post strong growth in revenue and margins, resulting from the growth trends for PetCare products, as well as new product offerings.

During the first half of 2021, TU's operating revenue improved by 4.6% year-on-year (y-o-y) to THB67.4 billion, while earnings before interest, taxes, depreciation, and amortization (EBITDA) surged by 16.1% y-o-y to THB7.8 billion. The EBITDA margin stood at 11.5% in the first half of 2021, up from 7%-10% during the past few years.

TRIS Rating expects TU to continue delivering good operating results, despite the prospects of several challenges in the coming years. With its strategy to focus on high-margin, value-added, and innovative products, TU has several new products launches in the pipeline. We expect the rising revenue contribution from innovative products, as well as TU's strategy to focus on efficiency improvements and cost reductions combined with the prospect of a post-COVID economic recovery, should help the company achieve satisfactory operating performance over the next few years.

### Signs of improvement from Red Lobster

Red Lobster (RL), a US restaurant chain in which TU holds a 49% shareholding on a fully diluted basis, comprised of 25% equity stake and 24% in preferred shares at USD345 million, was materially affected by the pandemic and lockdown measures in 2020.

During the first half of 2021, RL's operating performance improved to some extent, driven by a recovery in the US economy as well as the company's

product strategies and cost optimization. Presently, all RL's restaurants have resumed dine-in services, while off-premises revenue has more than doubled from the pre-COVID level. As a result, TU posted a loss of THB105 million from its investment in associated companies during the first half of 2021, improving from a THB597 million loss during the same period of 2020. TRIS Rating expects RL's operation to improve gradually but more time could be needed to draw traffic and improve operating margins to reach breakeven levels.

### Improved capital structure

TU's capital structure and financial leverage improved materially following solid operating results from its core business, combined with the company's strategy to scale down capital spending during the pandemic. TU's total debt to capitalization ratio was 52.3% in 2020 and 53.1% at the end of June 2021, down from 55%-60% in 2017-2019. The ratio of net debt to EBITDA improved to 4.2 times in 2020 through the first half of 2021, from 6-7 times at year-end 2017-2019.

Going forward, we expect TU's leverage to improve further as the company has no sizable acquisitions planned for the next few years. The company's operations should improve on the back of escalating contributions from high-margin innovative products and performance enhancement programs. TU also expects to improve its balance sheet from the spin-off of two subsidiaries, an aqua feed company and a pet food company, to list on the Stock Exchange of Thailand (SET).

In our base-case scenario, TU's capital expenditure is projected to be THB5.0-THB5.5 billion per annum during 2021-2023. We project its debt to EBITDA ratio to hover around 3.8-4.2 times during 2021-2023. The debt to capitalization ratio is projected to stay below 50%.

### Product diversification

As the world's largest tuna canner, the company processes about 570,000 tons of tuna per annum, approximately one-fifth of the canned tuna produced worldwide. TU is also one of the world's leading seafood companies. Apart from tuna, TU's largest revenue contributor (36% of total sales in 2020), the company's product portfolio comprises shrimp and shrimp-related products (26%), PetCare (9%), sardines and mackerel (8%), salmon (7%), and value-added and other products (13%).

The large scale of TU's operation allows 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 fish head, are processed into value-added products such as crude and refined tuna oil, and its patented, new product development - 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 14 countries on four continents. TU has geographically diversified sources of revenue. Sales in the North America, its major market, represented 43% of total revenue in 2020. Customers in Europe accounted for 29%, followed by Thailand (10%), and Japan (5%). TU's ongoing efforts to broaden its geographic coverage aim to alleviate potential impacts of disease outbreaks, trade barriers, and regulations governing the fishing industry.

### Adequate liquidity

We assess TU's liquidity to be adequate. Over the next 12 months, the company will have debt repayments of THB20.6 billion. The primary source of repayment shall be from funds from operations (FFO) of THB11 billion per annum. The liquidity buffer is supported by cash reserves, amounting to THB6.5 billion at the end of June 2021, as well as undrawn credit facilities of about THB5 billion from several financial institutions.

### BASE CASE ASSUMPTIONS

- Operating revenue to increase by 2%- 4% during 2021-2023.
- Gross profit margin to be 17%-18%; EBITDA margin to remain in the 9%-10% range.
- Total capital spending to be THB5.0-THB5.5 billion per annum during 2021-2023.

