CreditNews ข่าวเครดิต

# ASIAN SEAFOODS COLDSTORAGE PLC

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## CORPORATES

**Company Rating:** BBB-
**Outlook:** Stable

## RATIONALE

TRIS Rating assigns the company rating on Asian Seafoods Coldstorage PLC (ASIAN) at "BBB-" with a "stable" outlook. The rating reflects improvement in its profitability and cash flow, largely from the result of a better product mix in the pet food segment. The rating also reflects the company's market position as a medium-sized seafood processor in Thailand, proven track record of the management team, diverse product line and markets served, and the company's expected lower financial leverage. These strengths are partially offset by the inherent volatility and intense competition in the frozen seafood industry, fluctuations in foreign exchange rates, and trade barriers from importing countries.

## KEY RATING CONSIDERATIONS

### Lengthy track record

ASIAN has more than two decades of expertise in the frozen seafood industry with close relationship with a trade partner in the business. A track record spanning two decades shows that ASIAN can weather the cycles in the industry. ASIAN is a medium scale producer in each of the markets it serves. ASIAN's market share, based on sales, is approximately 3%-4% of the industry sales in each segment.

### Diverse range of products and markets

ASIAN has diversified over the past few years. It now serves a greater range of products to a large number of markets. Diversification in frozen seafood products, pet food, and aquaculture feed makes revenue less volatile. In 2017, the combined volume of frozen shrimp, squid, and sillago fish dropped by 16% year-on-year (y-o-y). However, the overall ASIAN's sales volumes rose by 17% because the sales volumes of pet food and aquaculture feed rose by 48% and 32%, respectively, in the same period.

### Pet food segment makes a larger contribution

ASIAN started producing pet food in 2010. According to the Ministry of Commerce (MOC), Thailand exported 481,708 tonnes of pet food in 2017, up from 275,040 tonnes in 2010, growing by a compound annual growth rate (CAGR) of 8.3%.

ASIAN has a competitive edge in the pet food segment because it has its own research center and also has a cooperation with a product owner to develop new products. As a result, ASIAN exported 18,487 tonnes of pet food in 2017, compared with 6,167 tonnes in 2013, a CAGR of 32%.

During the first nine months of 2018, ASIAN's export sales kept climbing, rising to 15,823 tonnes, a 17% jump over the same period of the prior year. The pet food segment made up 34% of the company's total revenue.

In TRIS Rating's view, the pet food segment is forecast to make up 33%-37% of ASIAN's total revenue during 2019-2021. ASIAN plans to penetrate into the major export markets such as Europe and China. ASIAN sells both dry and wet pet food products through its distribution channels from a joint venture.

### Improving profitability

The company's operating margin, as measured by operating income before depreciation and amortization as a percentage of sales, improved to around 7% during 2017 through the first nine months of 2018, compared with 5.2%-

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6.7% during 2015-2016. ASIAN's product mix changed in 2017 and it sold more shrimp product and pet food. Value-added shrimp products and premium pet food carry higher margins than basic products. Earnings before interest tax depreciation and amortization (EBITDA) also improved to Bt524-Bt711 million during 2017 through the first nine months of 2018, compared with Bt490-Bt590 million in 2016-2017. TRIS Rating expects that ASIAN's operating profit margin will stay around 7% while EBITDA will range around Bt670-Bt720 million per year during 2018-2021.

**Financial leverage will decline, but remains high**

ASIAN's total debt to capitalization ratio declined to 54.0% during the first nine months of 2018, down from about 58% during 2016-2017, owing to lowering working capital needs. The company plans to spend a relatively large capital expenditure including some acquisition activities budgeted at Bt300-Bt600 million per year in 2018-2019, compared with approximately Bt120-Bt200 million capital expenditures spent per year in 2013-2017. However, the capital expenditure will decline gradually in 2020-2021. As a result, we expect the company's total debt to capitalization ratio will stay high at 53%-55% during 2018 through 2021.

**Adequate liquidity**

Liquidity of ASIAN will be adequate over the next 12 months. Our base case forecast assumes EBITDA will range around Bt600-Bt700 million per annum in 2018-2021. Cash flows from the pet food segment will be stable, offsetting some of the volatility in the cash flows from commodity products.

As of September 2018, cash and cash equivalents totaled Bt58 million, and unused credit facilities totaled around Bt1,600 million. The company had an outstanding debt of Bt534 million over the next 12 months. Thus, debt repayment ability should be acceptable.

