

Press Release

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TRIS Rating Affirms Company & Senior Unsecured Debt Ratings and Outlook of "MPSC" at "A+/Stable"

TRIS Rating has affirmed the rating of "A+" to the company rating and the ratings of the outstanding senior unsecured debentures of Mitr Phol Sugar Corporation Ltd. (MPSC), with "stable" outlook. The "A+" ratings reflect the company's leading market position in the sugar industry in the Asia Pacific region, moderate level of geographic diversification, well-accepted brand name, efficient sugar mill operations, and diversified sources of income. The ratings are partially weighed down by the cyclical nature of sugar prices and volatility of sugarcane as well as the regulatory risks.

MPSC was established in 1946 by the Vongkusolkrit family. The Vongkusolkrit family collectively holds 100% of the company's shares through Mid-Siam Sugar Co., Ltd. MPSC owns and operates sugar mills in Thailand, China, Lao People's Democratic Republic (Lao PDR), and Australia. For the 2015/2016 growing season, MPSC produced 3.43 million tonnes of sugar across all its locations.

The "stable" outlook reflects TRIS Rating's expectation that MPSC will maintain its leading position in both the Thai and Chinese sugar industries. Given MPSC's strengths, such as economies of scale, high production efficiency, strong customer base and brand name, MPSC is expected to retain its competitiveness even after the sugar industry in Thailand becomes more liberalized.

The ratings or outlook would be downgraded if MPSC's operating performance or market position is significantly weaker than expected, resulting in deteriorating cash flow protection 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 MPSC's credit ratings. The credit upside for MPSC's ratings is unlikely in the near term given the current financial profile. However, the rating upside could emerge if MPSC's financial profile is significantly strengthened on a sustainable basis.

MPSC has long been the leader in the Thai sugar and sugarcane industry. In the 2015/2016 growing season, MPSC's six sugar mills in Thailand produced 1.86 million tonnes of sugar, earning MPSC the highest market share (20.1%), based on production volume. In China, MPSC is among the top two major sugar producers. It owns and operates six sugar mills, which produced 0.9 million tonnes of sugar in the 2015/2016 season. MPSC's sugar mills in the Lao PDR and Australia together produced 0.6 million tonnes totally. Apart from producing sugar, MPSC has expanded along the sugar value chain, creating related businesses in order to maximize the utilization of sugarcane and the by-product of the sugar manufacturing process. MPSC's related businesses include generating electricity, producing ethanol, production of wood-substitute material, fertilizer, and logistics.

In 2015, MPSC's total sales were Bt88,316 million. The sugar segment accounted for 80% of MPSC's revenues. Sugar production in Thailand comprised 43% of total revenues while sugar production in China made up 29%. The operations in the Lao PDR and Australia collectively contributed 7% while the power and ethanol segments together comprised 14% of total revenues.

MPSC's performance in the first nine months of 2016 was hurt by low sugar prices and a drought in the East Asian region. The drought cut MPSC's sugar production by 11.5% over the same period of the prior year to 3.43 million tonnes in the 2015/2016 crop year. Drought in this region and a drop in sugar production in other major sugar producing countries reduced sugar output worldwide. As a result, the 2015/2016 crop year became the first year of global sugar deficit in six years.

Sugar prices worldwide bottomed out in 2015 and rebounded strongly in the second half of 2016, following the global sugar deficit and falling sugar stock worldwide. The average prices of raw sugar escalated to 22.9 cent per pound in October 2016 after reaching a trough at 10.67 cent per pound in August 2015. Price of raw sugar remained high, hovering around 20.9 cent per pound in the fourth quarter of 2016 and 20.5 cent per pound in January 2017. The recent price increase had not yet fully reflected MPSC's earnings in 2016. MPSC's sugar operation in Thailand fixed selling prices in 2016 before the price rebounded, similar to most peers in sugar industry in Thailand. Therefore, sugar operations in Thailand improved marginally in the first nine months of 2016. Sugar operations in China encountered with higher cane cost and lower cane output on the back of unfavorable weather and lower plantation areas albeit higher selling prices. In addition, MPSC's revenues and profitability were hurt by lower

