

# THAI WAH PLC

No. 183/2019  
31 October 2019

## CORPORATES

**Company Rating:** BBB+  
**Outlook:** Stable

**Last Review Date:** 17/10/18

### Company Rating History:

| Date     | Rating | Outlook/Alert |
|----------|--------|---------------|
| 17/10/18 | BBB+   | Stable        |

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## RATIONALE

TRIS Rating affirms the company rating on Thai Wah PLC (TWPC) at “BBB+” with a “stable” outlook. The rating reflects the company’s competitive position in the volatile starch industry, attributed to focusing on value-added products and food related products as well as management’s conservative financial policy. However, the company’s strengths are partially offset by the cyclical nature of commodity products such as tapioca starch, plus the availability and seasonal supply of cassava and the appreciation of the Thai baht. Uncertainty in Chinese market is also a threat.

## KEY RATING CONSIDERATIONS

### Volatility in the cassava starch industry

Cassava starch industry in Thailand is mainly oriented toward the export market. However, the native starch price is sensitive to the prices of raw materials and substitute products, primarily corn. In 2018, the average native starch export price (F.O.B. Bangkok) jumped to US\$498 per tonne, a 44% rise year-on-year (y-o-y), but declined to an average of US\$451 per tonne during the first nine months of 2019. The decline was in line with a drop in the raw material price, mainly due to the fact that the production of cassava roots in Thailand returned to the normal level.

The supply-side also faced a 50 % decline in cassava input during 2018, mainly due to the onset of the cassava mosaic virus disease and the lack of harvestable crop in Thailand, Cambodia, and Vietnam. In addition, the significant drop of cassava prices in Thailand at the end of 2017 encouraged farmers to turn to crops yielding better benefits, such as sugarcane, exacerbating the shortage of cassava root. As such, the raw material prices increased faster than selling prices in 2018.

Nevertheless, the price trends for cassava roots and tapioca starch are expected to adjust along the same direction in the long run.

### Softening profitability

Profitability in the tapioca industry is vulnerable to price fluctuations and imbalances in demand and supply. 2018 has been a challenging year for TWPC as cassava shortage spread in Thailand and neighboring countries.

The average native starch export price rose by 44%, to US\$498 per tonne in 2018 from US\$345 per tonne in 2017, but the raw material cost of cassava root also jumped by 70% to Bt2.38 per kilogram (kg) in 2018. As a result, TWPC’s operating income fell to 8.1% in 2018 from 11.7% in 2017.

However, the cost of cassava root gradually declined to Bt2.35 per kg during the first six months of 2019. TRIS Rating expects that TWPC’s operating income as a percentage of total operating revenues to range 9%-11% during 2019-2022 as a result of increasing scale of production, leading to lower cost of cassava root.

### Focus on high value-added products

TWPC has been adding more high value-added products (HVA) to its line-up and expanding its global marketing presence. TWPC’s gross profit margin for native starch is below 20%, while for HVA it is in the 20%-25% range. In 2018, sales of native starch accounted for 45% of total revenue, while sales of HVA comprised 35%, and vermicelli and related products made up the remaining

20%.

Going forward, TWPC aims to broaden the contributions from HVA and food to 66%-70% of total revenues, while reducing the revenue contribution from native starch to 30%-34%.

### Financial leverage rises, but remains manageable

TWPC's total debt to capitalization ratio rose to 11.6% at the end of June 2019, up from debt-free position at the end of 2018. This was mainly due to the acquisitions of Maesot Starch Company Limited and Maesot Biogas Company Limited, a tapioca starch producer and a biogas producer in Thailand, totaling Bt548 million, coupled with rising capital expenditures.

Annual capital expenditures during 2019-2022, are forecast to vary in the range Bt500-Bt1,200 million. Most of the capital expenditure is to be used to build the second phase of a tapioca plant in Cambodia, expand the HVA line and the biogas power plant, together with annual maintenance expenditure.

Thus, the total debt to capitalization is forecast to rise to 4.6%-15.7% during 2019-2022. The earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio should remain satisfactory, ranging between 7-15 times during 2019-2022.

### Sound liquidity profile

TRIS Rating assesses TWPC to have adequate over the next 12 months. Our base case forecast assumes EBITDA to range Bt580-Bt640 million per annum in 2019-2022. Cash and cash equivalents totaled Bt420 million at the end of June 2019, and TWPC had unused credit facilities of Bt1.011 billion. The company has scheduled debt repayments in 2019-2022 of Bt60-Bt1,060 million per year.

### BASE-CASE ASSUMPTIONS

- Total revenues drop by 9%-14% in 2019-2020, but to rise by 2% per annum in 2021-2022.
- Gross profit and operating margins to be 18%-19% and 9%-11%, respectively.
- Total capital spending to be around Bt1.2 billion in 2019, and Bt0.5 billion per annum during 2020-2022.

### RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that TWPC will sustain its competitive position in the tapioca starch and vermicelli businesses in Thailand. Sales of HVA products will help mitigate the effect of the inherently volatile price of native tapioca starch on the company's profit margin.

