

MITR PHOL SUGAR CORPORATION LTD.

No. 22/2021
10 March 2021

CORPORATES

| | |
|------------------|----------|
| Company Rating: | A+ |
| Issue Ratings: | |
| Senior unsecured | A+ |
| Outlook: | Negative |

Last Review Date: 04/06/20

Company Rating History:

| Date | Rating | Outlook/Alert |
|----------|--------|---------------|
| 04/06/20 | A+ | Negative |
| 24/12/10 | A+ | Stable |
| 02/11/07 | A | Stable |

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RATIONALE

TRIS Rating affirms the company rating on Mitr Phol Sugar Corporation Ltd. (MPSC) and the ratings on MPSC's senior unsecured debentures at "A+" with a "negative" rating outlook.

The outlook reflects our concerns that MPSC's operation will continue to be materially affected by sugarcane supply shortages in 2021 as a result of the prolonged drought and shrinking plantation area in Thailand. Sugar prices will likely be pressured by higher Brazilian sugar output and several uncertainties following the Coronavirus Disease 2019 (COVID-19) pandemic.

Nevertheless, the ratings continue to reflect MPSC's market position as one of the world's leading sugar producers, well-accepted brand name, efficient sugar mill operations, geographic diversification, and diversified sources of income.

KEY RATING CONSIDERATIONS

Weakened operating results

MPSC's operating results substantially deteriorated during the first nine months of 2020. A steep decline in sugarcane supplies following severe drought and a lower plantation area in Thailand squeezed the revenue and profit of MPSC's sugar business. The ethanol and power businesses were also adversely affected by the sugarcane shortage that resulted in higher fuel costs. Additionally, sugar prices were highly volatile, owing to the impact of the COVID-19 pandemic and a surge in supply from Brazil. The price of raw sugar slumped to the record low of 10.1 cents per pound in April 2020 from 15.1 cents per pound in February 2020, before edging up to 14.7 cents per pound in December 2020.

As a result, earnings before interest, taxes, depreciation, and amortization (EBITDA) plunged to THB9.9 billion in the first nine months of 2020, from THB12-THB13 billion during the same period of 2018-2019. EBITDA margin also dropped to around 14.9% in the first nine months of 2020, compared with a level of 16%-18% over the same period in 2018-2019.

Going forward, MPSC's operations in 2021 are likely to be affected by the prolonged drop in sugarcane supplies in Thailand. Sugar prices will be pressured by higher Brazilian sugar output, driven by the weakening Brazilian currency (BRL) and volatile oil prices. Nevertheless, we expect MPSC's operating profit will gradually ramp up in 2022, along with a supply correction and post-COVID economic recovery.

In our view, operations of the company's new investments in Indonesia, several cost-cutting strategies, and improved efficiency, as well as production of more value-added products will improve the company's competitive edge and profitability in the medium to long term.

Higher leverage and weaker cash flow protection during industry downturn

MPSC's financial leverage has increased significantly, owing to sizable capital expenditures and declining profit during the industry downturn. During the first nine months of 2020, MPSC's total capital expenditures and net investment amounted to around THB14 billion, compared with THB6-THB9 billion during the same period of 2018-2019. The substantial amount was mainly spent in the investments in several refineries and sugar mills in Indonesia.

As of September 2020, MPSC's adjusted debt rose to THB86.6 billion, from THB78.9 billion in 2019. Total debt to capitalization ratio increased to 56.6%

from 54% in 2018-2019, while the adjusted debt to EBITDA rose to 6 times from 4.6 times in 2019. Cash flow protection also weakened significantly. The ratio of funds from operations (FFO) to adjusted net debt declined to 12.3% (annualized, from the trailing 12 months) in the first nine months of 2020, from 17.1% in 2019.

