

# THAI UNION GROUP PLC

No. 135/2020  
9 September 2020

## CORPORATES

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

**Last Review Date:** 04/10/19

### 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 TU's senior unsecured debentures at "A+", and subordinated capital debentures (hybrid debentures) at "A-". The rating outlook remains "stable".

The ratings still 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. However, the ratings are constrained by volatile raw material prices, the risk of disease outbreaks, trade barriers, fishing regulations, and fluctuations in foreign exchange rates. The ratings also take into consideration concerns over impacts of the global economic fallout from the Coronavirus Disease 2019 (COVID-19) pandemic.

## KEY RATING CONSIDERATIONS

### Satisfactory operating results from core businesses

TU posted satisfactory operating results in the first half of 2020. The improvement was attributable to the strong performance of the ambient-food and pet-care businesses, while the frozen product business reported weaker revenue and margin.

The COVID-19 pandemic has had minimal impact on TU's core businesses. The upsurge in ambient food product sales from consumers' stockpiling during the peak of the virus spread more than offset the sharp drop in frozen product sales due to restaurant closures as part of the lockdowns. As a result, TU's sales increased by 4.2% year-on-year (y-o-y) to THB64.2 billion during the first half of 2020. The increase came through a 16.5% y-o-y growth in ambient products, whereas sales of frozen products declined by 9.9% y-o-y.

TU's profitability also improved, owing to the robust growth in higher-margin branded products, combined with stable raw material costs, as well as the absence of litigation charges. Earnings before interest, tax, depreciation, and amortization (EBITDA) surged to THB6.7 billion in the first half of 2020, compared with THB3.8 billion during the same period of 2019 and THB9.8-THB11.8 billion for the years 2017-2019. EBITDA margin rose to 10.4% in the first six months of 2020, from 7.3%-8.7% for the years 2017-2019.

We expect the company to continue delivering good operating results in the second half of the year 2020. Even though ambient product sales are likely to decline, frozen product sales are projected to improve, following the easing of city lockdowns. The company should be able to continue to manage its supply chains and production facilities well throughout the pandemic period.

### Share loss from investment in "Red Lobster"

"Red Lobster" (RL), a US restaurant chain in which TU holds a 25% equity stake and USD345 million in preferred shares, has been hit hard by the pandemic and lockdown measures. All restaurants halted dine-in services during the peak of COVID-19 and shifted to off-premise business (take-out and delivery services). Despite high growth, revenue from the off-premise business fell short of offsetting the slump in the dine-in business. Same-store sales declined at high double-digit rates, while sizable fixed costs remained. As a result, TU posted a loss of THB597 million from its investment in

associated companies during the first half of 2020, compared with a THB457 million gain during the same period of 2019.

Recently, TU announced a change in RL's shareholding structure. The new shareholder group has well-accepted track records as restaurant chain operators from Minor Food and MK Restaurant Group. Despite support from the new shareholders and several cost-cutting strategies, we believe that RL's operating performance will continue to come under stress due to the lingering effects of the COVID-19 outbreak on consumer sentiment and the intense competition in the restaurant business. Our base-case forecast projects RL to report material operating loss in the second half of 2020 and 2021, before gradually ramp up in 2022 onwards, in alignment with its strategies and improving economic conditions.

### Improved leverage

The large investment in Red Lobster, coupled with slow earnings growth has weakened TU's balance sheet over the past few years. However, TU's leverage improved substantially during the first half of 2020. Thanks to recent strong operating results and perpetual bond issuance, TU's adjusted net debt declined to THB57.2 billion at the end of June 2020, from THB66.8 billion in 2018. The ratio of net debt to EBITDA slipped to 4.4 times in the first half of 2020, from 6-7 times at year-end 2016-2019.

Looking forward, we expect TU's leverage to decrease gradually along with its improved operating performance and planned reductions in capital spending. TU also expects to improve its balance sheet from the spin-off of its aqua feed subsidiary, Thai Union Feedmill PLC (TFM). Upon completion of the initial public offering (IPO) of TFM in 2021, TU's stake in TFM will fall to 51% from 66.9%. The proceeds from the IPO will be partially used to repay TU's debt.

