TRIS RATING
A Strategic Partner of S&P Global

CreditNews ข่าวเครดิต

DOUBLE A (1991) PLC

No. 121/2019
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CORPORATES

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

Last Review Date: 10/08/18

Company Rating History:

Date	Rating	Outlook/Alert
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

Contacts:

Rapeepol Mahapant

rapeepol@trisrating.com

Sermwit Sriyotha

sermwit@trisrating.com

Wiyada Pratoomsuwan

wiyada@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Double A (1991) PLC (DA) at "BBB-" and affirms the rating on DA's senior unsecured debentures at "BBB-". At the same time, we revise the rating outlook to "stable" from "negative". The upward revision in the rating outlook reflects an improvement in the company's profitability and operating cash flow.

The "BBB-" ratings reflect DA's position as one of the leading printing & writing (P&W) paper producers in Thailand and the solid brand name of "Double A" products. These strengths are partially offset by the cyclicality of the pulp and paper industry, stagnant global and domestic demand for P&W paper, as well as ongoing group restructuring.

KEY RATING CONSIDERATIONS

Fully integrated operations keep the competitive edge

TRIS Rating believes DA will be able to maintain its competiveness and position as one of the leading P&W paper producers in Thailand. The company's fully integrated pulp and paper operations create synergy and help control costs. Pulp is the major raw material of paper production. As a commodity, pulp prices rather fluctuate. Hence, a paper producer who owns its own pulp mill typically has a cost advantage. DA has its own pulp production facilities, which are integrated with the company's paper mills. DA uses nearly all the pulp produced as the raw material for its paper production.

Improved operating performance

Profitability has improved recently. The operating margin (operating income as a percentage of total operating revenues) rose steadily and significantly to 25.9% in the first quarter of 2019, from a low of 4.3% in 2015. FFO (funds from operations) increased to almost Bt4,800 million in 2018, a record high. In 2016, DA initiated an improvement plan, including rebalancing product mix, enhancing production efficiency, and reducing operating costs. In 2018, the company divested its high-cost Alizay paper mill. DA also raised paper prices, following a rise in global pulp prices.

TRIS Rating's forecast assumes DA's profits and revenues will drop slightly over the next three years. Paper prices are likely to decrease due to a correction in pulp prices. A shift in consumer behavior towards digital media should also lower its folio paper sales volume. However, a growing demand for cut-size paper in developing countries will keep DA's profit margins and revenues firm. Over the next three years, we expect the operating margin will range between 17%-22% and FFO will range between Bt2,700-Bt3,600 million per annum. Total operating revenue should stay above Bt19,000 million per annum.

Stagnant demand for P&W paper

Looking forward, TRIS Rating expects demand for P&W paper will gradually decline, pressured by a shift in consumer behavior towards digital media. During the past three years, global demand for P&W paper declined by 2.5% per annum, and that for cut-size paper declined by 0.5% per annum (*source: Bloomberg*). In fact, demand for cut-size paper in developed countries is falling, while that in developing countries is growing minimally. As most of DA's revenue comes from the sales of cut-size paper in developing countries, the company's total operating revenue and profits should stay firm at least over the next three years. A reduction in global supply of P&W paper, due to a closure of paper plants around the world, will also help prevent a significant fall in DA's revenues and profits.

Group restructuring should not affect financial profile significantly

DA has been under group restructuring. P&W paper-related companies under the same ultimate shareholder, Mr. Yothin Dumnernchavanit and related parties, have been consolidated into DA. On the other hand, companies engaging in other businesses will be spun off. The group restructuring should take one year or more to complete. TRIS Rating expects the ongoing group restructuring will have no significant impact on DA's financial profile.

In the first quarter of 2019, DA acquired a 99.99% stake in DA Packaging Co., Ltd. (DAPK) from Double A Holdings Ltd. (DAH), the parent company of the DA Group. At the same time, DA sold all of its stake in Kanna Co., Ltd. (KANNA) to a related company. The two transactions cost DA a net Bt149 million. During the group restructuring, KANNA also repaid about Bt700 million of loan to Advance Agro Holding Co., Ltd., the subsidiary of DA. Ultimately, DA's cash position, based on a consolidated basis, improved. In contrast, DA's balance sheet deteriorated slightly. DA recognized the price premium it paid over DAPK's book value. The price premium lowered DA's equity base by almost Bt660 million in the first quarter of 2019.

