

MITR PHOL SUGAR CORPORATION LTD.

No. 20/2020
2 March 2020

CORPORATES

Company Rating:	A+
Issue Ratings:	
Senior unsecured	A+
Outlook:	Stable

Last Review Date: 08/03/19

Company Rating History:

Date	Rating	Outlook/Alert
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 "stable" rating outlook. The ratings 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. The ratings are partly constrained by the world sugar price volatility, international trade barriers, as well as the procurement of sugarcane in terms of both quantity and quality.

KEY RATING CONSIDERATIONS

Price drop curbs profit margin

MPSC's operating results in the first nine months of 2019 continued to weaken further from 2018. The prolonged drop in sugar prices caused by an oversupply of sugarcane worldwide, led to the drop in profits. Earnings before interest, tax, depreciation, and amortization (EBITDA) was Bt12-Bt13 billion in the first nine months of 2018-2019, down from Bt18.5 billion during the same period of 2017. EBITDA margin also dropped to around 16%-18% in the first nine months of 2018-2019, compared with 23.3% over the same period in 2017. On the flip side, MPSC's ethanol and power businesses benefited from the glut of sugarcane that resulted in lower fuel costs.

However, the global sugar market has shifted to a supply deficit in the 2019/2020 crop year. The unfavorable weather and lower plantation areas, especially in Thailand and India, caused a supply slump. Recently, the sugar price jumped to a level of around 15 cents/lbs, up from 12.4 cents/lbs (the average price in the 2018/2019 season).

TRIS Rating expects MPSC's revenue and profit margin to drop further in 2020. The benefit from the sugar price increase will likely be offset by the steep decline in sugar volume. Furthermore, profit from the ethanol and power businesses will be squeezed by the high raw material cost of sugarcane in short supply. Nevertheless, we expect MPSC's operating profit to gradually recover from 2021 onwards, along with a supply correction and normalization of the industry cycle.

Leverage rising and cash flow protection falling during industry downturn

MPSC's financial leverage has increased, owing to sizable capital expenditures and less profit during the industry downturn. Total debt to capitalization increased to 55% at the end of September 2019, compared with about 50%-52% in 2015-2017. Cash flow protection was also weaker. Funds from operations (FFO) to adjusted net debt declined to 13.2% (annualized, from the trailing 12 months) in the first nine months of 2019, from 17%-22% in 2015-2017. EBITDA interest coverage also dropped to 5% in the first nine months of 2019, compared with 5%-6.3% in 2015-2017.

Over the next three years, we forecast the company will spend around Bt12-Bt18 billion per year for capital expenditures. The funds are mainly for new investments in several sugar plants in Indonesia, as well as capacity expansion in the power business in Thailand and new solar power plants abroad. Despite the sizable investments, we expect the company's debt to capitalization ratio to hold at around 55%. Owing to the shrinkage of production volume, the ratio of the FFO to net debt is projected to decline to 12% in 2020, but it is expected to improve gradually to around 15% in 2021-

2022.

World's top sugar producer

MPSC is the largest sugar producer in Asia and one of the five largest sugar producers worldwide. MPSC owns and operates sugar mills in Thailand, China, the Lao People's Democratic Republic (Lao PDR), and Australia. The company also has a presence in Indonesia through a joint venture. TRIS Rating believes MPSC's earnings are less volatile than other sugar producers in Thailand, based on MPSC's efficient sugar mill operations and its geographical diversification of sugar mills across a number of countries.

MPSC produced 4.6 million tonnes of sugar in the 2018/2019 growing season compared with total production worldwide of 179.9 million tonnes. In Thailand, MPSC has long been the largest sugar producer. Its sugar mills in Thailand produced 2.9 million tonnes of sugar in the 2018/2019 growing season, the highest market share (20%) 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 with production of 0.5 million tonnes.

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. Presently, MPSC has installed power generation capacity of 606.3 megawatts (MW) with 248.8 MW sold under power purchase agreements (PPA) with government agencies. Ethanol production is 1.46 million litres per day at full capacity.

Revenue from the energy business (electricity and ethanol) has increased continuously to Bt15.19 billion in 2018 and Bt12.26 billion in the first nine months of 2019 from Bt10.52 billion in 2013, supported by capacity expansions of power plants and the growing demand for ethanol.