### RATING OUTLOOK

The "positive" outlook reflects an improvement of TU's financial profile, supported by the company's strategy to focus on innovative products, as well as the efficiency improvement.

### RATING SENSITIVITIES

TU's ratings could be revised upward if TU's capital structure and cash flow protection continue to improve, such that the ratio of adjusted debt to EBITDA fall below 4 times for a sustained period. On the contrary, a downgrade could occur if the

operating performance is materially weaker than expected or if TU makes any sizable debt-funded investment that materially weakens its balance sheet and cash flow protection.

## 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, PetCare, and more. TU's major tuna production facilities are located in Thailand, the US, Ghana, and the Seychelles Islands. TU also has production facilities in Vietnam, France, Germany, Norway, Poland, Portugal, and Lithuania. The company's worldwide annual sales exceed THB132.4 billion (USD4.2 billion) with a global workforce of about 44,800 people.

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". The John West brand is ranked first in the United Kingdom (UK) (34% market share), Ireland (49%), and the Netherlands (33%), according to data from AC Nielsen and an IRI Report provided by TU's management. Petit Navire, another well-recognized with number 1 ranking brand, has a 39% market share in France. In the US, TU's "Chicken of the Sea" brand was ranked third in the canned tuna market with a 10% market share in terms of sales value in 2020. Starkist is the largest canned tuna processor (46%), followed by Bumble Bee (24%). While, Thai brands include "SEALECT", "Fisfo", "Qfresh", "Monori", "Bellotta", and "Marvo".

## KEY OPERATING PERFORMANCE

**Table 1: TU's Sales Breakdown by Geographic Area**

*Unit: %*

Market	2016	2017	2018	2019	2020	Jan-Jun 2021
US	39	39	38	40	42	42
EU	33	31	31	28	29	29
Thailand	8	9	11	12	10	11
Japan	6	6	6	5	5	5
Others	14	15	14	15	14	13
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Total sales (THB million)</b>	<b>134,375</b>	<b>134,937</b>	<b>133,285</b>	<b>126,275</b>	<b>132,402</b>	<b>67,007</b>