### RATING SENSITIVITIES

The rating could be upgraded if the company enlarges cash flow generation while maintaining sound financial leverage, and sustains a conservative financial policy.

In contrast, TWPC's rating could be revised downward, if earnings fall short of expectations. A deteriorating financial performance is also a negative factor for the rating. Any shift toward a more aggressive financial policy would also affect the rating.

### COMPANY OVERVIEW

Thai Wah Starch PLC (TWS) was established in Thailand in 1947 and listed on the Stock Exchange of Thailand (SET) in 1985 by the Ho family. TWS produced and marketed tapioca flour under the "ROSE" brand. The major customers were international buyers as the company was able to meet international standards. TWS had four factories in Nakorn Ratchasima, Udorn Thani, Kalasin, and Kamphaeng Phet, close to the major cassava cultivating area.

In 1994, TWS partnered with a state enterprise in Vietnam to establish a joint venture company, Tay Ninh Tapioca Joint Stock Company (Tay Ninh), originally known as Tay Ninh Tapioca Co., Ltd., to produce and distribute tapioca starch and glucose syrup. TWS owned a 70.0% of Tay Ninh's shares.

Thai Wah Food Products PLC (TWFP), which was established in 1952, was the leading producer of vermicelli in Thailand with well-known brands like "Double Dragon", "Phoenix", and "Double Kilin". In 1989, TWFP was successfully listed on the SET.

In 2015, the shareholders of TWS and TWFP approved the amalgamation of TWS and TWFP, and approved "Thai Wah PLC"(TWPC) as the new name of the amalgamated entity.

TWPC was listed on the SET in October 2015. As of March 2019, the Ho family collectively held 40.2% of the company's

shares.

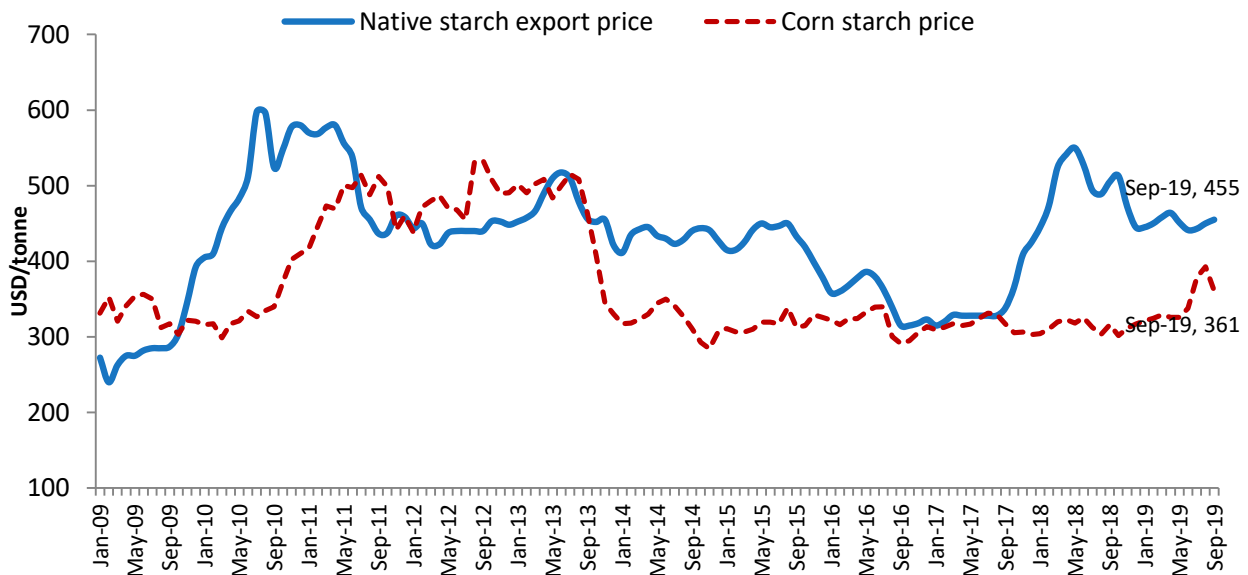
TWPC is moderately diversified in terms of markets served and production sites. China is TWPC's largest market, making up 50%-60% of export sales during 2016-2018, while Taiwan accounted for 20%-25%, the United States (US), Europe, and Indonesia 3%-5%, and other markets made up the remainder.

Currently, TWPC has nine tapioca factories in three countries; Thailand, Vietnam, and Cambodia. The plants have a combined capacity of around 485,000 tonnes per year. TWPC has two vermicelli processing plants, one in Thailand and one in Vietnam, with a total capacity of 30,300 tonnes per year. Overall, utilization rate in 2018 stood at 56%.

In January 2019, TWPC acquired the assets of Maesot Starch Company Limited and Maesot Biogas Company Limited, tapioca starch producer and biogas producers in Thailand, with a total starch production capacity of 60,000 tonnes per year, and total biogas production capacity equivalent to 1 megawatt. The company's total investment was Bt548 million. This transaction helped increase the company's total starch production capacity from 399,000 tonnes per year to 465,000 tonnes per year.

