

Thai Union meets its first SLB target: like shooting fish in a barrel

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Thai Union Group PCL (ticker TUTB) is a Thailand-based global seafood producer and one of the largest producers of shelf-stable tuna products. It has operational facilities in 12 countries, with approximately 90% of its revenue generated from the US and Europe¹ through ownership of food production and restaurant brands worldwide.²

In 2021 it issued three Sustainability-Linked Bonds (SLBs), denominated in Thai Baht, which currently represent 33% of its outstanding debt. The bonds are linked to three KPIs, including one emissions-based metric and two related to sustainable fishing practices.

On 4 Jun 2024 it released its 2023 sustainability report and announced it had successfully achieved all three Sustainability Performance Targets (SPTs) referenced by its SLBs,³ resulting in a 10bps coupon reduction across all three bonds.⁴ This may be the first time an SLB has stepped down,⁵ although this is more common in the Sustainability-Linked Loan market.

Closer analysis of the bonds structures offers the following conclusions:

- **The structure of these bonds is noteworthy because it incorporates a step-up or step-down trigger based on whether the same SPTs are achieved or missed.** Each KPI is weighted differently for the purposes of determining the coupon adjustment, potentially up to 10bps and will be assessed again in 2026 for the longer maturity bonds, possibly resulting in another step-up or step-down based on performance against the targets.
- **The SPTs referenced in the bond issuances lack ambition.** Two out of three KPIs had already been met prior to issuance, and the emissions KPIs do not include Scope 3, which is estimated to be at least 90% of Thai Union's total emissions.
- A coupon reduction would be expected to trigger some bond underperformance, albeit of limited size due to the small coupon change (10bps), and short duration of impacted bonds. Nevertheless, **some limited reaction has been observed.**

¹ [“Thai Union Group announces intention to pursue exit of minority investment in Red Lobster”](#), Thai Union, 16 Jan 2024.

² This includes a minority interest in recent bankrupt US restaurant chain Red Lobster as reported in [“Red Lobster seeks bankruptcy protection days after closing dozens of restaurants”](#), Boston.com, 20 May 2024.

³ [“Thai Union published 2023 Sustainability Report”](#), Thai Union, 4 Jun 2024.

⁴ [“Red Lobster Owner Lowers Bond Coupons by Meeting ESG Goals”](#), Bloomberg, 4 Jun 2024.

⁵ One polish SLB stepped-up and then back down again, as covered in [“Here we go Orlen: SLBs step back down”](#), AFII, 28 Feb 2024, and for an example of an SLB which has stepped-up please see [“Enel: fortes fortuna juvat”](#), AFII, 26 Apr 2024.

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Thai Union’s Sustainability-Linked Financing

As part of its sustainability commitment, Thai Union (TU) is dedicated to reducing greenhouse gas (GHG) emissions linked to its production. This entails reducing Scope 1, 2, and 3 emissions by 42 % by 2030, based on the 2021 baseline, and ultimately achieving net zero emissions by 2050. Thai Union further aims to reshape the seafood industry through sustainable practices.^{6,7}

To support its sustainability objectives, TU launched several sustainability-linked financing initiatives in 2021 to shift from traditional financing toward Blue Finance — funding projects that benefit the oceans and the seafood industry as a whole. A summary is shown in Table 1.

These included Thailand's first sustainability-linked bond and TU's inaugural sustainability-linked loans in both Thailand and Japan, totalling the equivalent of USD 839 mm. By 2025, TU aims to have 75% of its long-term funding converted into blue finance.⁸

Table 1. Summary of TUTB's Sustainability-Linked financing. Source: Thai Union Group, Bloomberg.

Blue Finance Portfolio	Issue Date	Maturity	Size (mm)	USD Size (mm)	ISIN
Sustainability-Linked Bonds					
I	20-Jul-21	2028	THB 5,000	150	TH0450038706
II	10-Nov-21	2026	THB 4,500	135	TH0450A36B06
		2031	THB 1,500	45	TH045003BB04
Sustainability-Linked Loans					
I	21-Jan-21	2025	THB 4,550	136.5	
		2025	USD 65	65	
	04-Feb-21	2026	USD 150	150	
		2026	JPY 3,400	30.94	
II	04-Dec-21	2026	JPY 14,000	127.4	

Sustainability-Linked Bonds – structure and materiality

In 2021, TU issued two series of SLBs, comprising three bonds in total, all with the same KPIs and SPTs.⁹

Table 2. Sustainability Linked Bonds. Source: Thai Union Group.

