

# NORTHEAST RUBBER PLC

No. 94/2022  
7 June 2022

## CORPORATES

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

**Last Review Date:** 15/06/21

### Company Rating History:

Date	Rating	Outlook/Alert
15/06/21	BBB-	Stable
14/09/20	BB+	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Northeast Rubber PLC (NER) at “BBB-”, with a “stable” outlook. The rating reflects the expected gradual recovery in the natural rubber (NR) industry, and NER’s improvements in efficiency and cost control. The rating continues to reflect the company’s market position as a medium-sized processor in the Thai NR industry and its proven track record of producing and merchandising NR.

However, NER’s business profile is constrained by fluctuations in NR prices and exchange rates, government intervention, market concentration, single production site, and competition from major industry players.

### KEY RATING CONSIDERATIONS

#### Improved financial performances

NER’s total operating revenue grew by 49% year-on-year (y-o-y) to THB24.4 billion in 2021, driven by gradual demand recovery worldwide in the auto industry.

NER’s gross margin improved to 13.2% in 2021, from 10.5% in 2020. This resulted from a more favorable product mix, rising in NR products, lower average raw material costs, and using a back-to-back selling and buying strategy. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) also increased, to THB2.37 billion in 2021 from THB1.23 billion in 2020. NER reported a net profit of THB1.85 billion in 2021, compared with a net profit of THB859 million in 2020.

NER’s total operating revenue continued to grow by 13% y-o-y in the first quarter of 2022. NER’s gross margin widened to 13.7%, compared with 11.5% over the same period in 2021. Average selling prices for NR rose by 5% in the first quarter of 2022, while average raw material prices declined by 28% in the same period in 2021. NER is able to control costs supported by lower average raw material cost mix.

TRIS Rating expects the company’s sales volume to expand throughout the rest of 2022 as the auto industry gradually recovers and economic conditions improve. However, demand in the auto industry will likely grow at a slower annual rate during 2023-2024 as demand-supply imbalances ease.

We forecast NER’s total operating revenues will grow by 7% y-o-y in 2022, before decelerating to 3% in 2023 and remaining flat in 2024. The gross margin will likely remain around 12% in 2022, before slipping to 10% per annum during 2023-2024. NER’s EBITDA margin is forecast to be around 9% in 2022, before declining to 7% per annum in 2023-2024.

#### Demand recovery in NR industry

According to the International Rubber Study Group (IRSG), the gradual rise in NR supply and sharp increases in global demand during 2021-2022 led to a small deficit in the NR balance and rises in global NR prices in 2021-2022. The average prices for all NR products jumped by 17%-27% y-o-y in 2021 and 3%-17% for the first quarter of 2022 following the prolonged recovery of demand in the auto industry.

Over the next few years, NER’s strategic focus on efficiency improvements and cost reductions as well as the prospect of an economic recovery will likely help the company maintain satisfactory operating performance. In addition, the

acute scarcity of NR supply in Indonesia, following the spread of leaf fall disease, will likely support the ongoing shift in purchase orders from major tire manufacturers in Indonesia to Thailand, including NER.

### Strengthened capital structure

NER's financial leverage is considered moderate. The company's total debt to capitalization ratio remained stable at 58.1% in 2021 and declined to 51.1% at the end of March 2022. This was due to lowering working capital needs and higher retained earnings.

In our forecast, NER's total capital expenditure is THB620 million. Most of the spending is earmarked to produce animal bedding, installation of solar cells, and improvement of machine efficiency. As a result, we expect the company's debt to capitalization ratio to decline to 55% in 2022 and further decline to 41%-46% during 2023-2024.

### Sound cash flow protection

We expect NER to have adequate liquidity over the next 12 months. The company has outstanding debts of THB771 million due in the next 12 months. Our base-case forecast projects funds from operations (FFO) of around THB1.8 billion over the same period. The company had cash and cash equivalents of THB447 million and unused credit facilities of THB4.3 billion, as of March 2022.

Looking forward, NER's FFO to total debt ratio is projected to improve to 20%-23% in 2022-2024, while the debt-to-EBITDA ratio is projected to be around 3-3.5 times in 2022-2024.

