

THAI WAH PLC

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CORPORATES

Company Rating: BBB+

Outlook: Stable

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RATIONALE

TRIS Rating assigns the company rating on Thai Wah PLC (TWPC) at “BBB+” with a “stable” outlook. The rating reflects TWPC’s several strengths. TWPC is a large producer of tapioca starch and other starch-related foods, with a long track record of producing tapioca starch and vermicelli. TWPC is producing more high value-added products, which helps improve profits. In addition, TWPC has a very sound balance sheet. However, the strengths are partially offset by the cyclical nature of commodity products such as tapioca starch, plus the availability and seasonal supply of cassava roots. Potential changes in trade barriers are also a threat.

KEY RATING CONSIDERATIONS

Leading market position in tapioca starch and vermicelli industries

TWPC has a proven track record in Thailand for more than 70 years. TWPC is the third-largest exporter of tapioca starch in Thailand, based on the volume of exports during 2017 through the first seven months of 2018, as reported by the Ministry of Commerce. TWPC holds 7%-9% market share in exports of tapioca starch. TWPC is the largest producer of vermicelli and rice noodles in Thailand, with around 35% market share by sales value.

TWPC’s management team has over 65 years of experience. TWPC’s major customers are large-scale international operators in several industries, such as food and beverage, and paper makers. These international buyers normally bring native tapioca starch to reprocess into related businesses.

Growing in high value-added products

TWPC has been adding more high value-added products (HVA) and expand its global marketing presence. Generally, TWPC’s gross profit margin of native tapioca starch is below 20%, while the HVA is approximately 20%-30%. In 2017, its sales of native starch accounted for 50% of total revenue, sales of HVA comprised 30%, and vermicelli and related products made up the remaining 20%.

Looking forward to 2020, TWPC aims to broaden contributions from HVA and food to 70% of total revenues, while reducing revenue contribution from native tapioca starch to 30%.

Moderate level of diversity

TWPC is moderately diversified in terms of markets served and production sites. China is TWPC’s largest market, making up 50%-60% of export sales during 2015-2017. Sales in Taiwan were 20%-25%, sales in the United States (US), Europe, and Indonesia were 3%-5%. Other markets made up the rest.

Currently, TWPC has eight tapioca factories in three countries; Thailand, Vietnam, and Cambodia. The plants have a combined capacity of around 485,000 tonnes per year. TWPC has two vermicelli processing plants, one in Thailand and one in Vietnam, with a total capacity of 32,550 tonnes per year. Overall, utilization rate in 2017 was 67%.

TRIS Rating expects TWPC will be able to penetrate new export markets for tapioca starch in order to alleviate concentration risk from the reliance on major export markets, such as China and Taiwan.

Volatile profitability

TWPC's operating income was 9.6%-10.3% during 2014-2015 due to the low production cost of cassava root. However, the company's operating income shot up to 16.9% in 2016 because the Chinese government announced to terminate supporting corn producers in order to reduce the stock of corn in China. An oversupply of tapioca in Thailand was the result and the cost of producing tapioca fell during that period due to the substitution effect.

In 2017, as farmers switch from growing tapioca to sugarcane, the supply of tapioca in Thailand fell and pushed up tapioca price. The price of tapioca rose by 25%, to US\$425 per tonne in December 2017 from US\$338 per tonne in September 2017, and peaked at US\$553 per tonne in May 2018. As a result, TWPC's operating income fell to 11.7% in 2017 and 8.5% during the first half of 2018.

TWPC's operating income as a percentage of total operating revenues is forecast to fall below 10% in 2018-2021 as we expect the raw material cost in tapioca to remain high over the next few years.

Financial leverage to rise, but stay manageable

TRIS Rating's forecast shows that the total debt to capitalization of TWPC rose to 10.2%-18.6% during 2018-2021, from a debt-free position during 2015-2017. Higher capital expenditures and other investments pushed the ratio higher. Capital expenditures are forecast at Bt500-Bt1,000 million per year during 2018-2021. The company plans to spend Bt540 million to build the second phase of a tapioca plant in Cambodia, and spend Bt380 million to build two biogas power plants at Kalasin and Nakorn Ratchasima provinces.