However, MPSC's management intends to defer some capital spending in 2021. We forecast the company will incur capital expenditures of around THB4 billion in 2021 and THB8 billion per year in 2022-2023, mainly for a capacity expansion in the power business in Thailand and an innovation center in Khon Kaen province. We project the company's debt to capitalization ratio to hold at around 55%. Owing to the shrinkage of production volume, the ratio of adjusted debt to EBITDA is projected to increase to 6.9 times in 2021 but is expected to improve to around 5 times in 2022.

World's top sugar producer

MPSC is the largest sugar producer in Asia and one of the leading sugar producers worldwide. MPSC owns and operates sugar mills in Thailand, China, the Lao People's Democratic Republic (Lao PDR), and Australia. In 2020, MPSC increased its presence in Indonesia with sizable additional investments in refineries and sugar mills. We believe MPSC's earnings are less volatile than other sugar producers in Thailand, based on the company's efficient milling operations and its geographical diversification of sugar mills across multiple countries.

MPSC produced 3.3 million tonnes of sugar in the 2019/2020 growing season compared with total production worldwide of 165.5 million tonnes. In Thailand, MPSC has long been the largest sugar producer. Its sugar mills in Thailand produced 1.6 million tonnes of sugar in the 2019/2020 growing season, the highest market share (19%) based on production volume. Moreover, MPSC is the third-largest sugar producer in China, with a market share of about 10% and sugar production of one million tonnes. MPSC is also one of the leading sugar producers in Australia and Indonesia with production of 0.5 million tonnes each.

Energy business cushions revenue fluctuation

Apart from producing sugar, MPSC has expanded along the sugar value chain in order to maximize the utilization of sugarcane and the by-products of the sugar production process. MPSC's sugar-related businesses are electricity generation and ethanol production. Currently, MPSC has an installed power generation capacity of 613.8 megawatts (MW) with 253.8 MW sold under power purchase agreements (PPA) with government agencies. Ethanol production is 1.46 million liters per day at full capacity, which will grow to 1.49 million liters at the end of 2021.

Revenue from the energy business (electricity and ethanol) has increased continuously to THB 18.4 billion in 2019 from THB13.6 billion in 2017, following capacity expansions of power plants and growing demand for ethanol. Revenue from the energy business declined by 4.1% year-on-year (y-o-y) to THB13.5 billion in the first nine months of 2020. The drop was mainly due to lack of sugarcane feedstock and lower demand following the COVID-19.

At present, the power and ethanol businesses together contribute about 20% of MPSC's total revenues. The stable cash flow from the expanded energy business has partly held up MPSC's operating performance during the period of depressed sugar prices.

Adequate liquidity

We assess MPSC to have an adequate liquidity profile over the next 12 months. Funding needs in the next 12 months will include THB6 billion for maturing debentures, THB2 billion for maturing long-term loans, and capital expenditures of about THB4 billion. The sources of funds will come from FFO of around THB10 billion and undrawn short-term credit facilities of about THB5 billion. We view that the company's ability to access external funding sources, including the domestic debt capital market and bank financing, remains unchanged.

As of September 2020, MPSC recorded THB18.3 billion of priority debt out of total debt (excluding lease liabilities) of THB87.1 billion. Most of MPSC's priority debt was at the subsidiary level. The ratio of priority debt to total debt was 21%. As its priority debt ratio is far below 50%, TRIS Rating considers MPSC's senior unsecured creditors to have low subordination risks.

BASE CASE ASSUMPTIONS

- Revenues to decline by 1%-9% per year in 2020-2021 and to grow by 9% in 2022.
- EBITDA margin to stay at around 14%-15% in 2020-2021 and will gradually improve to 17% in 2022.
- Total capital spending of around THB4 billion in 2021 and around THB8 billion per year in 2022.

RATING OUTLOOK

The “negative” outlook reflects our concerns over MPSC’s weakening financial profile, as a result of the prolonged drought and shrinking plantation area in Thailand, over the next 12-18 months.

RATING SENSITIVITIES

The outlook could be revised back to “stable” if MPSC’s operating performance recovers on a sustained basis. On the contrary, we could downgrade the ratings if in the case of higher-than-expected debt levels or weaker-than-expected profitability, that could potentially result in the company’s adjusted debt to EBITDA ratio exceeding 7 times for a sustained period.