Currently, the power and ethanol businesses together contribute about 16% of MPSC's total revenues. The stable cash flow from the expanded energy business has partly held up MPSC's operating performance during the depressed sugar price period.

Manageable liquidity

We assess MPSC to have an adequate liquidity profile over the next 12 months. Funding needs in the next 12 months will include Bt4.2 billion for maturing debentures, Bt4 billion for maturing long-term loans, and capital expenditures of about Bt15 billion. The sources of funds will come from the FFO of Bt11.1 billion and undrawn short-term credit facilities of about Bt21.2 billion. TRIS Rating views that the company's ability to access external funding sources, including the domestic debt capital market and bank financing, remains unchanged.

BASE-CASE ASSUMPTIONS

- Revenues to decline by 6%-9% per year in 2019-2020 and grow by 6%-7% per year in 2021-2022.
- EBITDA margin to stay at around 16%-17% in 2019-2020 and improve to 19%-20% in 2021-2022.
- Total capital spending of around Bt12-Bt18 billion per year during 2019 -2022.

RATING OUTLOOK

The "stable" rating outlook reflects TRIS Rating's expectation that MPSC will maintain its leading position in both the Thai and Chinese sugar industries. We expect MPSC to retain its competitive position even after the sugar industry in Thailand is liberalized.

RATING SENSITIVITIES

The ratings and/or outlook would be downgraded if MPSC's operating performance is significantly weaker than our forecast or the case of debt-funded investments causing the net debt to EBITDA ratio to stay above 7 times. On the contrary, a rating upside case could emerge if MPSC's financial profile is significantly stronger from the current level on a sustainable basis.

COMPANY OVERVIEW

Founded in 1946 by the Vongkusolkrit family, MPSC is the leading sugar producer in Thailand. The Vongkusolkrit 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. Across the mills, sugar production totaled 4.6 million tonnes in the 2018/2019

growing season. More than half (65%) was produced in Thailand and 25% was produced in China.

In late 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. Additionally, the company will increase its investment in several sugar refineries in Indonesia.

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 bring its branded sugar products to 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 2019, its total sales were Bt69.7 billion. The sugar segment accounted for 74% of total revenues while the power and ethanol segments together comprised 16%.

MPSC owns 15 power plants. Twelve plants are located in Thailand, while the remaining three plants are in China (Funan, Ningming, and Chongzuo). The company sells electricity to the Electricity Generating Authority of Thailand (EGAT) and the Provincial Electricity Authority (PEA) under the Small Power Producer (SPP) scheme, totaling 248.8 MW at the end of 2019. A 24-MW power plant in Australia is under construction and scheduled to commence operation in 2020. Additionally, MPSC has expanded its investment into solar floating power plants in Taiwan with a total capacity of 59 MW. These new power plants are scheduled to begin operation in 2020-2021.

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: Bt million

Revenue	2015	2016	2017	2018	Jan-Sep 2019
Total sales & services	88,133	87,691	98,277	95,049	69,748
Y-o-y growth (%)	(1.4)	(0.5)	12.1	(3.3)	(5.2)
Proportion (%)					
Sugar in Thailand	43.3	42.3	42.6	40.7	40.2
Sugar in China	29.4	28.5	29.6	26.9	26.0
Sugar in Lao PDR	0.6	0.8	1.0	0.8	1.2
Sugar in Australia	6.4	9.3	5.7	5.7	4.2
Power and ethanol	14.4	13.3	13.9	16.0	17.6
Wood substitute products and paper	4.6	5.0	4.7	5.4	5.7
Logistics & others	1.3	0.8	2.5	4.5	5.2
Total	100	100	100	100	100

Source: MPSC

Table 2: Sugar Production in Thailand

Unit: Million tonnes

Sugar Producer	Growing Season				
	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019
Mitr Phol	2.30	1.96	1.98	2.73	2.92
Thai Roong Ruang	1.60	1.39	1.58	2.50	2.42
Thai Ekkalak	0.99	0.72	0.94	1.19	1.03
KSL	0.91	0.77	0.72	1.20	1.14
Wangkanai	0.56	0.51	0.39	0.79	0.69
Banpong	0.44	0.44	0.44	0.52	0.58
Kumpawapee	0.40	0.30	0.28	0.41	0.39
Eastern Sugar	0.38	0.35	0.38	0.51	0.49
Others	3.72	3.34	3.32	4.86	4.92
Total	11.30	9.78	10.03	14.71	14.58