Source: TU

**Table 2: TU's Sales Growth by Product**

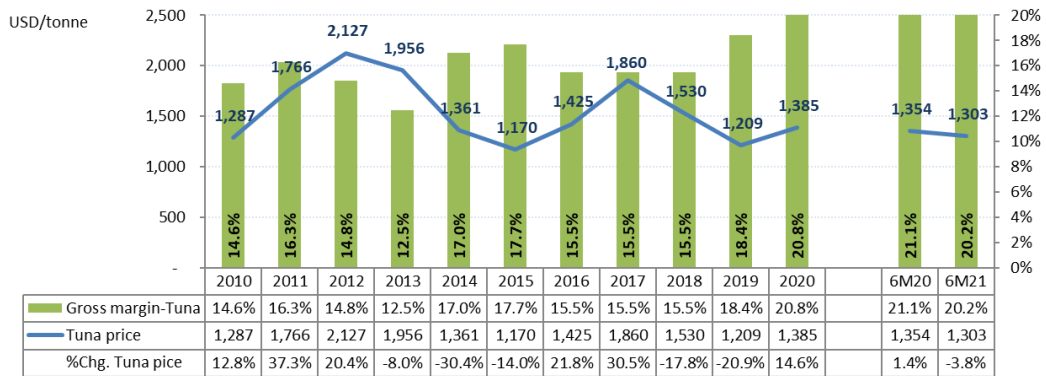
*Unit: Mil. THB*

Product (Year-on-Year)	2016	2017	2018	2019	2020	Jan-Jun 2021
Tuna	46,522	47,645	48,472	42,232	47,602	24,353
% change	0	2	2	-13	13	-11
Shrimp and related products	37,868	37,578	36,739	37,773	34,879	15,082
% change	5	-1	-2	3	-8	23
Pet food	9,377	10,176	10,721	10,952	12,277	7,137
% change, y-o-y	15	9	5	2	12	22
Sardines & mackerel	11,321	10,662	9,510	9,195	10,519	5,093
% change	53	-6	-11	-3	14	-5
Salmon	12,789	11,255	10,702	9,853	9,679	4,655
% change, y-o-y	13	-12	-5	-8	-2	2
Value-added and other products	16,499	17,621	17,141	16,270	17,447	9,423
% change	5	7	-3	-5	7	10
<b>Total sales</b>	<b>134,375</b>	<b>134,937</b>	<b>133,285</b>	<b>126,275</b>	<b>132,402</b>	<b>67,007</b>
<b>% change</b>	<b>8</b>	<b>0</b>	<b>-1</b>	<b>-5</b>	<b>5</b>	<b>4</b>

Source: TU

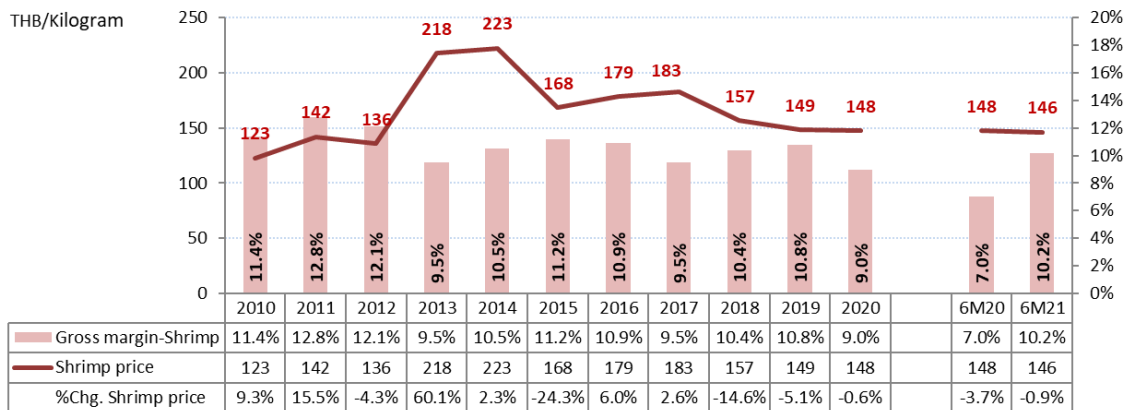
Note: Percentage is based in terms of Thai baht.

**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 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	67,375	133,108	126,922	134,217	136,037
Earnings before interest and taxes (EBIT)	5,535	9,065	6,681	6,467	8,976
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	7,771	13,667	9,995	9,784	11,790
Funds from operations (FFO)	6,437	11,011	7,702	7,478	9,560
Adjusted interest expense	905	1,932	2,135	2,185	2,294
Capital expenditures	2,095	3,855	4,669	4,963	5,671
Total assets	153,870	144,575	141,909	141,916	146,092
Adjusted debt	62,639	57,799	60,731	66,766	70,028
Adjusted equity	55,251	52,762	48,820	46,494	48,051
<b>Adjusted Ratios</b>					
EBITDA margin (%)	11.53	10.27	7.87	7.29	8.67
Pretax return on permanent capital (%)	8.90	7.85	5.83	5.53	7.63
EBITDA interest coverage (times)	8.59	7.07	4.68	4.48	5.14
Debt to EBITDA (times)	4.25	4.23	6.08	6.82	5.94
FFO to debt (%)	19.14	19.05	12.68	11.20	13.65
Debt to capitalization (%)	53.13	52.28	55.44	58.95	59.31

**RELATED CRITERIA**

- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Hybrid Securities Rating Criteria, 12 September 2018
- Key Financial Ratios and Adjustments, 5 September 2018

**Thai Union Group PLC (TU)**

<b>Company Rating:</b>	A+
<b>Issue Ratings:</b>	
TU221A: THB2,000 million senior unsecured debentures due 2022	A+
TU237A: THB2,000 million senior unsecured debentures due 2023	A+
TU241A: THB2,500 million senior unsecured debentures due 2024	A+
TU242A: THB1,050 million senior unsecured debentures due 2024	A+
TU26NA: THB2,000 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+
TU19PA: THB6,000 million subordinated capital debentures	A-
<b>Rating Outlook:</b>	Positive

**TRIS Rating Co., Ltd.**

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