

EASTERN SUGAR AND CANE PLC

No. 42/2020
4 June 2020

CORPORATES

Company Rating: BBB
Outlook: Negative

Last Review Date: 30/01/20

Company Rating History:

Date	Rating	Outlook/Alert
30/01/20	BBB	Stable

Contacts:

Suchana Chantadisai
suchana@trisrating.com

Jutatip Chitphromphan
jutatip@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Sasiporn Vajarodaya
sasiporn@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Eastern Sugar and Cane PLC (ESC) at “BBB”, but revises the rating outlook to “negative” from “stable”. The revised outlook reflects our concerns that the lower supply of sugarcane as a result of the acute drought in Thailand will significantly affect ESC’s operations. Moreover, the continuing drop in the worldwide sugar price and the plunge in demand for ethanol are also likely to pressure ESC’s financial results over the next two years. However, the rating continues to reflect ESC’s long track record in the sugar industry, diverse sources of income, and conservative financial policies.

The plummeting sugar price and the severe drought in the 2019/2020 crop year are expected to squeeze revenues and margins of sugar producers in Thailand over the next 12-18 months. Low rainfall will cut sugarcane output and sugar yields. ESC’s operating revenue is forecast to decline by 22% to Bt5.7 billion in 2020 from Bt7.3 billion in 2019. The revenue is then projected to climb back to Bt6.4-Bt8.0 billion in 2021-2022. We assume the world sugar price will average around 10 cents per pound in 2020, and will rise to 12-14 cents per pound in 2021-2022, compared with 12.8 cents per pound during January-April 2020. Therefore, we project ESC’s earnings before interest, tax, depreciation and amortization (EBITDA) margin will drop to 13% in 2020 from 14% in 2019 and will gradually recover to 16%-18% in 2021-2022, the same level as in 2016-2018.

ESC’s financial leverage is moderate. Total debt to capitalization stayed at 53% at the end of 2019. No major capital expenditure is expected since the investments needed for new plants and a capacity increase have already been made. We project ESC’s financial leverage to improve slightly to 51% in 2022.

TRIS Rating assesses ESC to have adequate liquidity over the next 12 months. The ratio of funds from operations (FFO) to total debt was 13% in 2019. The ratio will likely decline to 11% in 2020 then gradually increase to 15% in 2021, returning to a normal level of 25% in 2022. The EBITDA interest coverage ratio was 4 times in 2019. We expect the ratio will range 4-8 times during 2020-2022. We also expect ESC to have sufficient credit facilities from commercial banks and internal cash flow to fund future capital expenditure.

RATING OUTLOOK

The “negative” outlook reflects our concerns over ESC’s weakening financial profile as a result of the prolonged and severe drought in Thailand, the plunge in the worldwide sugar price, and the weakening demand for ethanol in the next 12-18 months.

RATING SENSITIVITIES

The outlook could be revised back to “stable” if ESC is able to recover its operating performance on a sustained basis while maintaining an acceptable capital structure. On the other hand, a rating downgrade could happen if earnings and profitability are in line or fall short of our expectations. Any overly aggressive, debt-funded investments that would weaken the debt to capitalization ratio would also be a negative factor for the rating.

COMPANY OVERVIEW

ESC was established in 1959 by the Wattanavekin family. As of December 2019, the Wattanavekin family collectively held 98.6% of the company's shares.

ESC's first sugar mill, located in Pluak Daeng, Rayong province, had a production capacity of 12,000 tonnes of cane per day (TCD) before relocation. In 1994, the company relocated to Watthana Nakhon, Sa Kaeo province. Current production capacity is 40,000 TCD. ESC received approval in July 2018 to build a second mill at Wang Sombun, Sa Kaeo province. The new mill has a capacity of 18,000 TCD. The first phase of 8,000 TCD started up in December 2018.

ESC sells sugar in two package sizes; 50 kilograms (kg) for domestic sales and 100 kg for export sales. Currently, ESC sells white and refined sugar in the domestic market. It exports raw sugar, VHP sugar, and refined sugar.

ESC's sugar-related businesses include the production of electricity, ethanol, and fertilizer, as well as research and development, and logistics services.

RELATED CRITERIA

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

Eastern Sugar and Cane PLC (ESC)

Company Rating:	BBB
Rating Outlook:	Negative

TRIS Rating Co., Ltd.

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

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