Key Performance Indicator	Relative weight of each KPI	2026 maturity SLB	2028 maturity SLB	2031 maturity SLB
KPI 1: Maintaining high rankings in Dow Jones Sustainability Index (DJSI)	20%	2023	2023 and 2026	2023 and 2026
KPI 2: Carbon Intensity reduction of Finished Goods. Baseline: 2019	40%	2023	2023 and 2026	2023 and 2026
KPI 3: Increasing the percentage of tuna purchased from vessels outfitted with an electronic monitoring (EM) system and/or human observer. Baseline: 2020	40%	2023	2023 and 2026	2023 and 2026

The deal features step-up and/or step-down financial characteristics linked to the achievement of all three SPTs under the existing Thai Union sustainability-linked financing framework.¹⁰ Put another way, TU’s SLBs can either step-up or step-down based on the same trigger,¹¹ a structure

⁶ “[Thai Union showcases its sustainability strategy SeaChange® 2023 at SX2023](#)”, Thai Union, 3 Oct 2023.

⁷ “[Sustainability Report 2023](#)”, Thai Union, accessed on 7 Jun 2024.

⁸ “[Blue Finance](#)”, Thai Union, accessed on 7 Jun 2024.

⁹ Full details of outstanding bonds are shown in “[Blue Finance 1](#)”, Thai Union, accessed 10 Jun 2024.

¹⁰ “[Doing Well By Doing Good](#)”, Bank of Ayudhya Public Company Limited (Krungsri), 30 Mar 2022.

¹¹ Please refer to Appendix “TU’s Sustainability-Linked Bond Structure” for further details.

which we have not yet observed in the market.¹² From a mathematical point of view, the targets would need to be ambitious to have a positive option value and therefore potentially price at a tighter spread than a vanilla bond.¹³ This means an expected probability greater than 50% that the target would be missed, which would create a net expectation of a coupon step-up.

The KPIs are assigned relative weights detailed in Table 3 used to calculate the coupon change in the event that only some SPTs are achieved. The weights are combined with the individual coupon step-up and/or step-down multiplied by the step-up and/or step-down margin of up to 10bps. Based on the latest observation date in 2023,¹⁴ TU has met all its targets and therefore lowered the coupon on bonds maturing in 2026, 2028, and 2031.⁴ The KPIs will be observed again at the end of 2026 for the longer two maturity bonds, and performance versus the targets may result in a step-up.

Sustainability-Linked Bonds – KPI details

The SLBs issued in 2021 align with TU's sustainability-linked financing framework for 2020-2022.¹⁵

KPI 1: Maintaining high rankings in Dow Jones Sustainability Index (DJSI)

Thai Union aims to be included in the Dow Jones Sustainability Index (DJSI) Emerging Market and ranked within the top 10 for the DJSI Food Products Industry Index.

As of December 2023, TU has been listed for ten consecutive years, and was ranked top in the food industry in 2022.¹⁶

Notably, however, in the 2022 assessment Sustainalytics did not provide an opinion on KPI 1 and the SPT relating to Thai Union's inclusion and position in the Dow Jones Sustainability Index.¹⁷ On the other hand, under the 2023 sustainability-linked financing framework, DNV confirmed that KPI 1 is key to Thai Union Group's overarching sustainability position and strategy.^{18,19}

According to the International Capital Markets Association (ICMA), for an SPT to be considered ambitious, it should represent a material improvement in the relevant KPIs and surpass a "business as usual" trajectory.²⁰

While it does represent a commitment to sustainability to maintain such a ranking, having such a consistent history challenges the ambitiousness of the target.

¹² This is different to the symmetric structure used by Uruguay where the targets for a step-up / step-down were different, and so there was a 'middle-ground' where the coupon remained the same. This bond is covered in "[Uruguay SLB: market update](#)", AFII, 5 Jun 2023.

¹³ For full details of the AFII option pricing methodology please see "[An option pricing approach for Sustainability-Linked Bonds](#)", AFII, 8 Nov 2022.

¹⁴ "[Sustainability Compliance Certificate](#)", Thai Union, accessed on 10 Jun 2024.

¹⁵ In 2023, TU released an updated sustainability-linked financing framework with additional and/or revised KPIs. Please refer to Appendix "TU's Sustainability-Linked Financing Framework" for further details.

