

BURIRAM SUGAR PLC

No. 125/2024
26 July 2024

CORPORATES

Company Rating: BBB-
Outlook: Stable

Last Review Date: 07/06/23

Company Rating History:		
Date	Rating	Outlook/Alert
24/06/22	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Buriram Sugar PLC (BRR) at “BBB-” with a “stable” rating outlook. The rating continues to reflect the company’s long experience in the sugar industry, as well as the benefits of its diversification into power and packaging businesses. However, these strengths are constrained by its single sugar mill production, cyclical nature of sugar prices, volatility of sugarcane supplies, and the company’s high leverage.

KEY RATING CONSIDERATIONS

Weakened operating results; improvement anticipated

Due to lower sugarcane output following severe flooding in northeastern Thailand in 2022, BRR’s operating performance in 2023 decreased by 17% to THB6.1 billion and EBITDA declined by 22% to THB1.1 billion. However, for the first quarter of 2024, BRR’s profitability improved significantly following a 16% year-on-year (y-o-y) recovery in sugarcane output and a 31% rise in average sugar selling prices.

Going forward, we expect BRR to show strong operating results in 2024 before normalizing. Sugar prices are expected to gradually decline due to an anticipated increase in global supplies from the La Nina phenomenon in major sugar exporting countries. Nevertheless, sugarcane supplies are expected to rise in line with the company’s supply expansion strategy.

Under our baseline scenario, BRR’s total operating revenue is projected to be around THB6.3-THB7.2 billion annually during 2024-2026. The EBITDA margin is projected to reach 19% in 2024 and 11%-13% in 2025-2026, assuming the normalization of sugar prices in 2025. EBITDA is projected to reach around THB1.4 billion in 2024 and remain at THB700-THB800 million per annum in 2025-2026.

Diversification into power and packaging businesses

BRR has expanded along the sugar value chain to maximize the utilization of sugarcane and by-products of the sugar manufacturing process. BRR uses bagasse as fuel in its power plants and pulp from bagasse to produce food packaging products such as plates and bowls. In 2023, revenue from electricity sales and biodegradable packaging accounted for 8% and 2% of BRR’s total revenue, respectively.

BRR operates three biomass power plants with a combined electricity generating capacity of 29.7 megawatts (MW), 16 MW of which is sold to the Provincial Electricity Authority (PEA) under long-term power purchase agreements (PPAs). The power business generates a stable revenue stream which partly offsets the effect of volatile sugar prices.

For the biodegradable packaging business, BRR aims to find alternative sources to utilize by-products once the PPAs end and aims to capture the rising trend of environmentally friendly products. Most packaging products (about 90%) are targeted for export to the U.S., E.U., and other countries under original equipment manufacturer (OEM) orders. BRR also sells products under its own “SEW” brand in the domestic market. The packaging business is expected to grow over the next few years, on the back of secured purchase orders and its expansion plan, coupled with rising demand for sustainable packaging products.

Relatively small business scale

The company operates a single mill in Buriram province. This single mill production means BRR is exposed to concentration risk in terms of operations and procurement. However, the procurement risk is partly offset by the company's status as the only sugar producer in Buriram. Also, BRR and other mills in nearby provinces agree on allocated zoning for sugarcane procurement to prevent competition for supplies.

BRR's sugar production volume is also relatively small compared with other millers in Thailand. The company has held a 2%-3% market share of the country's sugarcane volume over the past five years. However, despite its small scale, BRR ranks among the top three of 58 Thai sugar millers in terms of sugar yield. The company's high yield is attributed mainly to the quality of sugarcane produced in the areas surrounding its plant.

Improved financial leverage

BRR's financial leverage ratios have improved continuously. BRR's adjusted debt declined to THB4.4 billion in 2023 from THB4.7 billion in 2022, thanks to enhanced operating performance. The debt to EBITDA ratio dropped to 3.8 times, while the debt to capitalization ratio was around 60%.

We expect BRR's leverage ratios to remain at moderate levels throughout the forecast period. Total capital expenditure and investments are projected to total THB200-THB250 million per year in 2024-2026 and are mainly earmarked for capacity expansion in the refined product, packaging and wood pellet businesses. We project the company's debt to capitalization ratio to decline below 50% in 2026, and the adjusted debt to EBITDA ratio to hover around 2.8-5.2 times in 2024-2026.

Manageable liquidity

Over the next 12 months, we expect BRR to have adequate liquidity. Our base case projects its EBITDA to reach from THB700 million to THB1.4 billion per annum in 2024-2026. At the end of March 2024, BRR had THB212 million cash on hand and around THB3.9 billion in unused credit facilities. The main uses of funds in the coming year will be interest expenses and repayments of long-term obligations totaling about THB550 million.