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

Table 3: Sugar Crushing Yield in Thailand
Unit: Kg/tonne cane

Sugar Producer	Growing Season				
	2014/ 2015	2015/ 2016	2016/ 2017	2017/ 2018	2018/ 2019
Mitr Phol	111.4	108.3	113.0	115.2	118.7
Thai Roong Ruang	105.0	102.1	106.5	107.4	108.7
Thai Ekkalak	101.2	96.0	108.5	102.1	104.5
KSL	104.5	101.7	106.1	108.8	110.9
Wangkanai	103.2	100.5	105.8	110.4	111.9
Banpong	102.4	102.7	101.4	103.7	101.5
Kumpawapee	106.5	107.3	111.1	109.4	112.6
Eastern Sugar	107.3	102.6	108.5	107.6	114.9
Total	106.7	104.0	107.9	109.0	111.3

Source: OCSB
Table 4: MPSC's Sugar Production Statistics in China

Performance	Growing Season			
	2015/ 2016	2016/ 2017	2017/ 2018	2018/ 2019
Sugarcane crushed (tonnes)	7,685,320	7,217,248	8,740,987	9,029,709
Growth (%)	(6.1)	(6.1)	21.1	3.3
Sugar production (tonnes)	932,247	914,234	1,041,729	1,070,379
Growth (%)	(9.2)	(1.9)	13.9	2.8
Cane crushing yield (kg/cane tonne)	121.3	126.7	119.7	118.9
Market share by sugar produced (%)	11	10	10	10

Source: MPSC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	-----Year Ended 31 December -----				
	Jan-Sep 2019	2018	2017	2016	2015
Total operating revenues	71,557	98,674	99,624	88,662	89,198
Earnings before interest and taxes (EBIT)	5,872	4,019	10,386	7,368	9,471
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	12,664	13,037	18,112	14,143	15,802
Funds from operations (FFO)	10,131	9,722	14,582	10,819	12,259
Adjusted interest expense	2,541	3,282	2,961	2,835	2,529
Capital expenditures	5,740	13,605	19,170	13,305	10,932
Total assets	167,550	169,091	167,896	141,992	133,052
Adjusted debt	80,434	78,396	74,661	63,176	55,667
Adjusted equity	65,872	67,605	71,452	59,126	56,590
Adjusted Ratios					
EBITDA margin (%)	17.70	13.21	18.18	15.95	17.72
Pretax return on permanent capital (%)	2.96	2.68	7.57	6.09	8.18
EBITDA interest coverage (times)	4.98	3.97	6.12	4.99	6.25
Debt to EBITDA (times)	6.00	6.01	4.12	4.47	3.52
FFO to debt (%)	13.19	12.40	19.53	17.13	22.02
Debt to capitalization (%)	54.98	53.70	51.10	51.66	49.59

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:

MPSC209A: Bt1,300 million senior unsecured debentures due 2020	A+
MPSC200A: Bt1,000 million senior unsecured debentures due 2020	A+
MPSC200B: Bt1,850 million senior unsecured debentures due 2020	A+
MPSC219A: Bt2,000 million senior unsecured debentures due 2021	A+
MPSC210A: Bt2,000 million senior unsecured debentures due 2021	A+
MPSC229A: Bt2,000 million senior unsecured debentures due 2022	A+
MPSC220A: Bt2,000 million senior unsecured debentures due 2022	A+
MPSC233A: Bt2,500 million senior unsecured debentures due 2023	A+
MPSC236A: Bt2,610 million senior unsecured debentures due 2023	A+
MPSC249A: Bt3,200 million senior unsecured debentures due 2024	A+
MPSC256A: Bt2,400 million senior unsecured debentures due 2025	A+
MPSC256B: Bt2,210 million senior unsecured debentures due 2025	A+
MPSC259A: Bt1,000 million senior unsecured debentures due 2025	A+
MPSC26DA: Bt1,900 million senior unsecured debentures due 2026	A+
MPSC286A: Bt1,630 million senior unsecured debentures due 2028	A+
MPSC28DA: Bt2,200 million senior unsecured debentures due 2028	A+
MPSC306A: Bt3,650 million senior unsecured debentures due 2030	A+

Rating Outlook: Stable

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