

THAI WAH PLC

No. 180/2021
27 October 2021

CORPORATES

Company Rating: BBB+
Outlook: Stable

Last Review Date: 30/10/20

Company Rating History:

Date	Rating	Outlook/Alert
17/10/18	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Thai Wah PLC (TWPC) at “BBB+” with a “stable” rating outlook. The rating reflects the company’s competitive position in the tapioca starch industry, its focus on value-added products and food-related products, as well as the management’s conservative financial policy. However, the company’s strengths are partially offset by the cyclical nature of commodity products such as the volatile prices of tapioca starch and supply of cassava root, the main raw material for starch production.

KEY RATING CONSIDERATIONS

Improved profitability with a gradual recovery in the tapioca starch industry

TWPC’s operating results for 2020 were in line with our expectations. Total operating revenue declined to THB7.1 billion while the company’s earnings before interest, tax, depreciation, and amortization (EBITDA) margin was flat at 7.5%.

Nonetheless, EBITDA margin improved to 12.9% in the first half of 2021, compared with 9.3% for the same period in 2020. The improvement was the result of a more favorable product mix from the starch segment following a gradual recovery of demand in the main markets. During the first half of 2021, according to the Thai tapioca trade association, the average native starch export price, jumped to USD483 per tonne, an 11% rise year-on-year (y-o-y). The increase was mainly due to a gradual recovery of demand in export markets following the gradual reopening of economies worldwide.

Going forward, we project TWPC’s total operating revenues to grow by 23% in 2021, then grow by 2% annually during 2022-2023. The company’s EBITDA margin is forecast to rise to 11% in 2021 and then stay at 9%-10% in 2022-2023.

Focus on high value-added products

TWPC has been increasing the proportion of high value-added (HVA) products in its product mix and expanding its global market presence. TWPC’s gross profit margin for native starch is below 20%, while that for HVA products is in the 10%-25% range. During the first half of 2021, sales of native starch accounted for 45% of total revenue, while sales of HVA products accounted for 35%, and vermicelli and related products (food segment) made up the remaining 20%. The company’s strategy going forward is to focus on high-margin and biodegradable products. TWPC’s strategic focus on efficiency improvements and cost reductions, and the prospect of a post-COVID economic recovery, should help the company maintain satisfactory operating performance over the next few years.

Financial leverage rises, but capital structure remains healthy

TWPC’s total debt to capitalization ratio rose to 12.7% as of December 2020 and 16.3% as of June 2021, up from 10.7% as of December 2019. The rise was mainly due to higher working capital needs in line with the seasonal pattern.

TWPC’s capital expenditure during 2021-2023 is forecast to range from THB300-THB400 million per year. Most of the capital expenditure is for annual maintenance expenditure and investment in biodegradable projects.

Thus, the total debt to capitalization ratio is forecast to be 12%-16% during 2021-2023. The EBITDA interest coverage ratio should remain satisfactory,

in the range of 13-16 times during 2021-2023.

Sound liquidity

We assess TWPC to have adequate liquidity over the next 12-18 months. Our base-case forecast assumes EBITDA will range from THB800-THB1,000 million per annum in 2021-2023. TWPC held cash and cash equivalents totaling THB1,179 million at the end of June 2021, with unused credit facilities of THB1.6 billion. The company has scheduled debt repayments of THB60 million to THB1.0 billion per year in 2021-2023.

BASE-CASE ASSUMPTIONS

- Total revenues to grow by 23% in 2021, then grow by 2% annually during 2022-2023.
- During 2021-2023, gross profit and EBITDA margin to range from 18%-20% and 9%-10%, respectively.
- Total capital spending to range from THB300-THB400 million per year in 2021-2023.

RATING OUTLOOK

The “stable” outlook reflects TRIS Rating’s expectation that TWPC will sustain its competitive position in the tapioca starch and vermicelli businesses in Thailand, and that sales of HVA products will help alleviate the effect of volatility in the prices of native tapioca starch and the company’s profit margin.

