

# THAI UNION GROUP PLC

No. 165/2022  
29 September 2022

## CORPORATES

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

Last Review Date: 04/11/21

### Company Rating History:

Date	Rating	Outlook/Alert
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 “positive” outlook.

The outlook reflects TU’s satisfactory operating performance of its core business. We expect TU’s capital structure to improve from spinning-off a subsidiary, together with the rising contribution from its value-added and new innovative products.

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 in Europe and the United States (US), and barriers to market entry including fishing quotas, and high capital investment. The ratings also incorporate our concerns over the fragile economic recovery following the Coronavirus Disease 2019 (COVID-19) pandemic, as well as geopolitical risks and the threat of stagflation.

## KEY RATING CONSIDERATIONS

### Softening operating results follow steep rise in cost

TU’s operating results softened in the first half of 2022, following a record-high inflation on the back of supply chain disruptions and geopolitical conflicts. Despite several challenges in the coming quarters, we expect the company to deliver an acceptable operating performance, supported by the company’s focus on high-margin innovative and value-added products, along with efficiency improvements and cost rationalization.

TU’s operating performance has improved steadily over the past few years, driven by efficiency improvements and a windfall from pantry loading during COVID-19.

During the first half of 2022, TU’s operating revenue continued to increase, rising by 12.3% year-on-year (y-o-y) to THB75.7 billion. The growth was driven mainly by the rising demand of pet food and ambient products, as well as price adjustments supported by favorable foreign exchange rates.

However, TU’s operating profit was squeezed by a steep rise in raw material, fuel and logistics costs. Despite efforts to make several price adjustments, TU’s earnings before interest, taxes, depreciation, and amortization (EBITDA) dipped by 16.7% y-o-y to THB6.5 billion in the first half of 2022. The EBITDA margin slipped to 8.6% during the same period, down from the record high at 10%-11% in 2020-2021, but still higher than 7%-8% range in 2018-2019.

Our projection forecasts TU’s revenue to grow 3%-10% per year in 2022-2024. This is driven mainly by the solid performance of PetCare segment, greater contribution of value-added products, and new product initiatives. EBITDA is projected to hover around THB13-THB16 billion per year, while the EBITDA margin to be in the 8.3%-9.8% range during 2022-2024.

### Imminent challenges from Red Lobster

Red Lobster (RL), a US restaurant chain in which TU holds a 49% shareholding on a fully diluted basis, comprising a 25% equity stake and 24% in preferred shares at USD345 million, was materially affected by the COVID-19 variants and stagflation in the first half of 2022. As a result of RL’s weakened

performance, TU posted a loss of THB460 million from its investment in associated companies during the first half of 2022, compared with a THB105 million loss during the same period of 2021.

We view RL's operation to continue facing challenges from the vulnerable macroeconomic prospects in the U.S., dampened by rising input costs and inflationary pressure. This is in addition to the risk of interest rate hikes which will affect RL's funding costs and affect the fair value of TU's investment in preferred shares. Despite the strategies to improve efficiency and guest counts, we expect more time will be needed to significantly improve traffic and operating margins to reach breakeven levels.

#### **Leverage surged on the back of high inventory costs**

TU's financial leverage rose materially owing mainly to the high level of inventories, following the global supply chain disruption, and skyrocketing raw material costs. TU's adjusted debt stood at THB74.8 billion as of June 2022 from THB67.7 billion in 2021. The debt to capitalization ratio rose to 55.5% at the end of June 2022 from 53.3% in 2021. The ratio of net debt to EBITDA increased to 5.3 times in the first half of 2022, compared with 4.2-4.4 times in 2020-2021.

Going forward, we expect TU's leverage to improve as the company has no sizable acquisitions planned for the next few years. We also believe the company will maintain its prudent financial management. 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 a subsidiary, a pet food company, potentially list on the Stock Exchange of Thailand (SET) in the next few quarters.

In our base-case scenario, we project its debt to EBITDA ratio to hover around 5.2 times in 2022 and improve to below 4 times in 2023-2024. The debt to capitalization ratio is projected to hover around 53% in 2022 and gradually improve to below 50% in 2023-2024.

#### **Product diversification**

As the world's largest tuna canner, the company processes about 570,000 tonnes 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 (33% of total sales in the first half of 2022), the company's product portfolio comprises shrimp and shrimp-related products (26%), PetCare (13%), sardines and mackerel (7%), salmon (7%), and value-added and other products (14%).

TU's large-scale 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 oil, are processed into value-added products such as crude and refined tuna and algae oil, and its patented, new product development - tuna bone calcium and tuna skin collagen.

