

SRI TRANG GLOVES (THAILAND) PLC

No. 91/2024
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
15/06/21	A-	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Sri Trang Gloves (Thailand) PLC (STGT) and the ratings on its existing senior unsecured debentures to “A-” from “A”, with a “stable” outlook. The rating downgrade follows the same rating action on Sri Trang Agro-Industry PLC (STA, rated “A-/Stable”), reflecting STA’s weaker-than-forecast operating performance and elevated financial leverage. As a core subsidiary of STA, the ratings on STGT’s are tied to those on STA.

KEY RATING CONSIDERATIONS

Core subsidiary of STA

STA, the ultimate shareholder of STGT, held a 56% stake in STGT as of March 2024. STA’s top management has a dominant influence over STGT’s business strategies and financial policies.

STGT was founded to run the glove business for STA as part of the latter’s vertical integration strategy. STA has an agreement to provide natural rubber concentrated latex to STGT, ensuring the supply of raw material for glove production. In addition, STA and STGT share resources in several areas, including information technology (IT) and logistics. STGT also collaborates with STA in research and development (R&D) to develop new and innovative latex glove products.

STGT contributes significantly to STA’s overall performance. For the first quarter of 2024 (1Q24), STGT contributed 26% of STA’s revenue and 68% of its earnings before interest, taxes, depreciation, and amortization (EBITDA).

Oversupply pressure on performance

STGT’s operating results for 2023 were weaker than our previous expectations mainly due to an ongoing oversupply situation in the glove industry. During the COVID-19 pandemic, with the spike in demand and pricing, existing and new players stepped up their production capacity. Consequently, when demand returned to normal levels in 2022, an acute oversupply situation and price competition arose. STGT’s average selling price per piece in 2023 decreased by 24% from 2022 and 65% from 2021 to THB0.61. Revenue in 2023 fell by 15% to THB19.9 billion, from THB23.5 billion in 2022. EBITDA margin shrank to 12% from 15%. Price competition continued its impact on 1Q24 profitability with the EBITDA margin remaining at 11%.

Higher revenues, but challenges to profitability linger

We expect STGT’s revenue to increase by 20% in 2024 and around 5%-10% per annum during 2025-2026, thanks to higher demand after stock depletion during 2022-2023. Sales volume in 1Q24 grew by almost 40% from the same period in 2023. However, price competition remains intense. Though many manufacturers have reduced their capacity to narrow the supply-demand gap, the oversupply situation seems unabated. We expect STGT to increase its average selling price slightly to the THB0.6-THB0.7 per piece range, similar to the pre-COVID-19 level. Despite improvement in cost efficiency, the limited price markup is likely to restrict STGT’s EBITDA margin to around 12%.

Overall, we anticipate annual revenues of around THB23-THB27 billion during the forecast period, with EBITDA of THB2.5-THB3.1 billion per annum.

Adequate liquidity

At the end of March 2024, the company's sources of funds comprised cash and cash equivalents of THB8.1 billion and undrawn uncommitted credit facilities of THB2.0 billion. Funds from operations (FFO) over the next 12 months are expected to be around THB2.1 billion. On the other hand, the company had long-term loans of THB 2.0 billion due over the next 12 months. Planned capital expenditures and estimated interest and dividend costs over the coming year are estimated to total around THB3 billion.

A key financial covenant on STGT's debentures and bank loans requires the company to maintain a net debt to equity ratio below 3.0 times. As of March 2024, STGT had net cash position and complied with the covenant. We believe the company will remain in compliance with the covenant over the next 12 to 18 months.

Debt structure

As of March 2024, STGT's total interest-bearing debt stood at THB6.5 billion. This included THB31 million of priority debt comprising secured debts at STGT and unsecured debts at the subsidiary level. The priority debt to total debt ratio was 0.5%.

BASE-CASE ASSUMPTIONS

STGT will remain a core subsidiary of STA.

RATING OUTLOOK

The "stable" outlook mirrors the outlook on STA. We expect the business model and the level of integration between STA and STGT to remain unchanged.

RATING SENSITIVITIES

As a core subsidiary of STA, the ratings on STGT are tied to the ratings on STA. Any change in the ratings on STA, or STGT's group status, will affect the ratings on STGT accordingly.

COMPANY OVERVIEW

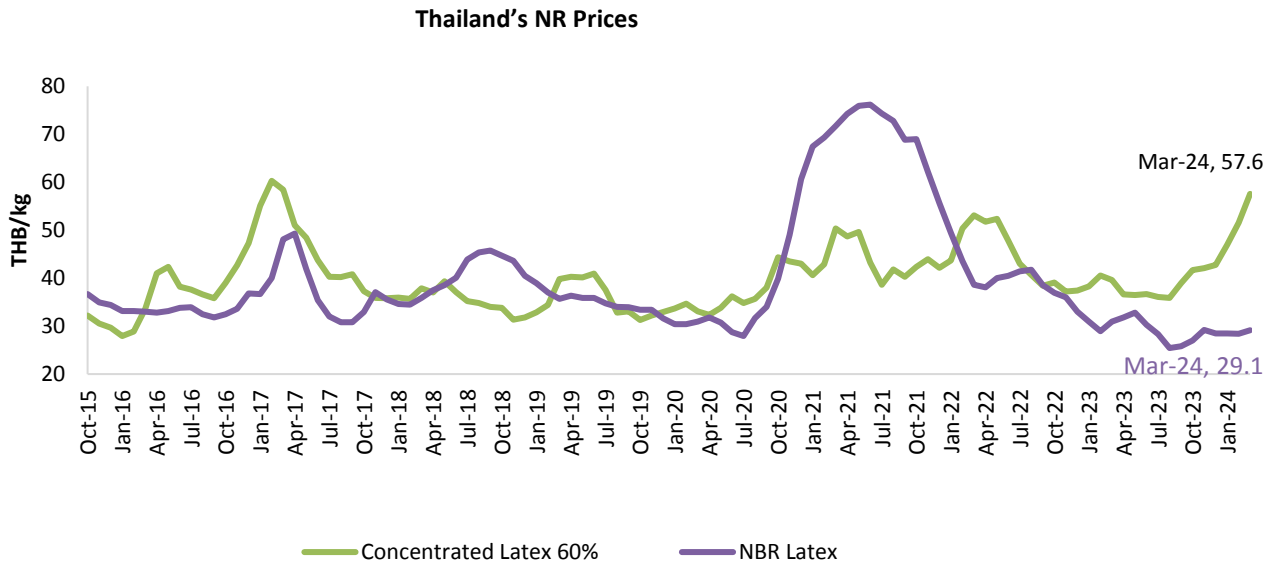
STGT, one of Sri Trang Group's flagship companies, engages in the production and distribution of latex and nitrile examination gloves as well as industrial gloves for customers in over 175 countries around the world. The main markets are Asia, the US, and the European Union. With an annual installed production capacity of 50.8 billion pieces as of 31 March 2023, STGT is Thailand's largest glove producer and is ranked among the world's leading producers. In 2023, STGT had a market share of 10.5% of global glove consumption.

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. The net proceeds of THB14.6 billion are primarily being used to expand capacity to serve global demand for gloves. STGT intends to achieve an annual production capacity of 56 billion pieces by 2024. The first increase in capacity came from the new Surat Thani plant (SR2) in June 2021. The remainder of the IPO proceeds have been used for 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 56.1% direct and indirect shareholding.

STGT established new subsidiaries during 2021-2022 for the distribution of gloves in Vietnam, Singapore, Indonesia, and the Philippines.

KEY OPERATING PERFORMANCE

Chart 1: Concentrated Latex and NBR Import Prices



Source: Rubber Authority of Thailand (RAOT) and Rubber Intelligence Unit (RIU)

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	6,077	19,877	23,504	47,909	30,781
Earnings before interest and taxes (EBIT)	237	658	2,069	26,013	16,100
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	692	2,334	3,550	27,261	17,246
Funds from operations (FFO)	603	1,953	3,100	24,506	15,489
Adjusted interest expense	77	351	275	240	205
Capital expenditures	255	1,076	7,076	10,649	2,076
Total assets	48,036	46,582	48,529	51,303	44,236
Adjusted debt	0	0	0	0	0
Adjusted equity	38,468	36,837	36,811	38,213	32,260
Adjusted Ratios					
EBITDA margin (%)	11.4	11.7	15.1	56.9	56.0
Pretax return on permanent capital (%)**	1.5	1.5	4.5	60.5	63.5
EBITDA interest coverage (times)	8.9	6.7	12.9	113.6	84.2
Debt to EBITDA (times)**	0.0	0.0	0.0	0.0	0.0
FFO to debt (%)**	n.m.	n.m.	n.m.	n.m.	n.m.
Debt to capitalization (%)	0.0	0.0	0.0	0.0	0.0

n.m. = Not meaningful

* 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 Gloves (Thailand) PLC (STGT)

Company Rating:	A-
Issue Ratings:	
STGT259A: THB550 million senior unsecured debentures due 2025	A-
STGT299A: THB400 million senior unsecured debentures due 2029	A-
STGT329A: THB550 million senior unsecured debentures due 2032	A-
Rating Outlook:	Stable

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