TRIS RATING
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STARK CORPORATION PLC

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CORPORATES

Company Rating: BBB+

Outlook: Stable

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RATIONALE

TRIS Rating assigns the company rating on STARK Corporation PLC (STARK) at "BBB+" with a "stable" outlook. The rating reflects the company's leading position in the wire and cable business in the ASEAN region, proven record of Phelps Dodge International Thailand Ltd. (PDITL)'s operations in Thailand, and enhanced profitability from expertise in high-margin products. However, the company's rating is constrained by its exposure to raw material price risk and its relatively high financial leverage as a result of mergers and acquisitions (M&A) strategy.

KEY RATING CONSIDERATIONS

Leading position in the wire and cable industry

STARK is one of the largest wire and cable (W&C) manufacturers in Asia. Currently, the company has W&C production facilities in Thailand and Vietnam with a combined production capacity of 150,000 metric tons for copper cable and 100,000 metric tons for aluminum cable.

STARK's credit profile is primarily driven by the business strength of its core subsidiary, PDITL. PDITL is known as the second largest W&C manufacturer in Thailand. PDITL's revenue was THB9.4 billion in 2020. The company's market share in the W&C business was approximately 21.0% in 2019 up from 16.9% in 2016 after its ownership was changed to STARK's current shareholders.

PDITL's competitiveness lies in its strong brand and reputation in Thailand. PDITL has an operational record of over 50 years with firmly established customer relationships in the private and government sectors. PDITL's product offerings are the widest among Thai producers, ranging from bare conductor to low-voltage and extra high-voltage insulated cables. The company is the only domestic manufacturer capable of producing extra high-voltage cable (over 230 kilovolts).

We believe STARK's leading market status in Thailand will continue in the foreseeable future. The market has high barriers to entry due to its capital-intensive nature, a requisite of certification or regulatory approval, and strict customer requirements regarding operating track records. However, STARK's business strength is constrained by price-driven competition, exposure to the cyclical market, and some customer concentration risk.

Growth strategy through M&A

STARK's portfolio has grown rapidly during 2019-2020. After listing on the Stock Exchange of Thailand (SET) in July 2019, the company completed three acquisition transactions comprising 1) Adisorn Songkhla Co., Ltd. (ADS), 2) Thipha Cables and Dong Viet Non-Ferrous Metal and Plastic (TPC&DVN) and 3) Thai Cable International Co., Ltd. (TCI). The company's asset size expanded considerably to THB27.3 billion at the end of 2020 from THB12.6 billion as of December 2019.

In our view, STARK's growth strategy will continue to be driven by M&A activities. To strengthen its W&C market position and increase business diversity, the company's acquisition targets are not only international W&C manufactures, but also include other companies in the supply chain of W&C or electricity-related business. The company also seeks investment opportunities in providing logistics services for oil and gas companies.

Given the aggressive acquisition approach and wide scope of the investments, we see the possibility of a material change in the company's business mix and profile.

W&C business expansion in Vietnam

STARK's W&C business expanded substantially through the acquisition of TPC&DVN in March 2020. TPC&DVN is a large W&C manufacturer in Vietnam, with a total revenue of about THB8.1 billion in 2020. TPC&DVN's total production capacity is larger than PDITL's but their factories are underutilized. Prior to the acquisition, TPC&DVN main products were in the low-voltage cable segment, accounting for 35%-40% of total revenue. The remainder comes from sales of raw materials such as copper rods.

We view that the acquisitions of the Vietnamese W&C companies have strengthened STARK's competitiveness significantly by doubling business scale and diversifying production facilities as well as market base. The prospects for W&C demand in Vietnam are promising, assessed by an average growth rate of approximately 10%-11% per year in electricity consumption over the last several years.

The rating also takes into consideration the possibility of synergy benefits from integration between the Thai and Vietnamese operations. The benefits would stem from stronger bargaining power from pooled procurement of raw materials, reallocation of plant utilization to optimize production efficiency, and leveraging of PDITL's expertise to produce and distribute medium- to high-voltage cable in Vietnam. The synergy benefits will help improve STARK's operating efficiency and lift profitability over long terms. However, we have not taken full synergy benefits into our financial projection, reflecting the limited proven record of operations in Vietnam.

Exposure to raw material price volatility

W&C products mainly consist of copper and aluminum. The two metals account for approximately 70%-80% of production costs. We believe that, given the commodity-based nature of its products, the company's product margin and working capital are likely to be strained during periods of sudden change in metal prices. The company's measures, comprising immediate entry into hedging contracts after obtaining orders and cost pass-through pricing strategy for certain product segments, can partly mitigate the raw material price risk.

Enhanced profitability through expansion of high-margin products

STARK's profitability improved significantly in 2020. Earnings before interest, taxes, depreciation, and amortization (EBITDA) margin escalated to 15.1% in 2020, from about 10% in 2018 and 2019. The profit enhancement was due chiefly to the company's strategic movement to a high margin product. In early 2020, the company began focusing more on sophisticated and high-margin products such as medium and extra high-voltage cable, while at the same time, reducing sales in low-margin segments such as bare conductor. STARK has adopted the same direction for the Vietnamese operation, by expanding sales in W&C products and cut sales of raw materials, including copper and aluminum. Additionally, STARK has implemented lean management programs to lower redundant operating costs and reduce working capital need.

With the strategic focus on high margin products and intensive cost-reduction programs, we believe STARK will be able to maintain high levels of profitability. The success in launching medium- to high- voltage cable in Vietnam and new specialty W&C products will be plus to support long-term profitability. The rating also considers STARK's better-than-peer profit margin in the W&C manufacturing industry as a positive factor to support its credit profile.

Financial leverage expected to improve

Following a series of acquisitions, STARK's financial leverage has increased substantially to a relatively high level. The company's reported total debt surged to THB12.3 billion at the end of 2020 from THB5 billion at the end of 2019. The net debt to capitalization ratio rose to 74.9% at the end of 2020 from 62% at the end of 2019. The net debt to EBITDA ratio escalated to 4.4 times in 2020 from 3.4 times in 2019.

We believe that the company's financial strength will recover gradually, considering from STARK's deleveraging plans since we expect the company will prioritize business integration with the Vietnamese companies. The company is expected to have no sizable M&A transactions over the next two years. The company's financial policy sets the target of net debt to EBITDA at below 2.5 times by 2023.

Under our base-case scenario, the company's annual revenue will increase to THB17-THB18 billion during 2021-2022 with annual EBITDA surrounding THB2.5 billion over the same period. The upside for profitability would stem from synergy benefits from integration of Vietnamese operation and cost saving programs the company is undertaking. We expect the company's financial leverage to continually improve, with its net debt to EBITDA ratio declining to 3.5-4 times and the ratio of funds from operations (FFO) to net debt improving to above 15% over the forecast period. The downside risk may stem from a recent rise in the copper price.

Manageable liquidity

We assess STARK's liquidity as manageable over the next 12 months. Sources of funds are adequate to cover debt payments. The sourecs of funds consist of cash on hand of THB1.24 billion at the end of December 2020 and an estimated FFO of THB1.4-THB1.5 billion. The primary uses of funds are debt repayments of about THB1.78 billion. Capital spending of THB0.75 billion in the next 12 months is expected to be partly funded by external financing.

BASE-CASE ASSUMPTIONS

- Revenue of about THB17-THB18 billion during 2021-2022.
- Average EBITDA of around THB2.5 billion per annum during 2021-2022.
- Capital expenditure of THB0.75 billion per annum during 2021-2022.
- No dividend payment during 2021-2022.

RATING OUTLOOK

The "stable" outlook reflects our expectation that STARK will be able to maintain its market position in W&C industry both in Thailand and Vietnam. The company's net debt to EBITDA ratio is forecast to stay below 5 times over the next two years. TRIS Rating expects the company would not have any massive debt-funded M&As.

RATING SENSITIVITIES

A rating and/or outlook upgrade could happen if STARK's revenue base and cash flow materially enlarge from the current levels while its financial profile maintains or improves from its current level. This may arise from the successful expansion of the company's W&C business or the development of new high value-added product segments.

The rating and/or outlook could be revised downward if the company's net debt to EBITDA ratio remains above 5 times for a sustained period. This could result from new M&A transactions involving excessive debt-financing that could materially weaken financial profile.

