

SRI TRANG AGRO-INDUSTRY PLC

No. 11/2021
8 February 2021

CORPORATES

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

Last Review Date: 26/10/20

Company Rating History:

Date	Rating	Outlook/Alert
26/10/20	A-	Stable
25/10/19	BBB+	Negative
27/10/17	BBB+	Stable
05/08/11	A-	Stable
20/11/10	BBB+	Positive
30/09/09	BBB+	Stable
14/09/07	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Sri Trang Agro-Industry PLC (STA) and the ratings on its existing senior unsecured debentures at “A-” with a “stable” outlook. At the same time, TRIS Rating assigns the rating of “A-” to STA’s proposed issue of up to THB3.5 billion in senior unsecured debentures. The proceeds from the new debenture issuance will be used to refinance and repay STA’s outstanding debts, and to support planned capital expenditures.

The ratings continue to reflect STA’s leading position in the natural rubber (NR) industry, its competitive edge in vertical integration, and the strong track record of the management team. However, STA’s business profile is partly constrained by the cyclical and volatile nature of NR prices as well as the challenges the NR industry is facing amid an uncertain global economy.

During the first nine months of 2020, STA’s total operating revenue and net profit remained in line with our full-year projection for 2020. Total operating revenue grew by 8.4% year-on-year (y-o-y) to THB49.5 billion. The revenue contribution from the glove segment rose to 34% following strong demand induced by the Coronavirus Disease 2019 (COVID-19) pandemic. The company’s gross margin (including gains or losses from derivatives instruments) jumped to 20.7%, up from 7.2% in the same period of the prior year. The improvement was due primarily to a more favorable product mix and lower raw material costs. Earnings before interest, taxes, depreciation, and amortization (EBITDA) also improved to THB9.5 billion in the first nine months of 2020, compared with THB2.5 billion for the same period of the prior year. As a result, STA reported a net profit of THB4 billion, compared with a net loss of THB223 million in the same period of the prior year.

STA has strengthened its capital substantially after the initial public offering (IPO) of its subsidiary, Sri Trang Gloves (Thailand) PLC (STGT), in July 2020. STGT is a listed company on the Stock Exchange of Thailand (SET). The net proceeds received from the IPO of THB14.6 billion made a sharp drop in STA’s total debt to capitalization ratio to 8.1% as of September 2020 from 51.7% as of December 2019. Under our base-case projection, STA’s total debt to capitalization ratio is projected to be in the 19%-31% range during 2020-2022.

We expect STA to maintain strong liquidity over the next 12-18 months. The company has scheduled debt repayments of THB1.1-THB1.4 billion per annum during 2020-2022. At the end of September 2020, its cash on hand and short-term investments stood at THB18.9 billion, with unused credit facilities of more than THB25.7 billion.

RATING OUTLOOK

The “stable” outlook reflects the expectation of TRIS Rating that STA will maintain its competitive position in the NR industry with an increasing revenue contribution from the glove business. We also expect the company to prudently manage NR price risk and foreign exchange risk, and to maintain sufficient liquidity to cushion the effects of volatile NR prices.

RATING SENSITIVITIES

STA's credit upside is limited in the near term following the recent upgrade in 2020. A rating downgrade could occur if the company's performance weakens materially, with its adjusted debt to EBITDA ratio staying above 4 times for an extended period. Any aggressive debt-funded expansion, which would potentially weaken its balance sheet and cash flow protection, could also lead to a downgrade scenario.

RELATED CRITERIA

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

Sri Trang Agro-Industry PLC (STA)

Company Rating:	A-
Issue Ratings:	
STA215A: THB1,455 million senior unsecured debentures due 2021	A-
Up to THB3,500 million senior unsecured debentures due within 10 years	A-
Rating Outlook:	Stable

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