

NORTHEAST RUBBER PLC

No. 109/2023
19 June 2023

CORPORATES

Company Rating: BBB-
Outlook: Stable

Last Review Date: 07/06/22

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. The rating reflects the persistent global demand for natural rubber (NR) products in the automotive industry and the company’s improvements in efficiency and manageable cost control. The rating continues to reflect the company’s market position as a medium-sized processor in the Thai NR industry and its proven track record of producing and merchandising NR.

However, the rating is constrained by fluctuations in NR prices and exchange rates, market concentration, single production site, intense competition from existing players, as well as the challenges the NR industry is facing amid an uncertain global economy.

KEY RATING CONSIDERATIONS

Small revenue growth

NER’s total operating revenues were reported at THB25.2 billion in 2022, up from THB24.4 billion in 2021. Total revenues came from NR products. The revenue growth was driven by the rise in average selling prices (ASP). Its earnings before interest, taxes, depreciation and amortization (EBITDA) stood at THB2.4 billion in 2022.

The company’s total operating revenues grew by 12% to THB6.3 billion in the first quarter of 2023 due to the higher sales volume of NR products while ASP fell due to the economic slowdown worldwide and intense competition.

We expect NER’s total operating revenue to drop slightly in 2023, then grow by 2%-7% per annum during 2024-2025. The small revenue growth is in line with our assumption that the company will maintain its market share in the NR market and the expectation that NR stocks in key markets, such as China, will decline gradually.

Maintaining financial performances

NER’s gross margin remained satisfactory at 12.1% in 2022. This resulted from the increase in NR products, manageable average raw material costs, and usage of a back-to-back selling and buying strategy.

Its gross margin narrowed to 9.7% in the first quarter of 2023 because of the lower ASP of all NR products. However, NR prices are expected to fare better in the remainder of 2023 as demand is likely to pick up and tire manufacturers are expected to have lower stock levels.

NER’s strategy going forward is to focus on retaining its market share, efficiency improvements, and achieving economies of scale from the capacity expansion in the existing location in Buriram Province. Thus, we expect NER’s gross margin to remain at around 12% in 2023-2025.

Strengthened capital structure

NER’s total debt to capitalization ratio declined to 53.8% as of December 2022 and to 49.6% as of March 2023, from 58.1% in 2021. This was mainly due to higher capital base from retained earnings.

However, the total expenditures are estimated at around THB900 million in 2023-2025. NER's total debt to capitalization ratio will likely stay in the 37%-47% range during the same period.

Sound liquidity

We expect NER's liquidity to remain adequate over the next 12 months. As of March 2023, NER's anticipated uses of funds during the next 12 months will comprise debts due totaling THB1.4 billion, planned capital expenditures of THB500 million, and a dividend payout ratio of 40%. NER's sources of funds consisted of THB644 million in cash and cash equivalents and THB4.5 billion in unused credit facilities. Funds from operations (FFO) are forecast to reach around THB1.5 billion in 2023.

We expect NER to comply with the financial covenants on its debt obligations. The company's net debt to equity ratio at the end of March 2023 was 0.97 times, well below the financial covenant limit of 2.5 times.

As of March 2023, NER's total interest-bearing debt of THB7.7 billion included priority debt of THB1.6 billion. The company's priority debt to total debt ratio was moderate at 21%.

BASE-CASE ASSUMPTIONS

- Revenues to drop by 5% in 2023, and to grow by 2%-7% in 2024-2025.
- Gross profit margin to be around 12% per annum in 2023-2025.
- Total capital spending of THB500 million in 2023, and THB100-THB250 million per annum in 2024-2025.

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.

RATING SENSITIVITIES

We could upgrade the rating if NER's EBITDA size is over THB2.5 billion and its debt to EBITDA ratio is below 2.5 times on a sustained basis. However, we could lower the rating if NER's debt to EBITDA ratio sustainably increases above 5 times. This could occur if its margins contract significantly, possibly resulting from its inability to cover increases in raw material costs, or if global demand for tires falls significantly. Any debt-funded expansion, which materially weakens the company's balance sheet and cash flow protection, could also impact the rating on NER.

COMPANY OVERVIEW

NER was established in 2006 by Mr. Chuwit Jungtanasomboon, to process and distribute rubber products. As of March 2023, the Jungtanasomboon family collectively held 36.5% 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 located in Buriram Province, Thailand. 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, was 3%. The company's market share is on par with most other medium-sized NR producers. The market leader in Thailand holds an 8%-10% share of the market. NER's revenue base was moderate at around THB24.4-THB25.2 billion per year during 2021-2022. NER has long-established relationships with its customers, most of which are medium- to large-sized companies.