### BASE-CASE ASSUMPTIONS

- Revenues to increase by 7% in 2022, decline by 3% in 2023, then remain flat in 2024.
- Gross profit margin to be around 10%-12% per annum in 2022-2024.
- Total capital spending of THB420 million per annum in 2022, and THB100 million per annum in 2023-2024.

### RATING OUTLOOK

The "stable" outlook reflects our expectation that NER will maintain its competitive position in the NR industry, an adequate liquidity position, and a balance sheet strong enough to withstand the effects of volatile rubber prices.

### RATING SENSITIVITIES

We could raise the rating if NER's EBITDA size is over THB2.5 billion and its debt-to-EBITDA ratio is below 2.5 times on a sustained basis. However, we could lower the rating if NER's debt-to-EBITDA ratio sustainably increases above 5 times. This could occur if its margins contract significantly, which could result from its inability to cover increases in raw material costs, or if global demand for tires falls significantly. Any debt-funded expansion, which materially weakens the company's balance sheet and cash flow protection, could also impact the rating on NER.

### COMPANY OVERVIEW

NER was established in 2006 by Mr. Chuwit Jungtanasomboon, to process and distribute rubber products. As of March 2022, the Jungtanasomboon family collectively held 40.2% of the company's shares. The company was listed on the Stock Exchange of Thailand (SET) in November 2018. The initial public offering (IPO) brought in THB1.5 billion in new equity capital.

NER owns and operates two rubber plants located in Buriram province, Thailand. Total capacity comprises 60,000 tonnes per annum of ribbed smoked sheet, plus 319,200 tonnes per annum of STR and compound rubber.

NER's market share, in terms of sales volume of NR products, was 3%. The company's market share is on par with most other medium-sized NR producers. The market leader in Thailand holds an 8%-10% share of the market. NER's revenue base was moderate at around THB13.0-THB24.4 billion per year during 2019-2021. Its revenue ranked fourth among NR processors in Thailand. NER has long-established relationships with its customers, most of which are medium- to large-sized companies.

In December 2020, NER issued and offered THB308 million units of free warrants (NER-W1) for the purchase of NER's common shares to existing shareholders. The company received THB134.42 million from exercising the warrants.

From June 2021-May 2022, NER received THB420 million from exercising the remaining warrants to fund the company's working capital needs.

**KEY OPERATING PERFORMANCE**

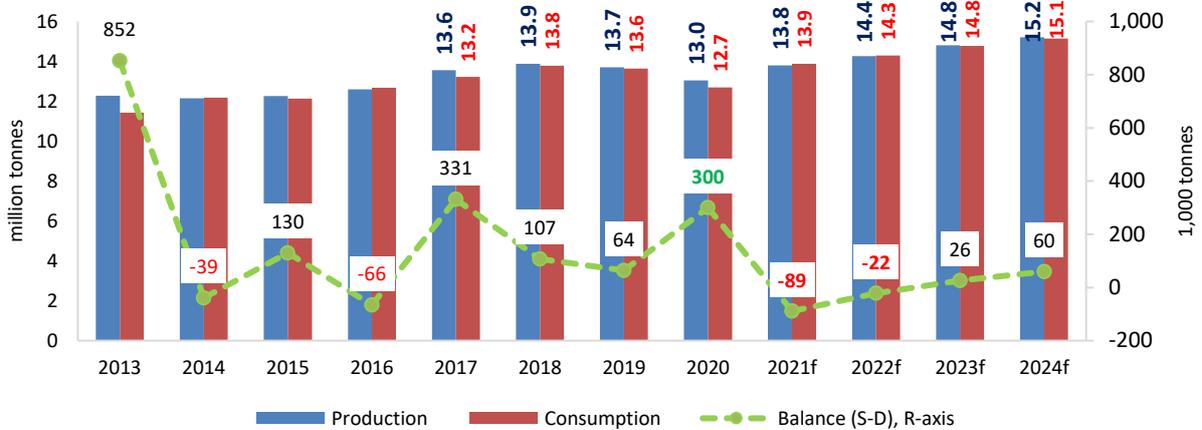
**Table 1: NER's Revenue Breakdown by Business**