As of December 2023, the company was able to comply with all financial covenants on its bank loan obligations. We expect that the company should have no problems complying with the financial covenants over the next 12 to 18 months.

BRR recorded THB2.7 billion of priority debt out of total interest-bearing debt (excluding lease liabilities) of THB3.6 billion. The priority debt comprised debts at subsidiary level and secured debts at parent. BRR's priority debt to total debt ratio was 74%. As the ratio exceeds the 50% threshold, we view that BRR's unsecured creditors are significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

BASE-CASE ASSUMPTIONS

- Operating revenues are projected to be around THB6.3-THB7.2 billion annually during 2024-2026.
- EBITDA margin of around 19% in 2024, declining to the 11%-13% range during 2025-2026.
- Total capital spending of around THB200-THB250 million per year during 2024-2026.

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. Thailand's sugar revenue sharing system, reliable revenue from the power business, as well as contributions from the packaging business should alleviate the effects of volatility in the sugar production business.

RATING SENSITIVITIES

A rating upside case could occur if BRR enlarges its earnings without weakening its balance sheet, such that EBITDA exceeds THB1.5 billion and the net debt to EBITDA ratio stays below 4 times for a sustained period. Conversely, a rating downgrade could occur if its operating performance is materially weaker than expected or if BRR makes any debt-funded investment that materially weakens its balance sheet and cash flow protection, such that the net debt to EBITDA ratio exceeds 8 times for a prolonged period.

COMPANY OVERVIEW

BRR, formerly named Sahathairungruang Sugar Co., Ltd., was established in 1963 and listed on the Stock Exchange of Thailand (SET) in 2014. The company's major shareholder is the Tangtongwechakit family, holding a stake of about 66% in the company at the end of 2023.

BRR’s business profile is underpinned by its track record of 60 years in the sugar industry. The company’s major products are raw sugar and brown sugar. To broaden its product portfolio, BRR has added refined sugar production over the past few years. Its own brands comprise “Double Key” and “BRUM”.

About 80% of BRR’s sugar products are exported through international traders, with the remainder (20%) sold domestically. In the domestic market, most of BRR’s products are sold through distributors. Its products are well-known in the local communities of Buriram province and northeastern Thailand. BRR has also expanded its market through wholesalers in the southern, central, and eastern regions, as well as distributing through modern trade and food service channels.

The company’s crushing yield is high. During the crushing seasons spanning 2019 to 2024, the yield ranged from 120-124 kilograms (kg) per cane ton. These yields placed BRR among the top three sugar millers in Thailand. BRR’s crushing yield has consistently exceeded the annual industry average of 107-117 kg per cane ton over the past five years.

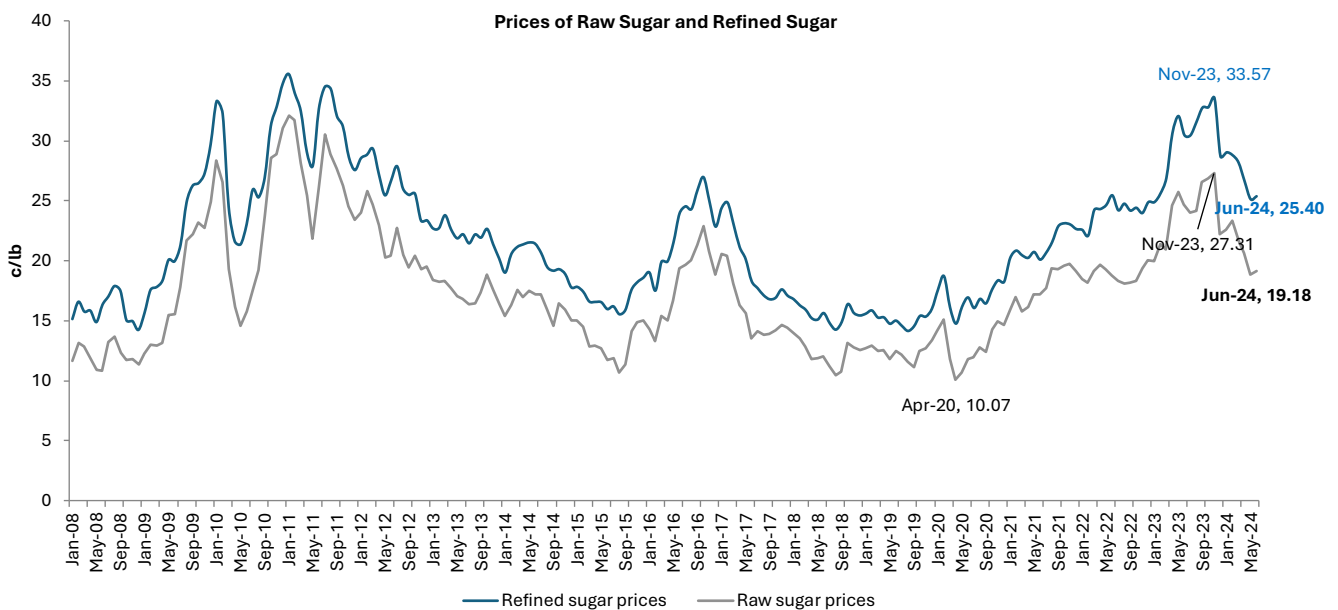
BRR has built up good relationships with individual cane growers. The company offers broad-based support to cane growers, including advances of cash, fertilizer, chemical, sugarcane varieties, as well as agricultural machinery and equipment. At the end of 2023, BRR had around 200,000 rai of contract planting area spread across some 10,250 growers.