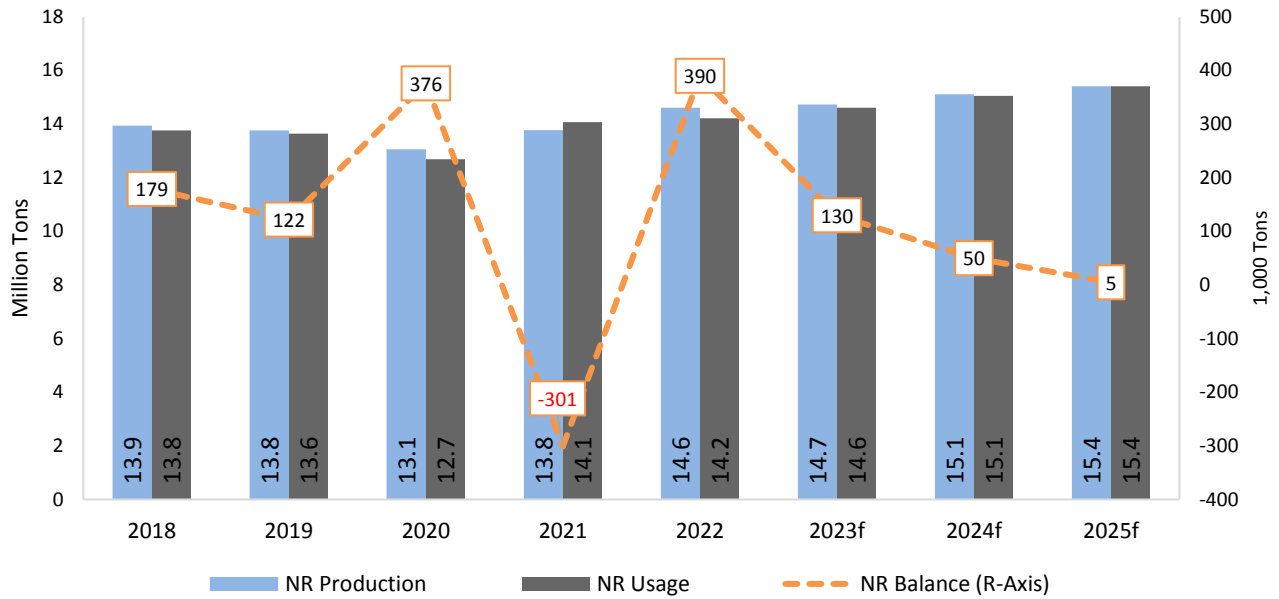
In December 2020, NER issued and offered THB308 million units of free warrants (NER-W1) for the purchase of NER's common shares to existing shareholders. The company received THB134.42 million from exercising the warrants.

From June 2021-May 2022, NER received THB420 million from exercising the remaining warrants to fund the company's working capital needs.

In 2023, NER plans to expand the new rubber plant at the existing location in Buriram Province. The company will add further capacity of around 172,800 tons in 2024.

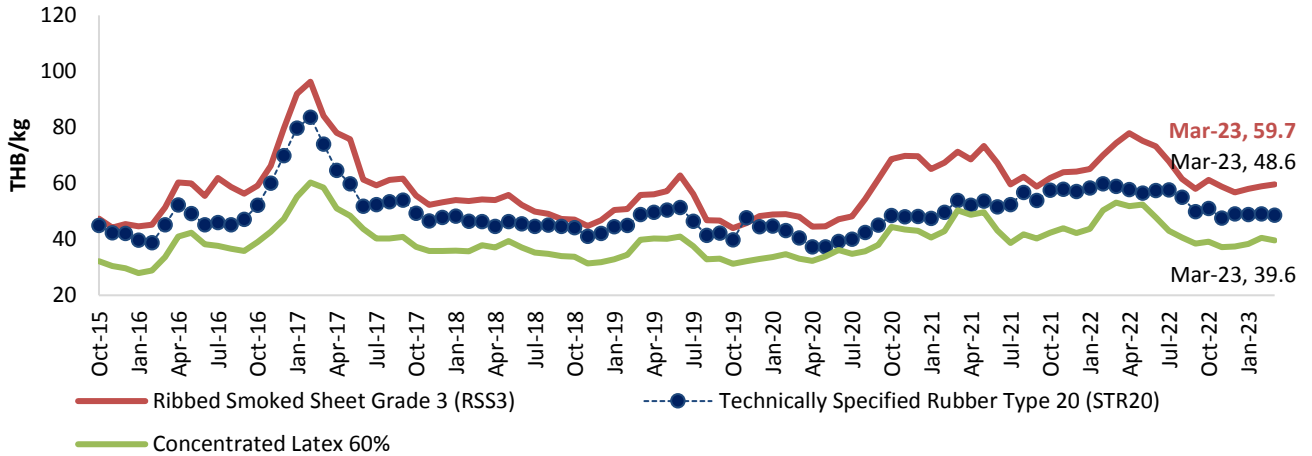
KEY OPERATING PERFORMANCE

Chart 1: World Production and Consumption of NR



Source: International Rubber Study Group (IRSG)

Chart 2: NR Prices



Source: Rubber Authority of Thailand (RAOT)

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	6,258	25,203	24,432	16,364	13,021
Earnings before interest and taxes (EBIT)	443	2,223	2,194	1,116	786
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	489	2,407	2,372	1,230	869
Funds from operations (FFO)	361	1,938	2,007	968	610
Adjusted interest expense	113	424	331	229	234
Capital expenditures	44	334	201	534	241
Total assets	15,165	16,307	14,239	10,232	7,989
Adjusted debt	6,785	7,669	7,562	5,126	4,323
Adjusted equity	6,903	6,588	5,446	3,691	3,011
Adjusted Ratios					
EBITDA margin (%)	7.81	9.55	9.71	7.52	6.67
Pretax return on permanent capital (%)**	15.21	14.91	18.57	12.79	11.31
EBITDA interest coverage (times)	4.34	5.67	7.16	5.36	3.71
Debt to EBITDA (times)	3.00	3.19	3.19	4.17	4.98
FFO to debt (%)**	26.33	25.28	26.54	18.88	14.12
Debt to capitalization (%)	49.57	53.79	58.13	58.14	58.94

Note: All ratios have been adjusted by operating leases.

* 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

Northeast Rubber PLC (NER)

Company Rating:	BBB-
Rating Outlook:	Stable

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