

NORTHEAST RUBBER PLC

No. 27/2025
20 March 2025

CORPORATES

Company Rating:	BBB-
Issue Rating:	
Guaranteed	AAA
Outlook:	Stable

Last Review Date: 11/10/24

Company Rating History:

Date	Rating	Outlook/Alert
15/06/21	BBB-	Stable
14/09/20	BB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Northeast Rubber PLC (NER) at “BBB-” with a “stable” outlook and affirms the rating on NER’s debentures guaranteed by the Credit Guarantee and Investment Facility (CGIF) at “AAA”.

The company rating reflects its ongoing revenue growth, driven by the increasing natural rubber (NR) prices and the expansion of its production facilities. Also, the rating acknowledges the company’s consistent profitability, its long-standing presence in the Thai NR industry, and the expertise of its management team.

However, the rating is constrained by volatility in NR prices and exchange rates, market concentration, extensive working capital requirements, as well as challenges the NR industry faces from the uncertain global economy and emerging regulatory requirements and policies such as the new EU Deforestation Regulation (EUDR) and trade tensions.

Meanwhile, the rating on NER’s guaranteed debentures reflects our rating on CGIF (rated “AAA/Stable”) as the guarantor.

KEY RATING CONSIDERATIONS

Ongoing revenue growth expected

The company’s operating revenue was THB27.5 billion in 2024, up 9.6% from THB25.1 billion in 2023. This was mainly driven by high NR prices. NER’s operating revenue is projected to grow throughout the forecast years, driven by rising NR prices and increased production capacity.

NR prices are anticipated to rise in coming years due to a continued lag in NR supply compared to NR usage. In the first two months of 2025, the average price of NER’s main NR products increased by 10%-20% compared to the same period in 2024 (source: Rubber Authority of Thailand). Meanwhile, the company’s new plant is expected to commence operations in the second half of 2026 with a capacity of 160,000 tonnes per year, increasing to 320,000 tonnes per year in 2027. We project NER’s operating revenue to grow by around 7% annually in 2025-26 and 15% annually in 2027.

Sustained profitability

We expect NER’s EBITDA margin to remain around 8% during 2025-2027, with EBITDA rising to THB2.5 billion in 2025 and to THB2.8 billion in 2027. Over the past five years, the EBITDA margin has ranged between 7%-10%. The company has managed to maintain profitability through periods of volatile prices and consumption thanks to the management team’s extensive experience and its back-to-back selling and buying strategy.

Market concentration

The company’s customers are primarily Chinese traders that supply NR products to tire manufacturers. In 2024, NER’s customers consisted of Chinese (71%), Singaporean (10%), and Thai (9%), with the remainder from India, Hong Kong and other markets.

The contribution of Chinese customers declined from around 80% during 2020-2021, due to intense competition among NR producers in Thailand. The major players that previously supplied customers in Europe and the U.S., have focused more on Chinese companies following the uptick in electric vehicles

(EV) production. However, the company intends to expand into new export market, i.e., India to boost its earnings and utilize its increasing production capacity.

Leverage remains high

We expect NER's leverage to remain high during the forecast years due to the THB2.0 billion investment in the new plant. Also, during periods of rising NR prices, the company adopts an increased stocking strategy, which requires higher working capital.

As of December 2024, the adjusted net debt was THB10.0 billion, with an adjusted net debt to EBITDA ratio of 4.1 times, higher than the ratio of 3.8 times in 2023. The adjusted net debt is expected to rise to THB12.4 billion in 2027 due to the funding need to support the new plant and working capital. Consequently, the adjusted net debt to EBITDA is projected to increase from 4.2 times in 2025 to 4.5 times in 2027.

Adequate liquidity

We assess NER to have adequate liquidity over the next 12 months. Its sources of funds comprised cash of THB220 million and undrawn credit facilities of THB2.7 billion at the end of December 2024. Its funds from operations (FFO) over the next 12 months are projected to be around THB1.9 billion. On the other hand, NER has long-term loan repayment obligations of around THB1.1 billion and lease liabilities of THB5.7 million coming due in the next 12 months, and an investment budget for the new plant of around THB1.5 billion in 2025. The company plans to finance the investment by borrowing additional bank funds and utilizing internal cash flow.

According to the key financial covenant on its bank loans, NER must maintain its debt-to-equity ratio below 2.5 times and debt service coverage ratio (DSCR) above 1.2 times. The ratios at the end of 2024 were 1.3 times and 3.9 times, respectively. The key financial covenant on NER's debentures requires the company to maintain a net debt-to-equity ratio below 2.5 times. The ratio was 1.2 times as of December 2024. NER should have no problems complying with its bank loans and debenture covenants over the next 12 to 18 months. Priority debt accounted for 41% of total debt as of 31 December 2024.

