

SEAFRESH INDUSTRY PLC

No. 48/2019
10 April 2019

CORPORATES

Company Rating:	BBB-
Issue Ratings:	
Senior unsecured	BBB-
Outlook:	Stable

Last Review Date: 11/04/18

Company Rating History:

Date	Rating	Outlook/Alert
26/04/16	BBB	Stable

Contacts:

Jutatip Chitphromphan

jutatip@trisrating.com

Suchana Chantadisai

suchana@trisrating.com

Sasiporn Vajarodaya

sasiporn@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating downgrades the company rating and the senior unsecured debenture ratings on Seafresh Industry PLC (CFRESH) to “BBB-” from “BBB”, with a “stable” outlook. The downgrades reflect a further deterioration in CFRESH’s operating performance, driven by a prolonged downturn in the shrimp industry and appreciation of the Thai baht.

The ratings reflect CFRESH’s market position as a medium-sized shrimp processor in Thailand. The ratings also reflect the company’s strategy to comply with the highest standards of food safety and traceability along the whole supply chain. However, these strengths are partially offset by a heavy reliance on shrimp products, inherent volatility and intense competition in the industry, risk of disease outbreaks, fluctuations in foreign exchange rates, and changes in regulatory frameworks governing trade barriers.

KEY RATING CONSIDERATIONS

Shrimp industry downturn squeezes profits

The prolonged downturn in the shrimp industry squeezed CFRESH’s operating performance. An increase in the world’s shrimp production from other shrimp major exporting countries, especially India and Ecuador, pushed down shrimp prices in global markets in 2018.

Approximately 85% of the company’s total sales are exported to the European Union (EU) and the United States (US), and 33% of the company’s total production is produced domestically. Thus, the company has some exposure to foreign exchange risk. The devaluation of both the US dollar and the United Kingdom (UK) pound sterling adversely affected CFRESH’s operations. In 2018, the value of the US dollar and the UK pound sterling dropped by 5% and 1% against the Thai baht, respectively. However, the risk is partially mitigated by the forward exchange contracts primarily used by the company.

Earnings before interest, tax, depreciation, and amortization (EBITDA) tumbled to Bt358-Bt440 million in 2017-2018, down from Bt726-Bt834 million during 2014-2016. Nevertheless, TRIS Rating forecasts that CFRESH’s operating performance will improve during 2019-2021. Prices of farmed shrimp are forecast to improve gradually during the same period following declining global shrimp production from other major exporting countries.

Challenges from limited number of major customers

CFRESH’s sales are mainly to the EU and the US markets and subject to concentration risk. TRIS Rating foresees that CFRESH’s total revenue will drop by 24% in 2019. This was because the company started to cut low-margin clients since October 2018. However, the company’s revenue and profit will gradually recover during 2020-2021. CFRESH is attempting to diversify revenue base to other countries, such as Japan and other countries in Asia, to mitigate the risk. Furthermore, the company is currently attempting to create more value-added products in order to further mitigate price risk.

Uncertainty in CFRESH’s joint venture

CFRESH has expanded its businesses abroad by joining with a partner to invest in a fully-integrated shrimp operation, namely Belize Aquaculture Ltd. (BAL) (34% directly and indirectly held by CFRESH), in Central America since 2012. In 2018, BAL made a total 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 2018, CFRESH had total outstanding exposure to BAL amounting to Bt777 million, including other accounts receivable of Bt378 million, interest receivable of Bt72 million, and an inter-company loan of Bt327 million. However, CFRESH expects that BAL's core assets will be sold and pay off all the aforementioned liabilities in the next few years. Based on a valuation performed by an independent appraiser in February 2018, the price of assets was approximately US\$51.25 million or equivalent to Bt1,663 million.

Track record in shrimp processing industry

CFRESH has grown continuously over the past three and a half decades as a processor and exporter of shrimp. The company's total revenues rose to Bt7,932 million in 2018 from Bt1,760 million in 2008, a compound annual growth (CAG) rate of 16%. 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.

