DOUBLE A (1991) PLC

No. 3/2020
23 January 2020

CORPORATES

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

Last Review Date: 07/08/19

Company Rating History:

Date	Rating	Outlook/Alert
05/08/19	BBB-	Stable
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

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RATIONALE

TRIS Rating affirms the company rating on Double A (1991) PLC (DA) at "BBB-" and the rating on DA's outstanding senior unsecured debentures at "BBB-". At the same time, we assign the rating of "BBB-" on DA's proposed issue of up to Bt3.5 billion in senior unsecured debentures. The proceeds from the new debentures will mainly be used to repay its outstanding debentures.

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.

DA's operating performance has improved recently. The EBITDA margin (earnings before interest, taxes, depreciation, and amortization as a percentage of total operating revenues) rose steadily and significantly to 29.1% in the first nine months of 2019, from a low of 8.2% in 2016. Over the next three years, TRIS Rating's forecast assumes DA's profits and revenues will drop slightly, but remain firm. The EBITDA margin should range between 18%-23% and FFO should range between Bt2.7-Bt3.6 billion per annum. Total operating revenue should stay above Bt19 billion per annum.

We forecast DA's leverage to increase slightly over the next three years as the company is now developing a new pulp mill using recovered paper (RCP) as raw material. The RCP pulp mill should cost DA approximately Bt900 million. Considering other expenditures including the annual debt repayment, FFO should not be sufficient to cover all the expenditures. DA could liquidate some assets not related to its core operations to be used as another source of cash.

TRIS Rating expects DA to manage liquidity carefully. Debentures worth about Bt2.2 billion in total will come due in 2020. The company is likely to partly refinance the debentures with new ones. As of 15 January 2020, DA had undrawn credit facilities of about Bt4.4 billion as additional sources of liquidity.

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 30 September 2019 was 1.2 times. TRIS Rating believes that DA will stay in compliance for the next 12 to 18 months.

RATING OUTLOOK

The "stable" outlook reflects our expectation that DA will maintain its competitiveness 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.

RELATED CRITERIA

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

Double A (1991) PLC (DA)

Company Rating:	BBB-
Issue Ratings:	
DA241A: Bt2,350 million senior unsecured debentures due 2024	BBB-
DA235A: Bt2,000 million senior unsecured debentures due 2023	BBB-
Up to Bt3,500 million senior unsecured debentures due within 10 years	BBB-
Rating Outlook:	Stable

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