

# EASTERN SUGAR AND CANE PLC

No. 163/2022

26 September 2022

## CORPORATES

**Company Rating:** BBB  
**Outlook:** Stable

**Last Review Date:** 30/09/21

### Rating History:

Date	Rating	Outlook/Alert
30/09/21	BBB	Stable
04/06/20	BBB	Negative
30/01/20	BBB	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Eastern Sugar and Cane PLC (ESC) at “BBB” with a “stable” rating outlook. The rating reflects the company’s long experience in the sugar industry, its diverse sources of income, and conservative financial policy. However, these strengths are partially offset by ESC’s small business scale and the volatility of sugar prices and sugarcane output.

## KEY RATING CONSIDERATIONS

### Lengthy track record in the sugar business

ESC has been engaged in the sugar business for more than 60 years. The main product is raw sugar, contributing 54% of the company’s total sugar revenue in 2021. Export sales made up 71% of total sugar revenue in 2021. Sales through traders accounted for more than 80%.

ESC is one of eight producers in Thailand to have received the “Bonsucro” standard certificate. This certificate widens ESC’s opportunity to expand into the high-quality sugar segment in both domestic and overseas markets.

In the past few years, ESC has focused on value-added products such as very high polarization (VHP) sugar, white sugar, and refined sugar. The contribution of value-added products increased from 15% in 2018 to 46% in 2021.

Domestic sales have gradually increased since 2018, with the customer base of industrial users also expanding. Domestic prices are normally higher than export prices while domestic logistics costs are lower, leading to better margins. We expect the mix between domestic and export sales to be 20% and 80%, respectively, in the forecast years.

### Diversification to ethanol and power

ESC has maximized the sugar value chain by utilizing sugarcane and by-products from the sugar production process to produce ethanol and generate power.

ESC’s power plants have a combined installed power generation capacity of 123.6 megawatts (MW). Bagasse, a by-product of sugar production, and sugarcane leaves are used as biofuel for electricity generation. The company sells electricity to two state-owned enterprises under long-term power purchase agreements (PPA). The Electricity Generating Authority of Thailand (EGAT) purchases 40 MW of electricity under the Small Power Producer (SPP) scheme while the Provincial Electricity Authority (PEA) buys 11 MW under the Very Small Power Producer (VSPP) scheme.

ESC has an ethanol production capacity of 150,000 liters per day. Buyers of ethanol are the major oil companies in Thailand.

In 2021, revenue from electricity and ethanol made up 20% of total revenue, while revenue from sugar contributed 70%. The remainder came from fertilizers and other services to farmers.

### Relatively small business scale

ESC has two plants with a crushing capacity of 48,000 tonnes of cane per day (TCD). The production capacity of ESC’s second plant is 20% of the first plant. The company is the only sugar company operating in Sa Kaeo province.

Due to the plants' location and capacity, in our view, the company is exposed to concentration risk in terms of production and procurement. However, the procurement risk is mitigated by the distance of the plantation areas supplying ESC's mills from any other sugar plants. Other than ESC's mills, the closest are three plants in Chonburi province.

ESC's production volume is relatively small compared to other millers in Thailand. The company's market share has ranged from 3.5%-4.5% of total sugar production volume in Thailand during the past five years.

### **Recovery in operating performance**

We expect ESC's operating performance to continue its reviving trend over the next few years, following better sugarcane productivity and escalating sugar prices.

ESC's operating performance worsened during 2019-2021 mainly due to plummeting global sugar prices, low sugarcane production, and weak consumption resulting from the Coronavirus Disease (COVID-19) pandemic. The raw sugar price slumped to around 12 cents per pound (c/lb) during 2018-2020, compared with 16-18 c/lb in 2016-2017. Sugarcane production volume in Thailand also declined in 2020-2021, plunging to 66.7 million tonnes in the 2020/21 production year, down 50.6% from 134.9 million tonnes in the 2017/18 production year, due to unfavorable weather and drought.

Although ESC's sugarcane production volume dropped to 2.8 million tonnes in the 2020/21 season, down from 3.0 million tonnes in the 2019/20 season, the company's revenue in 2021 was around the same as 2020 at THB7.0 billion. The uptick in global sugar prices helped sustain revenue in 2021. The average sugar price increased to 17.9 c/lb in 2021 from 12.9 c/lb in 2020. However, operating performance was not strong as expected. Added to the lower sugarcane production volume that resulted in higher costs per unit, one-time expenses also contributed to the drop in earnings before interest, taxes, depreciation, and amortization (EBITDA). The one-time expenses were due to a switchover to a new and more efficient power turbine and the impact from underperforming machines. EBITDA in 2021 decreased to THB881 million, from THB1.4 billion in 2020. Based on management accounts, EBITDA for the first six months of 2022 was approximately THB840 million.