Looking forward, sales will be less volatile given the greater contribution from the pet food segment and a continued improvement in the frozen food segment. In TRIS Rating's base case scenario, the ratio of ASIAN's funds from operations (FFO) to total debt is projected to range around 13%-18% in 2018-2021 while the EBITDA interest coverage ratio is forecast at 4-5 times over the same period.

## BASE-CASE ASSUMPTIONS

- TRIS Rating expects ASIAN's revenue will drop by 3% in 2018 following declining sales volume. However, the revenue will turn around and grow at 4% per annum during 2019-2021.
- The operating margin before depreciation and amortization will stay around 7% during 2018-2021.
- Total capital spending and investment will be around Bt300 million in 2018, and Bt1,000 million during 2019-2021.

## RATING OUTLOOK

The "stable" outlook reflects that ASIAN's operating performance will continue to improve as planned. The outlook is based on our expectation that ASIAN will be able to keep the adjusted debt to capitalization ratio between 50%-55% over the next three years. ASIAN is also expected to maintain sufficient credit facilities and manage refinancing risk properly.

## RATING SENSITIVITIES

Any rating upside is unlikely in the short term due to the current rating. On the contrary, a downgrade scenario could occur if its profitability noticeably deteriorates or its performance weakens for an extended period of time. Any debt funded expansion, which will lead to significant deterioration of the balance sheet and weaken cash flow protection, is also a negative factor for ASIAN's rating.

## COMPANY OVERVIEW

ASIAN was established in 2001 and listed on the Stock Exchange of Thailand (SET) in July 1994. ASIAN is a medium-sized seafood processor and exporter in Thailand. As of October 2017, the Amornrattanachaikul family held 67.1% of the company's shares.

ASIAN has continuously expanded into tuna processing and aquaculture feed. In 2006, ASIAN purchased STC Feed Co., Ltd. (STC Feed), a shrimp-feed manufacturer at Bt275 million. ASIAN also completed construction of a Bt1,000 million tuna plant in 2006. In 2010, ASIAN expanded into pet food segment by using the by-product from its tuna plant.

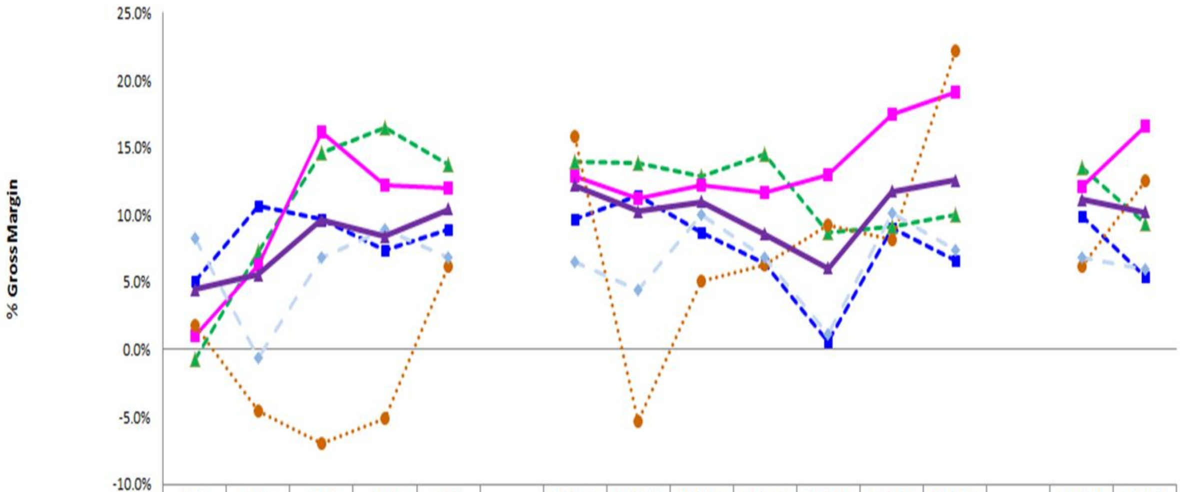
Currently, the company owns and operates three frozen seafood processing plants, with a total capacity of 26,400 tonnes per year. Three plants are located in Bangkok, Samutsakorn, and Suratthani provinces. One plant of ASIAN also operates tuna processing and pet food with total capacity of 17,500 tonnes, and 34,000 tonnes per year, respectively. The company still has an aquaculture feed plant, with the total capacity of 96,000 tonnes per year.

During the first nine months of 2018, revenues from pet food products contributed 34% of its total revenues. Frozen shrimp and frozen squid each contributed 13%-19% while aquaculture feed product made up 11%. Sillago fish, tuna, and distribution business each contributed 6%-7%.

In terms of market, domestic market made up 20%. The United Sates (US) was the company's largest export market, accounting for 44%, followed by Europe (25%), and Japan (14%). Currently, ASIAN produces and sells under customers' brands. Nonetheless, ASIAN strives to develop their own brands to penetrate more premium goods in order to enhance profit margin and alleviate the volatile nature of the prices of commodity products.

## KEY OPERATING PERFORMANCE

**Chart 1: Gross Profit Margin by Product**




| | 2013 | 2014 | 2015 | 2016 | 2017 | | Q1/2017 | Q2/2017 | Q3/2017 | Q4/2017 | Q1/2018 | Q2/2018 | Q3/2018 | | 9M2017 | 9M2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| - Frozen Food | 5.1% | 10.7% | 9.6% | 7.3% | 8.9% | | 9.7% | 11.4% | 8.7% | 6.4% | 0.6% | 9.0% | 6.6% | | 10.0% | 5.4% |
| - Aquaculture Feed | -0.7% | 7.3% | 14.7% | 16.5% | 13.7% | | 14.0% | 13.8% | 12.9% | 14.6% | 8.7% | 9.2% | 10.1% | | 13.5% | 9.3% |
| - Pet Food | 1.0% | 6.3% | 16.2% | 12.2% | 12.0% | | 12.8% | 11.2% | 12.2% | 11.6% | 12.9% | 17.4% | 19.2% | | 12.1% | 16.6% |
| - Tuna | 1.8% | -4.5% | -7.0% | -5.1% | 6.2% | | 15.8% | -5.4% | 5.1% | 6.3% | 9.3% | 8.1% | 22.2% | | 6.1% | 12.5% |
| - Distribution | 8.3% | -0.6% | 6.8% | 8.9% | 6.9% | | 6.5% | 4.5% | 10.0% | 6.8% | 1.1% | 10.1% | 7.4% | | 6.9% | 5.9% |
| % Gross Margin | 4.5% | 5.6% | 9.6% | 8.4% | 10.4% | | 12.2% | 10.2% | 11.0% | 8.6% | 6.0% | 11.8% | 12.6% | | 11.2% | 10.2% |

*Source: ASIAN*

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

*Unit: Bt million*

| | | ------------Year Ended 31 December ------------ | | | |
|---|---|---|---|---|---|
| | Jan-Sep 2018 | 2017 | 2016 | 2015 | 2014 |
| Total operating revenues | 7,203 | 9,888 | 9,343 | 8,040 | 7,887 |
| Operating income | 524 | 711 | 485 | 537 | 257 |
| Earnings before interest and taxes (EBIT) | 365 | 510 | 289 | 362 | 65 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 524 | 711 | 490 | 590 | 300 |
| Funds from operations (FFO) | 424 | 619 | 355 | 411 | 105 |
| Adjusted interest expense | 103 | 140 | 153 | 172 | 171 |
| Capital expenditures | 153 | 200 | 130 | 118 | 145 |
| Total assets | 6,604 | 6,811 | 6,326 | 6,175 | 5,990 |
| Adjusted debt | 3,135 | 3,473 | 3,176 | 3,448 | 3,538 |
| Adjusted equity | 2,668 | 2,539 | 2,217 | 2,018 | 1,835 |
| **Adjusted Ratios** | | | | | |
| Operating income as % of total operating revenues (%) | 7.27 | 7.19 | 5.19 | 6.68 | 3.25 |
| Pretax return on permanent capital (%) | 7.90 | 8.87 | 5.27 | 6.62 | 1.15 |
| EBITDA interest coverage (times) | 5.07 | 5.10 | 3.19 | 3.44 | 1.75 |
| Debt to EBITDA (times) | 4.60 | 4.88 | 6.48 | 5.84 | 11.80 |
| FFO to debt (%) | 18.65 | 17.83 | 11.19 | 11.92 | 2.98 |
| Debt to capitalization (%) | 54.02 | 57.77 | 58.88 | 63.08 | 65.84 |

## RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

## Asian Seafoods Coldstorage PLC (ASIAN)

| | |
|---|---|
| **Company Rating:** | BBB- |
| **Rating Outlook:** | Stable |

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