

SRI TRANG AGRO-INDUSTRY PLC

No. 90/2024
31 May 2024

CORPORATES

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

Last Review Date: 31/05/23

Rating History:

Date	Rating	Outlook/Alert
23/05/22	A	Stable
18/10/21	A-	Positive
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 downgrades the company rating on Sri Trang Agro-Industry PLC (STA) and the ratings on its existing senior unsecured debentures to “A-” from “A”, with a stable rating outlook. The downgrade reflects STA’s weaker operating performance than previously forecast and high financial leverage, principally due to a decline in the natural rubber (NR) volumes and earnings in Europe, and price competition in the glove business.

The rating continues to reflect STA’s leading position in the NR industry, strong track record of the management team, competitive edge in vertical integration, and its robust liquidity profile. However, these strengths are offset by the cyclical nature of NR supply and prices, narrow margins of midstream NR producers, and price competition in the glove business amid global economic uncertainty.

KEY RATING CONSIDERATIONS

Weak operating performance and high leverage

STA’s operating results for 2023 and the first quarter of 2024 (1Q24) were weaker than our previous expectations due mainly to the destocking of NR products, narrowing margins of midstream NR products, and intense price competition in the rubber glove segment.

STA’s revenue in 2023 was THB84.5 billion, down by 24% from THB110.9 billion in 2022. Earnings before interest, taxes, depreciation, and amortization (EBITDA) decreased to THB5.1 billion in 2023, from THB10.4 billion in 2022, while the EBITDA margin shrank to 6.0%, from 9.4% in 2022. The company continued investing in production capacity and improved productivity. Financial leverage consequently rose significantly in 2023 with the adjusted net debt to EBITDA ratio increasing to 5.1 times, from around 0.3-1.8 times during 2020-2022.

STA’s weak performance continued in 1Q24. EBITDA decreased by 40% from the same period in 2023. The EBITDA margin was 4.3%. Adjusted net debt to EBITDA (annualized) rose to 7.6 times.

Higher revenues on the horizon

We expect double digit annual revenue growth in 2024-2025 and growth of around 5% in 2026 due to two major factors; demand recovery from the restocking of NR products and the new EU deforestation regulation (EUDR) that will come into effect on 30 December 2024. In 2024, we estimate full-year revenue will return to the THB100-billion level as destocking comes to an end and consumption bounces back. STA has already received orders for EUDR-compliant products which can be marked up to higher margins in 2024. We anticipate the EUDR requirement will play a more important role in STA’s revenue in 2025 since many rubber producers have yet to prepare for the requirement.

STA’s total operating revenue is expected to range from THB100-THB128 billion per annum during 2024-2026.

Operating environment remains challenging, weighing on profitability

We believe that the company’s performance will remain under stress due to pricing pressure. Furthermore, differentiation is limited as products are mostly commoditized.

EBITDA margin continues to stay at 6%-7% during 2024-2026, the same as in 2023 but relatively higher than the 4% margin in 1Q24, thanks to expected higher prices of NR products, easing price competition in rubber gloves, along with the improved cost efficiency in production lines. EBITDA is expected to increase gradually to around THB8.5 billion in 2026, but is still well below the THB10-THB30 billion recorded during 2020-2022 that benefited from the COVID-19 pandemic and the Russia-Ukraine war.

Leverage likely to decline

We expect STA's financial leverage to gradually decline during the forecast years. Capital expenditures is slated at around THB2-THB4 billion per year mainly to expand production capacity and improve cost efficiency including new solar installations and replacements of old production lines. These investments will push up debt. However, with an expected rise in earnings, the adjusted net debt to EBITDA ratio is expected to decrease from 5.1 times in 2023 and 7.6 times in 1Q24 to around 4.5 times in 2024 and slightly below 3 times in 2026.

Adequate liquidity for the next 12 months

At the end of March 2024, the company's sources of funds comprised cash and cash equivalents of THB11.2 billion and undrawn uncommitted credit facilities of THB35.2 billion. Funds from operations (FFO) over the next 12 months are expected to be around THB4.5 billion. On the other hand, the company had a significant amount of debt due over the next 12 months, comprising short-term loans worth THB 12.6 billion, long-term loans of THB 2.0 billion and debentures of around THB 4.5 billion. We expect STA to be able to roll over its short-term loans. Planned capital expenditures and estimated interest and dividend cost over the next 12 months are expected to come to around THB4 billion and THB3 billion, respectively.

A key financial covenant on STA's debentures requires the company to maintain a net debt to equity ratio below 3.0 times. As of March 2024, the ratio was 0.6 times. We believe the company will remain in compliance with the covenant over the next 12 to 18 months.

Debt structure

As of March 2024, STA's total interest-bearing debt stood at THB43.7 billion. This included THB13.7 billion of priority debt comprising secured debts at STA group and unsecured debts at the subsidiary level. The priority debt to total debt ratio was 31%.

BASE-CASE ASSUMPTIONS

- Total revenues to grow by 20% year-on-year in 2024-2025, then grow by 5% in 2026.
- Gross profit margin of around 9%-10% per annum in 2024-2026.
- Total capital spending of around THB4.0 billion per annum during 2024-2025, and THB1.5 billion in 2026.

RATING OUTLOOK

The "stable" outlook reflects the prospect of a recovery in rubber glove demand and continued strong global demand for NR, coupled with improvements in STA's efficiency and cost control.

RATING SENSITIVITIES

A rating upgrade could occur if STA's performance improves materially, with the adjusted net debt to EBITDA ratio sustaining below 3 times and EBITDA staying above THB10 billion for an extended period. On the other hand, a downgrade situation could emerge if STA's performance falls significantly short of our expectations. Any aggressive debt-funded expansion, which would materially weaken the company's balance sheet and cash flow protection, could also lead to a downgrade scenario.

COMPANY OVERVIEW

STA is a leading worldwide processor and merchandiser of NR. The company has 35 rubber processing plants for block rubber, ribbed smoked sheet, and concentrated latex, located in Thailand, Indonesia, and Myanmar, together with six glove processing plants located in Thailand. As of 31 March 2024, the company had a total installed NR processing capacity of 3.69 million tons per year and glove production capacity of 50.8 billion pieces per year.

The company's NR products are sold directly to customers and dealers, mostly comprising tire manufacturers. Exports accounted for 88% of its total NR sales. China was the largest export market, accounting for 56% of STA's NR export sales in 2023.

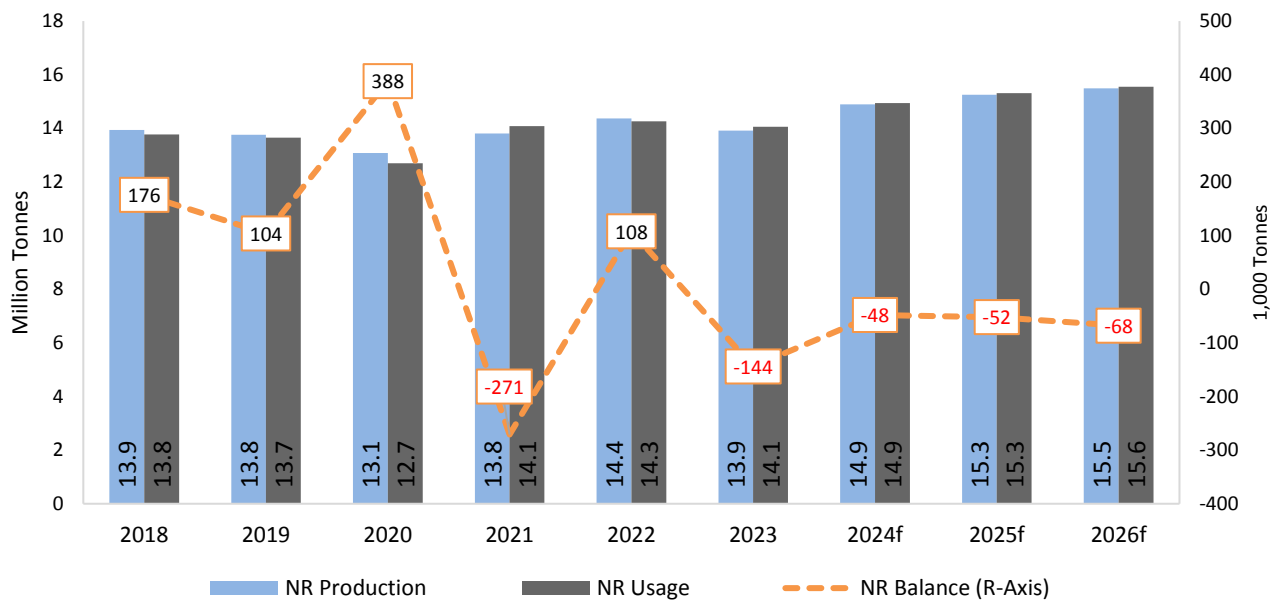
Currently, the major NR producing nations are Thailand, Indonesia, Ivory Coast, and Vietnam. These four countries are forecast to account for 71% of the NR produced worldwide in 2023. Thailand is the largest producer, with a total production volume of 5.4 million tonnes, followed by Indonesia (2.1 million tonnes), Ivory Coast (1.5 million tonnes), and Vietnam (1.4 million tonnes). In terms of consumption, demand for NR worldwide is expected to increase to 14.6 million tonnes in 2023 from 14.3 million tonnes in 2022. China consumes around 40% of the global NR output.

Sri Trang Gloves (Thailand) PLC (STGT), one of Sri Trang Group’s flagship companies, engages in the production and distribution of latex and nitrile examination gloves as well as industrial gloves for customers in over 170 countries around the world. The main markets are Asia, the US, and the EU. With an annual installed production capacity of 50.8 billion pieces as of 31 March 2024, STGT is Thailand’s biggest glove producer and is ranked among the world’s leading producers.

STGT, which is a subsidiary of STA, successfully raised funds via an initial public offering (IPO) on the Stock Exchange of Thailand (SET) on 2 July 2020. Net proceeds of THB14.6 billion were primarily used toward a planned capacity expansion to serve the global demand for gloves, a system application & product (SAP) program installation to improve efficiency and loan repayment, as well as for working capital. Following the IPO, from the third quarter of 2020 onwards, STA has been a major shareholder of STGT with a 56% direct and indirect shareholding.

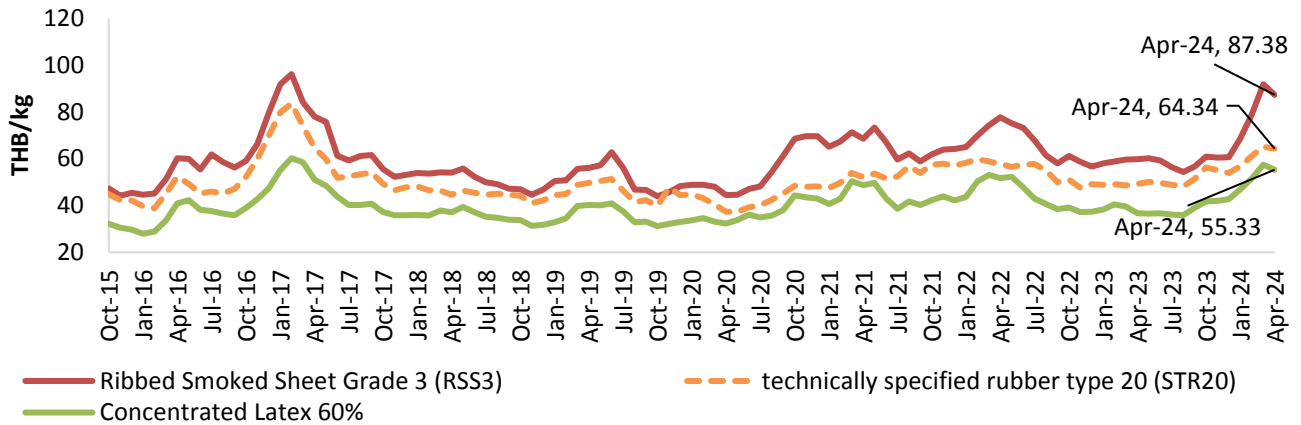
KEY OPERATING PERFORMANCE

Chart 1: World Production and Consumption of NR



Source: International Rubber Study Group (IRSG)

Chart 2: NR Prices



Source: Rubber Authority of Thailand (RAOT)

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	23,720	84,474	110,876	118,648	75,749
Earnings before interest and taxes (EBIT)	96	1,081	7,354	29,574	17,773
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,013	5,077	10,438	32,534	20,523
Funds from operations (FFO)	540	3,431	8,559	28,981	18,283
Adjusted interest expense	413	1,531	1,343	848	701
Capital expenditures	655	5,344	10,490	11,755	2,495
Total assets	119,956	111,737	117,084	114,527	93,117
Adjusted debt	33,360	25,684	18,527	18,826	6,274
Adjusted equity	69,080	68,146	69,186	65,049	53,397
Adjusted Ratios					
EBITDA margin (%)	4.3	6.0	9.4	27.4	27.1
Pretax return on permanent capital (%)**	0.3	1.0	6.8	30.6	25.2
EBITDA interest coverage (times)	2.5	3.3	7.8	38.4	29.3
Debt to EBITDA (times)**	7.6	5.1	1.8	0.6	0.3
FFO to debt (%)**	8.4	13.4	46.2	153.9	291.4
Debt to capitalization (%)	32.6	27.4	21.1	22.4	10.5

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Sri Trang Agro-Industry PLC (STA)

Company Rating:	A-
Issue Ratings:	
STA247A: THB1,500 million senior unsecured debentures due 2024	A-
STA24DA: THB1,000 million senior unsecured debentures due 2024	A-
STA253A: THB2,000 million senior unsecured debentures due 2025	A-
STA257A: THB500 million senior unsecured debentures due 2025	A-
STA257B: THB1,000 million senior unsecured debentures due 2025	A-
STA25DA: THB1,000 million senior unsecured debentures due 2025	A-
STA264A: THB1,800 million senior unsecured debentures due 2026	A-
STA26NA: THB678.7 million senior unsecured debentures due 2026	A-
STA26NB: THB979.3 million senior unsecured debentures due 2026	A-
STA273A: THB500 million senior unsecured debentures due 2027	A-
STA277A: THB2,400 million senior unsecured debentures due 2027	A-
STA28DA: THB1,250 million senior unsecured debentures due 2028	A-
STA293A: THB1,000 million senior unsecured debentures due 2029	A-
STA297A THB1,100 million senior unsecured debentures due 2029	A-
STA314A: THB700 million senior unsecured debentures due 2031	A-
STA31DA: THB1,250 million senior unsecured debentures due 2031	A-
STA323A: THB2,000 million senior unsecured debentures due 2032	A-
STA324A: THB1,180 million senior unsecured debentures due 2032	A-
STA327A: THB1,000 million senior unsecured debentures due 2032	A-
STA343A: THB1,500 million senior unsecured debentures due 2034	A-
Rating Outlook:	Stable

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