TRIS RATING
A Strategic Partner of S&P Global

CreditNews ข่าวเครดิต

MITR PHOL SUGAR CORPORATION LTD.

No. 24/2019
8 March 2019

CORPORATES

Company Rating:	A+
Issue Ratings:	
Senior unsecured	A+
Outlook:	Stable

Last Review Date: 28/05/18

Company Rating History:

Date	Rating	Outlook/Alert
24/12/10	A+	Stable
02/11/07	A	Stable

Contacts:

Nauwarut Temwattanangkul

nauwarut@trisrating.com

Jutatip Chitphromphan

jutatip@trisrating.com

Sasiporn Vajarodaya

sasiporn@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating and the senior unsecured debenture ratings on Mitr Phol Sugar Corporation Ltd. (MPSC) at "A+". The ratings reflect MPSC's market position as one of the world's leading sugar producers, well-accepted brand name, efficient sugar mill operations, geographic diversification, and diversified sources of income. The ratings are partially constrained by the cyclical and volatile natures of the prices of sugar and sugarcane.

KEY RATING CONSIDERATIONS

Leading sugar producer

The ratings reflect MPSC's status as the largest sugar producer in Asia and one of the five largest sugar producers worldwide. MPSC owns and operates sugar mills in Thailand, China, the Lao People's Democratic Republic (Lao PDR), and Australia. In addition, the company has a presence in Indonesia through a joint venture. TRIS Rating believes MPSC's earnings are less volatile than other sugar producers in Thailand. This view is the result of MPSC's efficient sugar mill operations and the fact that the company has sugar mills in a number of countries.

MPSC produced 4.4 million tonnes of sugar in the 2017/2018 growing season compared with total production worldwide of 194.6 million tonnes. In Thailand, MPSC has long been the largest sugar producer. It produced 2.7 million tonnes of sugar in the 2017/2018 growing season, the highest market share (18.5%) based on production volume. Moreover, MPSC is the third-largest sugar producer in China, with market share of about 10% and sugar production of 1.0 million tonnes. MPSC is also one of the leading sugar producers in Australia with production of 0.6 million tonnes.

Price slump squeezes profit margin

MPSC's operating results fell in the first nine months of 2018. A slump in sugar prices, caused by a supply glut of sugarcane worldwide, led to the drop in profits. Total operating revenue declined by 5.5% year-on-year (y-o-y) to Bt74,711 million in the first nine months of 2018. The ratio of operating income before depreciation and amortization to sales slid to 15.7% in the first nine months of 2018, compared with 23.0% over the same period in 2017. The drop was largely due to weaker results in the sugar segment. In contrast, the ethanol and power segments benefited from the glut of sugarcane in 2017/2018 crop year. The glut meant fuel costs were lower.

Earnings before interest, tax, depreciation, and amortization (EBITDA) declined by 33.4% y-o-y to Bt12,286 million in the first nine months of 2018. Funds from operations (FFO) also sank, slipping by 36.7% y-o-y to Bt9,248 million.

Sugar production in the 2018/2019 crop year is forecast to decrease slightly to 185.9 million metric tonnes (MT) from 194.6 million MT in the previous crop year. However, sugar consumption worldwide will still fall below the sugar production. The oversupply will continue to keep sugar prices low.

TRIS Rating forecasts MPSC's operating margin will drop to 15% during 2018-2019. Nonetheless, the cyclical downturn in the sugar industry will gradually recover from 2020 onwards. Very low sugar prices will drive out some producers of cane and producers of sugar. Thus, we forecast MPSC's operating margin will recover to 18% in 2020-2021.

Diverse sources of income

Apart from producing sugar, MPSC has expanded along the sugar value chain in order to maximize the utilization of sugarcane and the by-products of the sugar manufacturing process. MPSC's sugar-related businesses are generating electricity and producing ethanol. MPSC can generate 542.8 megawatts (MW) of power from its installed capacity. Ethanol production is 1.46 million litres per day at full capacity.

Revenue from the energy business (electricity and ethanol) has increased continuously to Bt13,632 million in 2017 and Bt11,527 million in the first nine months of 2018 from Bt10,520 million in 2013. Capacity expansions and the growing demand for ethanol have led to the rise.

The energy business will continue to grow as more projects come on line. Currently, the power and ethanol segments together comprise about 15% of MPSC's total revenues. In 2019, several new power plants will start up. The sales of power, sold under power purchase agreements (PPA) with government agencies will rise by 9.5% or 21 MW, up from 220.8 MW at the end of 2018.

Leverage rising and cash flow protection falling during industry downturn

MPSC's financial leverage has increased, owing to sizable capital expenditures and less profit during the industry downturn. Total debt to capitalization increased to 54.7% at the end of September 2018, compared with about 51% in 2016 and 2017. Cash flow protection was also weaker. FFO to total debt declined to 10.7% (annualized, from the trailing 12 months) in the first nine months of 2018, from 17%-22% in 2015-2017.

Over the next three years, we forecast the company will spend around Bt12,000-Bt15,000 million per year for capital expenditures. The funds are mainly for a new sugar plant in Amnard Charoen province, as well as investments in several power plants in Thailand and abroad. Despite the sizable investments, we expect the company's debt to capitalization ratio will hold at around 50% over the next few years. FFO to total debt will improve gradually to around 16% in 2021 from 12% in 2018. EBITDA interest coverage will hover around 4%-5% in 2019-2021.

BASE-CASE ASSUMPTIONS

- We assume MPSC's revenues will decline by 6% in 2018 and will grow by 1%-3% per annum during 2019-2021.
- MPSC's operating profit margin will stay at around 15% in 2018-2019 and will recover gradually to 18% in 2020-2021.
- MPSC's total capital spending will be around Bt12,000-Bt15,000 million per year during 2019-2021.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that MPSC will maintain its leading position in both the Thai and Chinese sugar industries. MPSC is expected to retain its competitive position even after the sugar industry in Thailand is liberalized.

RATING SENSITIVITIES

The ratings or outlook would be downgraded if MPSC's operating performance or market position is significantly weaker than our forecast, causing cash flow protection to deteriorate for a sustained period of time. Any large, debt-funded investment that would weaken the debt to capitalization ratio would also be a negative factor for the ratings. On the contrary, the rating upside case could emerge if MPSC's financial profile is significantly stronger on a sustainable basis.

COMPANY OVERVIEW

Founded in 1946, MPSC is the leading sugar producer in Thailand. The company was established by the Vongkusolkit family. The Vongkusolkit family collectively holds 100% of the company's shares through Mid-Siam Sugar Co., Ltd. MPSC owns and operates sugar mills in Thailand, China, the Lao PDR, and Australia. Across the mills, sugar production totaled 4.4 million tonnes in the 2017/2018 growing season. More than half (62%) was produced in Thailand and 24% was produced in China. MPSC has expanded into sugar refinery in Indonesia by acquiring a 50% stake in Far East Agri Pte. Ltd.(FEA) in 2017. FEA is a subsidiary of OLAM International Ltd., a leading food and agri-business company in the world. The initial investment was worth US$100 million.

Although sugar is a commodity product, MPSC is striving to build a brand in order to differentiate its products from those of its competitors. MPSC's retail products are successfully marketed under the "Mitr Phol" brand name in Thailand. The company aims to bring its branded sugar products to other markets in the Asia-Pacific region.

MPSC also produces electricity, ethanol, wood-substitute materials, and fertilizer; and offers logistics services. During the first nine months of 2018, its total sales were Bt73,604 million. The sugar segment accounted for 74% of total revenues while the power and ethanol segments together comprised 16%.

MPSC owned 13 power plants. Ten plants are located in Thailand, while the remaining three plants are located in China (Funan, Ningming, and Chongzuo). The company sells electricity to the Electricity Generating Authority of Thailand (EGAT) and the Provincial Electricity Authority (PEA) under the Small Power Producer (SPP) scheme, totaling 220.8 MW at the end of 2018. Three more power plants are under construction, two in Thailand and one in Australia, with a total capacity of 74 MW. The new power plants are scheduled to operate by 2019.

KEY OPERTING 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: MPSC's Revenue Breakdown

Unit: Bt million

Revenue	2014	2015	2016	2017	Jan-Sep 2018
Total sales & services	**89,378**	**88,133**	**87,691**	**98,277**	**73,604**
Y-o-y growth (%)	**6.0**	**(1.4)**	**(0.5)**	**12.1**	**(6.0)**
Proportion (%)					
Sugar in Thailand	43.9	43.3	42.3	42.6	40.8
Sugar in China	28.6	29.4	28.5	29.6	28.1
Sugar in Lao PDR	0.7	0.6	0.8	1.0	0.9
Sugar in Australia	6.4	6.4	9.3	5.7	4.4
Power and ethanol	14.8	14.4	13.3	13.9	15.7
Wood substitute products and paper	4.5	4.6	5.0	4.7	5.3
Logistics & others	1.0	1.3	0.8	2.5	4.9
Total	**100**	**100**	**100**	**100**	**100**

Source: MPSC

Table 2: Sugar Production in Thailand

Unit: Million tonnes

Sugar Producer	Growing Season				
	2013/ 2014	2014/ 2015	2015/ 2016	2016/ 2017	2017/ 2018
Mitr Phol	2.30	2.30	1.96	1.98	2.73
Thai Roong Ruang	1.75	1.60	1.37	1.42	2.13
Thai Ekkalak	1.06	0.99	0.72	0.94	1.19
KSL	0.91	0.91	0.77	0.72	1.20
Wangkanai	0.70	0.56	0.51	0.39	0.79
Banpong	0.46	0.44	0.44	0.44	0.52
Kumpawapee	0.37	0.40	0.30	0.28	0.41
Eastern Sugar	0.30	0.38	0.35	0.38	0.51
Others	3.39	3.72	3.36	3.48	5.23
Total	**11.33**	**11.30**	**9.78**	**10.03**	**14.71**

