

EASTERN SUGAR AND CANE PLC

No. 202/2024
5 November 2024

CORPORATES

Company Rating: BBB
Outlook: Positive

Last Review Date: 29/09/23

Company Rating History:

Date	Rating	Outlook/Alert
30/09/21	BBB	Stable
04/06/20	BBB	Negative
30/01/20	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Eastern Sugar and Cane PLC (ESC) at “BBB”. At the same time, we revise the rating outlook to “positive” from “stable”. The “positive” outlook reflects the prospect that ESC will gradually reduce its debt level and lower its financial leverage.

The rating continues to reflect the company’s extensive experience in the sugar industry, its diversification into sugar-related businesses, and its solid financial profile. However, these strengths are partially offset by ESC’s small business scale, the cyclical nature of sugar prices, and fluctuations in sugarcane production.

KEY RATING CONSIDERATIONS

Low financial leverage

ESC’s financial leverage is expected to gradually decrease during the forecast years, with the adjusted net debt to EBITDA ratio anticipated to drop below 1.5 times. As of June 2024, the company held no outstanding long-term bank loan. Short-term loans are solely to support working capital during the sugarcane crushing period. The adjusted net debt was THB3.1 billion. The ratios of ESC’s adjusted net debt to EBITDA and funds from operations (FFO) to adjusted net debt, annualized with the trailing 12 months, were 2.1 times and 42%, respectively.

ESC has continued to invest in maintenance and improvements to its sugarcane plantations/crushing operations, power generation, production efficiency, and in a software system. Its planned capital expenditure (CAPEX) is around THB500-THB800 million per year during 2024-2026. The outstanding debt is projected to gradually decrease each forecast year to below THB1 billion. We forecast ESC’s adjusted net debt to EBITDA ratio to decline to the level of 0.5-1.5 times and the FFO to adjusted net debt ratio to improve to a level above 90% during the forecast period.

Satisfactory performance in 2023-2024

ESC achieved its highest performance in a decade in 2023, and it is anticipated to stay strong in 2024, thanks to elevated worldwide sugar prices. Revenue rose by 15%, reaching THB9.9 billion from THB8.7 billion in 2022, in line with the significant increase in raw sugar prices, rising from 20 cents per pound (c/lb) to 27 c/lb, owing to supply shortages and concerns over geopolitical risks worldwide. EBITDA also reached a record high at THB1.9 billion, with an EBITDA margin of 19%.

For 2024, ESC’s revenue is expected to rise slightly to THB10 billion, supported by favorable global sugar prices in the range of 18 to 24 c/lb. Additionally, the company maintained its sugarcane volume for the 2023/2024 crop year at 3.4 million tonnes, despite a 12% drop in Thailand’s overall sugarcane production, which fell to 82 million tonnes in the 2023/2024 crop year from 94 million tonnes in the previous year. However, EBITDA is projected to decline to THB1.7 billion due to increased raw material and production costs, resulting in a lower EBITDA margin of 16%.

Expected downturn in operating performance in 2025-2026

We anticipate that lower global sugar prices and the launch of a new sugar mill in Sa Kaeo Province may weaken the company’s performance in 2025-2026.

Global sugar prices are forecast to drop to the range of 15-18 c/lb. Additional supply pressure from the new sugar mill, operational from 2025 onwards, is expected to have a modest impact on ESC's sugarcane supplies. ESC's sugarcane volume in 2025 could fall to three million tonnes, down 11% from 2024, before improving to 3.3 million tonnes. Total sugarcane production in Thailand is projected to increase to the range of 90-95 million tonnes during the 2024/2025 and 2025/2026 harvest years.

Consequently, ESC's annual operating revenue is projected to decline to around THB7.5-THB8.0 billion in 2025-2026, while EBITDA could fall to THB1.1 billion with an EBITDA margin of 14%.

Diversification to ethanol and power

ESC has broadened its operations across the sugar value chain to fully utilize sugarcane and key by-products including bagasse, filter cake, and molasses. Bagasse is primarily used to fuel the company's power plants, while filter cake is used for fertilizer production, and molasses for ethanol production. Revenue from the ethanol and electricity generation contributed around 20% of total revenue during 2017-2023.

ESC's power plants have a total installed generation capacity of 123.6 megawatts (MW). The company sells electricity to two state-owned enterprises under long-term power purchase agreements (PPA). The Electricity Generating Authority of Thailand (EGAT) purchases 40 MW of electricity under the small power producer (SPP) scheme while the Provincial Electricity Authority (PEA) buys 11 MW under the very small power producer (VSPP) scheme.