Leverage may increase slightly

TRIS Rating forecasts DA's leverage will increase slightly over the next three years. The company is now developing a new pulp mill using recovered paper (RCP) as raw material. The RCP pulp mill is located close to the company's existing pulp mills in Prachinburi province, costing DA approximately Bt900 million. The construction should take about one year to complete. Over the next three years, FFO will range between Bt2,700-Bt3,600 million per annum, under TRIS Rating's base case forecast. Investment expenditures should range between Bt1,000-Bt2,000 million per annum. Taking the annual debt repayment of Bt4,000-Bt5,000 million into considerations, FFO should not be sufficient to cover all the expenditures. The possible shortfall in the operating cash flow will raise borrowing needs. DA could liquidate some assets not related to its core operations to be used as another source of cash.

Liquidity should be manageable

TRIS Rating believes DA will be able to manage liquidity properly. The company has no significant pressure on liquidity this year. During the remaining nine months of 2019, debts of almost Bt1,300 million will come due. Of this total, short-term loans for working capital comprise about Bt900 million and long-term bank loans comprise about Bt360 million. As of 31 March 2019, cash and marketable securities were nearly Bt400 million, unused credit facilities were about Bt3,000 million, and accounts receivable were about Bt4,100 million. These liquid assets should be sufficient to cover all the debts due in 2019. However, debentures worth about Bt4,400 million in total will come due in 2020. DA has to partly refinance the debentures with new ones.

A key financial covenant in DA's debentures requires the net interest-bearing debt to equity ratio to stay below 2 times. The ratio as of 31 March 2019 was 1.2 times. Thus, the company was in compliance with this key financial covenant. TRIS Rating believes that the company will stay in compliance for the next 12 to 18 months.

TRIS RATING'S BASE-CASE ASSUMPTIONS

- DA's total operating revenues will range between Bt19,000-Bt20,000 million per annum during 2019-2021.
- Operating margin will range between 17%-22%.
- FFO to debt ratio will range between 16%-22%.
- Ratio of debt to EBITDA (earnings before interest, taxes, depreciation, and amortization) will range between 3.5-5.0 times.
- Total capital spending will range between Bt1,000-Bt2,000 million per annum.

RATING OUTLOOK

The "stable" outlook reflects our expectation that DA will maintain its competiveness in the P&W paper business. The ongoing group restructuring will not affect DA's financial profile materially and adversely.

RATING SENSITIVITIES

A rating upside could arise if the improvements in earnings performance continue and if the ongoing group restructuring does not lower DA's cash flow and financial position. In contrast, the ratings and/or outlook could be revised downward if the operating performance, as well as cash flow, fall below expectations or if the capital structure deteriorates more than expected. According to TRIS Rating's group rating methodology, the credit profile of the Group and the Group's members will have an impact on the company rating and the issue ratings of DA.

