

BURIRAM SUGAR PLC

No. 133/2018
13 September 2018

CORPORATES

Company Rating: BBB-

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
26/06/15	BBB-	Stable

RATIONALE

TRIS Rating affirms the company rating on Buriram Sugar PLC (BRR) at “BBB-” with “stable” outlook. The rating reflects the company’s long track record in the sugar industry, diversification into the power segment, and improving profitability. These strengths are partially offset by single sugar mill production, cyclical nature of sugar prices, plus the volatility of the supply of sugarcane, and the company’s high leverage.

KEY RATING CONSIDERATIONS

Long track record

BRR’s strengths are underpinned by its long track record in the sugar industry. BRR’s management team has worked in the sugar industry for over 50 years. BRR’s major customers are international traders and large-scale food and beverage manufacturers. These international users normally reprocess raw sugar into refined sugar. BRR is considering adding equipment to produce refined sugar to its existing mill. Refined sugar will carry a higher margin than raw sugar. As a result, the company can earn some price premium from offering higher quality of its products.

Diversification into power business

BRR has three biomass power plants producing electricity. The plants have the combined generating capacity of 29.7 megawatts (MW). TRIS Rating assumes the power segment will make up about 9% of revenue. Revenue in the power segment will provide more reliable stream of revenue to partly offset the volatility of sugar prices.

Revenue in the power segment rose by 28% to Bt492 million in fiscal year (FY) 2017, and rose by 16% to Bt297 million during the first half of FY2018. The rise was mainly due to a sufficient supply of bagasse and no maintenance shutdowns. The power segment comprised 7%-9% of BRR’s total sales during FY2015-FY2017.

Small-scaled sugar producer and limited product line

BRR has a single mill in Buriram province. The single mill means BRR has a notable amount of asset risk. However, BRR plans to add a second mill, around 60 kilometers from the first mill. The Environmental Impact Assessment (EIA) is awaiting approval. Construction is expected to start after the EIA is approved and finish within two crop years.

BRR produces only basic sugar products, such as brown sugar for domestic customers and raw sugar for export. Nevertheless, the company plans to start investing Bt400 million to build a new sugar-refining factory, processing raw sugar into white refined sugar in the next two years. The refinery is the company’s first plant since it planned to increase production of white sugar to penetrate new markets.

Volatile sugar prices

Sugar consumption worldwide is expected to lag behind production in FY2018 and FY2019. Because supply will exceed demand, sugar prices are forecast to fall. TRIS Rating expects BRR’s operating profit margin, measured as the operating margin before depreciation and amortization as a percentage of

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sales, will stay low at 11% in FY2018. Nonetheless, we expect the industry downturn will end soon because the very low sugar prices will drive out some producers. BRR's operating margin is forecast at 14%-15% in FY2019-FY2021 as sugar prices gradually recover.

Rising financial leverage

BRR raised Bt3,605 million by establishing Buriram Sugar Group Power Plant Infrastructure Fund (BRRGIF) in August 2017. BRR sold BRRGIF the cash flow it receives from selling electricity to the Provincial Electricity Authority (PEA) under the power purchase agreements of two power plants, totaling 16.0 megawatts.

BRR owns around 33% of BRRGIF. BRR's total debt to capitalization ratio rose to 74.4% during the first six months of FY2018, up from 64.4% over the same period of FY2017. The need for more working capital and long-term borrowing from infrastructure fund pushed up the ratio. TRIS Rating believes the total debt to capitalization ratio will remain high at 71% during FY2018-FY2021. Capital expenditures will run around Bt500 million per year during FY2018-FY2021. BRR will invest in a new sugar refining plant, biodegradable packaging, and to acquire land for a new sugar plant.

Adequate liquidity profile

Over the next 12 months, we expect BRR to have adequate liquidity. Our base case shows earnings before interest, tax, depreciation, and amortization (EBITDA) will range around Bt700-Bt950 million per annum in FY2018-FY2021 as sugar prices recover and sugar production increases. In addition, the office of the cane and sugar fund (OCSF) will pay BRR about Bt100 million annually as compensation for sugar production and distribution.

At the end of April 2018, cash and cash equivalent totaled Bt161 million, plus BRR had unused credit facilities of Bt5,401 million. The main uses of funds are scheduled debt repayments of Bt250-350 million per year during FY2018-FY2021.

RATING OUTLOOK

The "stable" outlook reflects our expectation that BRR will sustain its competitive position in the sugar industry in Thailand. We expect BRR to maintain sufficient liquidity or back-up credit facilities so that it can meet its repayment obligations. The revenue sharing system of the Thai sugar industry, plus more revenue from the power segment will provide a cushion for the company during downturns in the sugar industry.

RATING SENSITIVITIES

BRR's rating upside is limited in the short term as long as sugar prices stay low. In contrast, BRR's rating could be revised downward, if profitability and earnings fall short of expectations. The prolonged slump in the price of raw sugar worldwide is a negative factor for the rating. The low price will squeeze BRR's financial performance. Any aggressive debt-funded investment and a drop in cash flow protection would impact the credit rating.

COMPANY OVERVIEW

BRR is a Thai sugar miller. It was established in 1963 and listed on the Stock Exchange of Thailand (SET) in November 2014. As of March 2018, the Tangtrongwechakit family collectively held 74.8% of the company's shares.

