

LANNA RESOURCES PLC

No. 181/2023
22 September 2023

CORPORATES

Company Rating: A-
Outlook: Stable

Last Review Date: 28/10/22

Company Rating History:

Date	Rating	Outlook/Alert
09/12/21	A-	Stable

Contacts:

Pravit Chaichamnapai, CFA

pravit@trisrating.com

Tern Thitinuang, CFA

tern@trisrating.com

Parat Mahuttano

parat@trisrating.com

Sermwit Sriyotha

sermwit@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Lanna Resources PLC (LANNA) at “A-” with a “stable” rating outlook. The rating continues to reflect the company’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 regulatory risks associated with the mining operations in Indonesia, and the long-term downward trend of global coal demand driven by global decarbonization goals.

KEY RATING CONSIDERATIONS

Long track record with low-cost mining operation in Indonesia

We consider LANNA a medium-sized coal mining company in Thailand. The company’s Indonesian coal mining operations are operated under two subsidiaries, PT LANNA Harita Indonesia (LHI) and PT Singlurus Pratama (SGP). Over the past several years, LANNA’s coal mining business has contributed about 70%-80% of its total earnings before interest, taxes, depreciation, and amortization (EBITDA). The balance of earnings is derived from the ethanol production business.

LANNA’s credit strength is underpinned by its more than 30 years’ experience in the industry. The company established coal mining operation in Indonesia in 1998 through business ventures with Indonesian partners. The company’s competitiveness is attributed to its low-cost operations, backed by the characteristics of open-pit mining. The proximity of its mines to ports and efficient transportation also contributes to cost-effectiveness. The company’s ability to maintain low cash cost helps weather severe downturns in the coal mining sector.

Coal reserves of eight-to-nine years

At the end of 2022, LANNA’s coal reserves totaled about 79.4 million tonnes. Reserve life of its coal mining is forecast to last 8-9 years. LANNA plans to ramp up production capacity from about 8 million tonnes in 2023 to about 9.0-10.0 million tonnes during 2024-2026, driven by an opening in the new mining block in SGP. SGP’s production volume is targeted to rise to 5.0-6.5 million tonnes per annum, while LHI’s production rate will likely remain consistent at 3.5 million tonnes per annum.

Most of LANNA’s coal is of low calorific value (CV), indicating a large price discount compared to global benchmarks, such as the Newcastle coal price index. The CV of LANNA’s coal ranges from 3,400-4,600 kilocalories/kilogram.

Exposure to regulatory risk in Indonesia

During the high coal price situation, LANNA’s profitability is constrained by compliance on domestic market obligation (DMO) regulations in Indonesia. The regulation stipulates that all mining companies must sell 25% of their annual coal production volume to the local market with the price capped at USD70 per tonne based on the HBA index. Non-compliance with DMO regulations carries severe penalties, for instance potential reductions in permitted production volumes for the following year.

LANNA is also 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%. We expect future ownership dilutions to impact earnings,

but we believe the company will remain the largest shareholder with a controlling interest in the two companies.

Robust performance in 2022-2023

LANNA's financial performance for 2022 was exceptionally strong thanks to a record high in coal prices. In 2022, the New castle coal price index average, increased by 153% year-on-year (y-o-y) to around USD360 per tonne, driving LANNA's EBITDA to reach THB8.7 billion from THB5.2 billion in 2021. For the first six months of 2023, the company's performance remained strong but softened from the same period last year due to a decline in coal prices. The New castle coal price index decreased by 43% y-o-y to USD179 per tonne causing the company's EBITDA to drop by 14% y-o-y to THB4.4 billion for the first six months of 2023. As a result of this superior performance, LANNA's capital position strengthened substantially with its total equities increasing from about THB7.6 billion in 2021 to THB10.7 billion at the end of June 2023. Its cash and equivalent cash holding were reportedly high at THB 4.92 billion as of the end of June 2023.

Expected normalization of earnings

We anticipate LANNA's earnings and cash flow generation to normalize over the next two or three years, backed by our view of declining price and demand for coal. This is underpinned by our expectation that the energy crisis in Europe will alleviate, and at the same time, coal demand will likely soften due to the increasing renewable power capacity. LANNA's long-term business prospects continue to be hindered by the global decarbonization trend, which is likely to lead to a declining trend in coal demand.