We anticipate sugarcane output in Thailand of around 90-100 million tonnes per year over the forecast period. ESC should maintain its 3.5% market share in terms of sugarcane volume. The sugar price is expected to remain above 15 c/lb. ESC's annual revenue is expected to be around THB7.8-THB8.5 billion during the forecast years.

### **Lower financial leverage**

ESC's financial leverage will likely decline during 2022-2024. After the second plant commenced operations in late 2018, the company has continued to invest in the improvement of sugarcane plantation/crushing, power generation, and implemented a new software system. As of December 2021, the adjusted net debt to EBITDA and funds from operations (FFO) to adjusted net debt were 5 times and 17%, respectively.

Under our base-case scenario, capital expenditure (CAPEX) is projected at around THB400-THB900 million per year for normal maintenance, process improvements such as improved energy efficiency, and the purchase of sugarcane harvesters. We forecast ESC's adjusted net debt to EBITDA to decline to the level of 2-3 times and the ratio of FFO to adjusted net debt to improve to the 28%-43% range during the forecast period.

### **Favorable liquidity profile**

ESC has an adequate liquidity profile. Its source of funds comprised cash on hand of THB111 million and uncommitted bank credit facilities of THB6.2 billion at the end of 2021. The FFO over the next 12 months are expected to be around THB1.2 billion. These sources of funds should be sufficient to cover debt servicing and investment needs over the next 12 months, which include long-term debt coming due in 2022 of THB230 million, and planned CAPEX of THB400 million.

The key financial covenant on ESC's bank loans requires the company to maintain its debt-to-equity ratio below 2 times and its debt service coverage ratio at more than 1.2 times. At the end of 2021, the ratios were 0.8 times and 8.2 times, respectively. We believe the company will remain in compliance with the financial covenant over the next 12 to 18 months.

### **BASE-CASE ASSUMPTIONS**

- Revenues of THB7.8-THB8.5 billion yearly during the forecast period due to improved sugarcane production volume and a rebound in the sugar price.
- EBITDA margin of around 16%-19% during 2022-2024.
- CAPEX of THB400-THB900 million per year during the forecast period.

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## RATING OUTLOOK

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The “stable” outlook reflects our expectation that ESC will be able to revive its operating performance while maintaining an acceptable capital structure, following an easing of concerns over the prolonged and severe drought in Thailand and the plunge in worldwide sugar prices.

## RATING SENSITIVITIES

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A rating upside case could occur if ESC enlarges its earnings and stabilizes its profit margin such that EBITDA remains above THB2 billion per year and net debt to EBITDA below 3 times on a sustained basis. On the other hand, a rating downside case could emerge if profitability and earnings fall significantly short of expectations. Any overly aggressive, debt-funded investments that would materially weaken the company’s balance sheet and cashflow protection could also lead to a downgrade scenario.

## COMPANY OVERVIEW

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ESC was established in 1959 by the Wattanavekin family. As of June 2022, the Wattanavekin family collectively held 98.6% of the company’s shares.

ESC’s sugar plants are located in the eastern region of Thailand. Sugarcane, the main raw material used to produce sugar, is a cool-weather crop grown primarily in eastern and northeastern Thailand.

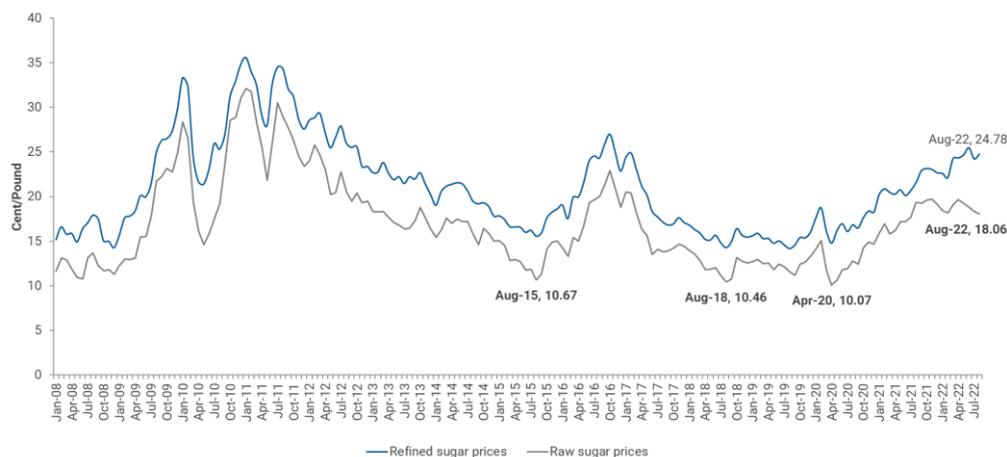
In the eastern region, ESC is the only sugar producer in Sa Kaeo province; other sugar mills are located in Chonburi province. The sugarcane plantation area in Sa Kaeo province represents 68% of the total sugarcane plantation area in the eastern region. Consequently, ESC does not have to compete with other producers to secure sufficient supplies of sugarcane to feed its mills. ESC also enjoys strong relationships with sugarcane growers. The company offers broad-based support to growers, including advances of cash and fertilizer, development of planting techniques, advanced irrigation techniques, and breeding and harvesting tools.