¹⁶ "[Thai Union Group listed on Dow Jones Sustainability Indices for 10th consecutive year, marking a decade of transformation](#)", Thai Union, 12 Dec 2023.

¹⁷ "[Second Party Opinion - Thai Union Group Public Company Limited Sustainability-Linked Financing Framework](#)", Sustainalytics, 4 Oct 2022.

¹⁸ "[Sustainability-Linked Financing Framework](#)", Thai Union, November 2023.

¹⁹ "[Second Party Opinion - Thai Union Group Public Company Limited Sustainability-Linked Financing Framework](#)", DNV, 22 Nov 2023.

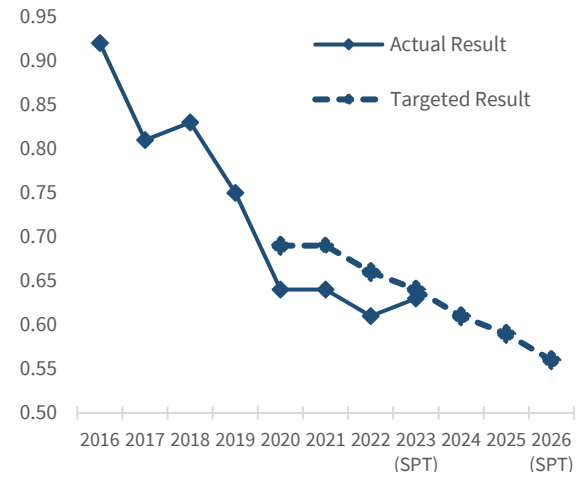
²⁰ "[Sustainability-Linked Bond Principles](#)", The International Capital Market Association (ICMA), Jun 2020.

KPI 2: Carbon Intensity reduction of Finished Goods

KPI 2 addresses the emissions intensity of Thai Union’s Scope 1 and 2 emissions from manufacturing operations, which account for 98% of their total Scope 1 and 2 emissions.²¹ This KPI is measured in CO₂ equivalent per ton of finished goods versus a 2019 baseline.

Before issuing its SLBs in 2021, Thai Union had already achieved a 28% reduction in Scope 1 and 2 emissions intensity from 2016 to 2020.^{8,22} **Indeed, the KPI has been below the 2023 SPT since 2020** (Figure 1),²³ and the publication of the 2020 sustainability report on 25 May 2021 preceded the SLB issuance in that year.^{24,25}

Figure 1. Carbon Intensity of Finished Goods (t CO₂ eq/ t FG).
Source: Thai Union.



Furthermore, in 2023, **Scope 1 and 2 emissions only represented about 9.4% of the Group’s total emissions.**⁷ The vast majority were Scope 3 emissions, which were not included in the KPI. Between 2022 and 2023, Scope 3 emissions increased by 2.31%, primarily due to a higher volume of seafood purchases.

According to CDP, an environmental reporting nonprofit, Scope 3 emissions, particularly from GHG Protocol category 1 "Purchased Goods and Services," are significant for the Food, Beverage & Tobacco sector.²⁶ Approximately 74% of Thai Union's Scope 3 emissions come from Purchased Goods and Services, with the largest sources of emissions stemming from the purchase of tuna, shrimp, and packaging, according to its latest reporting.⁷

However, we note under the 2023 sustainability-linked financing framework, Thai Union is expanding its net-zero GHG emissions commitment to include Scope 3 emissions. It is commendable to see enhanced reporting integrated into the updated framework, but it does mean that the older vintage SLBs are linked to less comprehensive targets.¹⁸

Given the targeted reduction was achieved before the SLBs were issued, it is hard to consider the target ambitious. We also note that it references an older and less comprehensive emissions target, and would expect that the new financing framework, including targets for Scope 3, is used for new issuance in the future.

²¹ “[Sustainability-Linked Financing Framework](#)”, Thai Union, July 2021.

²² Finished goods (FG) refers to the production volume of Thai Union’s seafood products such as canned tuna, ambient and frozen seafood and pet food.

²³ “[Sustainability-Linked Financing Framework](#)”, Thai Union, September 2022.

²⁴ “[Thai Union Releases 8th Annual Sustainability Report](#)”, Thai Union, 25 May 2021.

