

# BURIRAM SUGAR PLC

No. 142/2019

11 September 2019

## CORPORATES

**Company Rating:** BBB-  
**Outlook:** Stable

**Last Review Date:** 13/09/18

### Company Rating History:

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

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## RATIONALE

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

## KEY RATING CONSIDERATIONS

### Price slump squeezes margin

BRR’s operating results fell in fiscal year (FY) 2018. Total revenue was relatively stable at around Bt5.7 billion but operating margin, as measured by operating income before depreciation and amortization as a percentage of sales, dropped to 13.9% in FY2018 from 17.1% in FY2017. This drop was caused by a slump in sugar prices and oversupply of sugarcane worldwide.

For the 2019/2020 crop year, sugar consumption worldwide is still expected to lag behind production. Thus, the sugar prices will likely continue to decline. However, the cyclical downturn in the sugar industry should gradually recover from FY2020 onwards after very low sugar prices drive out some supply and production. Sugar price is forecast to average 14.0-16.0 cents per pound. TRIS Rating expects BRR’s operating margin to stay at 13%-14% in FY2019-FY2022.

### Rising financial leverage

BRR’s total debt to capitalization ratio rose to 78.6% during the first six months of FY2019, up from 74.1% over the same period of FY2018. This followed a rise in carried sugar inventory during the 2018/2019 crop year. Moreover, BRR has invested in a new sugar refining plant and biodegradable packaging plant during FY2018-FY2019. Capital expenditures totaled around Bt950 million.

However, the company will limit its capital spending to around Bt100 million a year in FY2020-FY2022. TRIS Rating projects the total debt to capitalization ratio of BRR to gradually decline to around 68% in FY2022.

### Long track record

BRR’s management has been led by the Tangtongwechakit family, the major shareholder, for more than five decades. BRR’s major customers are international traders and large-scale food and beverage manufacturers. These international users normally reprocess raw sugar into refined sugar. Currently, BRR is adding equipment to its existing mill to expand refined sugar production. As the refined sugar carries a higher margin, the company expects to earn some price premium from offering higher quality products.

### Diversify into power business

BRR has three biomass power plants. The plants have a combined electricity generating capacity of 29.7 megawatts (MW). TRIS Rating assumes the power business will make up about 10% of BRR’s total revenue. The power business has provided a more reliable stream of revenue to partly offset the volatility of sugar prices.

Revenue in the power business rose by 13% to Bt557 million in FY2018 and remained flat at Bt281 million during the first half of FY2019. The rise in revenue was mainly attributed to a higher utilization rate of the two power

plants.

### Expand and add value to products

BRR has a single mill in Buriram province. This single mill production means BRR has significant asset risk. However, BRR plans to add a second mill at a site around 60 kilometers away from the first mill. The Environmental Impact Assessment (EIA), which is required for the construction of the new mill, has been submitted for approval. Construction is expected to start after the EIA is approved and finish within two crop years.

At present, BRR produces only basic sugar products, such as brown sugar for domestic customers and raw sugar for export. Nevertheless, the company will begin producing white refined sugar in the last quarter of FY2019.

Furthermore, the company has established Sugarcane Ecoware Co., Ltd. (SEW) to manufacture packaging products, equipment, and appliance that made from bagasse as main raw material and also other pulps. This project is anticipated to be operational within this year. The production is aimed for export for more than 75% of total capacity.

### 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 Bt0.8-Bt1.0 billion per annum in FY2019-FY2022 as sugar prices rebound. 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, based on the revenue sharing scheme.

At the end of June 2019, BRR had Bt83 million cash on hand and Bt3.7 billion unused credit facilities. The main uses of funds are interest expense and repayment obligations totaling Bt900 million.

### BASE-CASE ASSUMPTIONS

- Total revenues to drop by 7% per annum during FY2019 and to rise gradually by 6%-8% per annum during FY2020-FY2022.
- Gross profit and operating margins to improve to 19%-20% and 16%, respectively, during FY2020-FY2022.
- Total capital spending to be around Bt500 million in FY2019 and Bt100 million during FY2020-FY2022.

### 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 to meet its repayment obligations. We also expect the revenue sharing system of the Thai sugar industry, and the stable revenue from the power business to provide a revenue cushion during downturns in the sugar industry.

### RATING SENSITIVITIES

A rating upside is unlikely in the short term as sugar prices are likely to stay low over the next 12 months. 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 also has negative effect. Any aggressive debt-funded investment or drop in cash flow protection would also impact the credit rating.

### COMPANY OVERVIEW

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 2.93 million tonnes of sugarcane in the 2018/2019 production period and produced 353,350 tonnes of sugar. For the 2018/2019 production period, BRR’s market share was merely 2.4% in terms of volume of sugar produced. BRR produces only basic sugar products. However, the company is planning to produce and distribute refined sugar in the last quarter of FY2019.

