

# DOUBLE A (1991) PLC

No. 132/2021  
23 August 2021

## CORPORATES

Company Rating:	BBB
Issue Ratings:	
Senior unsecured	BBB
Outlook:	Stable

Last Review Date: 28/08/20

### Company Rating History:

Date	Rating	Outlook/Alert
28/08/20	BBB	Stable
05/08/19	BBB-	Stable
25/11/16	BBB-	Negative
26/10/15	BBB-	Stable
12/09/13	BBB	Stable
21/08/12	BBB	Negative
16/05/08	BBB	Stable
09/11/07	BBB	Alert Developing
28/02/06	BBB	Stable
16/11/05	BBB	Alert Developing
20/10/04	BBB	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Double A (1991) PLC (DA) and the ratings on DA's outstanding senior unsecured debentures at "BBB", with a "stable" rating outlook. At the same time, TRIS Rating assigns the rating of "BBB" to DA's proposed issue of up to THB5 billion in senior unsecured debentures. The proceeds from the new debentures are intended for funding the company's working capital, business expansion, and debt repayments.

The ratings continue to reflect DA's position as one of the leading printing & writing (P&W) paper producers in Thailand, the solid brand name of "Double A" products, and its fully integrated operations. These strengths are partially offset by the cyclical nature of the pulp and paper industry and stagnant demand for P&W paper. The ratings also take into consideration the company's recent expansion into the packaging paper industry.

### KEY RATING CONSIDERATIONS

#### Fully integrated operations underpin competitive edge

DA's competitive strength as one of the leading P&W paper producers in Thailand is underpinned by its fully integrated pulp and paper operations. These operations create synergy and help control costs. Pulp is the main raw material of paper production. As a commodity, pulp prices fluctuate. Hence, a paper producer running its own pulp mill typically has a cost advantage. DA has its own pulp production facilities, integrated with the company's paper mills in Prachinburi province.

#### Expansion into packaging paper

DA entered the packaging paper industry in 2020, introducing two new products, kraft paper and pulp made from recovered paper (RCP pulp). Both products are produced at the company's facilities in Prachinburi province. The total investments were worth about THB1.5 billion.

The expansion into packaging paper provides both opportunities and challenges for DA. On the plus side, it will help diversify the company's sources of revenue and alleviate concerns over the gradual decline in demand for P&W paper. On the downside, the recent expansion has exposed DA's operational risks. We view the market risk associated with these new products as acceptable. DA uses its existing paper mills to produce kraft paper. This means the company can choose whether to produce P&W paper or kraft paper, depending on market conditions. For RCP pulp, DA has a three-year offtake agreement with a Chinese paper producer, Shanying Group. The agreement helps reduce demand risk. However, supply shortages remain a key risk. Recovered paper is used as raw material for RCP pulp. If the Shanying Group is unable to supply sufficient recovered paper to DA, production volume of RCP pulp could fall short of targets.

Although the two new products have raised operational risks, particularly on the supply side, any adverse impacts on the overall performance of DA should be limited. We expect DA to focus on its key products, especially P&W paper. The solid brand name of "Double A" has led to DA's competitiveness. Over the next three years, kraft paper and RCP pulp should, in aggregate, contribute less than 10% of the company's total operating revenue. The performance of these two new products remains to be seen as production of both products is still at

an early stage.

### 2020 results below expectations

DA reported a significant deterioration in its performance last year. The company's total operating revenue declined by 12.2% year-over-year (y-o-y) to THB16.9 billion in 2020. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) plummeted by 44.9% y-o-y to THB2.9 billion. The two key products, P&W paper and pulp, were pressured by a slump in demand and global market prices, following the spread of Coronavirus Disease 2019 (COVID-19). In addition, the company experienced fluctuations in production following the launch of the two new products, kraft paper and RCP pulp.

### Operating performance to recover in 2021

We expect DA's operating performance to rebound in 2021. Demand for P&W paper in the company's main overseas markets has shown signs of recovery. Selling prices of both P&W paper and pulp have also picked up. Our base-case forecast projects the company's total operating revenue to rise to THB19-THB20 billion per annum over the next three years. The company's EBITDA should recover to THB3.5-THB4 billion per annum, with an expected EBITDA margin (EBITDA as a percentage of total operating revenue) of 18%-19%. The ongoing COVID-19 pandemic and fluctuations in pulp prices remain the key risk factors for DA's performance. Low global pulp prices could indirectly pressure P&W paper prices, cutting the company's margins.

### Leverage to improve

We forecast DA's cash flows against debt to improve, given the earnings recovery prospects. Over the next three years, investment spending and debt repayments should range from THB2-THB3 billion per annum, while funds from operations (FFO) will likely stay at about THB3 billion per annum. As the company's internal cash flows are expected to cover most of the expenditures, there should be no external funding requirements. Debt should decline, as a result. We project the company's debt to EBITDA ratio will improve to 2.5-3.5 times during 2021-2023, dropping from a peak of 4.8 times in 2020.

The company's capital structure should also improve. Our base-case forecast projects DA's debt to capitalization ratio will hover around 50%-60% over the next three years, down from a high of 63.6% in 2020. The debt to capitalization ratio shot up in 2020, due not only to the subdued operating performance, but also the group restructuring. In August 2020, DA sold its entire stake in National Power Supply Co., Ltd. (NPS) to a company under the same ultimate shareholder and made a dividend payment for almost the same amount. Though DA's cash flows were insignificantly affected, its retained earnings and equity fell significantly.