ESC has an ethanol production capacity of 150,000 liters per day. Buyers of ethanol are the major oil companies in Thailand.

Under our base-case scenario, we anticipate a gradual decline in ethanol and electricity prices, with production volumes corresponding to sugarcane volumes. We project ESC's revenue from ethanol and electricity to sustain at around THB1.6 billion annually in 2024-2026.

Relatively small business scale with concentration risk

ESC operates two sugar mills in Sa Kaeo Province in the eastern region of Thailand. The company has total crushing capacity of 48,000 tonnes of cane per day (TCD); 40,000 TCD from the first plant and 8,000 TCD from the second. The company's production volume is relatively small compared to other millers in Thailand. ESC has held a market share of 3.5%-4.5% of the country's sugar production volume over the past five years.

Based on the location and capacity of the plants, we view that ESC faces concentration risk in terms of its procurement and production. Farmers have no commitment to supply to only one sugar mill, thus, more competition is expected since a new sugar plant has set up operations in the same area. However, with ESC's longstanding relationships with local farmers, we view the entry of the newcomer will have only a modest impact on the company.

Adequate liquidity profile

ESC's sources of funds comprised cash on hand of THB266 million and uncommitted bank credit facilities of THB4.9 billion as of June 2024. FFO over the next 12 months are expected to be around THB1.4 billion. These sources of funds should be sufficient to cover planned CAPEX of THB500 million over the next 12 months. Consistent with its conservative financial policy, ESC has had minimal term loan obligations. The remaining loans are mainly with related parties which will be repaid at call.

Debt structure

As of June 2024, ESC recorded THB115 million of priority debt out of total interest-bearing debt (excluding lease liabilities) of THB3.2 billion. The priority debt comprised secured debts at ESC. ESC's priority debt to total debt ratio was 4%.

BASE-CASE ASSUMPTIONS

- Revenues to improve to THB10 billion in 2024 and drop to the range of THB7.5-THB8.0 billion yearly during 2025-2026, mainly because of an expected decline in sugar prices.
- EBITDA margin of around 14%-16% during 2024-2026.
- CAPEX of around THB500-THB800 million annually during the forecast period.

RATING OUTLOOK

The "positive" outlook reflects our expectation that ESC will gradually reduce its debt level and lower its financial leverage which is a credit-positive development.

RATING SENSITIVITIES

A rating upgrade case could occur if ESC's operating performance and leverage level are in line with our expectations. On the other hand, we could revise the rating outlook to "stable" from "positive" if the company's operating performance and leverage level turn out to be weaker than anticipated. Any overly aggressive, debt-funded investments that materially weaken the company's balance sheet and cash flow protection could lead to a downgrade scenario.

COMPANY OVERVIEW

ESC was established in 1959 by the Wattanavekin Family. As of June 2024, the Wattanavekin Family collectively held 98.6% of the company's shares.

ESC's sugar plants are located in the eastern region of Thailand. Sugarcane, the main raw material used to produce sugar, is a cool-weather crop grown primarily in eastern and northeastern Thailand.

ESC has two sugar plants located in Sa Kaeo Province: its first mill at Wattana Nakorn District and the second mill at Wang Sombun District. In the eastern region, despite sugar mills in Sa Kaeo Province, other sugar mills are located in Chonburi Province. The sugarcane plantation area in Sa Kaeo Province represents 69% of the total sugarcane plantation area in the eastern region. ESC has strong relationships with sugarcane growers. The company offers broad-based support to growers, including advances of cash and fertilizer, development of planting techniques, advanced irrigation techniques, and breeding and harvesting tools.

ESC's first mill at Wattana Nakorn District has a production capacity of 40,000 TCD. ESC received approval in July 2018 to build a second mill at Wang Sombun District, 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. As of June 2024, ESC had total production capacity of 48,000 TCD.

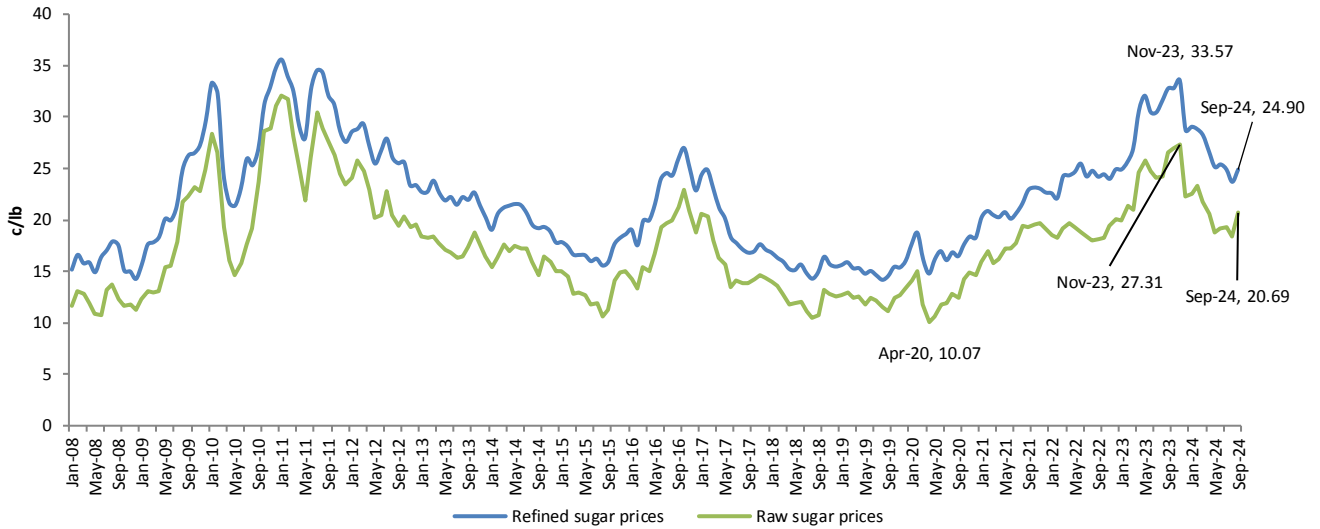
In the 2023/2024 production period, ESC procured 3.4 million tonnes of sugarcane and produced 379,378 tonnes of sugar. ESC's market share in Thailand, in terms of tonne of sugar produced, was 4.3%. For comparison, the two market leaders held market shares of around 24% and 14%.

ESC's sugar package size is 50 kilograms (kg) while the sale size is 100 kg. Currently, ESC sells white sugar, refined sugar, and natural gold sugar in the domestic market. It exports raw sugar, very high polarization (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.

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 Producers	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 Group	0.58	0.53	0.70	0.75	0.57
Thai Ekkalak	0.60	0.47	0.64	0.80	0.51
Wangkanai	0.22	0.24	0.36	0.50	0.33
Eastern Sugar	0.34	0.34	0.36	0.42	0.38
Khonburi	0.19	0.23	0.31	0.35	0.28
Kumpawapee	0.24	0.17	0.29	0.22	0.17
Buriram	0.22	0.22	0.29	0.24	0.28
Bangpong	0.38	0.27	0.28	0.32	0.21
Others	2.79	2.44	3.16	3.27	2.71
Total	8.29	7.59	10.15	11.06	8.81

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

Table 2: ESC's Revenue Breakdown by Business

Unit: %

Product	2018	2019	2020	2021	2022	2023
Sugar sales	66	68	70	70	71	73
Ethanol sales	15	14	13	14	11	9
Electricity sales	9	9	9	7	9	8
Fertilizer sales	6	5	4	6	6	6
Service and others	4	4	4	3	3	4
Total sales	100	100	100	100	100	100
Total sales (mil. THB)	7,897	7,154	6,592	6,899	8,610	9,844

Source: ESC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	6,571	9,944	8,659	6,993	6,994
Earnings before interest and taxes (EBIT)	331	887	371	(110)	432
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	769	1,929	1,405	881	1,389
Funds from operations (FFO)	640	1,794	1,280	767	1,241
Adjusted interest expense	75	110	109	107	134
Capital expenditures	121	462	435	668	494
Total assets	12,829	12,171	12,218	12,149	13,745
Adjusted debt	3,138	2,001	3,125	4,085	4,820
Adjusted equity	6,628	6,382	5,635	5,389	5,589
Adjusted Ratios					
EBITDA margin (%)	11.7	19.4	16.2	12.6	19.9
Pretax return on permanent capital (%)**	5.4	9.9	4.0	(1.0)	3.7
EBITDA interest coverage (times)	10.2	17.6	12.9	8.2	10.3
Debt to EBITDA (times)**	2.1	1.0	2.2	4.6	3.5
FFO to debt (%)**	41.5	89.6	41.0	18.8	25.8
Debt to capitalization (%)	32.1	23.9	35.7	43.1	46.3

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

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

Eastern Sugar and Cane PLC (ESC)

Company Rating:	BBB
Rating Outlook:	Positive

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