#### **Geographic diversification**

TU's business risk is partly mitigated through the geographic diversity of its operations and markets. Production facilities are spread across 11 countries on four continents. TU has geographically diversified sources of revenue. Sales in North America, its major market, represented 42% of total revenue in the first half of 2022. Customers in Europe accounted for 26%, followed by Thailand (11%), and Japan (6%). 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 to be adequate over the next 12 months. The company have no scheduled long-term debt repayments, while its planned capital spending worth approximately THB5 billion. The primary source of repayments will come from cash flow from operations. We forecast TU to generate funds from operations (FFO) of about THB11 billion in 2022. The liquidity buffer is supported by cash on hand and equivalents totaling THB2.1 billion at the end of June 2022, as well as numerous undrawn credit facilities from several financial institutions.

#### **BASE CASE ASSUMPTIONS**

- Operating revenue to increase by 10% in 2022, driven largely by a steep depreciation of Thai baht, and edge up by 2%-3% during 2023-2024.
- Gross profit margin to be 17.6%-18.4%; EBITDA margin to remain in the 8.3%-9.8% range during 2022-2024.
- Total capital spending to be THB5.0-THB6.5 billion per annum during 2022-2024.

## RATING OUTLOOK

The “positive” outlook reflects an improvement of TU’s financial profile, supported by the company’s efficiency improvements, as well as its strategy to focus on high-value innovative products.

## RATING SENSITIVITIES

The ratings could be upgraded if the company delivers satisfactory operating performance while improving its capital structure with the ratio of adjusted debt to EBITDA sustained below 4 times. Conversely, a downgrade could occur if operating performance is materially weaker than expected or if TU makes any sizable debt-funded investments that materially weaken its balance sheet, such that the adjusted debt to EBITDA sustained above 7 times without prospects of recovery.

## 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 & Mackerel, 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 THB141.0 billion (USD4.4 billion) with a global workforce of about 44,700 employees.

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) (30% market share in the first half of 2022), according to data from AC Nielsen and an IRI Report provided by TU’s management. Petit Navire, another well-recognized brand with top ranking, has a 29% market share in France in the first half of 2022. In the US, TU’s “Chicken of the Sea” brand was ranked third in the canned seafood market with a 14% market share in the first half of 2022. Starkist is the largest canned tuna processor (48%), followed by Bumble Bee (23%). Thai brands include “SEALECT”, “Qfresh”, “Monori”, “Bellotta”, and “Marvo”.

## KEY OPERATING PERFORMANCE

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

Unit: %

Market	2017	2018	2019	2020	2021	Jan-Jun 2022
US	39	38	40	42	43	42
EU	31	31	28	29	28	26
Thailand	9	11	12	10	10	11
Japan	6	6	5	5	5	6
Others	15	14	15	14	13	15
<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>134,937</b>	<b>133,285</b>	<b>126,275</b>	<b>132,402</b>	<b>141,048</b>	<b>75,217</b>

