TRIS RATING
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THAI WAH PLC

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CORPORATES

Company Rating:	BBB+
Outlook:	Stable

Last Review Date: 31/10/19

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 tapioca starch industry, its focus on value-added products and food-related products, as well as the management's conservative financial policy. However, the company’s strengths are partially offset by the cyclical nature of commodity products such as the volatile prices of tapioca starch and supply of cassava roots, the main raw material for starch production.

KEY RATING CONSIDERATIONS

Challenges in the tapioca starch industry

The tapioca starch industry in Thailand is mainly oriented toward export markets, especially China, Indonesia, and Taiwan. During the first six months of 2020, the Coronavirus Disease 2019 (COVID-19) pandemic led to a plunge in global demand for tapioca starch. TWPC’s customers in the major export markets delayed their orders from the first to the second half of 2020, leading to a 10% decline year-on-year (y-o-y) in the company’s total sales volume in the tapioca starch to 155 billion tonnes. Nonetheless, we expect TWPC’s sales volume for tapioca starch to recover during the remainder of 2020.

Declining profitability

TWPC’s operating results for 2019 fell below our expectations. A decline in the native starch price, caused by increased cassava root output in Thailand and Vietnam, together with the appreciation of the Thai baht, led to the drop in the company’s operating performance. TWPC’s gross profit margin declined to 16.2% in 2019, down from 16.3% in 2018 and below our forecast of 17.6%. The company’s earnings before interest, tax, depreciation, and amortization (EBITDA) margin declined to 7.4% in 2019, down from 8.1% in 2018 and below our expectation of 9.3%.

However, EBITDA margin improved to 9.4% in the first half of 2020, compared with 7.9% for the same period in 2019. The improvement was the result of a more favorable product mix from the food segment as consumers stocked up food during the COVID-19 lockdown.

We project TWPC’s total operating revenues to drop by 8% in 2020, and then grow by 8% in 2021 and 5% in 2022. The company’s EBITDA margin is forecast to drop to 6% for the full-year 2020 and then bounce back to 8%-9% in 2021-2022.

Focus on high value-added products

TWPC has been adding more high value-added (HVA) products to its product mix and expanding its global market presence. TWPC’s gross profit margin for native starch is below 20%, while that for HVA products is in the 10%-25% range. In 2019, sales of native starch accounted for 47% of total revenue, while sales of HVA products accounted for 33%, and vermicelli and related products (food segment) made up the remaining 20%. However, the revenue contribution from the food segment rose to 24% following favorable demand induced by the COVID-19 and increasing sales of the new products.

Going forward, TWPC aims to broaden the contributions from HVA products and food to 55% of total revenue, while reducing the contribution from native starch to 45%.

Financial leverage rises, but capital structure remains sound

TWPC's total debt to capitalization ratio rose to 10.7% as of December 2019 and 16.7% as of June 2020, up from a debt-free position as of December 2018. The rise was mainly due to the acquisition of tapioca starch plants in Thailand and Vietnam, and higher working capital needs.

TWPC's capital expenditure during 2020-2022 is forecast to fall in the range of THB300-THB450 million per year. Most of the capital expenditure is for annual maintenance expenditure and expansion in HVA production line.

Thus, total debt to capitalization ratio is forecast to range from 9%-14% during 2020-2022. The EBITDA interest coverage ratio should remain satisfactory, ranging from 6-10 times during 2020-2022.

Sound liquidity

TRIS Rating assesses TWPC to have adequate liquidity over the next 12-18 months. Our base-case forecast assumes EBITDA will range from THB450-THB700 million per annum in 2020-2022. TWPC held cash and cash equivalents totaling THB707 million at the end of June 2020, with unused credit facilities of THB1.1 billion. The company has scheduled debt repayments in 2020-2022, ranging from THB60 million to THB1.1 billion per year.

BASE-CASE ASSUMPTIONS

- Total revenues to drop by 8% in 2020, and then grow by 8% in 2021, and 5% in 2022.
- During 2020-2022, gross profit and EBITDA margin to range 16%-18% and 6%-9%, respectively.
- Total capital spending to range around THB300-THB450 million per year in 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, and that sales of HVA products will help alleviate the effect of volatility in prices of native tapioca starch and the company's profit margin.

RATING SENSITIVITIES

The rating could be upgraded if the company enlarges cash flow generation while maintaining a strong balance sheet and conservative financial policy.

In contrast, TWPC's rating could be revised downward if the company's performance weakens materially for an extended period, with an adjusted debt to EBITDA ratio staying above 2 times. 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 provinces, the major cassava-growing areas.

In 1994, TWS partnered with a state enterprise in Vietnam to establish a joint-venture company, Tay Ninh Tapioca Joint Stock Company (Tay Ninh), to produce and distribute tapioca starch and glucose syrup. TWS owned a 70% stake in Tay Ninh.