As of 30 June 2021, total debt was reported at THB13.6 billion, of which TH413 million was secured debt considered as priority debt. This means the ratio of priority debt to total debt was about 3%. Since DA's priority debt ratio was below our trigger of 50%, we view that its unsecured creditors are not significantly disadvantaged compared to its priority debt holders.

### Liquidity should be manageable

DA has been able to manage its liquidity effectively over the past several years. During June-December 2021, debts totaling about THB129 million will be due. Of this amount, short-term loans for working capital comprise THB83 million and long-term bank loans comprise THB46 million. As of 30 June 2021, cash and marketable securities stood at THB518 million, with unused credit facilities of THB3.8 billion. These liquid assets should be sufficient to cover all the debts coming due. DA has no debentures due in the remainder of 2021 but does have THB1.3 billion of debentures due in 2022. The company plans to repay the debentures due in 2022 with its operating cash flows.

A key financial covenant on DA's debentures requires the net interest-bearing debt to equity ratio to stay below 2 times. The ratio as of 30 June 2021 was 1.5 times. We believe that the company will remain in compliance with the covenant for at least the next 12-18 months.

### BASE-CASE ASSUMPTIONS

- Total operating revenue to range from THB19-THB20 billion per annum during 2021-2023.
- EBITDA margin to hover around 18%-19%.
- Capital spending to be about THB800 million per annum.

### RATING OUTLOOK

The "stable" outlook reflects our expectation that DA will maintain its competitiveness in the P&W paper business. Its profitability and cash flow generating ability should gradually recover during 2021-2023.

## RATING SENSITIVITIES

The rating upside is limited in the near term. In contrast, the ratings and/or outlook could be revised downward if the company's operating performance and/or financial profile further deteriorate for an extended period.

## COMPANY OVERVIEW

DA, previously named Advance Agro PLC or AA, was established in 1989 by the Dumnernchanvanit family (the Soon Hua Seng Group) as a pulp and paper producer. The company was listed on the Stock Exchange of Thailand (SET) in 1995, but was delisted on 17 April 2008. Mr. Yothin Dumnernchanvanit and affiliated parties remain the ultimate shareholders, holding a 98.9% stake in the company as of 31 March 2021.

DA currently owns and operates four paper mills and three pulp mills, all of which are located in Tha Toom district, Prachinburi province. The four paper mills have a total designed capacity of 745,000 tonnes per annum (tpa), while the three pulp mills have a total designed capacity of 697,000 tpa. The pulp and paper operations are fully integrated. DA also has a joint venture with the Shanying Group investing in an RCP pulp mill with a designed capacity of 250,000 tpa.

Paper sales currently account for about 84% of DA's sales, followed by sales of pulp (15%), and revenue from services (1%).

## KEY OPERATING PERFORMANCE

**Table 1: Revenue Breakdown**

Unit: %

	2017	2018	2019	2020	Jan-Jun 2021
<b>Revenue (mil. THB)</b>	<b>21,888</b>	<b>20,770</b>	<b>19,124</b>	<b>16,790</b>	<b>9,811</b>
<b>Original Products</b>					
Paper	93.6	89.7	91.3	83.2	82.4
Pulp	2.7	6.5	5.2	11.6	11.6
Others	3.6	3.8	3.5	1.4	1.4
<b>New Products</b>					
Kraft Paper				2.8	1.4
RCP Pulp				1.0	3.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: DA

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	Jan-Jun 2021	----- Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	9,862	16,878	19,229	20,826	21,927
Earnings before interest and taxes (EBIT)	1,043	190	2,722	2,721	830
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,175	2,936	5,333	5,228	3,712
Funds from operations (FFO)	1,852	1,700	4,585	4,946	2,781
Adjusted interest expense	373	861	836	955	1,017
Capital expenditures	156	806	1,255	590	677
Total assets	26,461	26,219	30,985	33,926	39,763
Adjusted debt	13,345	14,137	15,039	15,544	19,530
Adjusted equity	8,844	8,098	12,504	14,587	15,545
<b>Adjusted Ratios</b>					
EBITDA Margin (%)	22.06	17.40	27.73	25.11	16.93
Pretax return on permanent capital (%)	3.17 **	0.74	9.25	8.19	2.25
EBITDA interest coverage (times)	5.83	3.41	6.38	5.47	3.65
Debt to EBITDA (times)	4.05 **	4.82	2.82	2.97	5.26
FFO to debt (%)	15.87 **	12.02	30.49	31.82	14.24
Debt to capitalization (%)	60.14	63.58	54.60	51.59	55.68

\* Consolidated financial statements

\*\* Adjusted with trailing 12 months

## RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

## Double A (1991) PLC (DA)

<b>Company Rating:</b>	BBB
<b>Issue Ratings:</b>	
DA235A: THB2,000 million senior unsecured debentures due 2023	BBB
DA241A: THB1,850 million senior unsecured debentures due 2024	BBB
DA240A: THB1,623 million senior unsecured debentures due 2024	BBB
DA252A: THB3,500 million senior unsecured debentures due 2025	BBB
DA261A: THB2,399 million senior unsecured debentures due 2026	BBB
Up to THB5,000 million senior unsecured debentures due within 10 years	BBB
<b>Rating Outlook:</b>	Stable

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