BRR’s sugar-related businesses include the production of electricity, fertilizer, and packaging. Sale from the sugar business contributed 77% of BRR’s total revenue in 2023, followed by fertilizer (10%), electricity (8%), packaging (2%), and others (3%).

For the electricity business, BRR has three power plants, two of which have long-term contracts to sell a total of 16 MW of power to PEA under the very small power producer (VSPP) scheme. In 2017, BRR sold its future income streams from these two power plants to BRRGIF for THB3.6 billion, while the company also invested in a 33.3% stake in BRRGIF. Also, BRR has expanded into the packaging business utilizing bagasse from sugarcane.

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: Mil. tonnes

Sugar Producer	Growing Season				
	2019/ 2020	2020/ 2021	2021/ 2022	2022/ 2023	2023/ 2024
Mitr Phol	1.61	1.68	2.34	2.36	2.11
Thai Roong Ruang	1.34	1.24	1.45	1.82	1.26
KSL	0.58	0.53	0.70	0.75	0.57
Thai Ekkalak	0.60	0.47	0.64	0.80	0.51
Korat	0.29	0.40	0.58	0.62	0.57
Wangkanai	0.22	0.24	0.36	0.50	0.33
Eastern Sugar	0.34	0.32	0.36	0.42	0.38
Khonburi	0.19	0.23	0.31	0.35	0.28
BRR	0.22	0.22	0.29	0.24	0.28
Banpong	0.38	0.27	0.28	0.32	0.21
Kumpawapee	0.24	0.17	0.29	0.22	0.17
Others	2.23	1.80	2.55	2.66	2.14
Total	8.29	7.59	10.13	11.06	8.81

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

Table 2: BRR's Revenue Breakdown by Business

Unit: %

Product	2020	2021	2022	2023	Jan-Mar 2024
Sugar and molasses sales	78	76	80	77	79
Electricity sales	9	10	6	8	5
Fertilizer sales	8	8	8	10	9
Packaging sales	1	1	3	2	2
Others	4	5	2	3	5
Total sales	100	100	100	100	100
Total sales (THB mil)	3,893	3,788	7,353	6,069	2,543

Source: BRR

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	2,628	6,089	7,370	3,966	3,983
Earnings before interest and taxes (EBIT)	577	882	1,164	319	339
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	673	1,146	1,471	597	695
Funds from operations (FFO)	520	810	1,129	391	336
Adjusted interest expense	38	230	231	197	338
Capital expenditures	44	218	164	104	188
Total assets	10,784	8,899	9,459	9,057	8,663
Adjusted debt	5,837	4,404	4,673	6,103	6,066
Adjusted equity	3,433	2,991	2,614	1,937	1,856
Adjusted Ratios					
EBITDA margin (%)	25.6	18.8	20.0	15.0	17.4
Pretax return on permanent capital (%) **	11.3	11.1	14.2	4.0	4.1
EBITDA interest coverage (times)	17.8	5.0	6.4	3.0	2.1
Debt to EBITDA (times)	4.4	3.8	3.2	10.2	8.7
FFO to debt (%) **	16.1	18.4	24.2	6.4	5.5
Debt to capitalization (%)	63.0	59.6	64.1	75.9	76.6

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Corporate Rating Methodology, 15 July 2022

Buriram Sugar PLC (BRR)

Company Rating:	BBB-
Rating Outlook:	Stable

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