

EASTERN SUGAR AND CANE PLC

No. 187/2023
29 September 2023

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 26/09/22

Company 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, diversification into sugar-related businesses, and strong financial profile. However, these strengths are partially offset by ESC’s small business scale, the cyclical nature of sugar prices, and the volatility of sugarcane output.

KEY RATING CONSIDERATIONS

Satisfactory operating performance in 2022-2023

ESC’s total revenue increased by 24% to THB8.7 billion in 2022 from THB7.0 billion in 2021, mainly due to improving sugarcane production and higher worldwide sugar prices. Earnings before interest, taxes, depreciation, and amortization (EBITDA) almost doubled to THB1.4 billion in 2022 with EBITDA margin at 16%.

The company’s performance is expected to continue to improve in 2023. Sugarcane production for the 2022/2023 crop year has been finalized with total output slightly higher than the 2021/2022 crop year. ESC procured 3.4 million tonnes of cane, representing 3.6% of total sugarcane production in Thailand. The worldwide sugar price is still favorable, averaging around 21-22 cents per pound (ct/lb). We expect ESC’s operating revenue to rise by 12% to THB9.7 billion in 2023 and EBITDA to be THB1.7 billion.

Weak rainfall expected to hit revenue in 2024-2025

We expect ESC’s operating revenue to decline during 2024-2025. Sugarcane production in the 2023/2024 and 2024/2025 crop years is expected to be hit by lower rainfall resulting from the El Nino phenomenon. We anticipate sugarcane output in Thailand of around 75-80 million tonnes per year in 2024-2025. ESC should be able to maintain its market share in terms of sugarcane volume. Worldwide sugar prices are projected to drop from the 2023 level but remain favorable at around 17-18 ct/lb. As a result, ESC’s operating revenue is expected to reach around THB7-THB8 billion during 2024-2025.

Diversification to ethanol and power

ESC has expanded along the sugar value chain to maximize the utilization of sugarcane and by-products of the sugar production process. The major by-products are bagasse, filter cake, and molasses. The bagasse is mainly used as fuel in the company’s power plants. Filter cake is used for fertilizer production while molasses is used in ethanol production.

ESC’s power plants have a combined installed power generation capacity of 123.6 megawatts (MW). 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 2022, revenue from electricity and ethanol made up 20% of ESC's total revenue, while revenue from sugar contributed 70%. The remainder came from fertilizers and other services to farmers.

Relatively small business scale with concentration risk

ESC operates two sugar mills in Sa Kaeo Province in the eastern region of Thailand. The company has total crushing capacity of 48,000 tonnes of cane per day (TCD); 40,000 TCD from the first plant and 8,000 TCD from the second. The company's production volume is relatively small compared to other millers in Thailand. The company has held a market share of 3.5%-4.5% of the country's sugar production volume over the past five years.

Based on the location and capacity of the plants, we view that ESC faces concentration risk in terms of its procurement and production. Farmers have no commitment to supply to only one sugar mill, thus, more competition is expected if any new sugar plants set up operations in the same areas. However, with its longstanding relationships with local farmers, we anticipate little impact on ESC from the entry of newcomers operates into nearby areas. Currently, only ESC operates in Sa Kaeo Province. Other sugar mills in the eastern region are in Chonburi Province.

Strong financial leverage

ESC's financial leverage will likely decline in 2023-2025 with the adjusted net debt to EBITDA ratio expected to fall below 3 times. ESC has continued to invest in improvements to its sugarcane plantations/crushing operations, power generation, production efficiency, and has implemented a new software system over the past three years. As of June 2023, annualized with the trailing 12 months, the ratios of ESC's adjusted net debt to EBITDA and funds from operations (FFO) to adjusted net debt were 1.5 times and 63%, respectively.

Under our base-case scenario, the company's capital expenditure (CAPEX) budget for the next three years is projected to total around THB3.0 billion for normal maintenance, process improvements such as improving efficiency of electricity generation and sugar production, installation of new ethanol machines, and for the purchase of sugarcane harvesters. We forecast ESC's adjusted net debt to EBITDA ratio to decline to the level of 2-3 times and the FFO to adjusted net debt ratio to improve to the 40%-70% range during the forecast period.

Favorable liquidity profile

ESC has an adequate liquidity profile. Its sources of funds comprised cash on hand of THB214 million and uncommitted bank credit facilities of THB6.1 billion as of June 2023. The FFOs over the next 12 months are expected to be around THB1.6 billion. These sources of funds should be sufficient to cover its planned CAPEX of THB500 million over the next 12 months. ESC had no outstanding long-term bank loan as of June 2023. The remaining loans are mainly with related parties which will be repaid at call.

As of June 2023, ESC recorded THB62 million of priority debt out of total interest-bearing debt (excluding lease liabilities) of THB2.9 billion. The priority debt comprised secured debts at ESC. ESC's priority debt to total debt ratio was 2%.

BASE-CASE ASSUMPTIONS

- Revenues to improve to THB9.7 billion in 2023 and drop to the range of THB7.0-THB8.0 billion yearly during 2024-2025, mainly because of lower sugarcane production due to declining rainfall.
- EBITDA margin of around 18%-20% during 2023-2025.
- CAPEX totaling around THB3 billion during the forecast period.

RATING OUTLOOK

The "stable" outlook reflects our expectation that ESC will sustain its competitive position in the Thai sugar industry while maintaining an acceptable capital structure. The revenue contribution from the energy segment will to some extent offset volatility in the sugar business.

