

BURIRAM SUGAR PLC

No. 102/2023
7 June 2023

CORPORATES

Company Rating: BBB-
Outlook: Stable

Last Review Date: 24/06/22

Company Rating History:

Date	Rating	Outlook/Alert
24/06/22	BBB-	Stable

Contacts:

Nauwarut Temwattanangkul
nauwarut@trisrating.com

Jutatip Chitphromphan
jutatip@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Sasiporn Vajarodaya
sasiporn@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Buriram Sugar PLC (BRR) at “BBB-” with a “stable” rating outlook. The rating continues to reflect the company’s long track record in the sugar industry, as well as the benefits of its diversification into the power and packaging businesses. These strengths are constrained by its single sugar mill production, cyclicality of sugar prices, volatility of sugarcane supplies, and the company’s high leverage.

KEY RATING CONSIDERATIONS

Satisfactory operating results

BRR’s operating performance in 2022 improved significantly, driven by a surge in sugar prices and a recovery of sugarcane supplies after facing severe drought in 2020-2021. The power business also benefited from lower costs following higher cane output. As a result, BRR’s operating revenue grew by 85.9% year-on-year (y-o-y) to THB7.4 billion in 2022, while earnings before interest, taxes, depreciation, and amortization (EBITDA) rose by 146.6% y-o-y to THB1.5 billion.

Going forward, we expect BRR to continue delivering sound operating results on the back of a substantial rise in worldwide sugar prices. Average sugar prices soared by 15.2% y-o-y during the first four months of 2023, reaching a decade high of 24.6 cents per pound in April 2023. We expect sugar prices to retain positive momentum and hover at a high level in 2023-2024 before normalizing in 2025 as global supplies are likely to shrink owing to an anticipated drought from the El Nino phenomenon in major sugar exporting countries.

Under our baseline scenario, BRR’s total operating revenue is projected to be around THBTHB5.5 billion annually in 2023-2025. Despite the recent steep rise in prices, we project revenue to slip owing to a substantial decrease in BRR’s sugarcane output in 2023 following a harsh flood in northeastern Thailand in late 2022. Cane supplies are expected to recover gradually in line with the company’s supply expansion strategy. BRR’s EBITDA margin is projected to reach 18.6% in 2023 and 14%-17% in 2024-2025, assuming a normalization of sugar prices in 2025. EBITDA is projected to be around THB1 billion in 2023 and stay at THB750-THB900 million per annum in 2024-2025.

Improved balance sheet

Given its strong operating performance, BRR’s financial leverage ratios have improved substantially. As of March 2023, BRR’s adjusted debt was THB5.2 billion, down from THB6.1 billion in 2021. The debt to EBITDA ratio decreased substantially to 3.2 times in 2022 and 3.7 times in the first quarter of 2023, compared with 10.2 times in 2021, while the debt to capitalization ratio fell to around 64% in 2022 and the first quarter of 2023, from 75.9% in 2021.

We expect BRR’s leverage ratios to remain at acceptable levels throughout the forecast period. Total capital expenditure and investments are projected to total THB200-THB300 million per year in 2023-2025 and are mainly earmarked for capacity expansion in the packaging and wood pellet businesses. We project the company’s debt to capitalization ratio to decline below 60% in 2025, and the adjusted debt to EBITDA ratio to hover around 4.2-5.4 times in 2023-2025.

Relatively small business scale with a single mill

The company operates a single mill in Buriram Province. This single mill production means BRR is exposed to concentration risk in terms of operations and procurement. However, the procurement risk is partly offset by the company's status as the only sugar producer in Buriram Province. Additionally, BRR and other mills in nearby provinces agree on allocated zoning for sugarcane procurement to prevent competition for supplies.

BRR's sugar production volume is also relatively small compared with other millers in Thailand. The company has held a market share of 2%-3% of the country's sugar production volume over the past five years. Revenue from BRR's sugar business ranged from THB2.9-THB5.9 billion over the same period. However, despite its small scale, BRR ranks among the top three of fifty-seven Thai sugar millers in terms of sugar yield. The company's high yield is attributed mainly to the quality of sugarcane produced in the areas surrounding its plant.

