THAI EASTERN GROUP HOLDINGS PLC

No. 54/2024
11 April 2024

CORPORATES

Company Rating: BBB-
Outlook: Stable

Last Review Date: 21/04/23

Company Rating History:

Date	Rating	Outlook/Alert
21/04/23	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Thai Eastern Group Holdings PLC (TEGH) at “BBB-” with a “stable” outlook. The rating reflects the company’s long track record in the natural rubber industry, its emphasis on quality and sustainability, as well as the potential revenue contribution from sales of EU Deforestation-free Regulation (EUDR) rubber and biogas. The rating is constrained by the company’s small earnings base and higher debt required to support business growth. The volatility of rubber and palm prices, and fluctuations in exchange rates also weigh on the ratings.

KEY RATING CONSIDERATIONS

Long track record in the rubber industry

TEGH’s business profile is underpinned by its long track record in the natural rubber business, which contributed 83% of total revenue in 2023. The company has more than three decades of expertise in the natural rubber industry. In 2023, about 95% of revenue from the rubber business came from block rubber with the remaining 5% from latex.

TEGH is a certified supplier for well-known tire producers globally. Exports constituted 49% of its total rubber sales in 2023, while domestic sales accounted for 51%. Approximately 33% of total export sales were made to India, 30% to the European Union (EU) markets, and 20% to the United States (US). The remaining 17% of export sales were mainly to China, South Korea, and Africa.

Additionally, TEGH has focused on sustainability and environmentally friendly products. This strategy has enabled the company to capitalize on emerging trends in the automotive industry. The company exhibits strong potential to meet the eligibility criteria for EUDR, which will be effective from 30 December 2024 onwards.

In our base-case, we expect TEGH’s revenue from the rubber business to reach around THB14 billion in 2024 before rising to THB16 billion in 2026, driven by higher demand from existing customers, especially in EU and US, coupled with growing demand for EUDR rubber.

Growth in renewable energy and waste management

Initially, the company established a renewable energy and waste management business in alignment with its sustainability strategy and commitment to the bio-circular green economy, primarily for internal use. Subsequently, the company expanded its operations to offer waste management services to factories in Eastern Economic Corridor (EEC) and central region and commenced commercial sales of renewable energy.

Currently, the revenue generated from this business unit is minimal, accounting for only 1% of the total revenue. Nevertheless, TEGH anticipates a rapid increase in its contribution over the next few years, driven by capacity expansions and the sale of biogas.

Turnaround in financial performance anticipated

TEGH’s total operating revenue in 2023 decreased by 21% year-on-year (y-o-y) to THB12.2 billion. This was mainly due to a decline in the average selling prices of rubber and crude palm oil, as well as a reduction in the sales volume of crude palm oil. Because of lower margins from the rubber business, earnings before interest, taxes, depreciation, and amortization (EBITDA) decreased to THB700 million in 2023, compared with THB900-THB1,100 million in 2021-2022. EBITDA margin declined to 6% in 2023, from 7%-8% in 2021-2022.

However, the company's revenue is projected to be around THB16.5-THB18.1 billion annually with an EBITDA margin of around 5%-6% in 2024-2026. The performance should be supported by expanding capacity and growing demand for EUDR rubber, along with increased sales of renewable energy and waste management services.

Acceptable financial leverage

As of December 2023, the company's adjusted net debt to EBITDA ratio was 4.8 times, higher than the ratio of 2.8 times in 2022. This was mainly because of lower earnings and higher debt needed to fund working capital. We project TEGH's leverage to rise to 5.5 times in 2024 due to the increased working capital needed to accommodate sales growth and a lower margin. However, with the expected rise in earnings from EUDR sales, the adjusted net debt to EBITDA ratio could decrease to approximately 4.3-4.7 times in 2025-2026.

All TEGH's consolidated debt was made up of secured bank loans booked at its subsidiaries, which implies a significant subordination risk for the company's unsecured creditors, according to TRIS Rating's "Issue Rating Criteria".

Adequate liquidity profile

Our base case projects EBITDA of THB0.9-THB1.0 billion per annum in 2024-2026. At the end of 2023, TEGH had cash on hand of THB68 million and approximately THB2 billion unused credit facilities. The company's main uses of funds in 2024 will be interest expenses and repayments of long-term obligations totaling about THB260 million. Total capital spending is projected to be THB300-THB560 million per year during 2024-2026.