Credit profile of CGIF

The rating on CGIF reflects its status as a supranational institution owned by the governments of the ASEAN+3 countries and Asian Development Bank (ADB). The rating also reflects CGIF's very strong public policy mandate, strong governance and management expertise, solid capital position strengthened by conservative risk management as well as strong funding and liquidity profile.

BASE-CASE ASSUMPTIONS

- Revenues to increase by 7%-15% per year in 2025-2027 due to expected higher NR prices and increased capacity from the new plant.
- Gross profit margin of 9%-10% and EBITDA margin of 8% during 2025-2027.
- Total capital spending of THB2.2 billion during 2025-2026 including THB2.0 billion for the new plant, and THB100 million in 2027.

RATING OUTLOOK

The "stable" outlook reflects our expectation that NER will maintain its competitive position in the NR industry, an adequate liquidity position, and a balance sheet strong enough to withstand the effects of volatile rubber prices.

The outlook on NER's guaranteed debentures solely reflect the credit condition of its guarantor, CGIF.

RATING SENSITIVITIES

We could upgrade the rating if NER's EBITDA rises above THB2.5 billion and its debt to EBITDA ratio remains below 2.5 times on a sustained basis. However, a rating downgrade scenario could emerge if NER's debt to EBITDA ratio rises above 5 times on an extended basis. Failure to achieve performance as projected in our base-case forecast, possibly due to weakening consumer demand, challenges in sourcing raw materials, or escalating competition could also impact the rating.

The rating on NER's guaranteed debentures may change if the rating on its guarantor, CGIF, changes.

COMPANY OVERVIEW

NER was established in 2006 by Mr. Chuwit Jungtanasomboon, to process and distribute rubber products. As of December 2024, the Jungtanasomboon family collectively held 31.8% of the company's shares. The company was listed on the Stock Exchange of Thailand (SET) in November 2018. The initial public offering (IPO) brought in THB1.5 billion in new equity capital.

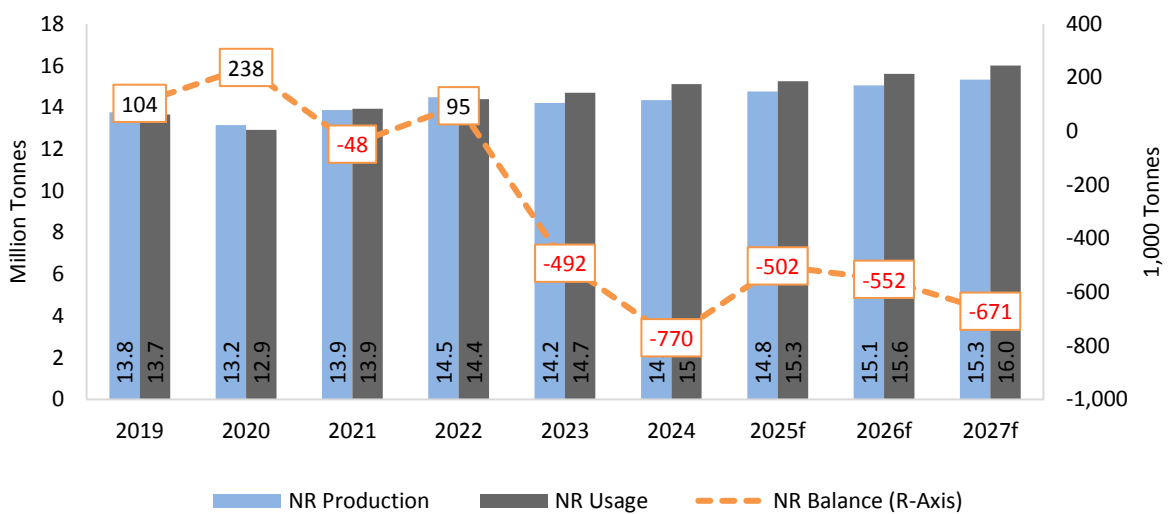
NER owns and operates two rubber plants in Buriram province. Total capacity comprises 120,000 tons per annum of ribbed smoked sheet (RSS), plus 395,600 tons per annum of standard Thai rubber (STR) and compound rubber.