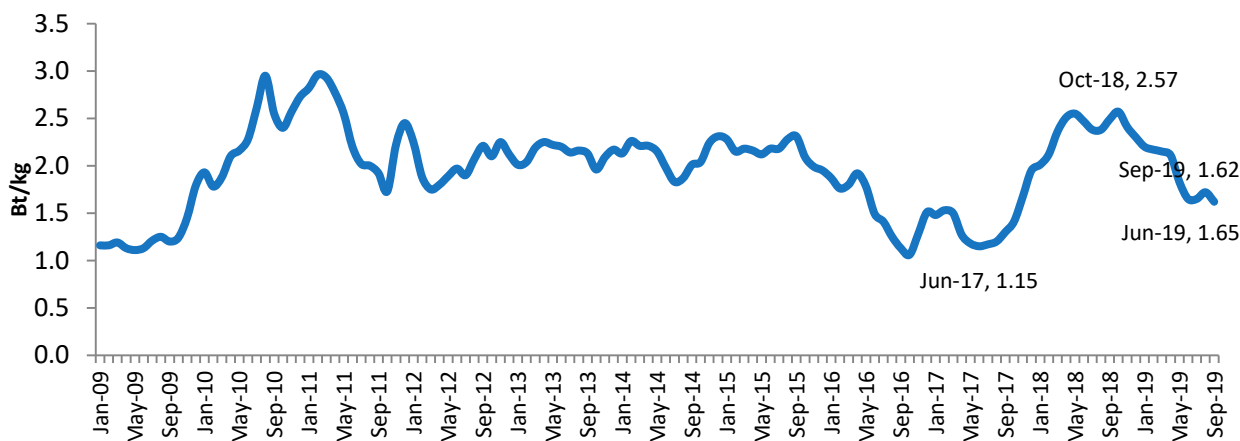
**KEY OPERATING PERFORMANCE**

**Chart 1: Native Starch Export Price (F.O.B.)**



| USD/tonne             | 2014 | 2015 | 2016  | 2017 | 2018 | 9M19  |
|-----------------------|------|------|-------|------|------|-------|
| <b>Cassava starch</b> | 433  | 426  | 350   | 345  | 497  | 451   |
| %y-o-y                | -8.2 | -1.6 | -17.9 | -1.5 | 44.4 | -10.8 |

Source: Thai Tapioca Trade Association

**Chart 2: Cassava Root Price**


| Baht/kilogram | 2014  | 2015 | 2016   | 2017  | 2018  | 9M19   |
|---------------|-------|------|--------|-------|-------|--------|
| Average Price | 2.10  | 2.16 | 1.52   | 1.40  | 2.38  | 1.90   |
| %y-o-y        | -1.25 | 2.50 | -29.42 | -7.94 | 69.84 | -19.61 |

Source: Thai Tapioca Trade Association

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Bt million

|   | Jan-Jun<br>2019 | -----Year Ended 31 December----- |                   |                   |                   |
|---|-----------------|----------------------------------|-------------------|-------------------|-------------------|
|   |                 | 2018                             | 2017              | 2016              | 2015              |
| Total operating revenues  | 3,653           | 7,319                            | 6,354             | 6,306             | 5,618             |
| Operating income  | 287             | 592                              | 742               | 1,062             | 538               |
| Earnings before interest and taxes (EBIT)                                   | 106             | 294                              | 543               | 927               | 535               |
| Earnings before interest, taxes, depreciation,<br>and amortization (EBITDA) | 287             | 592                              | 745               | 1,115             | 538               |
| Funds from operations (FFO)   | 234             | 520                              | 625               | 934               | 428               |
| Adjusted interest expense   | 20              | 14                               | 15                | 14                | 3                 |
| Capital expenditures  | 880             | 508                              | 454               | 408               | 82                |
| Total assets  | 7,817           | 7,073                            | 7,116             | 6,403             | 5,829             |
| Adjusted debt   | 702             | -                                | -                 | -                 | -                 |
| Adjusted equity   | 5,367           | 5,866                            | 5,906             | 5,345             | 4,921             |
| <b>Adjusted Ratios</b>  |                 |                                  |                   |                   |                   |
| Operating income as % of total operating<br>revenues (%)                    | 7.87            | 8.08                             | 11.68             | 16.85             | 9.58              |
| Pretax return on permanent capital (%)                                      | 3.69 **         | 4.62                             | 9.02              | 16.97             | 10.35             |
| EBITDA interest coverage (times)  | 14.11           | 42.24                            | 51.24             | 78.83             | 164.10            |
| Debt to EBITDA (times)  | 1.19 **         | -                                | -                 | -                 | -                 |
| FFO to debt (%)   | 71.25 **        | 51,971,926,113.76                | 62,452,905,266.06 | 93,355,372,623.60 | 42,802,700,000.00 |
| Debt to capitalization (%)  | 11.57           | -                                | -                 | -                 | -                 |

Note: All ratios have been adjusted by operating leases

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

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**RELATED CRITERIA**

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- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

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**Thai Wah PLC (TWPC)**

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|------------------------|--------|
| <b>Company Rating:</b> | BBB+   |
| <b>Rating Outlook:</b> | Stable |

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