TWPC's financial leverage is low. The earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio remains satisfactory, ranging between 12.2-14.7 times during the 2018-2021.

Sound liquidity profile

Liquidity will be adequate over the next 12 months. Our base case forecast assumes EBITDA will range from Bt650-Bt750 million per annum in 2018-2021 as tapioca production costs remain high and the supply of tapioca continues to drop. Cash and cash equivalents totaled Bt588 million at the end of June 2018, and TWPC had unused credit facilities of Bt1,136 million.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that TWPC will sustain its competitive position in the tapioca starch and vermicelli businesses in Thailand. Sales of HVA products will mitigate the effect of the inherently volatile price of native tapioca starch on the company's profit margin.

RATING SENSITIVITIES

The rating could be upgraded if the company continues to shift its product mix so that it is less exposed to commodity products, lowers the volatility of operating income, and sustains a conservative financial policy.

In contrast, TWPC's rating could be revised downward, if earnings fall short of expectations. A prolonged tapioca shortage worldwide is also a negative factor for the rating as the rising production cost will pressure the company's profitability. Any policy change toward a more aggressive financial policy would also affect the rating.

COMPANY OVERVIEW

Thai Wah Starch PLC (TWS) was established in Thailand in 1947 and listed on Stock Exchange of Thailand (SET) in 1985 by the Ho family. TWS produced tapioca flour. TWS marketed tapioca flour under the "ROSE" brand. TWS's major customers were international buyers because TWS could meet the international standards. TWS had four factories in Nakorn Ratchasima, Udorn Thani, Kalasin, and Kamphaeng Phet, close to the major cassava cultivating area.

In 1994, TWS joined with a state enterprise in Vietnam to establish a joint venture company, Tay Ninh Tapioca Joint Stock Company (Tay Ninh), originally known as Tay Ninh Tapioca Co., Ltd., to produce and distribute tapioca starch and glucose syrup. TWS owned a 70.0% of Tay Ninh's shares.

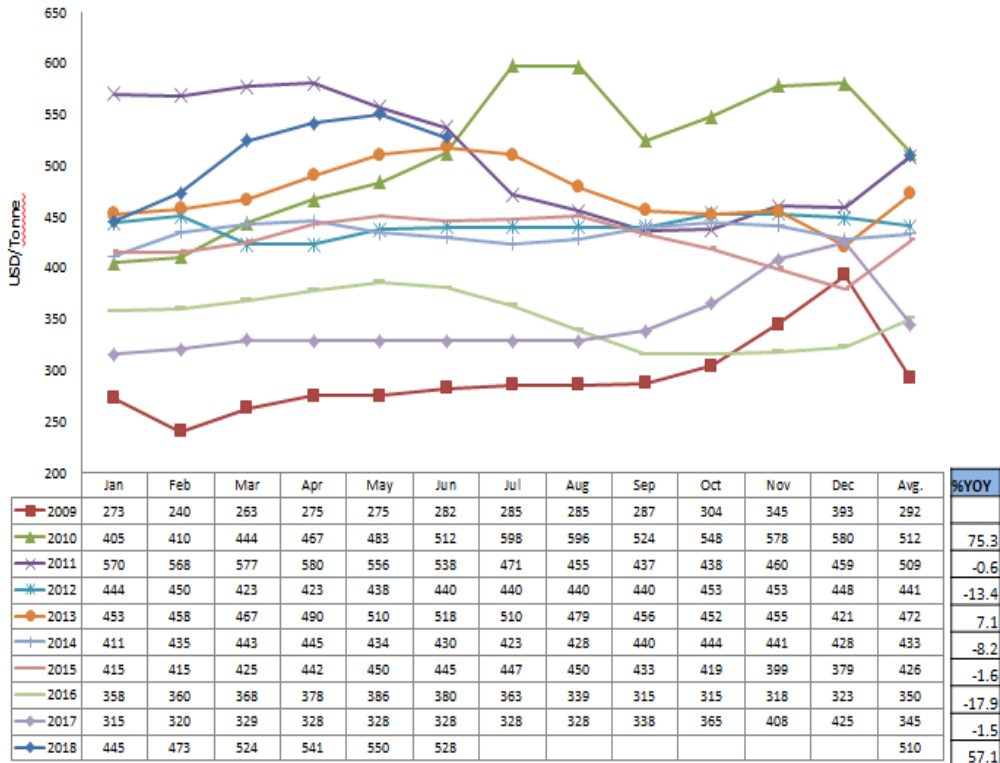
Thai Wah Food Products PLC (TWFP), which was established in 1952, was a large-well known vermicelli producer in Thailand. TWFP was the leading producer of vermicelli in Thailand with well-known brands like "Double Dragon", "Phoenix", and "Double Kilin". In 1989 TWFP was successfully listed on the SET.