Lowering working capital requirement pushed down financial leverage

CFRESH's inventory level declined to 94 days in 2018, from an average of 130 days in 2015-2017. As a result, the debt to capitalization ratio declined to 49.5 % in 2018, from 53.5% in 2017. However, capital expenditures were high at Bt458 million in 2018, compared with Bt147-Bt224 million per year during 2015-2017. Looking forward, the capital expenditures will remain high at Bt350 million in 2019, but it will decline gradually to Bt120-Bt150 million during 2020-2021. Hence, the company's leverage is expected to improve. EBITDA interest coverage ratio is forecast at 6-9 times.

Cash flow protection will improve

Thailand's shrimp industry is recovering from the outbreak of shrimp disease. The recovery will boost supply and lower the cost of shrimp. Cash flow protection is expected to improve in the longer term. Under TRIS Rating's base case scenario in 2019-2021, the ratio of funds from operations (FFO) to total debt of CFRESH is projected to range between 17%-26%. EBITDA will range around Bt450-Bt550 million per annum.

CFRESH's liquidity is assessed to be adequate over the next 12 months. As of December 2018, cash and cash equivalents totaled Bt69 million, and unused credit facilities totaled around Bt2,425 million. The company will have debt repayments of Bt120-Bt500 million per year during 2019-2021.

BASE-CASE ASSUMPTIONS

- CFRESH's revenues will decline around 24% in 2019 and will grow by 5%-10% per annum during 2020-2021.
- Gross profit margins will range between 12%-13% and operating margin before depreciation and amortization will stay around 7%-8%.
- Total capital spending will be Bt350 million in 2019 and Bt120-Bt150 million per annum during 2020-2021.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that CFRESH will maintain its competitive status and market position in the shrimp industry. The financial profile is supported by moderate leverage and adequate debt servicing coverage.

RATING SENSITIVITIES

CFRESH's ratings could be upgraded if its operating performance and profitability are recovered on a sustained basis. Downward rating pressure would emerge if the company's performance weakens for an extended period of time.

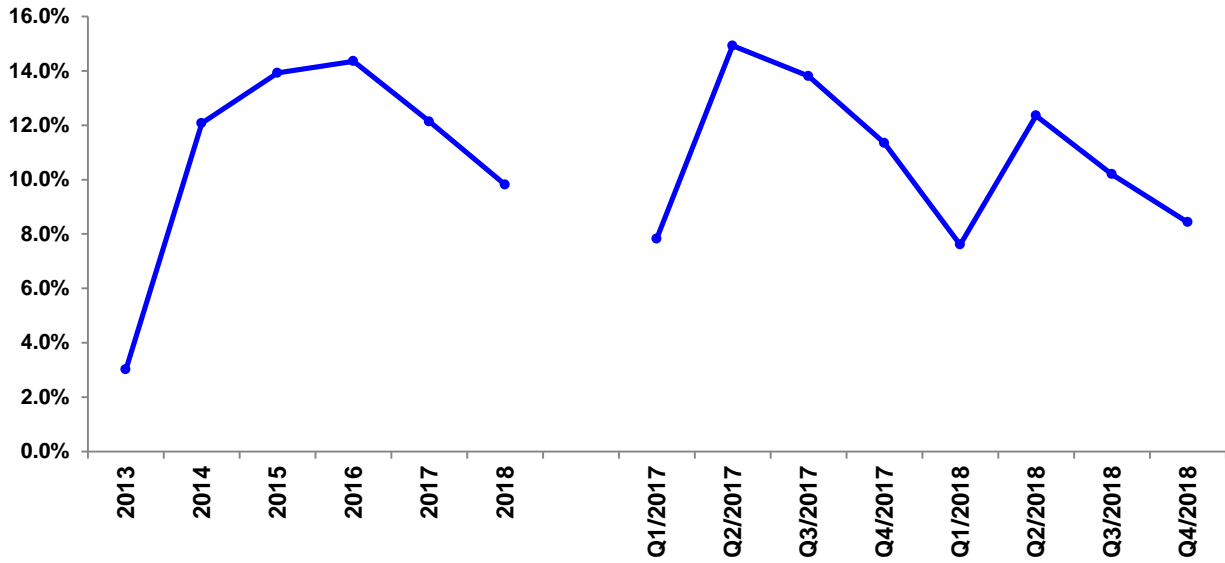
COMPANY OVERVIEW

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 2019, 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 2018, value-added products contributed 56% of the company's total revenues, while both frozen raw and cooked shrimp contributed about 16% of the total revenues.