²⁵ We note the target was based on assumptions in line with the Science-Based Target Setting Manual (well-below 2°C global warming scenario). However, emissions intensity reductions for Scope 1 and 2 were strong before the bond issuance, and the trajectory was not updated.

²⁶ “[CDP Technical Note: Relevance of Scope 3 Categories by Sector](#)”, CDP, 25 Jan 2023.

KPI 3: Increasing the percentage of tuna purchased from vessels outfitted with an electronic monitoring (EM) system and/or human observer

KPI 3 aims to raise the percentage of tuna sourced from vessels equipped with electronic monitoring and/or human observers from a 58% baseline in 2020 to 90% by 2023 and 100% by 2026.⁹

However, Sustainalytics' assessment notes that KPI 3 “is an indirect measurement of performance...but does not follow any externally defined methodology or lends itself comparable against external contextual benchmarks”.¹⁷

Based on our analysis, this KPI does not offer clear comparability against peers or recognised benchmarks. In addition, while the KPI aims to improve transparency, it is challenging to ascertain its actual sustainability impact on TU.^{18,19}

While determining the relevance of KPI 3 poses challenges, TU's achievement of a 55% increase in equipped vessels from 2020 to 2023 underscores significant progress. This advancement aligns with the Tuna Transparency pledge, The Nature Conservancy's (TNC) mission to combat unsustainable and illegal tuna fishing practices, which aims to achieve 100% on-the-water monitoring across all industrial tuna fishing vessels within supply chains or jurisdictions by 2027.²⁷

The 2023 sustainability-linked financing framework and SPO assessment by DNV excludes this KPI.

In summary, real progress has been made against this KPI, however it is hard to understand the true impact of this improvement due to challenges contextualising its value.

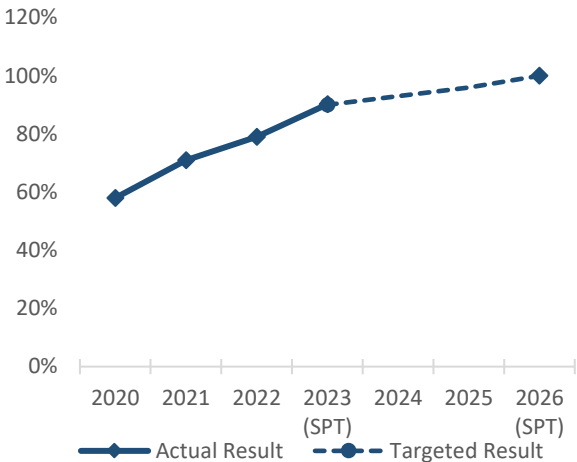
Market reaction

SLB coupon changes can be considered options on receiving a higher or lower coupon. This option value is embedded in the SLB price, and in an efficient market should change as the expected probability of targets being met changes.⁵

In this situation, at the point at which it is confirmed that the target is met and that the coupons will step down 10bps, we would expect the bond price to underperform to reflect the lowered coupon.

Figure 3 (overleaf) shows historic prices for Thai Union’s THB bonds. The closest comparable pair are two 2026 bonds, TUTB 2.27% 26s is an SLB and TUTB 2.78% 26s is a traditional bond. As the graph shows, there was some underperformance of the SLB in late January, although some correction in April. In total over the year, this amounts to 0.8%, far in excess of 10bps on a 2-year bond.