In 2015, the shareholders of TWS and TWFP approved the amalgamation of TWS and TWFP and approved "Thai Wah PLC"(TWPC) as the new name of the amalgamated entity.

TWPC was listed on the SET in October 2015. As of March 2018, the Ho family collectively held 40.2% of the company's shares.

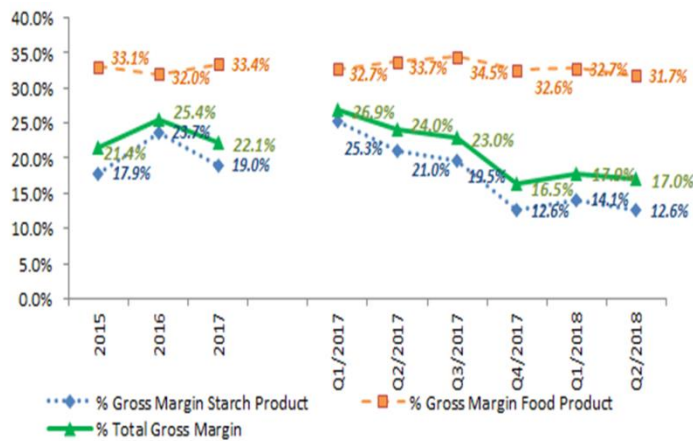
KEY OPERATING PERFORMANCE

Chart 1: Native Starch Export Price (F.O.B.)



Source: Thai Tapioca Trade Association

Chart 2: TWPC's Gross Margin by Product



Source: TWPC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	-----Year Ended 31 December -----				
	Jan-Jun 2018	2017	2016	2015	2014
Total operating revenues	3,423	6,354	6,306	5,618	5,397
Operating income	292	742	1,062	538	558
Earnings before interest and taxes (EBIT)	152	543	927	535	590
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	292	745	1,115	538	558
Funds from operations (FFO)	254	625	934	428	438
Adjusted interest expense	5	15	14	3	3
Capital expenditures	238	454	408	82	0
Total assets	6,805	7,116	6,403	5,829	5,728
Adjusted debt	0	0	0	0	0
Adjusted equity	5,751	5,906	5,345	4,921	4,931
Adjusted Ratios					
Operating income as % of total operating revenues (%)	8.52	11.68	16.85	9.58	10.33
Pretax return on permanent capital (%)	5.94 **	9.02	16.97	10.35	11.82
EBITDA interest coverage (times)	59.54	51.24	78.83	164.10	187.93
Debt to EBITDA (times)	0.00	0.00	0.00	0.00	0.00
Debt to capitalization (%)	0.00	0.00	0.00	0.00	0.00

Note: All ratios have been adjusted by operating leases.

* Consolidated financial statements

** Annualized with trailing 12 months

Thai Wah PLC (TWPC)

Company Rating:	BBB+
Rating Outlook:	Stable

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