### Product diversification

As the world's largest tuna canner, the company processes about 0.3 million tonnes of tuna per annum, approximately one-fifth of 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 2019), the company's product portfolio comprises shrimp and shrimp-related products (30%), pet food (9%), salmon (8%), sardines and mackerel (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 oil, are processed into more value-added products such as pet food, shrimp feed, and fish oil.

### Geographic diversification

TU's business risk is partly mitigated through the geographic diversity of its operations and markets. Production facilities are spread across 13 countries on four continents. TU has geographically diversified sources of revenue. Sales in the US, its major market, represented 40% of total revenue in 2019. Customers in Europe accounted for 28%, followed by Thailand (12%) and Japan (5%). TU's ongoing efforts to broaden its geographic coverage will alleviate the impact of disease outbreaks, trade barriers, and regulations governing the fishing industry.

### Leading brands in Europe and the US

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 well-accepted brands in Europe, such as "John West", "Petit Navire", "Mareblu", and "Parmentier". The John West brand is ranked first in the United Kingdom (UK) (38% market share), Ireland (51%), and the Netherlands (29%), according to data from AC Nielsen and an IRI Report provided by TU's management. Petit Navire, another well-recognized brand, has a 47% market share in France.

In the US, TU's "Chicken of the Sea" brand was ranked third in the canned tuna market with a 9% market share in terms of sales value in 2019. Starkist is the largest canned tuna processor (47%), followed by Bumble Bee (25%).

### Adequate liquidity

We assess TU's liquidity to be adequate. Over the next 12 months, the company will have debt repayments of THB6.1 billion. Primary source of repayment shall be from funds from operations (FFO) of THB7-THB8 billion per annum. The liquidity buffer is supported by cash reserves, amounting to THB5.3 billion at the end of June 2020, as well as credit facilities from several financial institutions.

### BASE CASE ASSUMPTIONS

- Operating revenue to increase by 0.6% in 2020 and 3% during 2021-2023.
- Gross profit margin to be 16%-17%; EBITDA margin to remain in the 8%-9% range.
- Total capital spending to be THB3.8-THB4.5 billion per annum during 2020-2022.

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## RATING OUTLOOK

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The “stable” outlook reflects our expectation that TU will maintain its competitive advantage stemming from economies of scale and production efficiencies.

## RATING SENSITIVITIES

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TU’s ratings could be revised upward if cash flow protection improves significantly. A downgrade could occur if the operating performance is much weaker than expected or if TU makes any sizable debt-funded investment that potentially further weakening its balance sheet and cash flow protection.

## COMPANY OVERVIEW

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TU was established in 1977 by the Chansiri family. TU is one of the world’s leading seafood producer and the largest producer of shelf-stable tuna products. The company’s product lines cover tuna, shrimp, lobster, sardines, salmon, pet food, 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 Papua New Guinea. The company’s worldwide annual sales exceed THB126.3 billion (USD4.1 billion) with a global workforce of over 44,000 people.

The company’s global brand portfolio includes market-leading international brands such as Chicken of the Sea, John West, Petit Navire, Parmentier, Mareblu, “King Oscar”, and “Rügen Fisch” as well as leading Thai brands “SEAELECT”, “FisHo”, “Qfresh”, “Monori”, “Bellotta”, and “Marvo”.

As part of its growth strategy, TU is broadening its portfolio of seafood products and adding new distribution channels through mergers and acquisitions. In 2012, TU bought MW Brands SAS, a leading canned seafood company in Europe. Other acquisitions followed, such as Meralliance, a European smoked salmon producer in 2014; King Oscar, a producer of premium canned sardines, in 2014; Rugen Fisch, a German ambient and chilled fish company, in 2016; Red Lobster, a chain of casual dining seafood restaurants in North America, in 2016; Thammachart Seafood, a seafood retailer in Thailand, in 2018 ; and TUMD Luxemburg S.a.r.l, a leading Russian canned tuna producer in 2018-2020.

In late 2016, TU made a USD575 million (THB20.13 billion) strategic investment in RL, a casual dining seafood restaurant chain in the US. The investment is comprised of USD230 million for a 25% equity stake and USD345 million for 10-year convertible preferred shares. The convertible preferred shares offer an 8% dividend yield or can be converted into a 24% common equity stake. The remaining stake (51% of the total) is owned by Golden Gate Capital, a private equity fund.

