

# SEAFRESH INDUSTRY PLC

No. 49/2020  
14 April 2020

## CORPORATES

Company Rating:	BB+
Issue Rating:	
Senior unsecured	BB+
Outlook:	Negative

Last Review Date: 10/04/19

### Company Rating History:

Date	Rating	Outlook/Alert
10/04/19	BBB-	Stable
26/04/16	BBB	Stable

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## RATIONALE

TRIS Rating downgrades the company rating on Seafresh Industry PLC (CFRESH) and the issue rating on its senior unsecured debentures to “BB+” from “BBB-”, and revises the rating outlook to “negative” from “stable”. The downgrades reflect a material further deterioration in CFRESH’s operating performance, driven by the shrinking demand in the key markets, coupled with a prolonged downturn in the shrimp industry, and the appreciation of the Thai baht.

The revised outlook reflects the likelihood that CFRESH will be materially affected by the coronavirus (COVID-19) outbreak. In addition, we expect CFRESH to face tight liquidity over the next 12 months.

The ratings continue to reflect CFRESH’s market position as a medium-sized shrimp processor in Thailand and the company’s strategy to comply with the highest standards of food safety and traceability through the whole supply chain. However, CFRESH’s business profile is constrained by a heavy reliance on shrimp products that are subjected to inherent market volatility and intense competition in the industry, as well as fluctuations in foreign exchange rates, and trade barriers.

## KEY RATING CONSIDERATIONS

### Deteriorating financial results

CFRESH’s operating performance deteriorated sharply in 2019. Its revenue dropped by 31% year-on-year (y-o-y) and the earnings before interest tax depreciation and amortization (EBITDA) margin declined steeply to 1.4% in 2019, compared with 4.8%-9.6% during 2016-2018. As a result, CFRESH reported a net loss of Bt218 million in 2019, compared with a net profit of Bt20 million in 2018. The weakening performance was mainly due to a sharp drop in shrimp demand in the key markets, especially the European Union (EU), coupled with a prolonged downturn in the shrimp industry and depreciation of the pound sterling.

Since 53%-63% of CFRESH’s total sales volume is made up of exports to the EU, the company is exposed to some degree of concentration risk. The company’s sales volume to the EU declined drastically to 5,652 tonnes in 2019, a 38% drop y-o-y after the company cut some major clients from its portfolio in late 2018. In addition, the depreciation of the UK pound sterling adversely affected CFRESH’s operations. The value of the pound sterling dropped by 8% y-o-y against the Thai baht in 2019. However, the risk is partially mitigated by the company’s use of forward exchange contracts.

Looking forward, we expect CFRESH’s performance to weaken further in 2020, and then gradually recover in 2021-2022. TRIS Rating forecasts that CFRESH’s EBITDA margin will remain at 2% in 2020 and gradually improve to 5% in 2021-2022 following a gradual increase in global shrimp demand and prices.

### Uncertainty clouds joint venture

CFRESH expanded its business abroad by jointly investing in a fully-integrated shrimp operation, Belize Aquaculture Ltd. (BAL) (34% directly and indirectly held by CFRESH), in Central America in 2012. In 2019, BAL recorded a major loss. However, CFRESH did not record an equity loss because the accumulated

loss of the joint venture was higher than the cost.

As of December 2019, CFRESH had total outstanding exposure to BAL amounting to Bt702 million, including other accounts receivable of Bt378 million, interest receivable of Bt65 million, and an inter-company loan of Bt259 million. CFRESH is reconsidering whether to divest the asset or to seek partners to continue business operations in the longer term.

### **Long track record in shrimp processing**

CFRESH has grown continuously over the past three and a half decades as a processor and exporter of shrimp. The company's total operating revenues rose to Bt5.53 billion in 2019 from Bt2.17 billion in 2009, a compound annual growth (CAG) rate of 10%. The company's production facilities and supply chain have been certified by a number of international organizations. The certifications cover food safety, traceability, and environmental management. Thus, CFRESH's products are qualified for sale at leading retailers worldwide.