COMPANY OVERVIEW

Founded in 1946 by the Vongkusolkit family, MPSC is the leading sugar producer in Thailand. The Vongkusolkit family collectively holds 100% of the company’s shares through Mid-Siam Sugar Co., Ltd. MPSC owns and operates sugar mills in Thailand, China, the Lao PDR, and Australia. Owing to severe drought and lower plantation area, MPSC’s sugar production plunged to 3.3 million tonnes in the 2019/2020 growing season from 4.6 million tonnes in the 2018/2019 growing season. About half of MPSC’s sugar volume was produced in Thailand and 32% was produced in China.

In 2017, MPSC entered the sugar refining business in Indonesia through a joint venture with OLAM International Ltd. (OLAM), a leading food and agri-business company. In 2020, MPSC increased its stakes by acquiring the remaining 50% share from OLAM. Additionally, MPSC invested in two joint-venture companies which own a sugar mill and a refinery in Java. The total investment cost was worth of about THB11 billion. Following the sizable investment, MPSC owns a refinery and holds 60% equity stakes in one sugar mill and 40% stakes in one other refinery. The total sugar volume was 0.5 million tonnes in 2020.

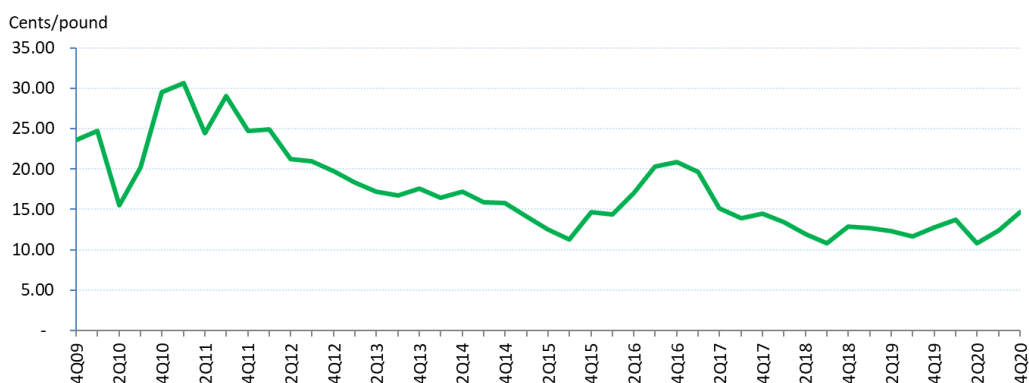
Although sugar is a commodity product, MPSC is striving to build a brand in order to differentiate its products from those of its competitors. MPSC’s retail products are successfully marketed under the “Mitr Phol” brand name in Thailand. The company aims to distribute its branded sugar products in other markets in the Asia-Pacific region.

MPSC also produces electricity, ethanol, wood-substitute materials, and fertilizer, and offers logistics services. During the first nine months of 2020, its total sales were THB65.3 billion. The sugar segment accounted for 71% of its total revenues while the power and ethanol segments together comprised 21%.

MPSC owns 16 power plants. Thirteen plants are located in Thailand, while the remaining three plants are in China (Funan, Ningming, and Chongzuo). The company sold electricity to the Electricity Generating Authority of Thailand (EGAT) and the Provincial Electricity Authority (PEA) under the Small Power Producer (SPP) scheme, totaling 253.8 MW at the end of 2020. A 24-MW power plant in Australia is scheduled to commence operation in 2021. Additionally, MPSC’s investments in several other power plants, including solar floating power plants in Taiwan, a solar farm in Srakaew province and a biomass power plant in Kamphaeng Phet province in Thailand, are scheduled to begin operations in 2021.