Recently, TU announced a change in RL’s shareholding structure. Golden Gate will sell its 51% stake in RL to a consortium of TU, Seafood Alliance and RL’s management. After the closing date, TU will maintain its 49% equity ownership (25% common equity and 6-year preferred equity units convertible to a 24% equity stake), while Seafood Alliance will own a 36% common equity stake and RL’s management will hold the remaining 15% common equity stake.

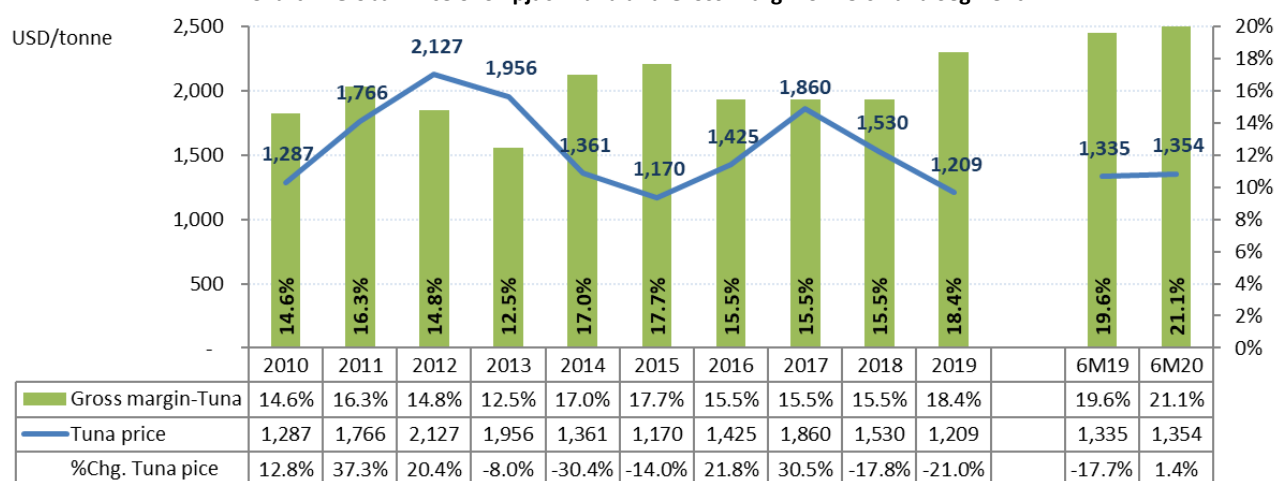
Seafood Alliance Group is comprised of Mr. Paul Kenny, the former CEO of Minor Food, and Mr. Rit Thirakomen, CEO of MK Restaurant Group. Minor Food is one of Asia’s largest casual dining and quick-service restaurant chains, while MK Restaurant Group is a leading Thai restaurant chain. Through its investment in RL, TU continues its strong commitments to enter the food service industry, a move toward forward integration and more direct access to consumers.

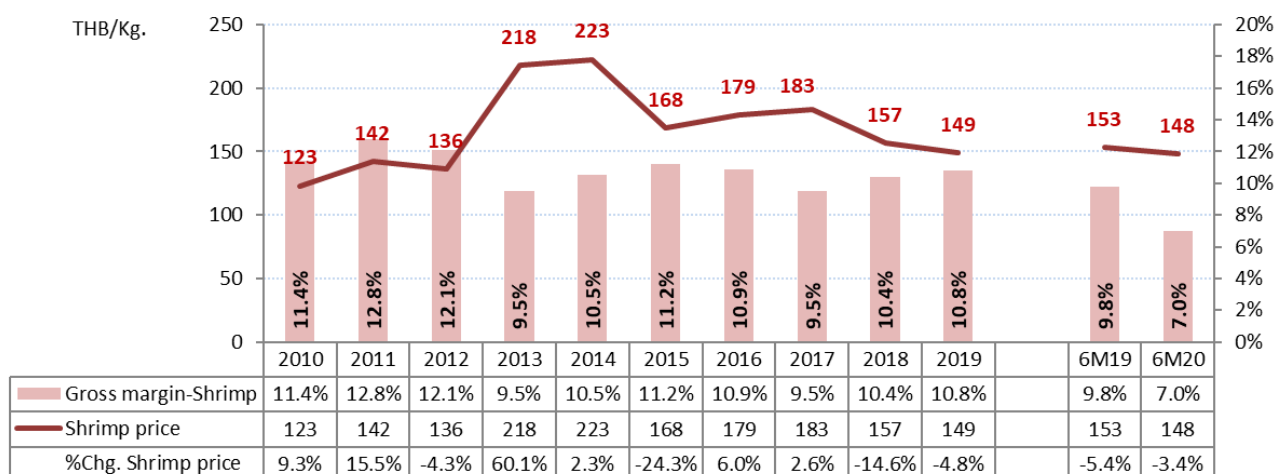
**KEY OPERATING PERFORMANCE**
**Table 1: TU's Sales Breakdown by Geographic Area**
*Unit: %*