Diversification into power business

BRR has expanded along the sugar value chain to maximize the utilization of sugarcane and by-products of the sugar manufacturing process. BRR's major sugar-related business is electricity generation. Revenue from electricity sales has accounted for 6%-10% of BRR's total revenue during the past five years.

BRR has three biomass power plants with combined electricity generating capacity of 29.7 megawatts (MW), 16 MW of which is sold to the Provincial Electricity Authority (PEA) under long-term power purchase agreements (PPAs). The power business generates stable revenue stream which partly offsets the effect of volatility of sugar prices.

Steady expansion in packaging

As part of a strategic move to utilize by-products and to capture the rising trend of environmental-friendly products, BRR has diversified into the biodegradable packaging business. The company uses pulp from bagasse to produce food packaging products such as plates and bowls. Most packaging products (about 90%) are targeted for export to the United States (US), European Union (EU), and other countries under original equipment manufacturer (OEM) orders. BRR also sells products under its own brand "SEW" in the domestic market.

At present, the contribution from this business is minimal, accounting for around 3% of the company's revenue. BRR expects the contribution to grow to 7% of revenue over the next few years, on the back of secured purchase orders and its expansion plan, coupled with rising demand for sustainable packaging products.

Adequate liquidity profile

Over the next 12 months, we expect BRR to have adequate liquidity. Our base case projects its EBITDA to reach THB800 million to THB1 billion per annum in 2023-2025. At the end of March 2023, BRR had THB325 million cash on hand and approximately THB4 billion unused credit facilities. The main uses of funds in the coming year will be interest expenses and repayments of long-term obligations totaling about THB600 million.

BRR should have no problems complying with the financial covenants on its debt obligations over the next 12-18 months. The company's net interest-bearing debt to equity ratio, excluding loan from Buriram Sugar Group Power Plant Infrastructure Fund (BRRGIF), at the end of March 2023 was 1.4 times, well below the financial covenant limit of 2.5 times.

As of March 2023, BRR recorded THB2.2 billion of priority debt out of total interest-bearing debt (excluding lease liabilities) of THB5.5 billion. The priority debt comprised unsecured debts at the subsidiary level. BRR's priority debt to total debt ratio was 41%.

BASE-CASE ASSUMPTIONS

- Operating revenues of THB5.5 billion annually in 2023-2025.
- EBITDA margin of around 18.6% in 2023, then declining to the 14%-17% range during 2024-2025.
- Total capital spending of around THB200-THB300 million per year during 2023-2025.

RATING OUTLOOK

The "stable" outlook reflects our expectation that BRR will sustain its competitive position in the sugar industry in Thailand. We expect BRR to maintain sufficient liquidity or back-up credit facilities to meet its repayment obligations. Thailand's sugar revenue sharing system, reliable revenue from the power business, as well as contributions from the packaging business should alleviate the effects of volatility in the sugar production business.

RATING SENSITIVITIES

A rating upside case could occur if BRR enlarges its earnings without weakening its balance sheet, such that EBITDA exceeds THB1.5 billion and the net debt to EBITDA ratio stays below 4 times for a sustained period. On the contrary, a downgrade could occur if its operating performance is materially weaker than expected or if BRR makes any debt-funded investment that materially weakens its balance sheet and cash flow protection, such that the net debt to EBITDA ratio exceeds 8 times for a prolonged period.

COMPANY OVERVIEW

BRR, formerly named Sahathairungruang Sugar Co., Ltd., was established in 1963 and listed on the Stock Exchange of Thailand (SET) in 2014. The company's major shareholder is the Tangtongwechakit family, holding a stake of about 66% in the company at the end of 2022.

BRR's business profile is underpinned by its track record of 60 years in the sugar industry. The company's major products are raw sugar and brown sugar. To broaden its product portfolio, BRR has added refined sugar production over the past few years. Its own brands comprise "Double Key" and "BRUM".

About 80% of BRR's sugar products are exported through international traders, with the remainder (20%) sold domestically. In the domestic market, most of BRR's products are sold through distributors. Its products are well-known in local communities of Buriram Province and the northeastern region of Thailand. BRR has also expanded its market through wholesalers in the southern, central, and eastern regions, as well as distributing through modern trade and food service channels.