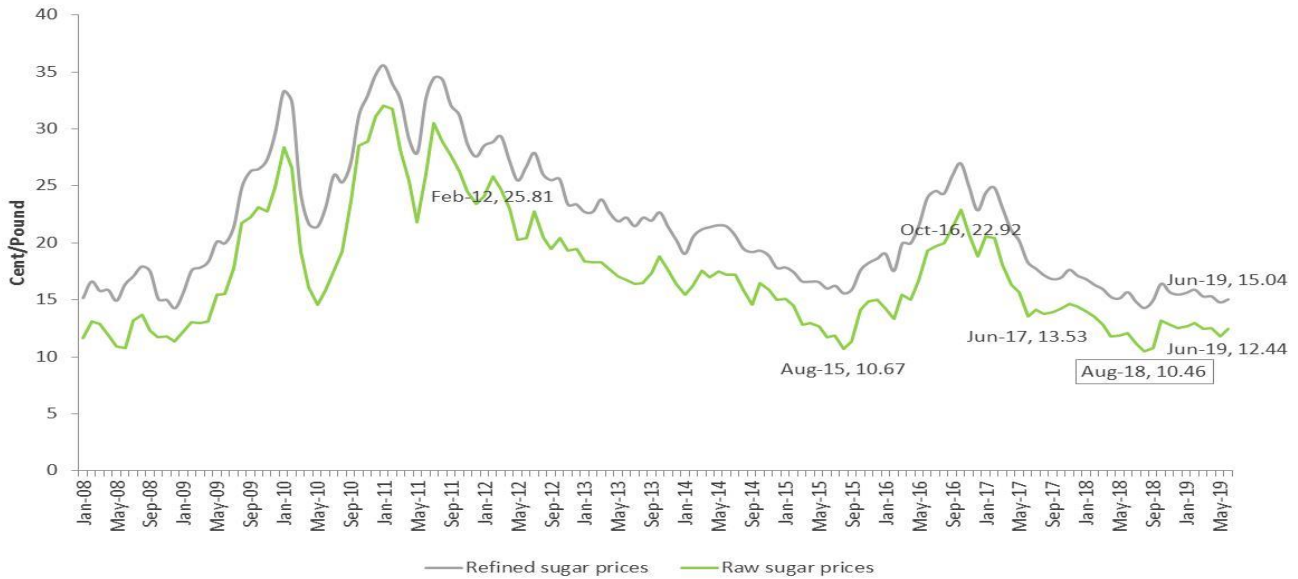
The company’s crushing yield was high. During the crushing seasons spanning 2014 to 2018, the crushing yield ranged at 112-120 kilograms (kg.) per cane tonne. These yields placed BRR among the top five sugar millers in Thailand. The crushing yield of BRR was higher than the annual industry averages of 104-109 kg. per cane tonne over the past five years. For the 2018/2019 growing season, BRR’s crushing yield was at 120.54 kg. per cane tonne, higher than in the 2017/2018 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				
	2014/ 2015	2015/ 2016	2016/ 2017	2017/ 2018	2018/ 2019
Mitr Phol	2.30	1.96	1.98	2.73	2.92
Thai Roong Ruang	1.60	1.37	1.42	2.13	2.42
KSL Group	0.91	0.77	0.72	1.20	1.14
Thai Ekkalak	0.99	0.72	0.94	1.19	1.03
Wangkanai	0.56	0.51	0.39	0.79	0.69
Banpong	0.44	0.44	0.44	0.52	0.58
Eastern Sugar	0.38	0.35	0.38	0.51	0.49
Kumpawapee	0.40	0.30	0.28	0.41	0.39
Buriram	0.23	0.24	0.25	0.38	0.35
Others	3.49	3.12	3.23	4.85	4.57
<b>Total</b>	<b>11.30</b>	<b>9.78</b>	<b>10.03</b>	<b>14.71</b>	<b>14.58</b>

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

**Table 2: BRR's Revenue Breakdown by Business**

Unit: %

Product	2015	2016	2017	2018	Jan-Jun 2019
Sugar and molasses sales	81	81	82	79	69
Electricity sales	7	8	9	10	13
Fertilizer sales	9	7	6	7	13
Service and others	3	3	4	5	5
<b>Total sales</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: BRR

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

	Jan-Jun 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	2,216	5,723	5,753	4,592	4,252
Operating income	366	797	984	445	576
Earnings before interest and taxes (EBIT)	234	698	862	286	446
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	397	1,006	1,088	504	607
Funds from operations (FFO)	188	579	717	296	426
Adjusted interest expense	198	387	285	178	127
Capital expenditures	421	923	403	675	1,375
Total assets	11,796	10,276	9,233	7,227	6,764
Adjusted debt	8,838	6,821	5,813	4,433	3,863
Adjusted equity	2,403	2,501	2,473	2,093	2,126
<b>Adjusted Ratios</b>					
Operating income as % of total operating revenues (%)	16.50	13.92	17.10	9.69	13.54
Pretax return on permanent capital (%) **	3.77	7.75	11.39	4.46	8.06
EBITDA interest coverage (times)	2.00	2.60	3.82	2.83	4.79
Debt to EBITDA (times)	11.99	6.78	5.34	8.80	6.37
FFO to debt (%) **	3.89	8.48	12.34	6.68	11.03
Debt to capitalization (%)	78.62	73.18	70.66	67.93	64.50

*Note: All ratios have been adjusted by operating leases*

*\* Consolidated financial statements*

*\*\* Annualized with trailing 12 months*

**RELATED CRITERIA**

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

**Buriram Sugar PLC (BRR)**

<b>Company Rating:</b>	BBB-
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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