Unit: %

Product	2018	2019	2020	2021	Jan-Mar 2022
Ribbed smoked sheet	35	35	20	22	13
Standard Thai rubber	32	31	40	45	39
Compound rubber	34	34	40	33	48
<b>Total sales</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Total sales (Mil. THB)</b>	<b>10,056</b>	<b>13,006</b>	<b>16,350</b>	<b>24,426</b>	<b>5,593</b>

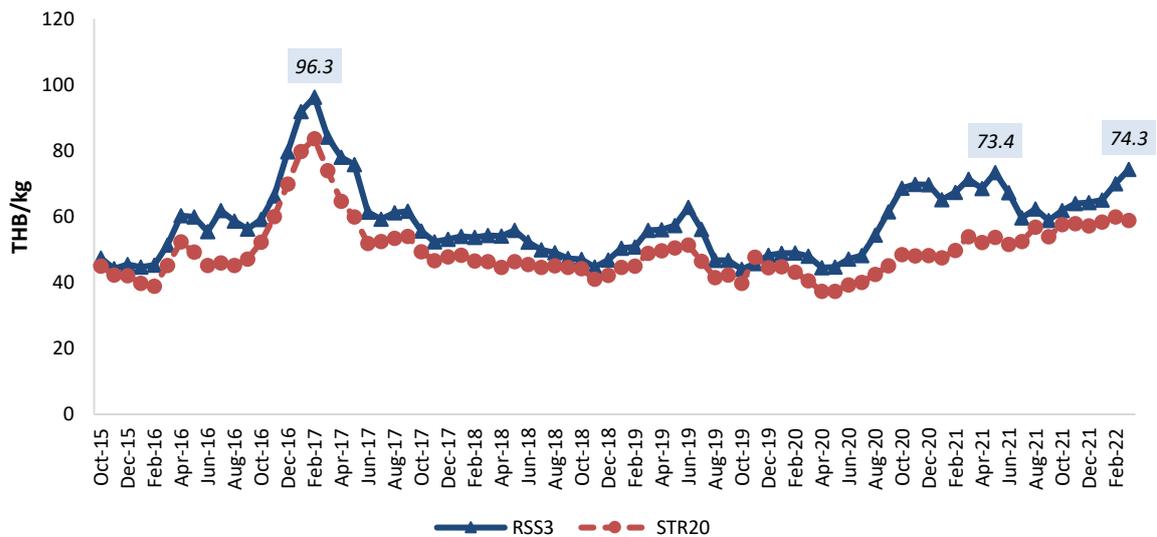
Source: NER

**Chart 1: World Production and Consumption of Natural Rubber**



Source: International Rubber Study Group (IRSG)

**Chart 2: Prices of Natural Rubber**



Source: Rubber Authority of Thailand (RAOT)

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***
*Unit: Mil. THB*

	Jan-Mar 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	5,594	24,432	16,364	13,021	10,074
Earnings before interest and taxes (EBIT)	593	2,194	1,116	786	736
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	638	2,372	1,230	869	816
Funds from operations (FFO)	513	2,007	968	610	551
Adjusted interest expense	94	331	229	234	252
Capital expenditures	39	201	534	241	83
Total assets	12,866	14,239	10,232	7,989	6,693
Adjusted debt	6,186	7,562	5,126	4,323	3,516
Adjusted equity	5,915	5,446	3,691	3,011	2,672
<b>Adjusted Ratios</b>					
EBITDA margin (%)	11.40	9.71	7.52	6.67	8.10
Pretax return on permanent capital (%) **	21.08	18.57	12.79	11.31	13.47
EBITDA interest coverage (times)	6.77	7.16	5.36	3.71	3.24
Debt to EBITDA (times)	2.43	3.19	4.17	4.98	4.31
FFO to debt (%) **	34.56	26.54	18.88	14.12	15.67
Debt to capitalization (%)	51.12	58.13	58.14	58.94	56.82

*Note: All ratios have been adjusted by operating leases.*

*\* Consolidated financial statements*

*\*\* Annualized with trailing 12 months*

**RELATED CRITERIA**

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

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**Northeast Rubber PLC (NER)**

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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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