ESC’s first mill at Wattana Nakorn district has a production capacity of 40,000 tonnes cane per day (TCD). ESC received approval in July 2018 to build a second mill at Wang Sombun district, Sa Kaeo province. The new mill has a capacity of 18,000 TCD. The first phase of 8,000 TCD started up in December 2018. As of June 2022, ESC had total production capacity of 48,000 TCD.

In the 2021/2022 production period, ESC procured 3.3 million tonnes of sugarcane and produced 363,409 tonnes of sugar. ESC’s market share in Thailand, in terms of tonnes of sugar produced, was 3.5%. For comparison, the two market leaders held market shares of around 21% and 15.4%.

ESC’s sugar package size is 50 kilograms (kg) while the sale size is 100 kg. Currently, ESC sells white and refined sugar in the domestic market. It exports raw sugar, VHP sugar, and refined sugar.

ESC’s sugar-related businesses include the production of electricity, ethanol, and fertilizer, as well as research and development and logistics services.

**KEY OPERATING PERFORMANCE**
**Chart 1: Raw Sugar Price Worldwide**


Note: Prices of New York Contract No.11 for raw sugar and London Contract No. 5 for refined sugar  
 Source: Intercontinental Exchange (ICE), United States Department of Agriculture (USDA)

**Table 1: Sugar Production in Thailand**

Unit: Mil tonnes

Sugar Producers	2016/ 2017	2017/ 2018	2018/ 2019	2019/ 2020	2020/ 2021	2021/ 2022
Mitr Phol	1.98	2.73	2.92	1.61	1.68	2.34
Thai Roong Ruang	1.42	2.13	2.42	1.34	1.24	1.45
KSL Group	0.72	1.20	1.14	0.58	0.53	0.70
Thai Ekkalak	0.94	1.19	1.03	0.60	0.47	0.64
ESC	0.38	0.51	0.49	0.34	0.34	0.36
Banpong	0.44	0.52	0.58	0.38	0.27	0.28
Wangkanai	0.39	0.79	0.69	0.22	0.24	0.36
Khonburi	0.27	0.44	0.37	0.19	0.23	0.31
Kumpawapee	0.28	0.41	0.39	0.24	0.17	0.29
Others	3.21	4.79	4.55	2.79	2.44	3.43
<b>Total</b>	<b>10.03</b>	<b>14.71</b>	<b>14.58</b>	<b>8.29</b>	<b>7.59</b>	<b>10.16</b>

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

**Table 2: ESC's Revenue Breakdown by Business**

Unit: %

Product	2016	2017	2018	2019	2020	2021
Sugar sales	74	74	66	68	70	70
Ethanol sales	12	11	15	14	13	14
Electricity sales	6	7	9	9	9	7
Fertilizer sales	5	5	6	5	4	6
Service and others	3	3	4	4	4	3
<b>Total sales</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Total sales (mil. THB)</b>	<b>7,815</b>	<b>8,472</b>	<b>7,897</b>	<b>7,154</b>	<b>6,592</b>	<b>6,899</b>

Source: ESC

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	6,993	6,994	7,315	8,200	8,557
Earnings before interest and taxes (EBIT)	(110)	432	130	683	919
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	881	1,389	1,053	1,421	1,604
Funds from operations (FFO)	767	1,241	781	1,144	1,338
Adjusted interest expense	107	134	248	228	225
Capital expenditures	668	494	677	1,755	973
Total assets	12,149	13,745	12,833	13,628	12,038
Adjusted debt	4,418	4,926	6,108	6,234	4,417
Adjusted equity	5,389	5,589	5,364	5,515	5,072
<b>Adjusted Ratios</b>					
EBITDA margin (%)	12.60	19.86	14.39	17.34	18.75
Pretax return on permanent capital (%)	(1.02)	3.71	1.11	6.33	9.51
EBITDA interest coverage (times)	8.21	10.34	4.24	6.23	7.13
Debt to EBITDA (times)	5.01	3.55	5.80	4.39	2.75
FFO to debt (%)	17.36	25.20	12.79	18.34	30.30
Debt to capitalization (%)	45.05	46.85	53.24	53.06	46.55

\* Consolidated financial statements

## RELATED CRITERIA

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

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**Eastern Sugar and Cane PLC (ESC)**

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<b>Company Rating:</b>	BBB
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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