KEY OPERATING PERFORMANCE

Chart 1: Raw Sugar Prices Worldwide



Note: Monthly prices of Futures Contract No. 11

Source: New York Board of Trade, United States Department of Agriculture (USDA)

Table 1: MPSC's Revenue Breakdown

Unit: Mil. THB

| Revenue | 2016 | 2017 | 2018 | 2019 | Jan-Sep 2020 |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Total sales & services | 87,691 | 98,277 | 95,049 | 91,873 | 65,271 |
| Y-o-y growth (%) | (0.5) | 12.1 | (3.3) | (3.3) | (6.4) |
| Proportion (%) | | | | | |
| Sugar in Thailand | 42.3 | 42.6 | 40.7 | 39.1 | 31.1 |
| Sugar in China | 28.5 | 29.6 | 26.9 | 27.3 | 26.9 |
| Sugar in Lao PDR | 0.8 | 1.0 | 0.8 | 1.0 | 1.2 |
| Sugar in Australia | 9.3 | 5.7 | 5.7 | 4.5 | 5.9 |
| Sugar in Indonesia | - | - | - | - | 5.4 |
| Power and ethanol | 13.3 | 13.9 | 16.0 | 20.0 | 20.7 |
| Wood substitute products and paper | 5.0 | 4.7 | 5.4 | 5.6 | 5.8 |
| Logistics & others | 0.8 | 2.5 | 4.5 | 2.5 | 2.9 |
| Total | 100 | 100 | 100 | 100 | 100 |

Source: MPSC

Table 3: Sugar Crushing Yield in Thailand

Unit: Kg/tonne cane

| Sugar Producer | Growing Season | | | | |
|------------------|----------------|--------------|--------------|--------------|--------------|
| | 2015/2016 | 2016/2017 | 2017/2018 | 2018/2019 | 2019/2020 |
| Mitr Phol | 108.3 | 113.0 | 115.2 | 118.7 | 116.6 |
| Thai Roong Ruang | 102.1 | 106.5 | 107.4 | 108.7 | 106.1 |
| Thai Ekkalak | 96.0 | 108.5 | 102.1 | 104.5 | 106.3 |
| KSL | 101.7 | 106.1 | 108.8 | 110.9 | 108.1 |
| Wangkanai | 100.5 | 105.8 | 110.4 | 111.9 | 104.9 |
| Banpong | 102.7 | 101.4 | 103.7 | 101.5 | 106.3 |
| Kumpawapee | 107.3 | 111.1 | 109.4 | 112.6 | 118.4 |
| Eastern Sugar | 102.6 | 108.5 | 107.6 | 114.9 | 112.8 |
| Total | 104.0 | 107.9 | 109.0 | 111.3 | 110.8 |

Source: OCSB

Table 2: Sugar Production in Thailand

Unit: Mil. tonnes

| Sugar Producer | Growing Season | | | | |
|------------------|----------------|--------------|--------------|--------------|-------------|
| | 2015/2016 | 2016/2017 | 2017/2018 | 2018/2019 | 2019/2020 |
| Mitr Phol | 1.96 | 1.98 | 2.73 | 2.92 | 1.61 |
| Thai Roong Ruang | 1.39 | 1.58 | 2.50 | 2.42 | 1.34 |
| Thai Ekkalak | 0.72 | 0.94 | 1.19 | 1.03 | 0.60 |
| KSL | 0.77 | 0.72 | 1.20 | 1.14 | 0.58 |
| Wangkanai | 0.51 | 0.39 | 0.79 | 0.69 | 0.22 |
| Banpong | 0.44 | 0.44 | 0.52 | 0.58 | 0.38 |
| Kumpawapee | 0.30 | 0.28 | 0.41 | 0.39 | 0.24 |
| Eastern Sugar | 0.35 | 0.38 | 0.51 | 0.49 | 0.34 |
| Others | 3.34 | 3.32 | 4.86 | 4.92 | 2.98 |
| Total | 9.78 | 10.03 | 14.71 | 14.58 | 8.29 |

Source: Office of the Cane and Sugar Board (OCSB)

