

## Press Release

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### **TRIS Rating Assigns "A/Stable" Rating to Senior Unsecured Debt Worth Up to Bt2,000 Million of "KSL"**

TRIS Rating has assigned a rating of "A" to the proposed issue of up to Bt2,000 million in senior unsecured debentures of Khon Kaen Sugar Industry PLC (KSL). At the same time, TRIS Rating has affirmed the company rating and the ratings of the outstanding senior unsecured debentures of KSL at "A". The outlook remains "stable". The ratings reflect the company's long track record in the sugar and sugarcane industry and its diversification into sugar-related businesses. The ratings also take into consideration the cyclical nature of the prices of sugar, the volatility of sugarcane supply, the operational risks of KSL's sugar operations in the Lao People's Democratic Republic (Lao PDR) and Cambodia, as well as the regulatory framework of cane and sugar industry in Thailand.

The "stable" outlook reflects TRIS Rating's expectation that KSL will maintain its competitive position in the Thai sugar industry. KSL's credit upside is limited in the short term as its financial performances are in the recovery from down cycle. In contrast, KSL's ratings could be revised downward, should its operating performance or capital structure continues to weaken. An aggressive debt-funded investment and persistently weak cash flow protection are also negative factors for KSL's credit ratings.

KSL is one of the leading sugar producers in Thailand, established in 1945 by the Chinthammit family and associates. As of April 2016, the Chinthammit family collectively held 69% of the company's shares. The company owns and operates five sugar plants in Thailand, with a combined cane crushing capacity of 110,000 cane tonnes per day as of April 2016. KSL Group has procured 7.6 million tonnes of sugarcane in the 2015/2016 crushing period and produced 774,327 tonnes of sugar. KSL's sugar production in the 2015/2016 growing season was ranked third with a market share of 7.9%, trailing the Mitr Phol Group (20.1%) and the Thai Roong Ruang Group (14%).

Since fiscal year (FY) 2006, KSL has expanded along the sugar value chain to maximize the utilization of sugarcane. KSL's sugar-related businesses include electricity generating and ethanol producing. During FY2016, revenue from the energy segment (electricity and ethanol) accounted for 17% of total sales.

Apart from producing sugar in Thailand, KSL also operates sugar plants in the Lao PDR and Cambodia. Total investment cost in the Lao PDR and Cambodia was approximately Bt5,200 million. The plants in the Lao PDR and Cambodia started commercial production in FY2010. The company's sugar productions in both the Lao PDR and Cambodia remained below the break-even level, only 26,000 tonnes in the 2015/2016 growing season. The company's sugar operations in the Lao PDR and Cambodia were additionally hurt by the fall in sugar prices. As a result, KSL's operations in the Lao PDR and Cambodia have continued to report losses. The combined loss totaled Bt150 million in FY2016.

KSL's financial performance for FY2016 was negatively affected by softening performance of electricity and ethanol. KSL's revenue slightly dropped by 2% to Bt16,911 million in FY2016, from Bt17,278 million in FY2015. KSL's gross margin increased to 21.5% in FY2016 from 20.2% in FY2015. The sugar business reported improving margin following rising sugar prices. The pick-up in sugar segment outweighed weaker profitability in ethanol and power segments. In FY2016, the reference price of ethanol dropped by 8% year-on-year (y-o-y) to Bt23.6 per liter in FY2016, while the power tariff rate declined by 13% y-o-y along with the falling fuel transfer (Ft). However, KSL's operating income before depreciation and amortization as a percentage of total sales remained flat at 12.9% in FY2016. This was attributable to a higher selling and administration expense from higher provision and group restructuring cost. KSL's earnings before interest, tax, depreciation and amortization (EBITDA) decreased modestly by 3.1% to Bt2,551 million in FY2016, from Bt2,633 million in FY2015. KSL's net profit in FY2016 increased to Bt1,426 million, from Bt815 million in FY2015 because KSL recorded a gain on fair value adjustment of investment property of Bt1,138 million and loss on impairment of assets of Bt75 million. KSL's normalized net profit, excluding gain or loss from asset revaluation, in FY 2016, was Bt615 million, down from Bt861 million in FY2015.

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KSL's financial leverage improved to 53.1% at the end of FY2016 from 58.1%-60.8% during FY2013-FY2016. This came mainly from gain on revaluation of assets and reclassification of financial statement of Thai Sugar Terminal PLC (TSTE) from consolidation to equity method. Cash flow protection was cyclical down following sugar prices. The EBITDA interest coverage ratio was at 3.61 times in FY2016, from 3.24 times in FY2015 and 4.73 times in FY2014. The fund from operation (FFO) to total debt ratio was at 7.2% in FY2016, compared with 9.2% in FY2015 and 13.4% in FY2014.

Looking forward, KSL's financial performance is expected to improve in FY2017 on the back of recovery in sugar prices. The price of raw sugar rose to approximately 20 cents per pound currently from an average 18.1 cents per pound in FY2016 and average 13.1 cents per pound in FY2015 owing to the drop in sugar production in major producing countries. The 2016/2017 growing season is projected to be the second year of global sugar deficit. Most sugar producers in Thailand, including KSL, have locked in by contracting the selling prices for 80% of their forecast sales volumes in 2017. The contract prices are on average 30% higher than the average selling prices in the 2015/2016 growing season. The significant increase in selling prices should more than offset the expected modest decline in sugar production in Thailand in the 2016/2017 growing season. With improving sugar price assumption, KSL's total EBITDA is forecast to be approximately Bt3,000-Bt4,000 million per year during FY2017-FY2019. KSL's capital expenditures for FY2017-FY2019 are budgeted at Bt500-Bt2,500 million per year. With planned investments and normal dividend payments, the company's leverage is expected to stay around 50%. The EBITDA interest coverage ratio is projected to range 6-8 times and FFO to total debt will hover around 15%-20% in FY2017-FY2019.

In October 2016, the Thai Cabinet approved in principle a proposal by the Minister of Industry to revise the Cane and Sugar Act in order to ensure fairness to all stakeholders and comply with the World Trade Organization's (WTO) regulations. Under the proposed changes, the existing quota system, domestic price controls, and subsidies for cane growers may be eliminated. The potential effects of the change on the sugar producers are not yet clear as the revision has not been finalized.

## **Khon Kaen Sugar Industry PLC (KSL)**

### **Company Rating:**

A

### **Issue Ratings:**

KSL174A: Bt1,000 million senior unsecured debentures due 2017

A

KSL198A: Bt1,000 million senior unsecured debentures due 2019

A

KSL199A: Bt1,000 million senior unsecured debentures due 2019

A

Up to Bt2,000 million senior unsecured debentures due within 2020

A

### **Rating Outlook:**

Stable

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