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

Table 3: Sugar Crushing Yield in Thailand

Unit: Kg/tonne cane

Sugar Producer	Growing Season				
	2013/ 2014	2014/ 2015	2015/ 2016	2016/ 2017	2017/ 2018
Mitr Phol	114.4	111.4	108.3	113.0	115.2
Thai Roong Ruang	109.3	105.0	102.5	106.1	106.7
Thai Ekkalak	106.1	101.2	96.0	108.5	102.1
KSL	107 .0	104.5	101.7	106.1	108.8
Wangkanai	106.8	103.2	100.5	105.8	110.4
Banpong	102.6	102.4	102.7	101.4	103.7
Kumpawapee	110.9	106.5	107.3	111.1	109.4
Eastern Sugar	113.4	107.3	102.6	108.5	107.6
Total	**109.3**	**106.7**	**104.0**	**107.9**	**109.0**

Source: OCSB

Table 4: MPSC's Sugar Production Statistics in China

Performance	Growing Season			
	2014/ 2015	2015/ 2016	2016/ 2017	2017/ 2018
Sugarcane crushed (tonnes)	8,186,859	7,685,320	7,217,248	8,740,987
Growth (%)	(11.5)	(6.1)	(6.1)	21.1
Sugar production (tonnes)	1,027,215	932,247	914,234	1,041,729
Growth (%)	(12.5)	(9.2)	(1.9)	13.9
Cane crushing yield (kg/cane tonne)	125.5	121.3	126.7	119.7
Market share by sugar produced (%)	9.34	10.30	9.83	10.11

Source: MPSC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		--------------Year Ended 31 December --------------			
	Jan-Sep 2018	2017	2016	2015	2014
Total operating revenues	74,711	99,371	88,662	89,198	90,489
Operating income	11,747	17,690	13,710	15,759	13,724
Earnings before interest and taxes (EBIT)	5,407	10,109	7,368	9,471	8,695
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	12,286	17,835	14,143	15,802	13,756
Funds from operations (FFO)	9,248	14,305	10,819	12,259	11,799
Adjusted interest expense	2,464	2,961	2,835	2,529	2,551
Capital expenditures	8,360	19,170	13,305	10,932	7,185
Total assets	171,492	167,896	141,992	133,052	130,773
Adjusted debt	83,748	74,661	63,176	55,667	50,118
Adjusted equity	69,474	71,452	59,126	56,590	55,536
Adjusted Ratios					
Operating income as % of total operating revenues (%)	15.72	17.80	15.46	17.67	15.17
Pretax return on permanent capital (%)	1.91 **	7.37	6.09	8.18	7.86
EBITDA interest coverage (times)	4.99	6.02	4.99	6.25	5.39
Debt to EBITDA (times)	7.18 **	4.19	4.47	3.52	3.64
FFO to debt (%)	10.69 **	19.16	17.13	22.02	23.54
Debt to capitalization (%)	54.66	51.10	51.66	49.59	47.44

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Mitr Phol Sugar Corporation Ltd. (MPSC)

Company Rating:	A+
Issue Ratings:	
MPSC199A: Bt900 million senior unsecured debentures due 2019	A+
MPSC199B: Bt1,900 million senior unsecured debentures due 2019	A+
MPSC209A: Bt1,300 million senior unsecured debentures due 2020	A+
MPSC20OA: Bt1,000 million senior unsecured debentures due 2020	A+
MPSC20OB: Bt1,850 million senior unsecured debentures due 2020	A+
MPSC219A: Bt2,000 million senior unsecured debentures due 2021	A+
MPSC21OA: Bt2,000 million senior unsecured debentures due 2021	A+
MPSC229A: Bt2,000 million senior unsecured debentures due 2022	A+
MPSC22OA: Bt2,000 million senior unsecured debentures due 2022	A+
MPSC233A: Bt2,500 million senior unsecured debentures due 2023	A+
MPSC236A: Bt2,610 million senior unsecured debentures due 2023	A+
MPSC249A: Bt3,200 million senior unsecured debentures due 2024	A+
MPSC256A: Bt2,400 million senior unsecured debentures due 2025	A+
MPSC256B: Bt2,210 million senior unsecured debentures due 2025	A+
MPSC259A: Bt1,000 million senior unsecured debentures due 2025	A+
MPSC26DA: Bt1,900 million senior unsecured debentures due 2026	A+
MPSC286A: Bt1,630 million senior unsecured debentures due 2028	A+
MPSC28DA: Bt2,200 million senior unsecured debentures due 2028	A+
MPSC306A: Bt3,650 million senior unsecured debentures due 2030	A+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000