

LANNA RESOURCES PLC

No. 189/2024
22 October 2024

CORPORATES

Company Rating: A-
CreditAlert: Developing

Last Review Date: 28/08/24

Company Rating History:

Date	Rating	Outlook/Alert
28/08/24	A-	Alert Developing
09/12/21	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Lanna Resources PLC (LANNA) at “A-”. The rating continues to reflect LANNA’s long operational record in the coal mining business in Indonesia, its low-cost mining operations, and low-debt financial profile. However, the rating is constrained by limited growth potential and regulatory risks associated with mining operations in Indonesia.

At the same time, we maintain the CreditAlert with “developing” implication on the rating. This reflects an inconclusive assessment of the impact from Siam City Cement PLC’s (SCCC) stake acquisition on LANNA’s credit profile.

KEY RATING CONSIDERATIONS

Impacts from SCCC’s stake acquisition remain uncertain

We maintain our CreditAlert placement to indicate the likelihood that we could affirm, lower, or raise the rating, following SCCC’s acquisition of a majority stake in LANNA. LANNA has been a subsidiary of SCCC since 4 October 2024. SCCC, together with Sunrise Equity Co., Ltd. (Sunrise), completed a tender offer, increasing its ownership stake in LANNA from 44.99% to 61.44%.

The shareholder structure of SCCC also changed significantly. Sunrise is now the ultimate shareholder with a 68.96% stake in SCCC from 36.24%. However, detailed information regarding the new corporate structure and strategic directions that Sunrise plans within the SCCC Group remain unclear.

Our assessment of the impact from the transaction on LANNA’s business and financial risk profiles remain inconclusive as we need further clarity regarding potential changes in the company’s key management, business strategy, and financial policy. Our assessment would also incorporate an evaluation of SCCC’s group credit profile (GCP) and LANNA’s status within the group. Other key areas of focus would include the group’s strategies and policies towards LANNA, as well as the degree of parental support.

Competitive edge from low-cost coal mining operations in Indonesia

We believe that LANNA’s cost-effective coal mining operations enhance its competitive advantage. This cost-effectiveness is attributed to the open-pit mining method and the strategic location of its mines near ports. These factors enable LANNA to maintain low cash costs, allowing the company to remain profitable during downturns in the coal market across multiple cycles. Over the past five years, LANNA’s cash mining cost has ranged from USD21-USD26 per tonne.

LANNA is considered a medium-sized coal mining company in Thailand. The company has two coal mining operations in Indonesia, operated under two subsidiaries, PT LANNA Harita Indonesia (LHI) and PT Singlurus Pratama (SGP). In 2023, LANNA’s total coal sales volume was at 9.13 million tonnes, with SGP and LHI contributing 5.00 and 3.49 million tonnes, respectively.

Medium lifespan of coal reserves with limited growth potential

We expect LANNA’s coal production volume to remain within the range of 8.0-8.5 million tonnes per year from 2024 to 2028 before beginning to decline in 2029. This outlook is based on the company’s production profile and the quantities of its reserves. The anticipated reduction in production volume will primarily result from the depleting coal resources of LHI, together with the

expiration of LHI's concession in 2031. At the end of 2023, LANNA's coal reserves totaled about 72.95 million tonnes, indicating an estimated reserve life of 8-9 years.

Given that the company owns and operates only two mines, we believe it has limited long-term growth potential. While the company intends to focus on its core coal mining business in Indonesia, its long-term growth will depend on the successful acquisition of additional coal mining assets. However, stringent environmental regulations and currently high coal prices may present challenges in securing viable investment opportunities.

Exposure to regulatory risk in Indonesia

LANNA's operations are constrained by domestic market obligation (DMO) regulations in Indonesia. The regulation stipulates that all mining companies in Indonesia must sell 25% of their annual coal production volume locally with a capped price. Non-compliance with the DMO regulations would result in penalties, such as reductions in permitted production volumes for the following year.

Added to that, LANNA is obligated to lower its ownership in LHI and SGP according to foreign ownership restrictions, which allow foreign entities to hold a maximum shareholding of 49%. Currently, the company is in the process of finding potential buyers. Despite potential ownership dilution, we believe the company will remain the largest shareholder with a controlling interest in the two companies.

We also see operational risks associated with SGP, as its mining areas are located in proximity to the development of Indonesia's new capital city. As the new capital city prioritizes sustainability and green development, this could give rise to regulatory and operational challenges that may impact SGP's long-term production.

Expected normalization of earnings

LANNA's coal mining business has benefited significantly from high coal prices, leading to outsized earnings during 2021-2023. In 2023, LANNA generated at about THB6.7 billion in EBITDA. While we expect LANNA's earnings to continue being influenced by fluctuation of coal prices, we project that the company's earnings and cash generation are likely to normalize over the next 2-3 years due to a declining trend in coal prices.

In our base-case scenario, we assume that global coal prices, or the Newcastle Index, will decrease from USD120 per tonne in 2024, to USD100 per tonne in 2025 and USD90 per tonne in 2026. This decline is expected to result from increased coal production in China and Indonesia, along with reduced demand for coal in advanced economies due to decarbonization policies.

Despite these challenges, we forecast LANNA's total sales volume to remain steady at approximately 9.0-9.2 million tonnes per year during 2024-2026, bolstered by strong demand from its key market, India. Consequently, we estimate that the company's EBITDA will normalize from THB5.7 billion in 2024 to THB2.7 billion in 2026.

Low-debt balance sheet

LANNA's solid financial profile, characterized by considerable cash reserves and a low level of debt, continues to support the company's credit strength. Given the absence of large investments ahead, we expect LANNA's low financial leverage will continue over 2024-2026, with the debt to EBITDA ratio remaining below 1.5 times and the fund from operation (FFO) to debt ratio exceeding 60%.

LANNA has ample liquidity. The combination of substantial cash reserves of THB5.86 billion at the end of June 2024 and anticipated FFO at about THB3.1 billion over the next 12 months should comfortably cover its short-term borrowing of THB927 million and loan payment of THB173 million.

Debt structure

At the end of June 2024, LANNA had total debt, excluding lease liabilities, of THB1.33 billion, all of which was priority debt. Therefore, the ratio of priority debt to total debt was 100%, suggesting significant subordination risk to the company's unsecured creditors. However, in our view, this subordination risk is substantially mitigated by the company's low financial risk profile.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating's base-case forecast for LANNA's operations during 2024-2026 are as follows:

- Newcastle coal price to decline from USD120 per tonne to USD100 per tonne in 2025 and USD90 per tonne in 2026
- Total coal sales volume of 9.0-9.2 million tonnes annually.
- Revenue of THB21 billion in 2024, THB17 billion in 2025, and THB15 billion in 2026.

- EBITDA margin of about 27.5% in 2024, declining to the 17%-22% range in 2025-2026.
- Total capital spending of about THB1.92 billion, including reserve for potential investment of THB1.0 billion.
- Dividend payout ratio of 70%-80%.

CREDIT ALERT

The CreditAlert with “developing” implications reflects the possibility that we could affirm, lower, or raise the company rating, subject to our assessment of LANNA’s credit profile after becoming a subsidiary of SCCC. We aim to resolve the CreditAlert once we have sufficient information to complete a comprehensive assessment.

RATING SENSITIVITIES

An upward revision to the rating on LANNA could occur if we determine that the credit profile of SCCC is stronger than that of LANNA and there is a high likelihood that LANNA will receive strong parental support due to its high importance to the group.

We may maintain or lower LANNA’s credit rating if we assess SCCC’s credit strength as being equal to or weaker than LANNA’s. Any significant adverse change in business and financial policies, or integration risk that may substantially impact LANNA’s business and financial risk profiles, could also lead to a rating downgrade.

COMPANY OVERVIEW

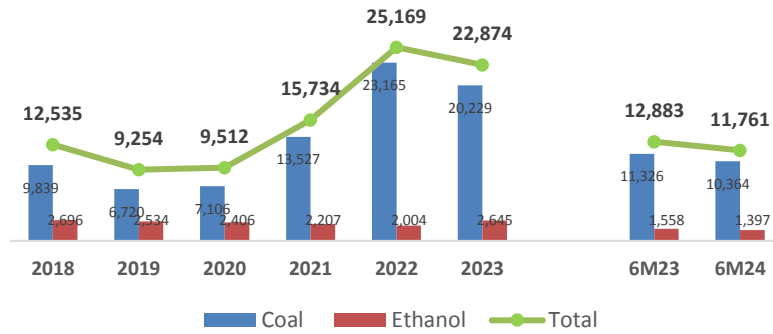
Established in 1985, LANNA is a coal mining company based in Thailand. The company has been listed on the Stock Exchange of Thailand (SET) since 1992. As of 4 October 2024, SCCC owned approximately 61.44% of the company’s total shares outstanding.

LANNA has two businesses, coal mining and ethanol production. LANNA started coal mining operations in Thailand in 1985 and expanded the business to Indonesia in 1998. The company has two main subsidiaries, LHI and SGP, to mine coal in Indonesia for export to countries such as India, Bangladesh, and South Korea. LANNA’s shareholdings in LHI and SGP are 55% and 65%, respectively. The company also imports coal from other sources in Indonesia to distribute in Thailand. The company operates a distribution center in Ayutthaya to store and size imported coal before delivery to domestic customers.

The company engages in the production and distribution of ethanol in Thailand through Thai Agro Energy PLC (TAE), a 51%-owned subsidiary. TAE’s factory is in Suphan Buri with a total production capacity of 350,000 liters per day. The company’s ethanol production primarily uses molasses as a raw material.

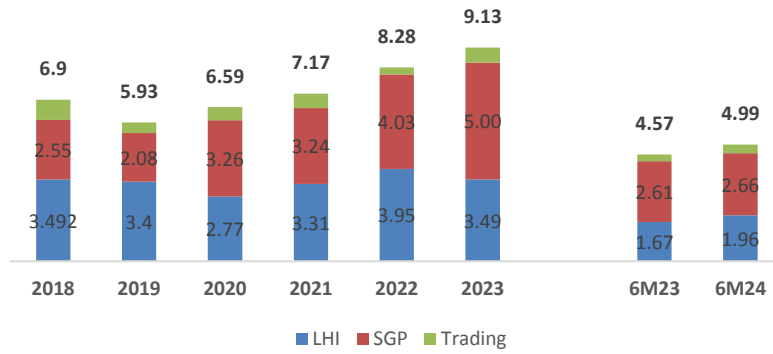
KEY OPERATING PERFORMANCE

Chart 1: Revenue Breakdown (Million THB)



Source: LANNA

Chart 2: Coal Sales Volume Breakdown (Million Tonnes)



Source: LANNA

Chart 3: Newcastle Coal Price (USD/Tonne)



Source: Bloomberg

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	11,836	22,958	25,295	15,840	9,569
Earnings before interest and taxes (EBIT)	2,769	5,447	7,911	4,441	654
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,418	6,669	8,755	5,200	1,466
Funds from operations (FFO)	2,575	5,000	6,494	3,865	1,220
Adjusted interest expense	46	96	67	71	79
Capital expenditures	134	337	300	143	267
Total assets	15,856	14,832	14,954	12,032	9,251
Adjusted debt	0	0	0	0	576
Adjusted equity	11,588	10,670	9,682	7,581	6,025
Adjusted Ratios					
EBITDA margin (%)	28.9	29.0	34.6	32.8	15.3
Pretax return on permanent capital (%)	34.4 **	43.7	72.7	49.9	7.7
EBITDA interest coverage (times)	74.4	69.2	131.0	73.3	18.5
Debt to EBITDA (times)	0.0 **	0.0	0.0	0.0	0.4
FFO to debt (%)	n.m. **	n.m.	n.m.	n.m.	211.7
Debt to capitalization (%)	0.0	0.0	0.0	0.0	8.7

* Consolidated financial statements

** Trailing with the last 12 months

n.m. Not meaningful

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Lanna Resources PLC (LANNA)

Company Rating:

A-

CreditAlert:

Developing

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