

KHON KAEN SUGAR INDUSTRY PLC

No. 78/2017

29 November 2017

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

Company Rating History:

Date	Rating	Outlook/Alert
13/11/13	A	Stable
24/11/06	A-	Stable

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WWW.TRISRATING.COM**Rating Rationale**

TRIS Rating affirms the company rating of Khon Kaen Sugar Industry PLC (KSL) and the ratings of KSL's outstanding senior unsecured debentures at "A". At the same time, TRIS Rating assigns a rating of "A" to KSL's proposed issue of up to Bt2,000 million in senior unsecured debentures. The proceeds from the new debentures will be used to repay short term debt. The ratings reflect the company's long track record in the sugar and sugarcane industry and its diversification into sugar-related businesses. The ratings are partially offset by the cyclicity of sugar prices and the volatility of sugarcane, the operational risks of KSL's sugar operations in the Lao People's Democratic Republic (Lao PDR) and Cambodia, as well as a relatively high level of leverage.

KSL was established in 1945 by the Chinthammit family and associates. As of April 2017, the Chinthammit family collectively held 68% 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 May 2017.

KSL is one of leading sugar producers in Thailand. KSL Group procured 6.8 million tonnes of sugarcane in the 2016/2017 crushing period and produced 724,549 tonnes of sugar. KSL's sugar production in the 2016/2017 growing season ranked it fourth in the industry, with a market share of 7.2%, trailing the Mitr Phol Group (19.7%), the Thai Roong Ruang Group (14.1%), and the Thai Ekkalak Group (9.4%).

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 generating electricity and producing ethanol. During FY2016, revenue from the energy segment (electricity and ethanol) accounted for 17% of total sales.

For the first nine months of FY2017, KSL's revenues declined to Bt11,724 million, a 4% year-on-year (y-o-y) decrease over the same period of the prior year. The operating margin rose to 18.6% in the first nine months of FY2017, from 16.8% in the first nine months of FY2016, following a rise in the average selling price of sugar. KSL, as well as most other sugar millers in Thailand, has locked in some contracts during the high sugar prices late 2016 through the first half of 2017. The pick-up in the sugar segment outweighed the weak profitability in the energy segment. The rise in sugar prices also improved the KSL's financial performances of the Lao PDR and Cambodia. Sugar operations in the Lao PDR and Cambodia reported small gains in the first nine months of FY2017. KSL's earnings before interest, tax, depreciation, and amortization (EBITDA) rose to Bt2,867 million, a 23% y-o-y increase, from Bt2,323 million over the same period of FY2016.

Leverage is relatively high. The debt to capitalization ratio was at 58.6% at the end of July 2017, due to seasonal working capital needs and cane crushing capacity expansion. Cash flow protection is cyclical following the swings in sugar prices. The EBITDA interest coverage ratio was 5.7 times for the first nine months of FY2017, up from 3.9 times in FY2016 and 3.6 times in FY2015. The FFO to total debt ratio was 8.4% for the first nine months of FY2017, compared with 7.3% in FY2016 and 9.1% in FY2015.

CreditUpdate reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

CreditUpdates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

Looking forward, KSL's financial performance will be weak in the fourth quarter of FY2017 because the company has delivered sugar to some customers at low prices, under the terms of contracts signed earlier. As a result, FFO is expected to hover around Bt1,500 million in FY2017, close to the 2016 level. However, TRIS Rating forecasts a gradual improvement in KSL's profitability as the company crushes more cane and produces more sugar. Higher rainfall in Thailand and an expansion of the cane crushing capacity at the mill in Loei province will increase KSL's sugar volume and reduce KSL's cost. Additionally, the raw sugar prices stayed at fair level, hovering around 15-16 cents per pound during the past few months. Leverage is likely to fall gradually as KSL's capital expenditures, which are mainly for expansions of cane crushing plants at the Loei and Nampong projects, are completed in FY2017. Capital spending will then fall to about Bt500 million per year from Bt3,000 million per year in 2017. With earnings recovery and lower capital expenditures as forecast, cash flow protection as measured by the FFO to total debt ratio, is expected to gradually improve to range from 10%-15% in FY2018-FY2019. Liquidity is considered manageable. Even though KSL has scheduled the long-term debt repayments and debentures redemptions totaling Bt3,400-Bt4,600 million per year in FY2017-FY2020 plus outstanding bills of exchange (B/E) of Bt500 million, KSL has market access and undrawn credit facilities of more than Bt9,000 million from various banks to help it manage these repayments.

Rating Outlook

The "stable" outlook reflects TRIS Rating's expectation that KSL will maintain its competitive position in the Thai sugar industry even after the sugar industry is restructured. The company is also expected to gradually realize returns from the expansion projects and manage its debt level properly.

KSL's rating upside is limited in the short term due to current financial profile and ongoing industry reforms. In contrast, KSL's ratings could be revised downward, should operating profitability and earnings fall short of expectation. Any aggressive debt-funded investments and persistently weak cash flow protection are also negative factors for KSL's credit ratings.

Khon Kaen Sugar Industry PLC (KSL)

Company Rating:	A
Issue Ratings:	
KSL189A: Bt1,000 million senior unsecured debentures due 2018	A
KSL192A: Bt1,000 million senior unsecured debentures due 2019	A
KSL198A: Bt1,000 million senior unsecured debentures due 2019	A
KSL199A: Bt1,000 million senior unsecured debentures due 2019	A
KSL202A: Bt1,000 million senior unsecured debentures due 2020	A
Up to Bt2,000 million senior unsecured debentures due within 10 years	A
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 October -----					
	Nov 2016 -Jul 2017	2016	2015	2014	2013	2012
Sales and service revenues	11,724	16,911	17,278	19,185	18,941	22,212
Gross interest expense	504	710	817	834	672	556
Net income from operations	1,151	472	974	1,645	1,456	2,300
Funds from operations (FFO)	2,291	1,381	1,919	2,916	2,595	3,279
Total capital expenditures and investment	2,297	1,685	651	2,702	6,186	4,379
Total assets	44,714	38,375	37,517	40,134	36,017	29,617
Total debt	24,490	18,824	21,213	22,021	19,003	14,022
Shareholders' equity	17,286	16,650	14,442	14,833	13,703	12,032
Operating income before depreciation and amortization as % of sales	18.62	12.93	13.89	18.32	15.23	19.06
Pretax return on permanent capital (%)	5.14 **	3.81	4.99	7.90	7.64	15.63
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	5.68	3.48	3.61	4.65	4.75	8.15
FFO/total debt (%)	8.39 **	7.33	9.05	13.24	13.66	23.38
Total debt/capitalization (%)	58.62	53.06	59.49	59.75	58.10	53.82

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