KHON KAEN SUGAR INDUSTRY PLC

No. 40/2020
4 June 2020

CORPORATES

Company Rating:	A-
Issue Rating:	
Senior unsecured	A-
Outlook:	Negative

Last Review Date: 04/09/19

Company Rating History:

Date	Rating	Outlook/Alert
04/09/19	A-	Stable
13/11/13	A	Stable
24/11/06	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Khon Kaen Sugar Industry PLC (KSL) and the rating on its senior unsecured debenture at "A-", and revises the rating outlook to "negative" from "stable". The revised outlook reflects our concerns that KSL will be materially affected by the severe drought in Thailand, which is causing a significant drop in sugarcane supply. In addition, TRIS Rating expects that the prolonged worldwide slump in sugar prices will also pressure KSL's financial results over the next 12-18 months. Nevertheless, the ratings continue to reflect KSL's long track record in the sugar industry and its diversification into other sugar-related businesses.

KSL's operating results for fiscal year (FY) 2019 were in line with TRIS Rating's forecast. Total operating revenue remained flat at Bt18.7 billion in FY2019 and reported at Bt3.2 billion for the first three months of FY2020. KSL's earnings before interest, tax, depreciation, and amortization (EBITDA) margin were 15.4% in FY2019, but rose to 24.1% in the first three months of FY2020, compared with 21.3% in the same period of the prior year, following a drop in selling expenses. EBITDA stood at Bt2.9 billion in FY2019, in line with our forecast of Bt2.8 billion. For the first quarter of FY2020, EBITDA rose to Bt769 million, a 13% increase year-on-year (y-o-y).

The plunge in sugar prices, together with the severe drought in the 2019/2020 crop year, is likely to squeeze margins of the sugar producers in Thailand over the next 12-18 months. We expect the company's total operating revenue to drop by about 50% to Bt9.4 billion in FY2020 and recover gradually to Bt9.8-Bt15.5 billion in FY2021-FY2022. Our base-case forecast assumes the world sugar price will be around 10 cents per pound in FY2020, and then rise to 12-14 cents per pound in FY2021-FY2022, compared with the average of 12.8 cents per pound for the first four months of FY2020. Thus, we expect KSL's EBITDA margin to decline to around 10% in FY2020 and gradually improve to 12% in FY2021-FY2022.

KSL's total adjusted debt rose to Bt20.5 billion as of January 2020, from Bt20 billion as of October 2019, due to seasonal working capital needs. Nevertheless, the total debt to capitalization ratio remained at 51.6% at the end of January 2020, in line with our projection of 50% for FY2020.

TRIS Rating expects KSL to have an adequate liquidity over the next 12 months. Debt coming due in 2020 includes long-term loans of around Bt1.9 billion and debentures of Bt3.5 billion. Funds from operations (FFO) are projected to fall below Bt1 billion over the next 12 months following the plunge in the sugar price. Nevertheless, KSL's cash and cash equivalents of Bt136 million, plus unused credit facilities of more than Bt13 billion at the end of January 2020 should be sufficient to cover the loan repayments in 2020.

RATING OUTLOOK

The "negative" outlook reflects our expectation of a significantly weakened operating performance of KSL in FY2020, due to lower sales volumes and weak profitability. This will cause the company's net debt to EBITDA ratio to increase materially.

RATING SENSITIVITIES

The outlook could be revised back to "stable" if KSL's operating and financial performances recover on a sustained basis. On the contrary, KSL's ratings could be downgraded if the company's financial results are in line with or weaker than our expectations.

COMPANY OVERVIEW

KSL is one of the leading sugar producers in Thailand, established in 1945 by the Chinthammit family and associates. As of March 2020, the Chinthammit family collectively held 66% of the company's shares. The company owns and operates five sugar plants in Thailand, with a combined cane crushing capacity of 110,000 cane tonnes per day as of April 2020. KSL procured 5.38 million tonnes of sugarcane in the 2019/2020 crop year and produced 0.58 million tonnes of sugar. KSL's sugar production in the 2019/2020 growing season ranked fourth in the industry, with a market share of 7%. KSL trailed Mitr Phol Group (19.4%), Thai Roong Ruang Group (16.1%), and Thai Ekkalak Group (7.3%).

RELATED CRITERIA

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

Khon Kaen Sugar Industry PLC (KSL)

Company Rating:	A-
Issue Rating:	
KSL27DA: Bt2,000 million senior unsecured debentures due 2027	A-
Rating Outlook:	Negative

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