Table 4: MPSC's Sugar Production Statistics in China

| Performance | Growing Season | | | |
|-------------------------------------|----------------|-----------|-----------|-----------|
| | 2016/2017 | 2017/2018 | 2018/2019 | 2019/2020 |
| Sugarcane crushed (tonnes) | 7,217,248 | 8,740,987 | 9,029,709 | 8,022,501 |
| Growth (%) | (6.1) | 21.1 | 3.3 | (11.2) |
| Sugar production (tonnes) | 914,234 | 1,041,729 | 1,070,379 | 1,049,609 |
| Growth (%) | (1.9) | 13.9 | 2.8 | (1.9) |
| Cane crushing yield (kg/cane tonne) | 126.7 | 119.7 | 118.9 | 130.8 |

Source: MPSC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

| | -----Year Ended 31 December ----- | | | | |
|---|-----------------------------------|---------|---------|---------|---------|
| | Jan-Sep 2020 | 2019 | 2018 | 2017 | 2016 |
| Total operating revenues | 66,384 | 94,943 | 98,674 | 99,624 | 88,662 |
| Earnings before interest and taxes (EBIT) | 3,112 | 8,352 | 4,018 | 10,386 | 7,368 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 9,886 | 17,214 | 13,037 | 18,112 | 14,143 |
| Funds from operations (FFO) | 7,319 | 13,473 | 9,723 | 14,582 | 10,819 |
| Adjusted interest expense | 2,528 | 3,262 | 3,281 | 2,961 | 2,835 |
| Capital expenditures | 4,504 | 8,527 | 13,605 | 19,170 | 13,305 |
| Total assets | 174,378 | 166,821 | 169,091 | 167,896 | 141,992 |
| Adjusted debt | 86,603 | 78,888 | 78,371 | 74,661 | 63,176 |
| Adjusted equity | 66,509 | 67,296 | 67,605 | 71,452 | 59,126 |
| Adjusted Ratios | | | | | |
| EBITDA margin (%) | 14.89 | 18.13 | 13.21 | 18.18 | 15.95 |
| Pretax return on permanent capital (%) | 3.58 | 5.58 | 2.68 | 7.57 | 6.09 |
| EBITDA interest coverage (times) | 3.91 | 5.28 | 3.97 | 6.12 | 4.99 |
| Debt to EBITDA (times) | 6.00 | 4.58 | 6.01 | 4.12 | 4.47 |
| FFO to debt (%) | 12.30 | 17.08 | 12.41 | 19.53 | 17.13 |
| Debt to capitalization (%) | 56.56 | 53.96 | 53.69 | 51.10 | 51.66 |

RELATED CRITERIA

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

Mitr Phol Sugar Corporation Ltd. (MPSC)

| | |
|---|----------|
| Company Rating: | A+ |
| Issue Ratings: | |
| MPSC219A: THB2,000 million senior unsecured debentures due 2021 | A+ |
| MPSC210A: THB2,000 million senior unsecured debentures due 2021 | A+ |
| MPSC229A: THB2,000 million senior unsecured debentures due 2022 | A+ |
| MPSC220A: THB2,000 million senior unsecured debentures due 2022 | A+ |
| MPSC233A: THB2,500 million senior unsecured debentures due 2023 | A+ |
| MPSC236A: THB2,610 million senior unsecured debentures due 2023 | A+ |
| MPSC249A: THB3,200 million senior unsecured debentures due 2024 | A+ |
| MPSC256A: THB2,400 million senior unsecured debentures due 2025 | A+ |
| MPSC256B: THB2,210 million senior unsecured debentures due 2025 | A+ |
| MPSC259A: THB1,000 million senior unsecured debentures due 2025 | A+ |
| MPSC26DA: THB1,900 million senior unsecured debentures due 2026 | A+ |
| MPSC286A: THB1,630 million senior unsecured debentures due 2028 | A+ |
| MPSC28DA: THB2,200 million senior unsecured debentures due 2028 | A+ |
| MPSC306A: THB3,650 million senior unsecured debentures due 2030 | A+ |
| Rating Outlook: | Negative |

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