

# THAI UNION GROUP PLC

No. 70/2019  
4 October 2019

## CORPORATES

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

**Last Review Date:** 04/09/19

### 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+". At the same time, TRIS Rating assigns a rating of "A+" to TU's proposed issue of up to Bt4,000 million in senior unsecured debentures and the additional greenshoe portion of up to Bt2,000 million. The proceeds from the new debentures are intended to be used to repay existing debt and to fund working capital needs.

Additionally, TRIS Rating assigns the rating of "A-" to TU's proposed issue of up to Bt4,000 million in subordinated perpetual debentures (hybrid debentures) and the additional greenshoe portion of up to Bt2,000 million. The rating on TU's hybrid debentures is two notches below the company rating. This rating differential reflects the subordinated nature of the hybrid debentures and the option of the issuer to defer coupons on a cumulative basis.

The characteristics of TU's hybrid debentures include the subordination, the interest expense deferral at the discretion of the company, the five-year non-call period, and the sufficient permanence condition. These characteristics are qualified for "intermediate" equity content according to TRIS Rating's criteria. TRIS Rating will treat 50% of the outstanding amount of the hybrid debentures as equity and the other 50% as debt when calculating financial ratios. The "intermediate" equity content will fall to "minimal" (or 0% equity treatment for this issue) at the end of fifth year from the issuance date. This is because, five years after issuance, the remaining effective tenor of the issue will be less than 20 years. According to TRIS Rating's criteria, the effective maturity date of the issue will be defined as the date when there is a material step up of the coupon rate (equal to or more than 100 basis points or bps). In this case, the interest spread of the hybrid debentures will step up by 100 bps at the end of the 25th year after the issuing date.

Except for certain events as specified in the terms and conditions (e.g. changes in the tax and accounting treatments of hybrid securities or a change in the rating agency's criteria used to assess the equity content of the issue), TU intends (but is not obliged) to replace, redeem, or repurchase the hybrid debentures with an instrument that has similar or higher equity content.

TRIS Rating could lower the equity content of the proposed hybrid debentures, to "minimal" from "intermediate" if we believe that the company has an intention to deviate from the replacement capital covenant (RCC).

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 the well-known brands of its supplies in Europe and the United States (US). However, the ratings are constrained by several industry risk factors such as volatile raw material prices, disease outbreaks, trade barriers, fishing regulations, and fluctuations in foreign exchange rates.

During 2018 through the first half of 2019, TU's operating performance has been hurt by the appreciation of the Thai baht, a one-off expense from legal settlements in the US, and the weaker-than-expected Red Lobster operation. As a result, earnings before interest, taxes, depreciation, and amortization (EBITDA) fell to Bt9.8 billion in 2018 and Bt4.1 billion in the first half of 2019,

compared to a level of around Bt12.0 billion during 2014-2017. TU's capital structure and liquidity were still manageable. As of June 2019, the debt to capitalization ratio was 58.9% and the funds from operations (FFO) to total debt were 12.6%.

However, TRIS Rating holds the view that TU's operating results should improve gradually as a result of its strategic focus on innovative products, cost controls, and production efficiency. Leverage should improve along with TU's recovering operating performance and lower capital spending plan. Moreover, the company expects to improve its capital structure by issuing hybrid debentures as well as spinning-off its aqua feed subsidiary. Taking into account the hybrid debentures, the adjusted net debt to EBITDA ratio is expected to decline from 6.3 times at the end of June 2019 to a level of around 5 times over the next few years.

## RATING OUTLOOK

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

## RATING SENSITIVITIES

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 investments, which materially deteriorate the balance sheet and weaken cash flow protection.

## 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>	
TU201A: Bt3,500 million senior unsecured debentures due 2020	A+
TU212A: Bt1,550 million senior unsecured debentures due 2021	A+
TU217A: Bt1,500 million senior unsecured debentures due 2021	A+
TU217B: Bt2,000 million senior unsecured debentures due 2021	A+
TU221A: Bt2,000 million senior unsecured debentures due 2022	A+
TU237A: Bt2,000 million senior unsecured debentures due 2023	A+
TU241A: Bt2,500 million senior unsecured debentures due 2024	A+
TU242A: Bt1,050 million senior unsecured debentures due 2024	A+
TU271A: Bt4,000 million senior unsecured debentures due 2027	A+
Up to Bt4,000 million senior unsecured debentures and additional greenshoe portion of up to Bt2,000 million due within 10 years	A+
Up to Bt4,000 million subordinated capital debentures and additional greenshoe portion of up to Bt2,000 million	A-
<b>Rating Outlook:</b>	Stable

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