COMPANY OVERVIEW

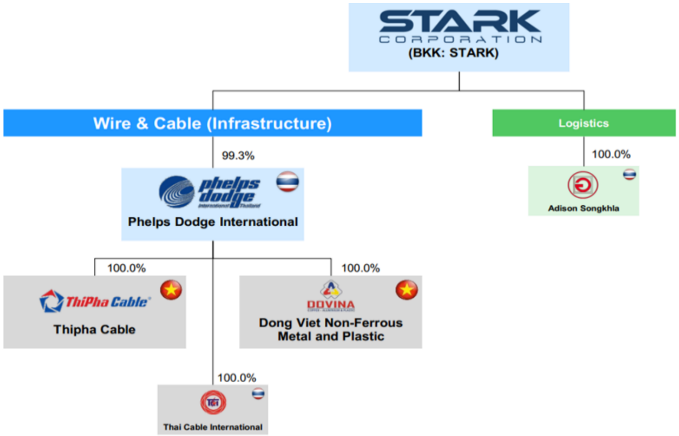
STARK is one of the leading W&C manufacturers in ASEAN. The company became a listed company on the SET in July 2019 following the incorporation of PDITL into Siam Inter Multimedia PLC and the transformation of its business to W&C manufacturing. The company simultaneously divested its legacy media business and was renamed STARK in July 2019. STARK's major shareholder is Mr. Vonnarat Tangkaravakoon, holding about 80% stakes in the company at the end of 2020.

STARK's businesses consist of W&C manufacturing and logistics services. The W&C business is operated through three subsidiaries, PDITL, TPC&DVN, and TCI. PDITL is a leading Thai W&C manufacturer with annual production capacity of 60,000 metric tons for copper cable and 28,000 metric tons for aluminum cable. TPC&DVN is a W&C manufacturer in Vietnam with annual production capacity of 80,000 metric tons for copper cable and 70,000 metric tons for aluminum cable. TCI is a small W&C manufacturing company in Thailand with annual production capacity of 10,000 metric tons for copper cable and 2,000 metric tons for aluminum cable. STARK acquired TPC&DVN and TCI in March 2020. The logistics business only consists of ADS, a company offering manpower and recruitment services for oil and gas companies. STARK took over ADS in December 2019.

In 2020, the company's revenue was THB18 billion. The W&C business contributed about 91% of total revenue, with the remainder coming from the logistics business. PDITL contributed about 53% of the total revenue, followed by TPC&DVN with 36% and 2% from TCI. ADS's revenue accounted for 9% of total revenue.

GROUP STRUCTURE

Chart 1: STARK's Business Structure



Source: STARK

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	---------------------- Year Ended 31 December --------------------				
	2020	**2019**	**2018**	**2017**	**2016**
Total operating revenues	16,899	11,539	11,864	451	390
Earnings before interest and taxes (EBIT)	2,186	905	1,062	(33)	(136)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,545	1,108	1,238	14	(94)
Funds from operations (FFO)	1,464	472	629	(32)	(117)
Adjusted interest expense	662	491	426	31	32
Capital expenditures	320	478	376	18	19
Total assets	27,316	12,655	13,781	973	1,046
Adjusted debt	11,257	3,772	4,566	486	451
Adjusted equity	3,764	2,313	1,818	282	362
Adjusted Ratios					
EBITDA margin (%)	15.1	9.6	10.4	3.0	(24.2)
Pretax return on permanent capital (%)	18.3	12.4	27.0	(4.1)	(14.9)
EBITDA interest coverage (times)	3.8	2.3	2.9	0.4	(2.9)
Debt to EBITDA (times)	4.4	3.4	3.7	35.5	(4.8)
FFO to debt (%)	13.0	12.5	13.8	(6.5)	(26.0)
Debt to capitalization (%)	74.9	62.0	71.5	63.3	55.5

* *Consolidated financial statements*

Note: *The financial statement reported during 2016-2017 belonged to Siam Inter Multimedia PLC.*

RELATED CRITERIA

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

Stark Corporation PLC (STARK)

Company Rating:	BBB+
Rating Outlook:	Stable

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