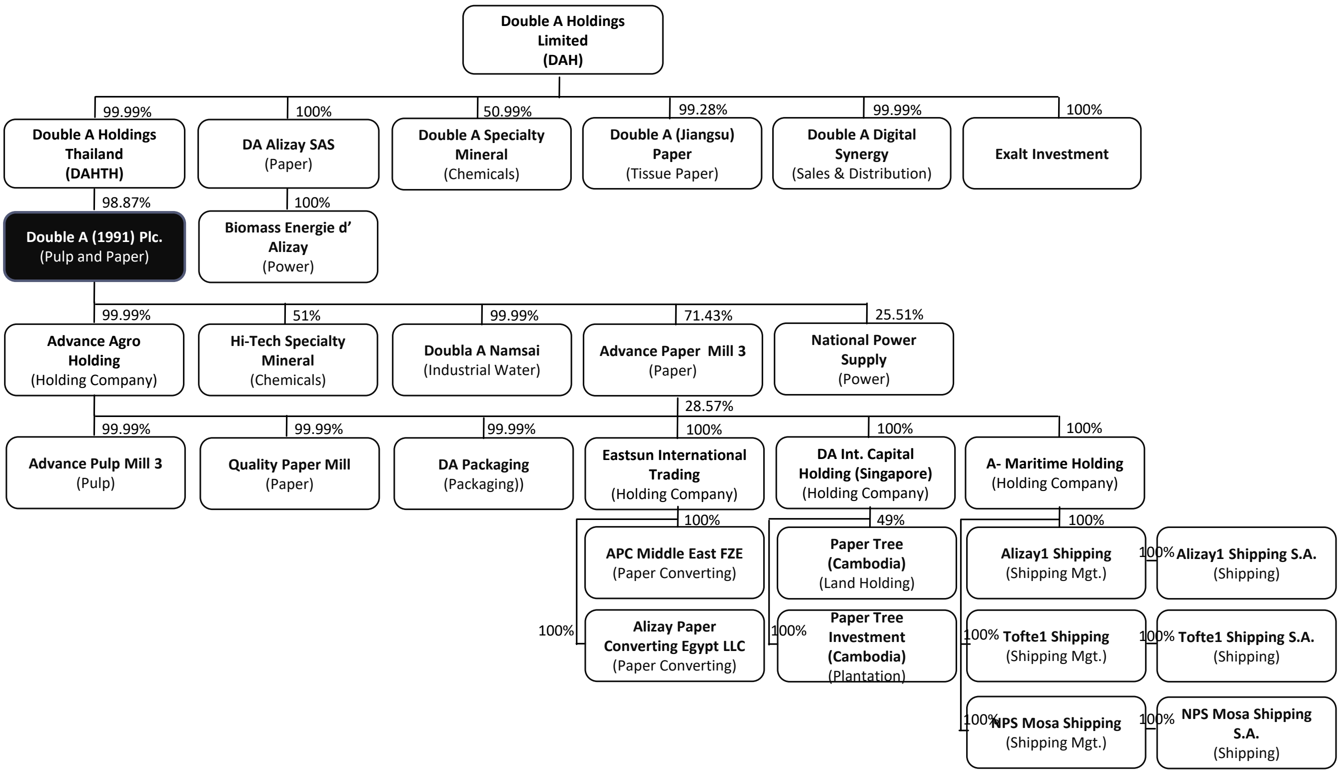
COMPANY OVERVIEW

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 SET in 1995, but was delisted on 17 April 2008. Mr. Yothin Dumnernchanvanit and affiliated parties remain the ultimate shareholders, holding a 98.9% of stake in the company as of 31 March 2019.

DA currently owns and operates four paper mills and two 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 two pulp mills have a total designed capacity of 427,000 tpa. Most pulp produced at the mills is used as raw material for the company's paper production. The pulp and paper operations are fully integrated.

Currently, paper sales account for almost 90% of DA's annual sales, followed by sales of pulp (6%), sales of wood chips (4%), as well as revenue from services (2%).

DA's Group Structure



Source: DA

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown

Unit: %

	2015	2016	2017	2018	Jan-Mar 2019
Revenue (Bt mil.)	**23,370**	**26,121**	**21,888**	**21,121**	**5,112**
Paper	92.5	89.0	93.6	90.4	88.0
Pulp	1.5	2.4	2.7	6.4	6.6
Wood chips	4.4	7.5	2.0	0.9	3.7
Services	1.6	1.1	1.6	2.3	1.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: DA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		------------- Year Ended 31 December ------------			
	Jan-Mar 2019	2018	2017	2016	2015
Total operating revenues	5,122	21,151	21,927	26,271	23,527
Operating income	1,327	4,564	3,345	2,359	1,002
Earnings before interest and taxes (EBIT)	1,073	2,605	830	(727)	57
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,538	5,045	3,712	2,146	2,808
Funds from operations (FFO)	1,284	4,768	2,781	1,212	1,784
Adjusted interest expense	213	949	1,017	1,186	1,245
Capital expenditures	149	384	677	958	1,260
Total assets	32,490	33,584	39,763	42,692	43,109
Reported total debt	15,886	15,692	19,667	20,530	22,308
Adjusted debt	15,980	15,477	19,530	20,281	22,298
Adjusted equity	13,155	14,339	15,545	17,352	16,142
Adjusted Ratios					
Operating income as % of total operating revenues (%)	25.90	21.58	15.26	8.98	4.26
Pretax return on permanent capital (%)	10.13 **	7.88	2.25	(1.89)	0.14
EBITDA interest coverage (times)	7.23	5.31	3.65	1.81	2.26
Debt to EBITDA (times)	2.98 **	3.07	5.26	9.45	7.94
FFO to debt (%)	31.55 **	30.81	14.24	5.97	8.00
Debt to capitalization (%)	54.85	51.91	55.68	53.89	58.01

* *Consolidated financial statements*
** *Adjusted with trailing 12 months*

RELATED CRITERIA

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

Double A (1991) PLC (DA)

Company Rating:	BBB-
Issue Rating:	
DA241A: Bt2,350 million senior unsecured debentures due 2024	BBB-
Rating Outlook:	Stable

TRIS Rating Co., Ltd. Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 02-098-3000