Source: TU

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

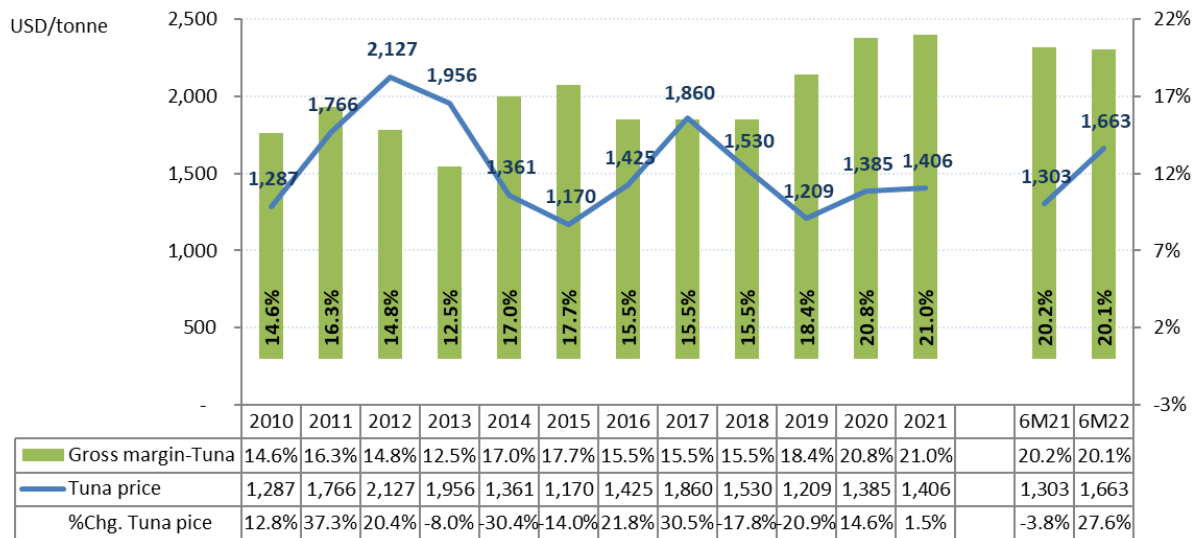
Unit: THB million

Product (Year-on-Year)	2017	2018	2019	2020	2021	Jan-Jun 2022
Tuna	47,645	48,472	42,232	47,602	44,073	24,532
% change	2	2	-13	13	-7	13
Shrimp and related products	37,578	36,739	37,773	34,879	41,194	19,932
% change	-1	-2	3	-8	18	4
Pet food	10,176	10,721	10,952	12,277	14,658	9,914
% change, y-o-y	9	5	2	12	19	39
Sardines & mackerel	10,662	9,510	9,195	10,519	10,435	5,468
% change	-6	-11	-3	14	-1	7
Salmon	11,255	10,702	9,853	9,679	10,425	4,861
% change, y-o-y	-12	-5	-8	-2	8	4
Value-added and other products	17,621	17,141	16,270	17,447	20,262	10,511
% change	7	-3	-5	7	16	12
<b>Total sales</b>	<b>134,937</b>	<b>133,285</b>	<b>126,275</b>	<b>132,402</b>	<b>141,048</b>	<b>75,217</b>
<b>% change</b>	<b>0</b>	<b>-1</b>	<b>-5</b>	<b>5</b>	<b>7</b>	<b>12</b>

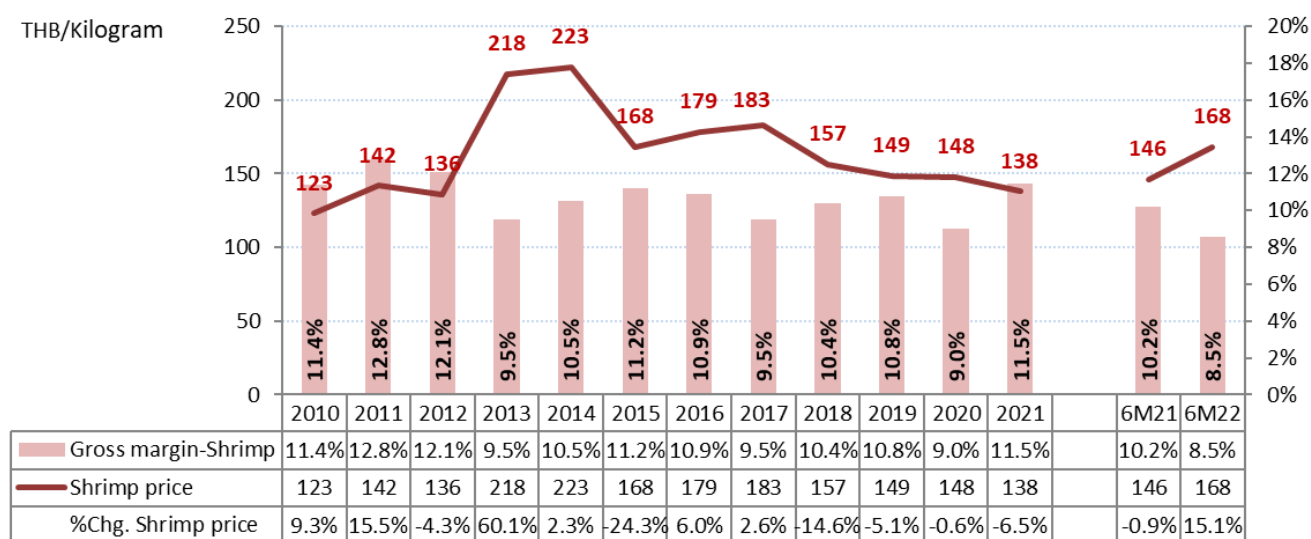
Source: TU

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 2022	2021	2020	2019	2018
Total operating revenues	75,681	141,805	133,108	126,922	134,217
Earnings before interest and taxes (EBIT)	3,808	10,870	9,053	6,681	6,467
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	6,473	15,528	13,655	9,995	9,784
Funds from operations (FFO)	5,080	12,886	10,970	7,702	7,478
Adjusted interest expense	984	1,935	1,932	2,135	2,185
Capital expenditures	2,123	4,264	3,855	4,669	4,963
Total assets	171,415	166,604	144,575	141,909	141,916
Adjusted debt	74,797	67,654	57,799	60,731	66,766
Adjusted equity	59,893	59,239	52,762	48,820	46,494
<b>Adjusted Ratios</b>					
EBITDA margin (%)	8.55	10.95	10.26	7.87	7.29
Pretax return on permanent capital (%)	7.00	8.58	7.83	5.83	5.53
EBITDA interest coverage (times)	6.58	8.02	7.07	4.68	4.48
Debt to EBITDA (times)	5.26	4.36	4.23	6.08	6.82
FFO to debt (%)	15.48	19.05	18.98	12.68	11.20
Debt to capitalization (%)	55.53	53.32	52.28	55.44	58.95

## RELATED CRITERIA

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Hybrid Securities Rating Criteria, 28 June 2021
- Issue Rating Criteria, 15 June 2021

**Thai Union Group PLC (TU)**

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

**TRIS Rating Co., Ltd.**

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