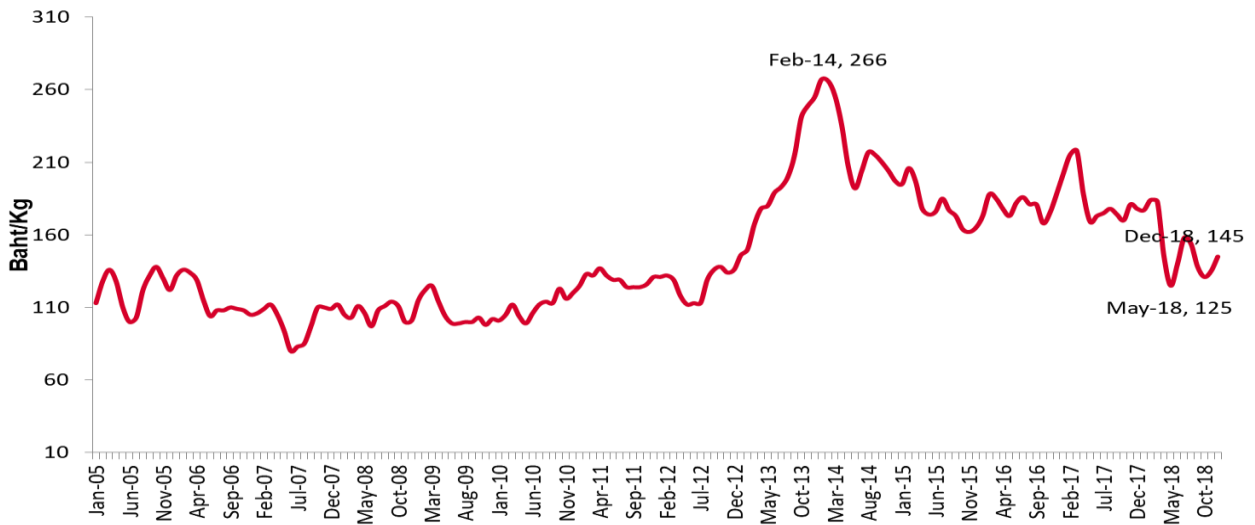
KEY OPERATING PERFORMANCE

Chart 1: Gross Margin by Product



Source: CFRESH

Chart 2: Shrimp Price



Source: Office of Agricultural economics

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	-----Year Ended 31 December -----				
	2018	2017	2016	2015	2014
Total operating revenues	7,958	7,521	7,614	7,840	8,440
Operating income	398	504	639	709	663
Earnings before interest and taxes (EBIT)	266	196	584	585	557
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	440	358	730	834	726
Funds from operations (FFO)	263	221	534	741	630
Adjusted interest expense	92	87	93	66	62
Capital expenditures	458	163	224	147	210
Total assets	4,800	5,616	5,001	5,264	4,230
Adjusted debt	2,026	2,496	2,045	1,944	1,510
Adjusted equity	2,069	2,167	2,246	2,232	1,684
Adjusted Ratios					
Operating income as % of total operating revenues (%)	5.00	6.70	8.39	9.05	7.86
Pretax return on permanent capital (%)	5.85	4.21	13.02	14.51	17.54
EBITDA interest coverage (times)	4.78	4.12	7.83	12.63	11.64
Debt to EBITDA (times)	4.61	6.98	2.80	2.33	2.08
FFO to debt (%)	12.99	8.85	26.11	38.10	41.72
Debt to capitalization (%)	49.47	53.53	47.66	46.56	47.28

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015
- Rating Methodology – Corporate, 31 October 2007

Seafresh Industry PLC (CFRESH)

Company Rating:	BBB-
Issue Rating:	
CFRESH215A: Bt500 million senior unsecured debentures due 2021	BBB-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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