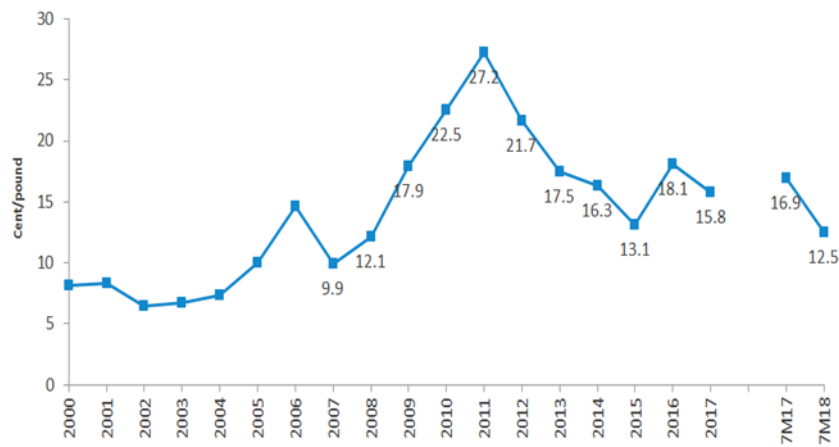
The company owns and operates one sugar mill located in Buriram province, with a cane crushing capacity of 24,000 cane tonnes per day. BRR procured 3.15 million tonnes of sugarcane in the 2017/2018 production period and produced 378,186 tonnes of sugar. For the 2017/2018 production period, BRR's market share was merely 2.6% in terms of volume of sugar produced. BRR produces only basic sugar products, such as brown sugar for domestic customers and raw sugar for export.

The company's crushing yield was high. During the crushing seasons spanning 2014 to 2018, the crushing yield ranged from 112-120 kilograms (kg.) per cane tonne. These yields placed BRR among the top five sugar millers in Thailand in terms of crushing yield. The crushing yield of BRR was higher than the annual industry averages of 104-109 kg. per cane tonne over the past five years. For the 2017/2018 growing season, BRR's crushing yield was at 119.88 kg. per cane tonne, higher than in the 2016/2017 season. The favorable weather during the harvest period increased the yield.

BRR's sugar-related businesses include electricity generation at two power plants it owns. BRR earns recurring income from the power segment. Each plant has long term contracts to sell eight MW of power capacity to PEA under the very small power producer (VSPP) scheme. The two projects each obtained a favorable feed-in-tariff (FIT). The tariffs will expire in 2028 and 2035.

KEY OPERATING PERFORMANCE

Chart 1: Raw Sugar Prices Worldwide



Note: Monthly prices of Futures Contract No. 11

Source: New York Board of Trade, United States Department of Agriculture (USDA)

Table 1: Sugar Production in Thailand

Unit: Million tonnes

Sugar Producer	Growing Season				
	2013/ 2014	2014/ 2015	2015/ 2016	2016/ 2017	2017/ 2018
Mitr Phol	2.30	2.30	1.96	1.98	2.73
Thai Roong Ruang	1.75	1.60	1.37	1.42	2.13
KSL Group	0.91	0.91	0.77	0.72	1.20
Thai Ekkalak	1.06	0.99	0.72	0.94	1.19
Wangkanai	0.70	0.56	0.51	0.39	0.79
Banpong	0.46	0.44	0.44	0.44	0.52
Kumpawapee	0.37	0.40	0.30	0.28	0.41
Buriram sugar	0.21	0.23	0.24	0.25	0.38
Others	3.57	3.87	3.47	3.61	5.36
Total	11.33	11.30	9.78	10.03	14.71

Source: Office of the Cane and Sugar Board (OCSB)

Table 2: BRR's Revenue Breakdown by Business

Unit: %

Product	2014	2015	2016	2017	Jan-Jun 2018
Sugar and molasses sales	85	81	81	82	77
Electricity sales	5	7	8	9	9
Fertilizer sales	7	9	7	6	8
Service and others	3	3	3	4	6
Total sales	100	100	100	100	100
Total sales (Bt million)	3,920	4,187	4,579	5,740	3,464

Source: BRR

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Jun 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Sales and service revenues	3,464	5,740	4,579	4,187	3,920
Gross interest expense	201	287	197	161	117
Net income from operations	288	525	156	232	236
Funds from operations (FFO)	496	784	387	399	338
Capital expenditures	263	399	655	1,339	1,309
Total assets	10,257	9,233	7,227	6,764	5,386
Total debt	7,317	5,954	4,487	4,051	2,834
Shareholders' equity	2,517	2,473	2,093	2,126	1,988
Operating income before depreciation and amortization as % of sales	15.98	16.84	10.34	12.01	11.81
Pretax return on permanent capital (%)	5.72 **	11.93	5.67	7.48	10.37
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.34	4.02	2.94	3.56	2.97
FFO/total debt (%)	6.76 **	13.16	8.63	9.85	11.92
Total debt/capitalization (%)	74.40	70.66	68.19	65.58	58.84

Note: All ratios have been adjusted by operating leases

* Consolidated financial statements

** Annualized with trailing 12 months

Buriram Sugar PLC (BRR)
Company Rating:
BBB-
Rating Outlook:
Stable
TRIS Rating Co., Ltd.

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