Market	2015	2016	2017	2018	2019	Jan-Jun 2020
US	42	39	39	38	40	41
EU	29	33	31	31	28	29
Thailand	8	8	9	11	12	10
Japan	7	6	6	6	5	5
Others	14	14	15	14	15	14
<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>124,904</b>	<b>134,375</b>	<b>134,937</b>	<b>133,285</b>	<b>126,275</b>	<b>64,154</b>

*Source: TU*
**Table 2: TU's Sales Growth by Product**
*Unit: THB million*

Product (Year-on-Year)	2015	2016	2017	2018	2019	Jan-Jun 2020
Tuna	46,396	46,522	47,645	48,472	42,232	24,353
% change	-14	0	2	2	-13	15
Shrimp and related products	36,229	37,868	37,578	36,739	37,773	15,451
% change	12	5	-1	-2	3	-12
Pet food	8,159	9,377	10,176	10,721	10,952	5,869
% change, y-o-y	-8	15	9	5	2	9
Sardines & mackerel	7,411	11,321	10,662	9,510	9,195	5,352
% change	14	53	-6	-11	-3	18
Salmon	11,346	12,789	11,255	10,702	9,853	4,551
% change, y-o-y	84	13	-12	-5	-8	-2
Value-added and other products	15,643	16,499	17,621	17,141	16,270	8,578
% change	14	5	7	-3	-5	3
<b>Total sales</b>	<b>124,904</b>	<b>134,375</b>	<b>134,937</b>	<b>133,285</b>	<b>126,275</b>	<b>64,154</b>
<b>% change</b>	<b>3</b>	<b>8</b>	<b>0</b>	<b>-1</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: THB million

	Jan-Jun 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	64,419	126,922	134,217	136,037	135,263
Earnings before interest and taxes (EBIT)	4,038	6,727	6,467	8,976	8,448
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	6,694	10,041	9,784	11,790	11,718
Funds from operations (FFO)	5,495	7,747	7,478	9,560	9,402
Adjusted interest expense	910	2,135	2,185	2,294	1,733
Capital expenditures	2,075	4,669	4,963	5,671	4,121
Total assets	139,323	141,909	141,916	146,092	142,365
Adjusted debt	57,155	60,731	66,766	70,028	68,003
Adjusted equity	50,503	48,820	46,494	48,051	47,436
<b>Adjusted Ratios</b>					
EBITDA margin (%)	10.39	7.91	7.29	8.67	8.66
Pretax return on permanent capital (%)	7.47	5.87	5.53	7.63	8.18
EBITDA interest coverage (times)	7.36	4.70	4.48	5.14	6.76
Debt to EBITDA (times)	4.41	6.05	6.82	5.94	5.80
FFO to debt (%)	17.98	12.76	11.20	13.65	13.83
Debt to capitalization (%)	53.09	55.44	58.95	59.31	58.91
Total operating revenues	64,419	126,922	134,217	136,037	135,263

## RELATED CRITERIA

- 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>	
TU212A: THB1,550 million senior unsecured debentures due 2021	A+
TU217A: THB1,500 million senior unsecured debentures due 2021	A+
TU217B: THB2,000 million senior unsecured debentures due 2021	A+
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+
TU29NA: THB4,000 million senior unsecured debentures due 2029	A+
TU19PA: THB6,000 million subordinated capital debentures	A-
<b>Rating Outlook:</b>	Stable

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