In our base-case scenario, we anticipate global coal price to be around USD150 per tonne in 2023, before stabilizing at around USD90-USD100 per tonne between 2024 and 2025. The company's total sales volume is estimated to be around 8.4 million tonne in 2023 before increasing to 9-9.5 million tonne in 2024-2025. The downside risk of volume is a material delay in opening new mining blocks. We project the company's EBITDA to be THB6.4-THB6.8 billion in 2023 and normalize within the THB2.7-THB3.7 billion range in 2024-2025.

Low leverage balance sheet

LANNA has a low financial risk profile. We believe LANNA's substantial cash on hand and low-debt balance sheet provide ample headroom for its prospective investments. LANNA is exploring new investments, focusing on both new ventures and potential acquisitions in the renewable energy sector. Considering its conservative investment policy, we expect the size of its investment to be moderate and unlikely to have material impact on its financial status. In our base-case scenario, we project that the company's net debt-to-EBITDA ratio will remain below 1.5 times, and the funds from operations (FFO) to debt ratio will stay above 60% from 2023 to 2025.

We assess LANNA's liquidity position as adequate. Its large cash on hand and expected strong cash inflow over the next 12 months should be sufficient to cover total debt repayments of THB1.7 billion and future investments.

Debt structure

At the end of June 2023, LANNA reported debt, excluding financial lease, totaling THB1.7 billion, all of which was priority debt. This means the ratio of priority debt to total debt was about 100%, suggesting significant subordination risk to the company's unsecured creditors. However, in our view, this subordination risk is significantly mitigated by the company's low financial risk profile.

BASE-CASE ASSUMPTIONS

- Total coal sales volume, including production and trade, to rise to 8.4 million tonnes in 2023 and 9.0-9.5 million tonnes annually in 2024-2025.
- Revenue to reach THB21 billion in 2023 before declining to THB17 billion in 2024 and THB15 billion in 2025.
- EBITDA margin about 30%-32% in 2023 and 18%-22% during 2024-2025.
- Total capital spending during 2023-2025 of about THB2.5 billion, including a potential investment of THB1.5 billion.
- Dividend payout ratio of 70%-80%.

RATING OUTLOOK

The "stable" outlook reflects our view that LANNA's low-cost competitiveness and low-debt financial profiles will continue over the foreseeable future. We believe that the company's coal mining business in Indonesia will sustain its smooth operations.

RATING SENSITIVITIES

The prospect of an upward revision of the rating and/or outlook is limited due to the long-term downtrend in demand for coal driven by the global decarbonization trend. However, the rating could be upgraded if LANNA can strengthen its business profile, leading to more stable cash flow and earnings, while maintaining its strong balance sheet. This could occur from a meaningful diversification of operations.

The rating and/or outlook could be revised downward if LANNA’s operations materially weaken, or its financial profile deteriorates significantly for an extended period. This could arise from a rapid reduction in global coal demand or from adverse changes in Indonesian regulations that affect the operation of LANNA’s coal business. Any sizable acquisitions that require large amounts of debt funding causing the company’s debt to EBITDA ratio to rise above 1.5 times for an extended period may also trigger a negative rating action.

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. At the end of September 2023, Siam City Cement PLC owned approximately 45% of the company’s total shares outstanding.

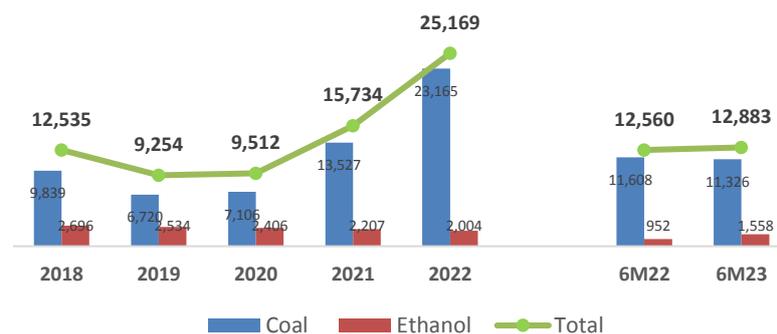
LANNA has two core businesses, coal mining and ethanol production. LANNA started coal mining operations in Thailand in 1985 and expanded the business in Indonesia in 1998. The company has two main subsidiaries, LHI and SGP, to mine coal in Indonesia for export to countries such as India, Bangladesh, 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 province to store and size imported coal before delivery to domestic customers.