The key financial covenant on TEGH's bank facilities requires its debt-to-equity ratio to remain below 3.5 times and debt service coverage ratio (DSCR) above 1.2 times. The ratios at the end of 2023, under the consolidated financial statements, were 1.3 times and 2.9 times, respectively, in compliance with the covenant. We expect the company to have no problems complying with the bank loan covenants over the next 12 to 18 months.

BASE-CASE ASSUMPTIONS

- Operating revenues of around THB16.5 billion in 2024 on the back of higher rubber selling prices and demand from existing and EUDR customers, before rising to THB17.1-THB18.1 billion per annum in 2025-2026.
- EBITDA margin in the 5.1%-5.9% range during 2024-2026.
- Total capital spending of around THB1 billion in the next three years.

RATING OUTLOOK

The "stable" outlook reflects our expectation that TEGH's operating performance will improve over the next few years due to increased contributions from EUDR rubber sales and higher revenue from biogas.

RATING SENSITIVITIES

The rating upside could materialize if TEGH's EBITDA rises above THB2.5 billion and/or the net debt to EBITDA ratio remains below 2.5 times on a sustained basis. On the contrary, a downgrade could occur if its operating performance is weaker than expected or if TEGH makes any debt-funded investments that materially weaken its balance sheet and cash flow protection, such that the net debt to EBITDA ratio exceeds 5 times for an extended period.

COMPANY OVERVIEW

TEGH was incorporated in 2007 as a holding company. The company successfully raised funds via an initial public offering (IPO) on the Stock Exchange of Thailand (SET) in September 2022. TEGH's major shareholder is the Kokanutaporn family, holding a stake of about 75% at the end of 2023.

The group entered the oil palm business in 1991 and expanded into the rubber business in 1994. The group subsequently diversified into renewable energy in 2010 and waste management services in 2018. Besides its own investments, the group has established joint ventures with strategic partners, such as Sime Darby Group, a leading oil palm producer based in Malaysia, and Sumitomo Rubber Industries, a global tire and rubber company based in Japan.

TEGH is a holding company with operating subsidiaries in three core businesses comprising i) natural rubber, ii) crude palm oil, and iii) renewable energy and organic waste management. Natural rubber contributed 83% of TEGH's revenue in 2023, followed by palm (16%), and renewable energy and organic waste management (1%).

The group's plants are in Chonburi province and have a capacity of about 320,000 tonnes per year of rubber, and 520,000 tonnes per year of palm oil. The company also operates a biogas power plant with a generating capacity of 4 MW, 1 MW of which is sold to the Provincial Electricity Authority (PEA) under a long-term power purchase agreement (PPA).

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown by Business

Unit: %

Products	2019	2020	2021	2022	2023
Natural rubber business	85	84	83	77	83
Crude palm oil business	14	14	16	22	16
Renewable energy & organic waste management	1	1	1	1	1
Total sales	**100**	**100**	**100**	**100**	**100**
Total sales (THB mil)	**8,098**	**8,196**	**11,088**	**15,403**	**12,143**

Source: TEGH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	--------------------Year Ended 31 December --------------				
	2023	**2022**	**2021**	**2020**	**2019**
Total operating revenues	12,172	15,428	11,114	8,225	8,118
Earnings before interest and taxes (EBIT)	356	796	670	154	192
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	715	1,082	901	469	468
Funds from operations (FFO)	569	946	785	354	325
Adjusted interest expense	122	126	99	107	122
Capital expenditures	606	362	249	146	137
Total assets	7,410	6,938	6,482	5,288	5,307
Adjusted debt	3,465	3,033	3,889	3,454	3,625
Adjusted equity	3,180	3,246	2,084	1,439	1,402
Adjusted Ratios					
EBITDA margin (%)	5.9	7.0	8.1	5.7	5.8
Pretax return on permanent capital (%)	5.3	12.5	11.9	3.0	3.8
EBITDA interest coverage (times)	5.8	8.6	9.1	4.4	3.9
Debt to EBITDA (times)	4.8	2.8	4.3	7.4	7.7
FFO to debt (%)	16.4	31.2	20.2	10.2	9.0
Debt to capitalization (%)	52.1	48.3	65.1	70.6	72.1

RELATED CRITERIA

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

Thai Eastern Group Holdings PLC (TEGH)

Company Rating:	BBB-
Rating Outlook:	Stable

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