

# NORTHEAST RUBBER PLC

No. 29/2024  
19 March 2024

## CORPORATES

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

**Last Review Date:** 19/06/23

### 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 ongoing robust demand for natural rubber (NR) products in the automotive industry and the prospects of the company’s strengthened performance notwithstanding intensifying competition. The rating also reflects the company’s position as a medium-sized processor in the Thai NR industry, the long track record of its management, and its sustained profitability.

However, the rating is constrained by volatility in NR prices and exchange rates, market concentration, the company’s single production site, as well as the challenges the NR industry is facing from an uncertain global economy and emerging regulatory requirements such as the new EU Deforestation Regulation (EUDR).

## KEY RATING CONSIDERATIONS

### Satisfactory operating performance expected

NER’s operating performance is expected to strengthen throughout the forecast years due to expected higher NR prices, continuing demand for tires in the automotive industry, and increased production capacity from the company’s new plant. The new plant is anticipated to commence operations in the second half of 2025 with a capacity of 172,800 tonnes per year. NER’s operating revenue was THB25.1 billion in 2023, slightly lower than the THB25.2 billion recorded in 2022. The company has seen double-digit demand growth for its NR products but this has been offset to some degree by low NR prices.

However, NR prices are currently trending upwards. In the first two months of 2024, the average price free on board (F.O.B.) Bangkok of ribbed smoked sheet grade 3 (RSS3) and Standard Thai Rubber number 20 (STR20), NER’s main NR products, increased by 20%-25% from the same period in 2023. (source: Rubber Authority of Thailand)

As a result, we expect the NR price to be the main driver of revenue growth in 2024, while strengthening sales volume should play a larger role in 2025-2026, supported by increased demand and NER’s new capacity coming onstream. Operating revenue is expected to reach around THB28 billion in 2024 and continue rising to around THB36 billion in 2026.

### Market concentration

The company’s customers are primarily Chinese traders that supply NR products to tire manufacturers. In 2023, NER’s customers consisted of Chinese (66%), Singaporean (26%), and Thai (7%), with the remainder from India and other markets. The contribution of Chinese customers declined from 70%-80% during 2020-2022, due to intense competition among NR producers in Thailand. The major players that previously supplied customers in Europe and the United States, have focused more on Chinese companies following the uptick in electric vehicles (EV) production. The intense competition among NR distributors may impact the company’s revenue and lead to weakened profitability. However, the company intends to expand into more export markets to boost its earnings and utilize its increasing production capacity.

### Stable profitability

We expect NER's earnings before interest, taxes, depreciation, and amortization (EBITDA) margin to hover around 9% during 2024-2026. The EBITDA margin has been in the range of 7%-10% during the past five years. The company has managed to sustain profitability through periods of volatile prices and consumption thanks to the experience of its management team in the NR industry of more than a decade and its back-to-back selling and buying strategy. Besides, plant productivity has remained at a high level with utilization rates of around 90%. With a projected EBITDA margin of 9%, NER's EBITDA should rise to around THB2.7 billion in 2024 and continuing to increase to THB3.3 billion in 2026.

### Declining leverage

We expect NER's leverage to decline during the forecast years although investment in the new plant totaling THB1.5 billion is likely to push up the company's debt. As of December 2023, the adjusted net debt was THB8.7 billion while the adjusted net debt to EBITDA ratio was 3.8 times, higher than the ratio of 3.2 times in 2021-2022. The new plant and working capital needs will gradually push up adjusted net debt to around THB10 billion by 2026. However, with the expected higher earnings from the new plant capacity, adjusted net debt to EBITDA is projected to fall to around 3.1 times in 2024-2026.

### Adequate liquidity

We assess NER to have adequate liquidity over the next 12 months. Its sources of funds comprised cash and restricted cash of THB485 million and undrawn credit facilities of THB2.6 billion at the end of December 2023. Its funds from operations (FFO) over the next 12 months are projected to be around THB2.1 billion. On the other hand, NER has long-term loan repayment obligations of around THB149 million and lease liabilities of THB5.3 million coming due in the next 12 months, and an investment budget for the new plant of around THB1 billion in 2024. The company plans to borrow additional bank funds to finance the investment.