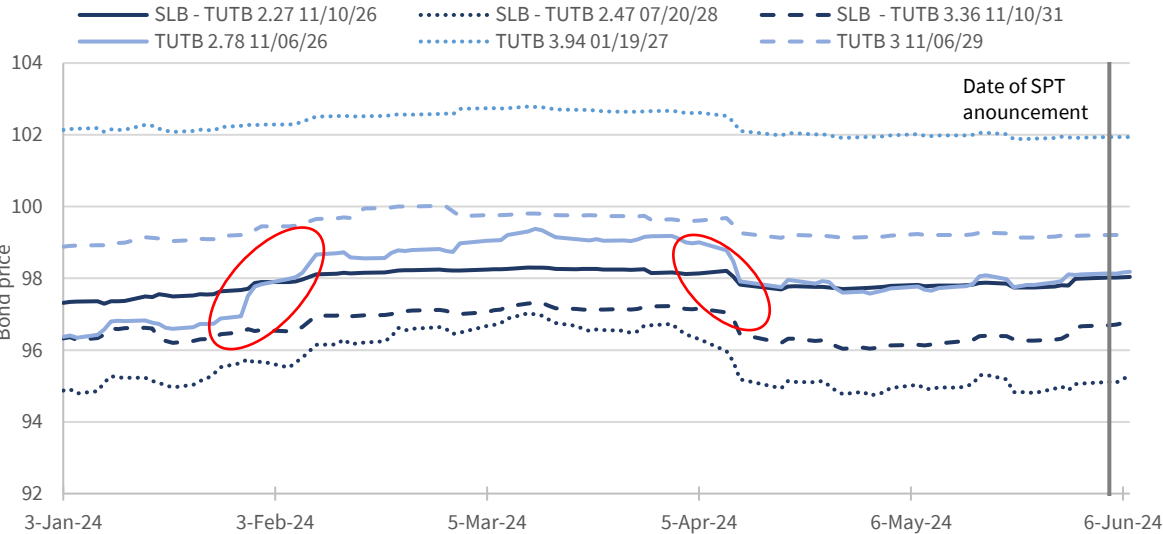
Figure 2. Percentage of tuna vessel with EM and/or human observer. Source: Thai Union.



²⁷ “Major new initiative to put eyes on the water for industrial tuna fisheries, launched by The Nature Conservancy”, The Nature Conservancy (TNC), 10 April 2024.

Looking at recent moves since the announcement, we see little of significance. We would expect the most significant move on the longest dated SLB, TUTB 3.36% 31s, by virtue of its duration, where a 10bps reduction in coupon could be worth 0.65% of underperformance.

Figure 3. Historic bond prices for TUTB bonds. Source: Bloomberg, accessed 10 Jun 2024.



Conclusions

Thai Union’s recent SPT achievement heralds what may be the first SLB step down due to sustainability achievements.

The structure of this issued bond is interesting, as it includes a mechanism where a step-up or step-down is activated depending on whether the SPTs are achieved or missed. The KPIs play a significant role in calculating the overall coupon adjustment, with a potential impact of up to 10bps. The targets will be re-assessed on a second observation date in 2026 for the longer maturity bonds, which could lead to further adjustments based on performance against the targets.

Analysis of the SPTs referenced in the bond issuances suggest a potential lack of ambition. TU had already met two of its three KPIs prior to the issuance dates, suggesting the SPTs were not stretch targets and instead tracked a business-as-usual trajectory. Furthermore, while the KPI related to electronic monitoring or tuna transparency made commendable progress, it is a challenge to ascertain the sustainability impact on TU.

From an emissions-reduction point of view, the SPTs of the issued SLBs in 2021 are limited only to Scope 1 and 2 emissions, whereas Scope 3 emissions represent the bulk of Thai Union’s emissions. Looking forward it would be more impactful if the Scope 3 targets from its latest financing framework were incorporated into any new issuance.

A coupon step-down would be expected to trigger some bond underperformance, which has not been observed. This may be due either to the small step-down of 10bps, or the short duration of the outstanding bonds.

Appendix

TU's Sustainability-Linked Financing Framework

Table 3 Sustainability-Linked Financing Framework. Source: Thai Union Group

Sustainability-Linked Financing Framework	Objective	Key Performance Indicator
I	Sustainable finances issued in 2020-2022 with a target of increasing sustainable finance to amount to 50% of TU's long-term financing by 2022	<p>KPI 1: Maintaining high rankings in Dow Jones Sustainability Index (DJSI)</p> <p>KPI 2: Carbon Intensity reduction of Finished Goods. Baseline: 2019</p> <p>KPI 3: Increasing the percentage of tuna purchased from vessels outfitted with an electronic monitoring (EM) system and/or human observer. Baseline: 2020</p>
II	Sustainable finances issued in 2023-2025 with a target of increasing sustainable finances 75% of TU's long-term financing by 2025	<p>KPI 1: Maintaining high rankings in Dow Jones Sustainability Index (DJSI)</p> <p>KPI 2: Absolute GHG Emission Scope 1 and 2 reduction</p> <p>KPI 3: Absolute GHG Emission Scope 3 reduction</p> <p>KPI 4: % of Shrimp purchasing volume responsibly sourced through a certification that has been benchmarked by Global Sustainable Seafood Initiative (GSSI) and is stated as GSSI Recognized or a credible Aquaculture Improvement Project (AIP)</p>

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