RATING SENSITIVITIES

The rating could be upgraded if the company enlarges cash generation while maintaining a strong balance sheet and conservative financial policy.

In contrast, TWPC’s rating could be revised downward if the company’s performance weakens materially for an extended period, with an adjusted debt to EBITDA ratio staying above 2 times. Any shift toward a more aggressive financial policy would also affect the rating.

COMPANY OVERVIEW

Thai Wah Starch PLC (TWS) was established in Thailand in 1947 and listed on the Stock Exchange of Thailand (SET) in 1985 by the Ho family. TWS produced and marketed tapioca flour under the “ROSE” brand. The major customers were international buyers as the company was able to meet international standards. TWS had four factories in Nakorn Ratchasima, Udorn Thani, Kalasin, and Kamphaeng Phet provinces, the major cassava-growing areas.

In 1994, TWS partnered with a state enterprise in Vietnam to establish a joint-venture company, Tay Ninh Tapioca Joint Stock Company (Tay Ninh), to produce and distribute tapioca starch and glucose syrup. TWS owned a 70% stake in Tay Ninh.

Thai Wah Food Products PLC (TWFP), which was established in 1952, was the leading producer of vermicelli in Thailand with well-known brands like “Double Dragon”, “Phoenix”, and “Double Kilin”. In 1989, TWFP was successfully listed on the SET.

In 2015, the shareholders of TWS and TWFP approved the amalgamation of the two companies. “Thai Wah PLC” (TWPC) was the name of the amalgamated entity. As of August 2020, the Ho family collectively held 39.1% of the company’s shares.

TWPC is moderately diversified in terms of markets served and production sites. China is TWPC’s largest market, making up 50%-60% of export sales during 2016-2018, while Taiwan accounted for 20%-25%, and the United States (US), Europe, Indonesia, and other markets made up the remainder.

TWPC currently has nine tapioca factories in three countries; Thailand, Vietnam, and Cambodia. The plants have a combined capacity of around 510,000 tonnes per year. TWPC also has two vermicelli processing plants, one in Thailand and one in Vietnam, with a total capacity of 26,000 tonnes per year for vermicelli noodle, and 8,700 tonnes per year for rice noodle.

In January 2019, TWPC acquired the assets of Maesot Starch Co., Ltd. and Maesot Biogas Co., Ltd., tapioca starch and biogas producers in Thailand, with a total starch production capacity of 60,000 tonnes per year, and total biogas production capacity equivalent to one megawatt. The company’s total investment was THB548 million.

In January 2020, Thai Wah (6) Co., Ltd., a subsidiary of TWPC, purchased 973,000 shares of Asia Tapioca Products Co., Ltd. (ATP), or 69.50% of the total shares, with a total starch production capacity of 40,000 tonnes per year. The company’s total investment was THB49.6 million.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	4,371	7,117	7,356	7,305	6,354
Earnings before interest and taxes (EBIT)	332	74	168	294	533
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	565	532	544	592	735
Funds from operations (FFO)	471	450	458	520	615
Adjusted interest expense	35	73	55	14	15
Capital expenditures	162	244	1,230	508	454
Total assets	8,267	8,120	7,869	7,073	7,116
Adjusted debt	1,053	758	632	0	0
Adjusted equity	5,391	5,206	5,295	5,866	5,906
Adjusted Ratios					
EBITDA margin (%)	12.93	7.48	7.40	8.10	11.57
Pretax return on permanent capital (%)**	4.39	1.03	2.50	4.62	8.85
EBITDA interest coverage (times)	16.30	7.29	9.96	42.24	50.56
Debt to EBITDA (times)	1.33	1.42	1.16	0.00	0.00
FFO to debt (%)**	63.18	59.36	72.39	51,971,926,113.76	61,462,905,266.06
Debt to capitalization (%)	16.34	12.71	10.66	0.00	0.00

Note: All ratios have been adjusted by operating leases.

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Thai Wah PLC (TWPC)

Company Rating:	BBB+
Rating Outlook:	Stable

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