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 both companies. "Thai Wah PLC" (TWPC) was the new name of the amalgamated entity. As of August 2020, the Ho family collectively held 39.1% 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, and other markets made up the remainder.

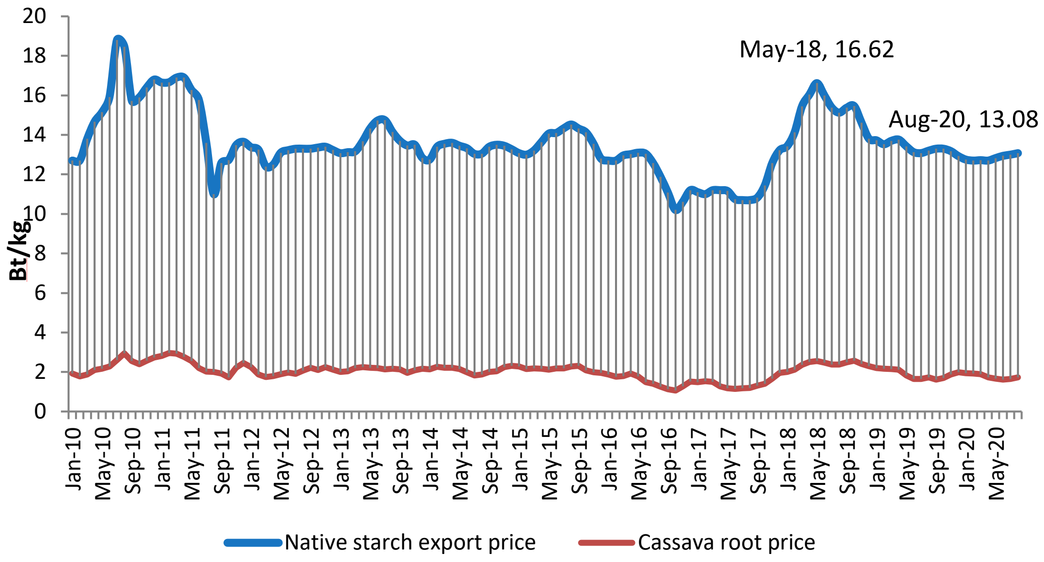
Currently, TWPC has nine tapioca factories in three countries; Thailand, Vietnam, and Cambodia. The plants have a combined capacity of around 510,000 tonnes per year. TWPC has two vermicelli processing plants, one in Thailand and one in Vietnam, with a total capacity of 26,000 tonnes per year for vermicelli noodles, and 4,000 tonnes per year for rice noodle.

In January 2019, TWPC acquired the assets of Maesot Starch Co., Ltd. and Maesot Biogas Co., Ltd., tapioca starch and biogas producers in Thailand, with a total starch production capacity of 60,000 tonnes per year, and total biogas production capacity equivalent to one megawatt. The company's total investment was THB548 million.

In January 2020, Thai Wah (6) Co., Ltd., which is a subsidiary of TWPC, purchased 973,000 shares of Asia Tapioca Products Co., Ltd. (ATP), or 69.50% of the total shares, with a total starch production capacity of 40,000 tonnes per year. The company's total investment was THB49.6 million.

KEY OPERATING PERFORMANCE

Chart 1: Native Starch Export Price (F.O.B.) and Cassava Root Price



Source: Thai Tapioca Trade Association

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

		---------------------Year Ended 31 December ------------------			
	Jan-Jun 2020	2019	2018	2017	2016
Total operating revenues	3,272	7,379	7,318	6,354	6,306
Earnings before interest and taxes (EBIT)	74	168	294	543	927
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	306	544	592	745	1,115
Funds from operations (FFO)	256	458	520	625	934
Adjusted interest expense	36	55	14	15	14
Capital expenditures	164	1,230	508	454	408
Total assets	8,017	7,869	7,073	7,116	6,403
Adjusted debt	1,063	632	-	-	-
Adjusted equity	5,284	5,295	5,866	5,906	5,345
Adjusted Ratios					
EBITDA margin (%)	9.37	7.37	8.09	11.73	17.68
Pretax return on permanent capital (%)**	1.87	2.50	4.62	9.02	16.97
EBITDA interest coverage (times)	8.46	9.96	42.24	51.24	78.83
Debt to EBITDA (times)	1.89	1.16	-	-	-
FFO to debt (%)**	45.12	72.39	51,971,926,113.76	62,452,905,266.06	93,355,372,623.60
Debt to capitalization (%)	16.75	10.66	-	-	-

Note: All ratios have been adjusted by operating leases.
** Consolidated financial statements*
*** Annualized with trailing 12 months*

RELATED CRITERIA

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

Thai Wah PLC (TWPC)

Company Rating:	BBB+
Rating Outlook:	Stable

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