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utilization of power plants, and falling prices of power tariff and ethanol. As a result, total revenues declined by 5.7% year-on-year (y-o-y) to Bt66,847 million in the first nine months of 2016. MPSC's ratio of operating income before depreciation and amortization to sales, including gains from its future contracts, also declined to 15.4% in the first nine months of 2016, compared with 18.6% over the same period in 2015. The drop in revenues and profitability lowered earnings before interest, tax, depreciation, and amortization (EBITDA) by 23.5% y-o-y to Bt11,408 million in the first nine months of 2016. The funds from operations (FFO) plunged by 23.1% y-o-y to Bt8,771 million in the first nine months of 2016. The EBITDA interest coverage ratio weakened to 5.4 times, compared with 6-6.6 times during 2013-2015. FFO to total debt ratio remained adequate at 14.9% (annualized from the trailing 12 months) in the first nine months of 2016. MPSC's financial leverage is moderate. The total debt to capitalization ratio hovered around 51%-53% from the end of 2014 through September 2016.

Looking forward, MPSC's operating performance is expected to improve in 2017. Most sugar producers in Thailand, including MPSC, have locked in by contracting the selling prices for 70%-80% for their forecast production volumes in 2017. The contract prices for the coming growing season are on average 30% higher than the average selling prices in the previous year. The significant increase in selling prices should more than offset the expected modest decline in sugar production in Thailand and China in the 2016/2017 crop year. MPSC's EBITDA is forecast to improve gradually to approximately Bt18,000-Bt21,000 million per year in 2017-2019 under the base case scenario, compared with the amounts of around Bt15,000-Bt16,000 million per annum in 2013-2016. MPSC has budgeted normal capital expenditure at around Bt6,000 million per year. In addition, MPSC has received approval from the Cane and Sugar Board to increase crushing capacity by 80,000 tonnes of cane per day. The investment will cost about Bt25,000 million, spread over several years. As a result, the leverage should be managed to stay moderate. The FFO to total debt ratio is expected to improve to 20%-25% and EBITDA interest coverage ratio will hover around 6-8 times.

In October 2016, the Thai Cabinet approved in principle a proposal by the Minister of Industry to revise the Cane and Sugar Act. The stated purpose of the revision is to ensure fairness to all stakeholders and comply with the regulations set by the World Trade Organization (WTO). In February 2017, the Cane and Sugar Board of Thailand agreed in principle to revoke the current quota system. The domestic prices of sugar will no longer be fixed. The prices of sugar will float, based on export parity prices. The working group is still studying the details and mulling related issues before it submits a revised Cane and Sugar Act for the Cabinet approval. The potential effects from the changes on sugar producers are not yet clear as the revision has not been finalized.

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Mitr Phol Sugar Corporation Ltd. (MPSC)

Company Rating:

A+

Issue Ratings:

MPSC175A: Bt600 million senior unsecured debentures due 2017 A+

MPSC179A: Bt900 million senior unsecured debentures due 2017 A+

MPSC185A: Bt700 million senior unsecured debentures due 2018 A+

MPSC180A: Bt2,150 million senior unsecured debentures due 2018 A+

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+

MPSC200A: Bt1,000 million senior unsecured debentures due 2020 A+

MPSC200B: Bt1,850 million senior unsecured debentures due 2020 A+

MPSC219A: Bt2,000 million senior unsecured debentures due 2021 A+

MPSC210A: Bt2,000 million senior unsecured debentures due 2021 A+

MPSC229A: Bt2,000 million senior unsecured debentures due 2022 A+

MPSC220A: Bt2,000 million senior unsecured debentures due 2022 A+

MPSC233A: Bt2,500 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+

MPSC259A: Bt1,000 million senior unsecured debentures due 2025 A+

MPSC26DA: Bt1,900 million senior unsecured debentures due 2026 A+

MPSC28DA: Bt2,200 million senior unsecured debentures due 2028 A+

MPSC186A: RMB126 million senior unsecured debentures due 2018 A+

Rating Outlook:

Stable

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