According to the key financial covenant on its bank loans, NER has to maintain its debt-to-equity ratio below 2.5 times and debt service coverage ratio (DSCR) above 1.2 times. The ratios at the end of 2023 were 1.25 and 1.2, respectively. The key financial covenant on NER's debentures requires the company to maintain a net debt-to-equity ratio below 2.5 times. The ratio was 1.15 times as of December 2023. NER should have no problems complying with its bank loans and debenture covenants over the next 12 to 18 months. Priority debt accounted for 44% of total debt as of 31 December 2023.

### BASE-CASE ASSUMPTIONS

- Revenues to increase by 10%-20% per year in 2024-2026 due to expected higher NR prices and increased capacity from the new plant.
- Gross profit margin of 11%-12% and EBITDA margin of 9% during 2024-2026.
- Total capital spending of THB1.7 billion during 2024-2025 including THB1.5 billion for the new plant, and THB100 million in 2026.

### 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 upgrade the rating if NER's EBITDA rises above THB2.5 billion and its debt to EBITDA ratio remains below 2.5 times on a sustained basis. However, a rating downgrade scenario could emerge if NER's debt to EBITDA ratio rises above 5 times on an extended basis. This could occur if its margins contract significantly, possibly due to rising 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 December 2023, the Jungtanasomboon family collectively held 35.8% 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 in Buriram province. Total capacity comprises 120,000 tonnes per annum of ribbed smoked sheet (RSS), plus 395,600 tonnes per annum of standard Thai rubber (STR) and compound rubber.

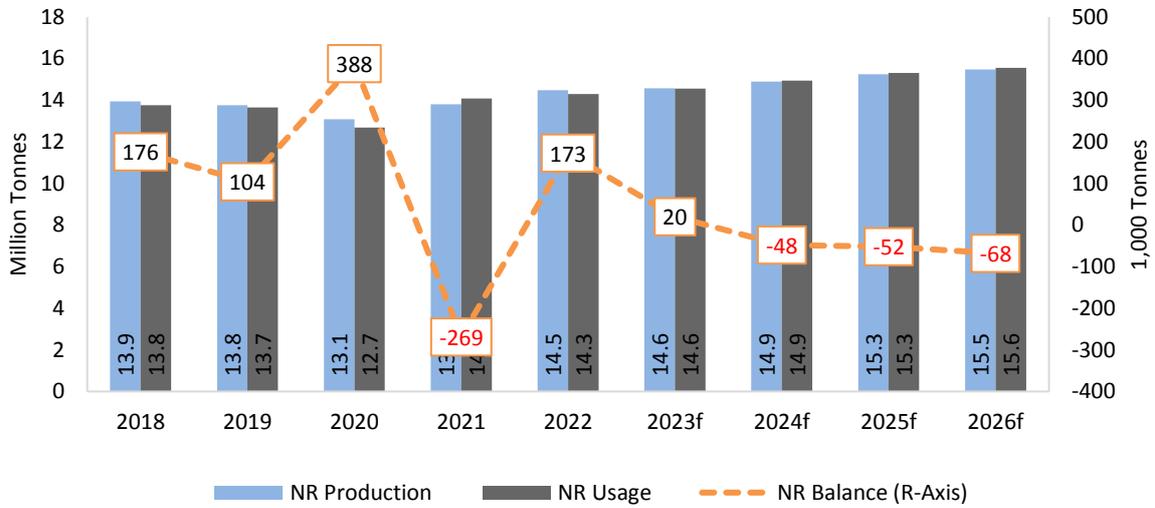
NER's market share, in terms of sales volume of NR products, is around 3%, which is on par with most other medium-sized NR producers. The market leader in Thailand holds an 8%-10% share of the market. NER's revenue base was moderate at

around THB24.4-THB25.2 billion per year during 2021-2023. The company has long-established relationships with its customers, most of which are medium- to large-sized companies.

In 2024, NER plans to start development of a new plant at the existing location in Buriram province with a full capacity of 345,600 tonnes/year. The company plans to divide the investment into two phases. Construction on the first phase of the plant will get underway in the second quarter of 2024 with commencement of operations scheduled for the second half of 2025. The first phase will have a production capacity of 172,800 tonnes/year and entail an investment cost of THB1.5 billion. The investment in the second phase will be determined later but is tentatively scheduled for 2027.

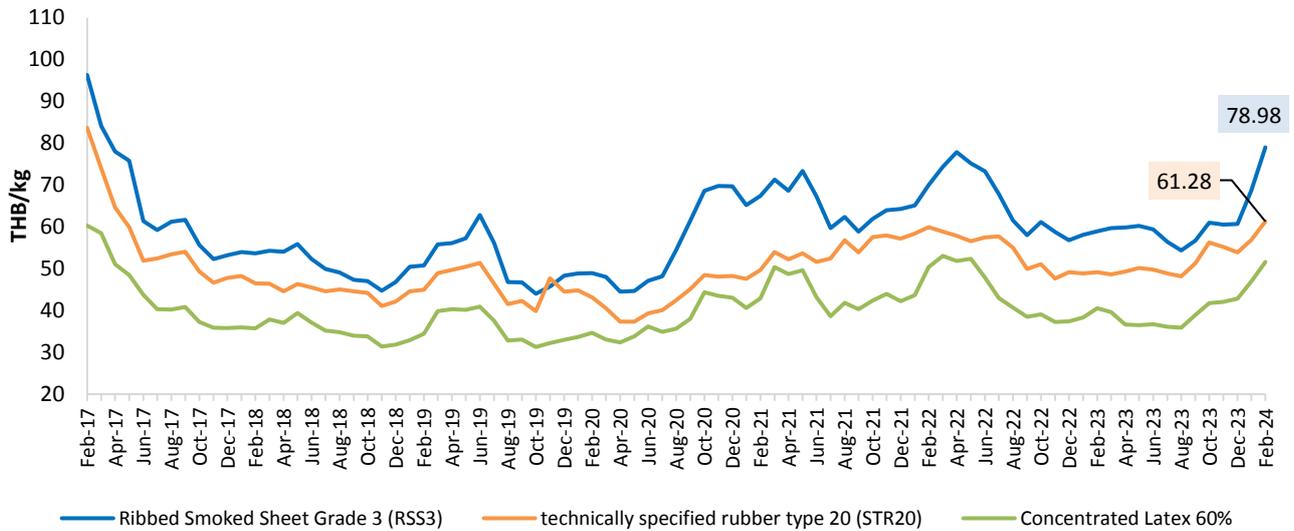
**KEY OPERATING PERFORMANCE**

**Chart 1: Worldwide NR Production and Consumption**



Source: International Rubber Study Group (IRSG)

**Chart 2: Thailand's NR Prices (F.O.B. Bangkok)**



Source: Rubber Authority of Thailand (RAOT)

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

|  | -----Year Ended 31 December ----- |        |        |        |        |
|--|-----------------------------------|--------|--------|--------|--------|
|  | 2023                              | 2022   | 2021   | 2020   | 2019   |
| Total operating revenues   | 25,057                            | 25,203 | 24,432 | 16,364 | 13,021 |
| Earnings before interest and taxes (EBIT)                                | 2,070                             | 2,223  | 2,194  | 1,116  | 786    |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 2,269                             | 2,407  | 2,372  | 1,230  | 869    |
| Funds from operations (FFO)  | 1,742                             | 1,938  | 2,007  | 968    | 610    |
| Adjusted interest expense  | 449                               | 424    | 331    | 229    | 234    |
| Capital expenditures   | 246                               | 334    | 201    | 534    | 241    |
| Total assets   | 16,839                            | 16,307 | 14,239 | 10,232 | 7,989  |
| Adjusted debt  | 8,659                             | 7,669  | 7,562  | 5,126  | 4,323  |
| Adjusted equity  | 7,469                             | 6,588  | 5,446  | 3,691  | 3,011  |
| <b>Adjusted Ratios</b>   |                                   |        |        |        |        |
| EBITDA margin (%)  | 9.1                               | 9.6    | 9.7    | 7.5    | 6.7    |
| Pretax return on permanent capital (%)                                   | 12.7                              | 14.9   | 18.6   | 12.8   | 11.3   |
| EBITDA interest coverage (times)   | 5.0                               | 5.7    | 7.2    | 5.4    | 3.7    |
| Debt to EBITDA (times)   | 3.8                               | 3.2    | 3.2    | 4.2    | 5.0    |
| FFO to debt (%)  | 20.1                              | 25.3   | 26.5   | 18.9   | 14.1   |
| Debt to capitalization (%)   | 53.7                              | 53.8   | 58.1   | 58.1   | 58.9   |

## RELATED CRITERIA

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

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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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