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

LANNA’s consolidated revenue was approximately THB25.4 billion in 2022. On average, the coal and ethanol segments contributed about 70%-80% and 20%-30% of total revenue, respectively. LHI and SGP, coal mining subsidiaries in Indonesia, together generated about 80% of total revenue. In 2022, total coal sales volume was about 8.28 million tons. Coal sales volume from its own mines amounted to about 7.98million tons.

KEY OPERATING PERFORMANCE

Chart 1: Revenue Breakdown (Million THB)



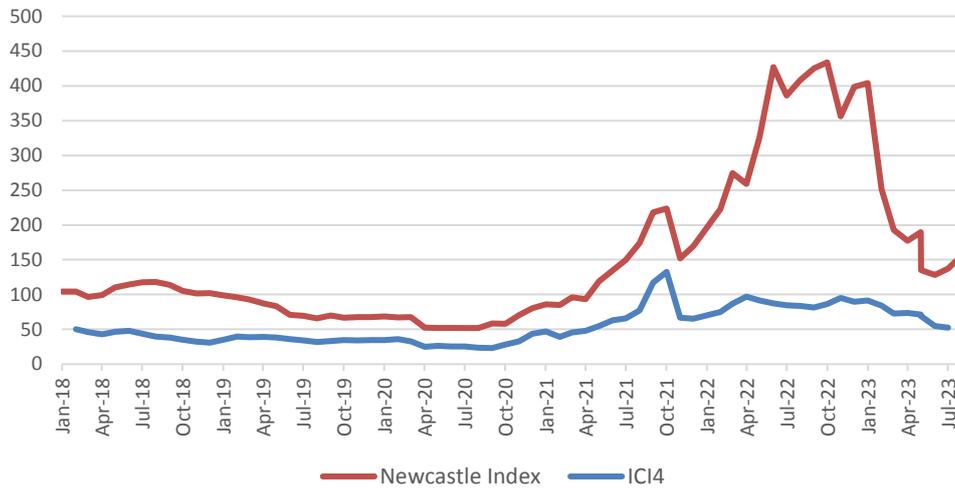
Source: LANNA

Chart 2: Coal Sales Volume Breakdown (Million Tons)



Source: LANNA

Chart 3: Newcastle Coal Price (USD/Ton)



Source: Bloomberg

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	12,939	25,269	15,840	9,569	9,323
Earnings before interest and taxes (EBIT)	3,705	7,896	4,441	654	1,073
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,412	8,740	5,200	1,466	1,820
Funds from operations (FFO)	3,285	6,479	3,865	1,220	1,546
Adjusted interest expense	44	67	71	79	89
Capital expenditures	201	294	143	267	604
Total assets	15,615	14,954	12,032	9,251	9,735
Adjusted debt	0	0	0	576	1,733
Adjusted equity	10,710	9,682	7,581	6,025	5,981
Adjusted Ratios					
EBITDA margin (%)	34.1	34.6	32.8	15.3	19.5
Pretax return on permanent capital (%)	56.1 **	72.5	49.9	7.7	12.6
EBITDA interest coverage (times)	100.6	130.8	73.3	18.5	20.4
Debt to EBITDA (times)	0.0 **	0.0	0.0	0.4	1.0
FFO to debt (%)	n.m. **	n.m.	n.m.	n.m.	89.2
Debt to capitalization (%)	0.0	0.0	0.0	8.7	22.5

* Consolidated financial statements

** Trailing with the last 12 months

n.m. Not meaningful

RELATED CRITERIA

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

Lanna Resources PLC (LANNA)
Company Rating:

A-

Rating Outlook:

Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2023, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria