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BURIRAM SUGAR PLC

No. 99/2017 15 August 2017

Company Rating: BBB-

Issue Rating:
Senior unsecured BB+

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
26/06/15	BBB-	Stable

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Rating Rationale

TRIS Rating affirms the company rating of Buriram Sugar PLC (BRR) at “BBB-” and affirms the rating of BRR’s outstanding senior unsecured debentures at “BB+”. The ratings reflect the company’s long track record in the sugar and sugarcane industry, its high crushing yield, and reliable income streams from the power segment. The strengths are partially offset by single sugar mill production, cyclicality of sugar prices, plus the volatility of the supply of sugarcane, and the company’s high leverage.

BRR is one of the sugar producers in Thailand. It was established in 1963 by the Tangtrongwechakit family. The company was listed on the Stock Exchange of Thailand (SET) in November 2014. As of March 2017, the Tangtrongwechakit family collectively held 74.3% of the company’s shares.

The company owns and operates one sugar mill located in Buriram province, with a cane crushing capacity of 24,000 cane tonnes per day. BRR procured 2.21 million tonnes of sugarcane in the 2016/2017 production period and produced 247,848 tonnes of sugar. For the 2016/2017 production period, BRR’s market share was merely 2.5% in terms of volume of sugar produced. BRR produces only basic sugar products, such as brown sugar for domestic customers and raw sugar for export.

The company’s crushing yield was high. During the crushing seasons spanning 2014 to 2016, the crushing yield ranged from 115-118 kilograms (kg.) per cane tonne. These yields placed BRR among the top five sugar millers in Thailand in terms of crushing yield. The crushing yield of BRR was higher than the industry average of 100-109 kg. per cane tonne, and the average crushing yield of mills in the Northeastern region, that ranged from 110-113 kg. per cane tonne. For the 2016/2017 period, BRR’s crushing yield was at 112.01 kg. per cane tonne, lower than in the 2015/2016 period. The heavy rain during the harvest period reduced the yield.

Apart from producing sugar, BRR is expanding along the sugar value chain to maximize the utilization of sugarcane. BRR’s sugar-related businesses include electricity generation at two power plants it owns. BRR earns recurring income from the power segment. Each plant has long term contracts to sell eight megawatts (MW) of power capacity to the Provincial Electricity Authority (PEA) under the very small power producer (VSPP) scheme. The two projects obtained a favorable feed-in-tariff (FiT). The tariffs will expire in 2028 and 2035. Sales of electricity comprised 15% of BRR’s total sales in 2016.

Sugar prices have fallen during the past three years. The key contract reference price, set by Thai Cane and Sugar Corp Ltd. (TCSC), fell gradually from 21.4 cents per pound in the 2012/2013 production season to 15.4 cents per pound in the 2015/2016 season. However, rising sugar production of BRR offset the drop in sugar prices during the past three years. BRR’s earnings before interest, taxes, depreciation, and amortization (EBITDA) rose gradually from Bt433 million in 2013 to Bt569 million in 2016. Funds from operations (FFO) rose modestly from Bt335 million to Bt387 million over the same time period. The improvement in earnings was because BRR crushed more cane. BRR crushed 2.06 million tonnes of cane in 2016, up from 1.7 million tonnes in 2013, thanks to improved plantation yields and increases in the area planted by contract cane growers. A greater contribution from the power segment also boosted earnings.

BRR's profitability is moderate, but was well maintained over the past few years. Despite the recent fall in the price of sugar, BRR's operating margin before depreciation and amortization held at about 12% in 2014 to 2015. However, the operating margin declined to 10.3% in 2016 from 12% in 2015 because unfavorable weather cut BRR's sugar production yield. In addition, the company recognized the higher fixed cost from the third power plant as it was not fully utilized in 2016.

In the first half of 2017, revenues rose to Bt4,123 million, a 54% year-on-year (y-o-y) increase over the same period of the prior year. EBITDA increased to Bt1,015 million during the first half of 2017, compared with Bt371 million over the same period of 2016 following a rise in the average selling price of sugar. BRR, as well as most sugar millers in Thailand, has locked in selling prices during the high sugar prices.

The company's financial leverage is high. Total debt rose owing to an expansion of cane crushing capacity and the construction of new power plant. The debt to capitalization ratio rose to 68.2% in 2016 from 58.8% in 2015. However, the debt to capitalization ratio was lower, slipping to 64.4% as of June 2017 due to lower capital expenditures. The EBITDA interest coverage ratio declined to 2.9 times in 2016, compared with 3.5 times in 2015 and 2.9 times in 2014. The FFO to total debt ratio declined slightly to 9.5% in 2016 from 9.9% in 2015 and 11.9% in 2014.

BRR raised Bt3,605 million by establishing Buriram Sugar Group Power Plant Infrastructure Fund (BRRGIF) in August 2017. BRR sold BRRGIF the cash flow it will receive from selling electricity to PEA under the power purchase agreements (PPA) of two power plants. BRR owns around 33% of BRRGIF. When it established BRRGIF, BRR received around Bt2,300 million in cash. The cash will be used to repay debt and for future expansion. The infrastructure fund will raise BRR's debt to capitalization ratio to about 67% at the end of 2017. After setting up BRRGIF, BRR may face higher operating risk because the terms of the infrastructure fund agreement contain minimum performance guarantees and fuel supply guarantees.

The ongoing revision of the Cane and Sugar Act is another uncertainty laying ahead for the Thai sugar millers. In February 2017, the Cane and Sugar Board of Thailand agreed in principle to revoke the current quota system. The domestic prices of sugar will no longer be fixed. The working group is still discussing the related details. The potential effects of the regulatory changes are not yet clear as the changes have not been finalized.

In TRIS Rating base case, if the domestic price of sugar is based on the export price and if the price of raw sugar hovers at around 14 cents per pound, BRR's FFO is expected to fall to Bt350-Bt400 million in 2018. FFO will improve to Bt400-500 million over the next two years based on recovery of sugar prices and increasing crushed cane. Capital expenditures will be set at Bt400-Bt600 million per annum. The expenditures will be mainly for building a sugar refinery and a fourth power plant. With FFO and capital expenditures as forecast, leverage will remain high over the next few years. The debt, including debt from BRRGIF, to equity ratio is expectedly managed below 2 times over the next few years. The FFO to total debt ratio is forecast to range from 7%-16% and the EBITDA interest coverage ratio will be around 2-5 times in 2017-2019. BRR's Liquidity is manageable. BRR raised approximately Bt2,300 million from BRRGIF. The proceeds will be used to repay debts. BRR will repay Bt800 million in long-term loans, and repay short-term debt to free up its credit facilities. The undrawn short-term credit facilities from banks will enhance by Bt1,500 million from about Bt2,000 million as of June 2017. These back up facilities will be sufficient to service Bt850 million in bonds coming due in the fourth quarter of 2017 and outstanding bills of exchange (B/E) worth Bt660 million coming due over the next six months.

Rating Outlook

The "stable" outlook reflects TRIS Rating's expectation that BRR will sustain its competitive position in the sugar industry in Thailand even after the industry restructuring. BRR will maintain sufficient liquidity or back-up credit facilities so that it can meet its repayment obligations. TRIS Rating also expects BRR's power plants will operate as planned and generate the contractually required amount of cash flow to transfer to the BRRGIF.

BRR's rating upside is limited in the short term due to weak sugar price and ongoing industry reform. Downside risks could occur if liquidity is not properly managed or market position deteriorates or if weaker performance pushes the FFO to total debt ratio below 10% on a sustained basis. Any debt funded investment, which will increase leverage, weaken the balance sheet, and lower cash flow protection, would also be a negative factor for the credit ratings.

Buriram Sugar PLC (BRR)

Company Rating:	BBB-
Issue Rating:	
BRR17NA: Bt600 million senior unsecured debentures due 2017	BB+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		---------------------- Year Ended 31 December ----------------------				
	Jan-Jun 2017	**2016**	**2015**	**2014**	**2013**	**2012**
Sales and service revenues	4,123	4,579	4,187	3,920	3,979	3,888
Gross interest expense	107	197	161	117	97	93
Net income from operations	651	145	226	227	205	341
Funds from operations (FFO)	736	387	399	338	335	368
Total capital expenditures and investment	191	655	1,339	1,309	721	494
Total assets	8,440	7,227	6,762	5,386	3,898	3,056
Total debt	4,953	4,487	4,051	2,842	2,322	1,739
Shareholders' equity	2,741	2,093	2,126	1,988	635	441
Operating income before depreciation and amortization as % of sales	22.99	10.34	12.01	11.81	10.13	13.11
Pretax return on permanent capital (%)	14.06 **	5.50	7.37	0.11	14.30	32.33
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	9.49	2.89	3.52	2.91	4.46	5.97
FFO/total debt (%)	16.38 **	8.63	9.85	11.89	14.42	21.15
Total debt/capitalization (%)	64.37	68.19	65.58	58.84	78.54	79.76

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

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