### **Higher working capital requirement pushes up leverage**

CFRESH's inventory level rose to 131 days in 2019, from an average of 118 days in 2016-2018. As a result, the debt to capitalization ratio rose to 57.1 % in 2019, from 49.5% in 2018. In addition, capital expenditures remained high at Bt272 million in 2019, compared with Bt163-Bt458 million per year during 2016-2018. Looking forward, the company is likely to need more working capital because of the increased inventory, but capital expenditures should fall. The annual capital expenditure is expected to decline gradually to Bt100-Bt120 million during 2020-2022, lower than Bt272-Bt458 million in 2018-2019. Nevertheless, the company's debt to capitalization ratio is expected to remain high at 56%-58% during 2020-2022.

### **Relatively tight liquidity**

We expect CFRESH's liquidity to remain tight over the next 12 months. Our base-case forecast assumes funds from operations (FFO) will be around Bt130 million over the next 12 months. The company has outstanding debts of Bt698 million over the same period. However, the company has cash and cash equivalents of Bt65 million and unused uncommitted credit facilities of Bt2.65 billion, as of December 2019. Looking forward, CFRESH's FFO to total debt ratio is projected to hover in the range of 1%-9% in 2020-2022 while the EBITDA interest coverage ratio is forecast at 1-3 times over the same period.

### **BASE-CASE ASSUMPTIONS**

- Revenue to be Bt4.7-Bt5.7 billion per annum during 2020-2022.
- Gross profit margins to be in the 8%-10% range and EBITDA margin to be 2%-5% during 2020-2022.
- Other assumptions to be in line with historical trend.

### **RATING OUTLOOK**

The "negative" outlook reflects our expectation that CFRESH's operating performance will likely be pressured by the impacts of the COVID-19 pandemic and that the company will face tight liquidity over the next 12 months.

### **RATING SENSITIVITIES**

The outlook could be revised back to "stable" if CFRESH's operating and financial performances recover on a sustained basis. On the contrary, CFRESH's ratings could be downgraded if the company's financial results continue to weaken materially for an extended period.

### **COMPANY OVERVIEW**

CFRESH is a medium-sized shrimp processor and exporter in Thailand. It was established in 1982 and listed on the Stock Exchange of Thailand (SET) in August 1993. As of March 2020, the Chia-apar family held 66.1% of the company's shares. CFRESH's main product lines comprise frozen raw shrimp, cooked shrimp, and value-added shrimp products.

In 2019, value-added products contributed 53% of the company's total revenues, while frozen raw shrimp contributed about 19% and cooked shrimp contributed 13% of total revenues.

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**
*Unit: Bt million*

	-----Year Ended 31 December -----				
	2019	2018	2017	2016	2015
Total operating revenues	5,532	7,958	7,521	7,614	7,840
Earnings before interest and taxes (EBIT)	(80)	266	196	584	585
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	75	440	358	730	834
Funds from operations (FFO)	(50)	263	221	534	741
Adjusted interest expense	91	92	87	93	66
Capital expenditures	272	458	163	224	147
Total assets	4,725	4,800	5,616	5,001	5,264
Adjusted debt	2,395	2,026	2,496	2,045	1,944
Adjusted equity	1,803	2,069	2,167	2,246	2,232
<b>Adjusted Ratios</b>					
EBITDA margin (%)	1.36	5.52	4.76	9.59	10.64
Pretax return on permanent capital (%)	(1.89)	5.85	4.21	13.02	14.51
EBITDA interest coverage (times)	0.83	4.78	4.12	7.83	12.63
Debt to EBITDA (times)	31.72	4.61	6.98	2.80	2.33
FFO to debt (%)	(2.07)	12.99	8.85	26.11	38.10
Debt to capitalization (%)	57.05	49.47	53.53	47.66	46.56

**RELATED CRITERIA**

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

**Seafresh Industry PLC (CFRESH)**

<b>Company Rating:</b>	BB+
<b>Issue Rating:</b>	
CFRESH215A: Bt500 million senior unsecured debentures due 2021	BB+
<b>Rating Outlook:</b>	Negative

**TRIS Rating Co., Ltd.**

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