RATING SENSITIVITIES

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 ratio 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

ESC was established in 1959 by the Wattanavekin Family. As of June 2023, 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 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 2023, ESC had total production capacity of 48,000 TCD.

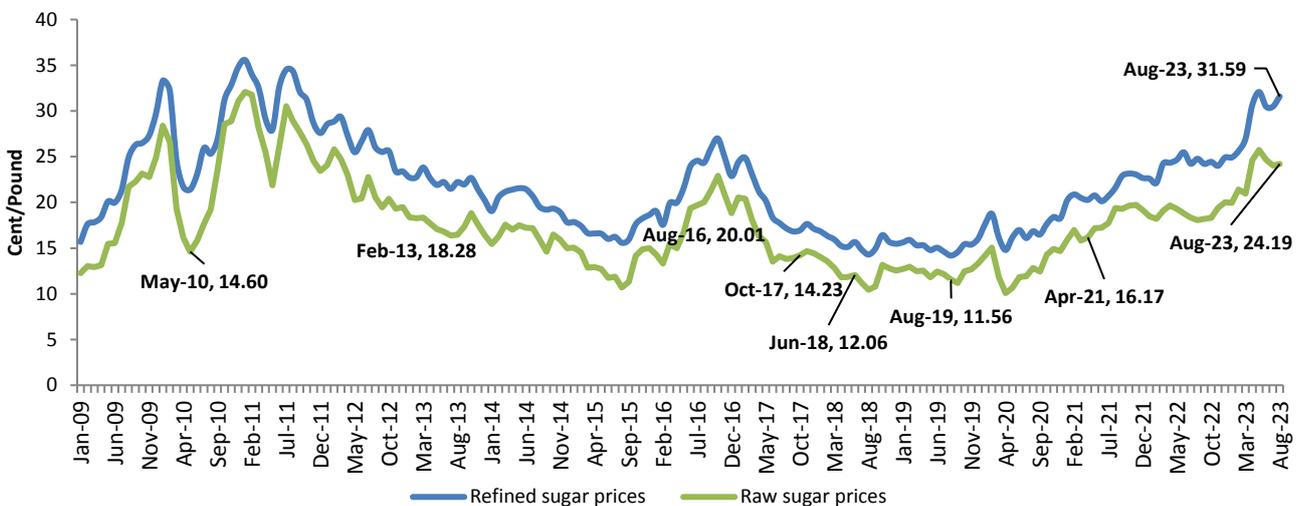
In the 2022/2023 production period, ESC procured 3.4 million tonnes of sugarcane and produced 421,333 tonnes of sugar. ESC’s market share in Thailand, in terms of tonnes of sugar produced, was 3.8%. For comparison, the two market leaders held market shares of around 21% and 16.5%.

ESC’s sugar package size is 50 kilograms (kg) while the sale size is 100 kg. Currently, ESC sells white sugar, refined sugar, and natural gold 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 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 Producers	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 Group	1.14	0.58	0.53	0.70	0.75
Thai Ekkalak	1.03	0.60	0.47	0.64	0.80
Wangkanai	0.69	0.22	0.24	0.36	0.50
Eastern Sugar	0.49	0.34	0.34	0.36	0.42
Khonburi	0.37	0.19	0.23	0.31	0.35
Kumpawapee	0.39	0.24	0.17	0.29	0.22
Buriram	0.35	0.22	0.22	0.29	0.24
Bangpong	0.58	0.38	0.27	0.28	0.32
Others	4.55	2.79	2.44	3.16	3.27
Total	14.58	8.29	7.59	10.15	11.06

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

Table 2: ESC's Revenue Breakdown by Business

Unit: %

Product	2017	2018	2019	2020	2021	2022
Sugar sales	74	66	68	70	70	71
Ethanol sales	11	15	14	13	14	11
Electricity sales	7	9	9	9	7	9
Fertilizer sales	5	6	5	4	6	6
Service and others	3	4	4	4	3	3
Total sales	100	100	100	100	100	100
Total sales (mil. THB)	8,472	7,897	7,154	6,592	6,899	8,610

Source: ESC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	7,078	8,659	6,993	6,994	7,315
Earnings before interest and taxes (EBIT)	694	371	(110)	432	130
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,211	1,405	881	1,389	1,053
Funds from operations (FFO)	1,132	1,280	767	1,241	781
Adjusted interest expense	65	109	107	134	248
Capital expenditures	250	435	668	494	677
Total assets	12,116	12,218	12,149	13,745	12,833
Adjusted debt	2,876	3,125	4,085	4,820	6,108
Adjusted equity	6,250	5,635	5,389	5,589	5,364
Adjusted Ratios					
EBITDA margin (%)	17.11	16.23	12.60	19.86	14.39
Pretax return on permanent capital (%)	9.26 **	4.02	-1.04	3.73	1.11
EBITDA interest coverage (times)	18.65	12.95	8.21	10.34	4.24
Debt to EBITDA (times)	1.48 **	2.22	4.64	3.47	5.80
FFO to debt (%)	62.79 **	40.97	18.77	25.75	12.79
Debt to capitalization (%)	31.52	35.68	43.12	46.30	53.24

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

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

Eastern Sugar and Cane PLC (ESC)

Company Rating:	BBB
Rating Outlook:	Stable

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