

MITR PHOL SUGAR CORPORATION LTD.

No. 83/2024
23 May 2024

CORPORATES

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

Last Review Date: 18/10/23

Company Rating History:

Date	Rating	Outlook/Alert
15/03/22	A	Stable
04/06/20	A+	Negative
24/12/10	A+	Stable
02/11/07	A	Stable

Contacts:

Nauwarut Temwattanangkul
nauwarut@trisrating.com

Suchana Chantadisai
suchana@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Sasiporn Vajarodaya
sasiporn@trisrating.com



WWW.TRISRATING.COM

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" outlook.

The ratings continue to reflect MPSC's market position as one of the world's leading sugar producers, as well as its well-accepted brand name, and diversified sources of income. However, the ratings are constrained by the volatility of sugarcane supplies and sugar prices, plus operational risk associated with the company's overseas sugar plants.

KEY RATING CONSIDERATIONS

Weaker-than-expected operating results, but improvement expected

MPSC's operating performance in 2023 fell below our expectations, because of a sizable derivative loss, due to volatile sugar prices and lower-than-expected sugarcane supplies in Thailand. In 2023, sugar prices fluctuated strongly, rallying from 20 cents per pound (c/lb) to reach an 11-year record high at 27 c/lb, owing to a supply deficit following the El Nino phenomenon and concerns over global geopolitical risks.

During this period, MPSC's sugar operations in some locations, especially China, benefited from the record high prices. However, MPSC's Thai sugar operations, accounting for one-third of total revenue, suffered from lower-than-expected sugarcane output owing to unfavorable weather, together with sizable losses from over-hedging. The power and ethanol businesses were also adversely affected by higher fuel costs as a consequence of reduced supplies of cane feedstock.

As a result, MPSC's earnings before interest, taxes, depreciation, and amortization (EBITDA) dipped by 12.7% year-on-year (y-o-y) to THB19.0 billion in 2023. EBITDA margin declined to 12.6% in 2023, from 16% in 2022.

Going forward, MPSC's operating results will likely be impacted by low sugarcane output in 2024 because of dry weather. However, we expect cane supplies to increase in 2025-2026, owing to an expansion of plantation areas during the period of high sugar prices and likely more favorable weather in the next few years. TRIS Rating forecasts sugar prices to hover at a high level of around 20 c/lb in 2024 before gradually normalizing to about 15-18 c/lb in 2025-2026.

Under our baseline scenario, MPSC's EBITDA is projected to be THB21 billion in 2024 before declining to the THB18-THB19 billion per annum range in 2025-2026 on the back of price normalization. EBITDA margin is projected at 15.5% in 2024 and 14%-15% during 2025-2026.

Indonesian sugar mill acquisition

Apart from investment in a sugar refinery, a joint-venture in sugar refinery and a joint-venture in sugar mill, MPSC acquired a 75% stake in PT. Kebun Tebu Mas (KTM) with a total cost of approximately THB5 billion in July 2023.

KTM is a sugar mill and refinery located in Java. The rationale for this investment is to tap the market in Indonesia as one of the largest sugar importing countries, and low competition. Given MPSC's diversified production bases, the company is expected to benefit from sugar trading, especially raw sugar imported from Australia to Indonesia. However, the

investment in Indonesia is expected to contribute minimal cash flow to the group over the next few years. TRIS Rating views that more time, and efforts will be needed to improve productivity, as well as increase the yield quality and quantity of sugarcane in Indonesia.

Sizable investments to push up leverage

MPSC's financial leverage increased substantially in 2023, owing to lower profitability and sizable acquisitions in Indonesia. Adjusted debt was THB116.5 billion in 2023, up from THB95.7 billion in 2022. Debt to EBITDA ratio increased to 6.1 times in 2023, from 4.4 times in 2022. Debt to capitalization ratio increased to 57.2% in 2023, from 51.8% in 2022. Cash-flow protection also weakened. The ratio of funds from operations (FFO) to adjusted net debt was 11.3% in 2023, down from 18.2% in 2022.

Over the next three years, the company will spend around THB8 billion per year for capital expenditure. This will involve expansion of the sugar business overseas, development of several power plants in Thailand and overseas, together with several new project initiations. We expect the debt to capitalization ratio to hold at around 55%, while the ratio of adjusted debt to EBITDA should hover around 5-6 times in 2024-2026. The ratio of FFO to net debt is projected to remain in the 12%-13% range in 2024-2026.

Energy business cushions revenue fluctuations of sugar business

MPSC has expanded along the sugar value chain to maximize the utilization of sugarcane and by-products of the sugar production process. The sugar-related businesses include electricity generation and ethanol production. Currently, MPSC has an installed power generation capacity of 695 megawatts (MW) in Thailand with 321 MW sold under power purchase agreements (PPA) with Thai government agencies. Ethanol production is 1.5 million liters per day at full capacity.

In 2023, the power and ethanol businesses together contributed around 15% of MPSC's total revenues. Reliable cash flow from the expanded energy business has supported MPSC's operating performance during periods of depressed sugar prices.

Adequate liquidity

We assess MPSC to have adequate liquidity over the next 12 months. Funding needs will include THB3.2 billion of maturing debentures, THB3.8 billion of maturing long-term loans, and capital expenditures of about THB8 billion. The sources of funds will come from FFO of around THB14 billion and undrawn short-term credit facilities of about THB23 billion. The liquidity buffer is backed by cash on hand and short-term securities totaling THB6.4 billion at the end of 2023. We view that the company's ability to access external funding sources, including the domestic debt capital market and bank financing, remains unchanged.

Debt structure

At the end of 2023, MPSC recorded THB24.5 billion of priority debt out of total debt (excluding lease liabilities) of THB115.9 billion. Most of MPSC's priority debt was at the subsidiary level. The ratio of priority debt to total debt was 21%.

BASE-CASE ASSUMPTIONS

- Revenues to hover around THB130-THB135 billion annually in 2024-2026.
- EBITDA margin of 15.5% in 2024 and 14%-15% in 2025-2026.
- Total capital spending of THB8 billion per year in 2024-2026.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that MPSC will maintain its leading position in both the Thai and Chinese sugar industries. Competitive advantages arising from the company's diverse range of operations and sources of income should alleviate the volatility effect inherent in the sugar production business.

RATING SENSITIVITIES

The ratings on MPSC could be upgraded if the company is able to improve its operating cash flow and lower its leverage, with the net debt to EBITDA ratio staying below 5 times on a sustained basis.

On the contrary, the ratings could be downgraded in a scenario of materially higher-than-expected debt levels or weaker-than-expected profitability, that could potentially result in the company's adjusted debt to EBITDA ratio exceeding 8 times for a prolonged 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's strong business profile is underpinned by its status as the largest sugar producer in Asia and one of the five largest producers worldwide. MPSC owns and operates sugar mills in Thailand, China, the Lao People's Democratic Republic (Lao PDR), Australia and Indonesia.

MPSC produced 4.7 million tonnes of sugar in the 2022/2023 growing season compared with total production worldwide of 175.3 million tonnes. Its sugar mills in Thailand produced 2.4 million tonnes of sugar in the 2022/2023 growing season, commanding the highest market share (21%) based on production volume. Moreover, MPSC is the third-largest sugar producer in China, with a market share of about 10% and production of 0.9 million tonnes. MPSC is also one of the leading sugar producers in Australia with production of 0.4 million tonnes.

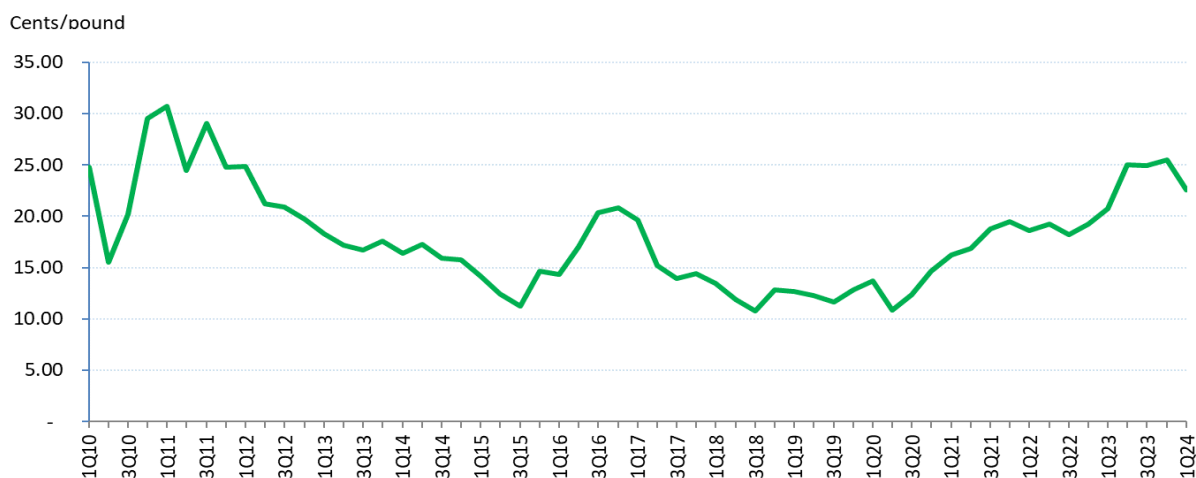
In July 2023, MPSC expanded its presence in Indonesia by acquiring a 75% stake in PT. Kebun Tebu Mas (KTM) with a total consideration of approximately THB5 billion. KTM, a sugar mill and refinery located in Java, has a cane crushing capacity of 12,000 tonnes per day and refinery capacity of 1,000 tonnes per day. KTM also has an import quota for raw sugar for further processing in its refinery.

Although sugar is a commodity, MPSC is striving to build a brand to differentiate its products from those of its competitors. MPSC's retail products are successfully marketed under the "Mitr Phol" brand 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. In 2023, its total sales were THB148.8 billion. The sugar segment accounted for 78% of its total revenues while the power and ethanol segments together contributed 15%. MPSC owns 23 power plants, 20 of which are located in Thailand, and three 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 316 MW in 2023. Additionally, MPSC holds investments in several other power plants, including solar floating power plants in Taiwan.

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	2019	2020	2021	2022	2023
Total sales & services	91,873	85,139	103,656	134,301	148,751
Y-o-y growth (%)	(3.3)	(7.3)	21.7	29.6	10.8
Proportion (%)					
Sugar in Thailand	39.1	30.4	32.6	34.4	37.6
Sugar in China	27.3	26.2	25.1	24.5	21.5
Sugar in Lao PDR	1.0	1.1	1.1	0.8	1.4
Sugar in Australia	4.5	6.9	4.5	4.6	5.9
Sugar in Indonesia	-	5.9	9.3	9.5	11.1
Power and ethanol	20.0	21.3	18.6	18.1	15.5
Wood substitute products and paper	5.6	5.9	6.3	5.5	4.6
Logistics & others	2.5	2.4	2.6	2.5	2.4
Total	100	100	100	100	100

Source: MPSC

Table 2: Sugar Production in Thailand

Unit: Mil. tonnes

Sugar Producer	Growing Season				
	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
Mitr Phol	2.92	1.61	1.68	2.34	2.36
Thai Roong Ruang	2.42	1.34	1.24	1.45	1.82
Thai Ekkalak	1.03	0.60	0.47	0.64	0.80
KSL	1.14	0.58	0.53	0.70	0.75
Wangkanai	0.69	0.22	0.24	0.36	0.50
Banpong	0.58	0.38	0.27	0.28	0.32
Kumpawapee	0.39	0.24	0.17	0.29	0.22
Eastern Sugar	0.49	0.34	0.34	0.36	0.42
Others	4.92	2.98	2.65	3.73	3.87
Total	14.58	8.29	7.59	10.99	11.06

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

Table 3: Sugar Crushing Yield in Thailand

Unit: Kg/tonne cane

Sugar Producer	Growing Season				
	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
Mitr Phol	118.7	116.6	123.5	121.3	127.1
Thai Roong Ruang	108.7	106.1	109.5	102.3	115.2
Thai Ekkalak	104.5	106.3	108.1	102.8	115.5
KSL	110.9	108.1	110.8	107.2	113.7
Wangkanai	111.9	104.9	109.1	109.7	114.2
Banpong	101.5	106.3	104.1	99.2	109.5
Kumpawapee	112.6	118.4	115.2	118.6	112.0
Eastern Sugar	114.9	112.8	120.6	111.3	123.2
Total	111.3	110.8	113.8	110.3	117.8

Source: OCSB

Table 4: MPSC's Sugar Production Statistics in China

Performance	Growing Season			
	2019/2020	2020/2021	2021/2022	2022/2023
Sugarcane crushed (tonnes)	8,022,501	7,724,763	9,287,214	7,225,930
Growth (%)	(11.2)	(3.7)	20.2	(22.2)
Sugar production (tonnes)	1,049,609	955,494	1,123,436	928,193
Growth (%)	(1.9)	(5.2)	17.6	(17.4)
Cane crushing yield (kg/cane tonne)	130.8	126.7	121.0	128.5

Source: MPSC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Total operating revenues	150,124	135,681	105,297	86,885	94,943
Earnings before interest and taxes (EBIT)	6,837	8,655	3,766	2,722	8,352
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	18,986	21,739	12,807	11,783	17,214
Funds from operations (FFO)	13,146	17,421	9,102	7,840	13,108
Adjusted interest expense	4,147	3,211	2,991	3,004	3,262
Capital expenditures	11,896	7,820	9,196	6,720	8,527
Total assets	241,988	212,726	190,482	176,501	166,821
Adjusted debt	116,548	95,746	92,762	86,255	78,888
Adjusted equity	87,062	89,053	72,858	68,045	67,296
Adjusted Ratios					
EBITDA margin (%)	12.6	16.0	12.2	13.6	18.1
Pretax return on permanent capital (%)	3.4	4.8	2.3	1.8	5.6
EBITDA interest coverage (times)	4.6	6.8	4.3	3.9	5.3
Debt to EBITDA (times)	6.1	4.4	7.2	7.3	4.6
FFO to debt (%)	11.3	18.2	9.8	9.1	16.6
Debt to capitalization (%)	57.2	51.8	56.0	55.9	54.0

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

Mitr Phol Sugar Corporation Ltd. (MPSC)

Company Rating:	A
Issue Ratings:	
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
MPSC31NA: THB3,000 million senior unsecured debentures due 2031	A
MPSC31NB: THB1,850 million senior unsecured debentures due 2031	A
MPSC33NA: THB2,150 million senior unsecured debentures due 2033	A
MPSC33NB: THB3,650 million senior unsecured debentures due 2033	A
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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