NER's market share, in terms of sales volume of NR products, is around 3%, on par with most other medium-sized NR producers. The market leader in Thailand holds an 8%-10% market share. NER's revenue base was moderate at around THB25.1-THB27.5 billion per year during 2022-2024. The company has long-established relationships with its customers, most of which are medium- to large-sized companies.

NER plans to start development of a new plant at the existing location in Buriram province with a full capacity of 320,000 tons/year. The company plans to divide the investment into two phases. Construction on the first phase of the plant will get underway in the second quarter of 2025 with commencement of operations scheduled for the second half of 2026, with production capacity of 160,000 tons/year. Construction on the second phase is scheduled for 2027.

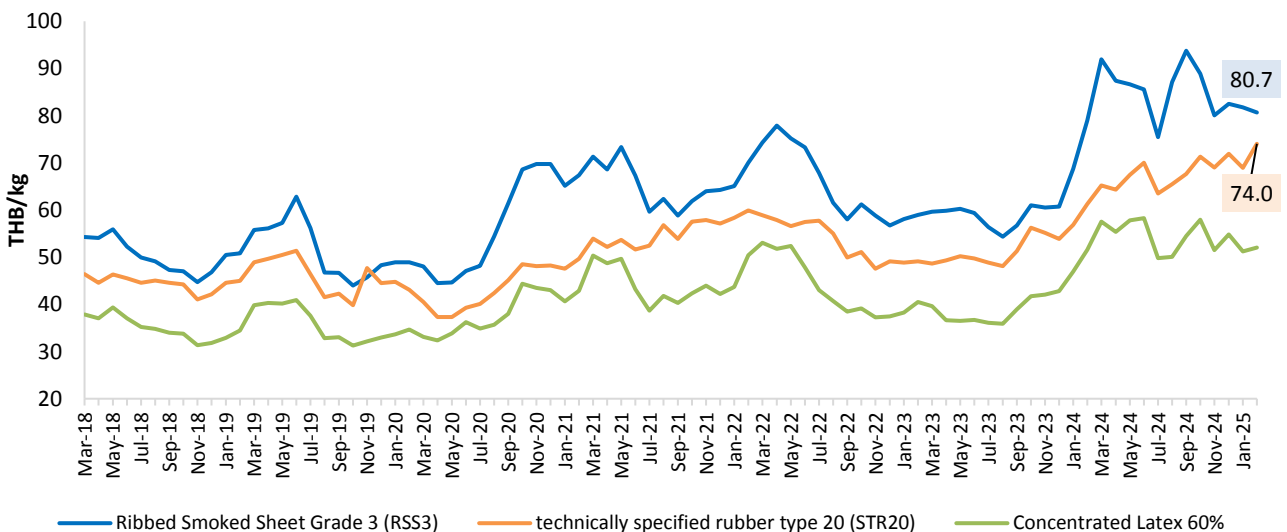
KEY OPERATING PERFORMANCE

Chart 1: Worldwide NR Production and Consumption



Source: International Rubber Study Group (IRSG)

Chart 2: Thailand's NR Prices (F.O.B. Bangkok)



Source: Rubber Authority of Thailand (RAOT)

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2024	2023	2022	2021	2020
Total operating revenues	27,468	25,057	25,203	24,432	16,364
Earnings before interest and taxes (EBIT)	2,177	2,070	2,223	2,194	1,116
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,410	2,269	2,407	2,372	1,230
Funds from operations (FFO)	1,881	1,742	1,938	2,007	968
Adjusted interest expense	474	449	424	331	229
Capital expenditures	147	246	334	201	534
Total assets	19,457	16,839	16,307	14,239	10,232
Adjusted debt	9,986	8,659	7,669	7,562	5,126
Adjusted equity	8,488	7,469	6,588	5,446	3,691
Adjusted Ratios					
EBITDA margin (%)	8.8	9.1	9.6	9.7	7.5
Pretax return on permanent capital (%)	12.2	12.7	14.9	18.6	12.8
EBITDA interest coverage (times)	5.1	5.0	5.7	7.2	5.4
Debt to EBITDA (times)	4.1	3.8	3.2	3.2	4.2
FFO to debt (%)	18.8	20.1	25.3	26.5	18.9
Debt to capitalization (%)	54.1	53.7	53.8	58.1	58.1

RELATED CRITERIA

- Issue Rating Criteria, 26 December 2024
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Northeast Rubber PLC (NER)

Company Rating:	BBB-
Issue Rating:	
NER29DA: THB1,500 million guaranteed debentures due 2029	AAA
Rating Outlook:	Stable

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