The company's crushing yield is high. During the crushing seasons spanning 2018 to 2023, the yield ranged from 120-124 kilograms (kg) per cane ton. These yields placed BRR among the top three sugar millers in Thailand. BRR's crushing yield has consistently exceeded the annual industry average of 109-117 kg per cane ton over the past five years.

BRR has built up good relationships with individual cane growers. The company offers broad-based support to cane growers, including advances of cash, fertilizer, chemical, sugarcane varieties, as well as agricultural machinery and equipment. At the end of 2022, BRR had approximately 188,000 rai of contract planting area spread across some 7,700 growers.

BRR's sugar-related businesses include the production of electricity, fertilizer, and packaging. Sale from the sugar business contributed 80% of BRR's total revenue in 2022, followed by fertilizer (8%), electricity (6%), packaging (3%), and others (2%).

For the electricity business, BRR has three power plants, two of which have long-term contracts to sell a total of 16 MW of power to PEA under the very small power producer (VSPP) scheme. In 2017, BRR sold its future income streams from these two power plants to BRRGIF for THB3.6 billion, while the company also invested in a 33.3% stake in BRRGIF. Additionally, BRR has expanded into the packaging business utilizing bagasse from sugarcane.

KEY OPERATING PERFORMANCE

Chart 1: Raw Sugar Prices Worldwide



Note: Monthly prices of Futures Contract No. 11

Source: New York Board of Trade, United States Department of Agriculture (USDA)

Table 1: Sugar Production in Thailand

Unit: Mil. tonnes

Sugar Producer	Growing Season				
	2018/ 2019	2019/ 2020	2020/ 2021	2021/ 2022	2022/ 2023
Mitr Phol	2.92	1.61	1.68	2.34	2.36
Thai Roong Ruang	2.42	1.34	1.24	1.45	1.82
KSL	1.14	0.58	0.53	0.70	0.75
Thai Ekkalak	1.03	0.60	0.47	0.64	0.80
Korat	0.64	0.29	0.40	0.58	0.62
Wangkanai	0.69	0.22	0.24	0.36	0.50
Eastern Sugar	0.49	0.34	0.32	0.36	0.42
Khonburi	0.37	0.19	0.23	0.31	0.35
BRR	0.35	0.22	0.22	0.29	0.24
Banpong	0.58	0.38	0.27	0.28	0.32
Kumpawapee	0.39	0.24	0.17	0.29	0.22
Others	3.50	2.23	1.80	2.55	2.66
Total	14.58	8.29	7.59	10.13	11.06

Source: Office of the Cane and Sugar Board (OCSB)

Table 2: BRR's Revenue Breakdown by Business

Unit: %

Product	2019	2020	2021	2022	Jan-Mar 2023
Sugar and molasses sales	80	78	76	80	80
Electricity sales	10	9	10	6	5
Fertilizer sales	8	8	8	8	9
Packaging sales	-	1	1	3	2
Others	3	4	5	2	5
Total sales	100	100	100	100	100
Total sales (THB mil)	4,987	3,893	3,788	7,353	2,547

Source: BRR

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Mil. THB

	Jan-Mar 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	2,591	7,375	3,966	3,983	5,048
Earnings before interest and taxes (EBIT)	442	1,164	319	339	(94)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	484	1,471	597	695	252
Funds from operations (FFO)	390	1,129	391	336	(161)
Adjusted interest expense	45	231	197	338	404
Capital expenditures	9	164	104	188	712
Total assets	9,787	9,459	9,057	8,663	9,429
Adjusted debt	5,232	4,673	6,103	6,066	6,738
Adjusted equity	2,956	2,614	1,937	1,856	1,863
Adjusted Ratios					
EBITDA margin (%)	18.70	19.94	15.04	17.45	5.00
Pretax return on permanent capital (%)	12.91	14.21	3.97	4.07	(1.04)
EBITDA interest coverage (times)	10.75	6.37	3.03	2.06	0.62
Debt to EBITDA (times)	3.68	3.18	10.23	8.73	26.71
FFO to debt (%)	19.10	24.15	6.40	5.54	(2.39)
Debt to capitalization (%)	63.90	64.12	75.90	76.57	78.34

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology – Corporate, 26 July 2019

Buriram Sugar PLC (BRR)

Company Rating:	BBB-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2023, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria