TRIS RATING

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MITR PHOL SUGAR CORPORATION LTD.

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CORPORATES

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

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the rating of "A+" for the company rating and the ratings of the outstanding senior unsecured debentures of Mitr Phol Sugar Corporation Ltd. (MPSC). 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 offset by the cyclical and the volatile nature of the prices of sugar and sugarcane, as well as the ongoing sugar industry restructuring in Thailand.

KEY RATING CONSIDERATIONS

Leading market position in sugar industry

MPSC is the largest sugar producer in Asia and ranks among top five sugar producers worldwide. For the 2016/2017 growing season, MPSC produced 3.47 million tonnes of sugar from total world production of 171 million tonnes. In Thailand, MPSC has long been the largest sugar producer. It produced 1.98 million tonnes of sugar, the highest market share (19.7%), based on production volumes in the 2016/2017 crop year. In China, MPSC ranks the fourth-largest sugar producer in China with market share of about 10% with sugar production of 0.91 million tonnes. MPSC is one of the leading sugar producer in Australia with production of 0.53 million tonnes.

Cyclical earnings due to volatility of sugarcane and sugar prices

Owing to the revenue of 80% generated from sugar business, MPSC's operating performances are fluctuating along the sugar price and sugarcane supplies. Thanks to the high sugar price in early 2017, combined with the locking in some selling contracts at high prices in the previous year, MPSC posted strong operating results in the first nine months of 2017. MPSC's revenue grew by 17.1% year-on-year (y-o-y) to Bt78,270 million in the first nine months of 2017. The operating income before depreciation and amortization to sales, including gains from its future contracts, also improved to 21.9% in the first nine months of 2017, compared with 15.4% over the same period in 2016. The improvement was mainly driven by sugar operations in China and Thailand, while ethanol and power segment were adversely affected by rising fuel cost owing to insufficient fuel supply from lower cane volume in the 2016/2017 crop year. MPSC's earnings before interest, tax, depreciation, and amortization (EBITDA) increased by 62.5% y-o-y to Bt18,634 million in the first nine months of 2017, while the funds from operations (FFO) also surged, rising by 67.3% y-o-y to Bt14,671 million.

Geographic diversification partially offset volatility

Presently, MPSC owns and operates sugar mills in Thailand, China, the Lao People's Democratic Republic (Lao PDR), and Australia. Across all its locations, MPSC's sugar production totaled 3.47 million tonnes in the 2016/2017 growing season. More than half (57%) of total was produced in Thailand, 26% was produced in China, 15% was produced in Australia, and the remainder (1%) was produced in the Lao PDR. The diversification of production bases partially reduces volatility in earnings. During 2015-2016, the improved operations in China on the back of improved domestic sugar prices in China plus manageable cane cost offset the drop in sugar business in Thailand. MPSC's EBITDA declined moderately to Bt13,787 million in 2016, from Bt15,807 million in 2015 and Bt14,803 million in 2014. During the same period, most Thai millers reported 20%-50% declines in EBITDA in 2015 and 2016.

Sugar-related businesses also help diversify 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 mainly are generating electricity and producing ethanol. Presently, MPSC's installed capacity of power generation and ethanol gradually increased to 542.8 megawatts (MW) and 1.46 million litres per day, respectively. Revenue from the energy (electricity and ethanol) business has increased gradually, rising from Bt6,783 million in 2012 to Bt11,636 million in 2016. During the first nine months of 2017, revenue from energy segment continued to rise by 13.5% y-o-y to Bt10,345 million on the back of new plant additions and the growing demand for ethanol. Currently, the power and ethanol segments together comprise 13% of total revenues. Going forward, the energy business will continue to grow as more power projects come on line. In 2018, the new power plants will push sales of power, sold under power purchase agreements (PPA) with the government agencies, up by 29% or 58 MW.

Moderate leverage level

MPSC's financial leverage is moderate. MPSC's total debt to capitalization ratio hovered around 51%-53% during 2014 through September 2017. Over the next three years, MPSC's capital expenditures are forecast at Bt10,000-Bt12,000 million per year. The funds are mainly for the new sugar plant in Amnard Charoen province, as well as investments in several power plants in Thailand and abroad. Despite the sizable investments, TRIS Rating is of the view that MPSC will manage its debt to capitalization ratio at around 50% over the next few years.

Fair cash flow protection and liquidity

MPSC's cash flow protection was fair. The EBITDA interest coverage ratio increased to 8 times in the first nine months of 2017, compared with 5-6 times in 2014-2016. The FFO to total debt ratio also improved, rising to 23% (annualized, from the trailing 12 months) in the first nine months of 2017, up from 17%-22% in 2014-2016.

As of September 2017, outstanding debt totaled Bt74,186 million. Three-fourths of the total was debentures and long-term loans, while one-fourth was short-term loans to finance working capital needs. Scheduled debt repayments of approximately Bt11,500 million (including bills of exchange totaling Bt3,550 million) are due in 2018. Despite plans for sizable capital expenditures, MPSC's liquidity profile is satisfactory, supported by cash on hand and short-term investments of Bt7,465 million in total as of September 2017 and projected EBITDA of Bt17,000 million, as well as its accessibility to capital market.

Expected more intensified competition after quota system in Thailand is eliminated

After Brazil challenged Thailand at the World Trade Organization (WTO) over sugar subsidies, The Thai government has invoked Section 44 in the mid of January 2018. As a result, the sugar quota system has been revoked and the domestic retail price of sugar is no longer fixed. The domestic price will now be set based on global market price and Thai premium. Nevertheless, the profit-sharing 70:30 scheme is implicitly applied in calculating cane price. In the short term, the domestic selling price of miller is not significantly affected. The deduction of fund submitted to Cane and Sugar Fund cut the retail price by Bt2-Bt3 per kilogram (kg.). However, the competition among sugar millers in domestic market is expected to be more intensified in the longer term as every miller would likely to gain more shares in domestic market, which normally have some premium over export market. Nevertheless, TRIS Rating views that MPSC would stay competitive amidst the rising competition, given its scale, mill efficiency, wide market coverage, nationwide distribution channels, and strong brand name.

RATING OUTLOOK

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

Under TRIS's base case scenario, MPSC's EBITDA is forecast to drop to around Bt17,000 million in 2018 under the low sugar prices worldwide and would gradually improve to approximately Bt21,000 million per year along the cycle of sugar prices. FFO is projected to hold at Bt13,000 million in 2018 and climb to Bt16,000 million in 2020. Given the projected levels of cash flow and capital expenditures, leverage should hold at a moderate level. Over the next three years, the FFO to total debt ratio is projected to stay in the range of 18%-24% and the EBITDA interest coverage ratio is expected to hold at 5-6 times.

RATING SENSITIVITIES

MPSC's ratings or outlook would be downgraded if MPSC's operating performance or market position is significantly weaker than expected, 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 MPSC's credit ratings. On the contrary, the rating upside case could emerge if MPSC's financial profile is significantly strengthened 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, Lao PDR, and Australia. Across the mills, sugar production totaled 3.47 million tonnes in the 2016/2017 growing season. More than half (62%) was produced in Thailand and 32% was produced in China. Recently, MPSC has expanded into sugar refinery in Indonesia by acquiring a 50% stake in Far East Agri Pte. Ltd., a subisidiary of OLAM International Ltd. (OLAM). OLAM is a leading agri-business company operating across the value chain in 70 countries. This investment will establish MPSC's footprint in Indonesia, a major sugar importing country. The initial investment is worth US$100 million.

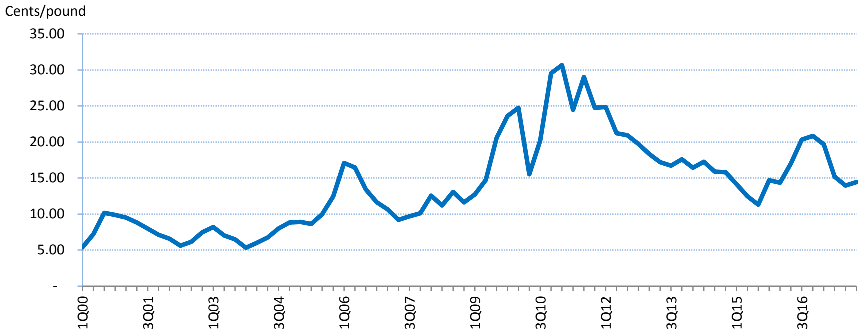
Although sugar is a commodity product, MPSC is striving to build brand in order to differentiate its products from those of its competitors. MPSC's retail products are successfully marketed under the "Mitr Phol" brand name in Thailand. The company aims to expand its brand into other markets in the Asia-Pacific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

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, wood-substitute materials, and fertilizer; and operating logistics services. During the first nine months of 2017, MPSC's total sales were Bt78,270 million. The sugar segment accounted for 80% of MPSC's revenues. Sugar production in Thailand comprised 42% of total revenues while sugar production in China made up 32%. The operations in the Lao PDR and Australia collectively contributed 6% while the power and ethanol segments together comprised 13% of total revenues.

Currently, MPSC owned 12 power plants. Ten plants are located in Thailand, while the remaining two plants are located in China, Funan and Ningming. 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 199.8 MW at the end of 2017. The value will rise to 257.8 MW at the end of 2018. Additionally, the company is building three power plants, one in Thailand, one in China, and one in Australia, with a total capacity of 115 MW. The new power plants are scheduled to operate by 2019.

KEY OPERTING PERFORMANCE

Raw Sugar Prices Worldwide



Note: Monthly prices of Futures Contract No. 11
Source: New York Board of Trade, United States Department of Agriculture (USDA)

MPSC's Revenue Breakdown

Revenue	2013	2014	2015	2016	Jan-Sep 2017
Total sales & services (Bt million)	**84,331**	**89,378**	**88,133**	**87,691**	**78,270**
Y-o-y growth (%)	**(5.9)**	**6.0**	**(1.4)**	**(0.5)**	**17.1**
Proportion (%)					
Sugar in Thailand	41.5	43.9	43.3	42.3	42.4
Sugar in China	32.6	28.6	29.4	28.5	31.5
Sugar in Lao PDR	1.0	0.7	0.6	0.8	1.1
Sugar in Australia	6.5	6.4	6.4	9.3	5.0
Power and ethanol	12.5	14.8	14.4	13.3	13.2
Wood substitute products and paper	4.5	4.5	4.6	5.0	4.3
Logistics & others	1.4	1.0	1.3	0.8	2.4
Total	**100**	**100**	**100**	**100**	**100**

Source: MPSC

Sugar Production in Thailand

Unit: Million tonnes

Sugar Producer	Growing Season				
	2012/ 2013	2013/ 2014	2014/ 2015	2015/ 2016	2016/ 2017
Mitr Phol	2.00	2.30	2.30	1.96	1.98
Thai Roong Ruang	1.63	1.75	1.60	1.37	1.42
Thai Ekkalak	0.93	1.06	0.99	0.72	0.94
KSL	0.74	0.91	0.91	0.77	0.72
Wangkanai	0.66	0.70	0.56	0.51	0.39
Banpong	0.40	0.46	0.44	0.44	0.44
Kumpawapee	0.33	0.37	0.40	0.30	0.28
Kampangphet	0.40	0.39	0.36	0.35	0.27
Others	2.86	3.39	3.73	3.45	3.59
Total	**10.02**	**11.33**	**11.30**	**9.78**	**10.03**

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

Sugar Crushing Yield in Thailand

Unit: Kilogram/tonne cane

Sugar Producer	Growing Season				
	2012/ 2013	2013/ 2014	2014/ 2015	2015/ 2016	2016/ 2017
Mitr Phol	105.9	114.4	111.4	108.3	113.0
Thai Roong Ruang	99.5	109.3	105.0	102.5	106.1
Thai Ekkalak	93.9	106.1	101.2	96.0	108.5
KSL	96.4	107 .0	104.5	101.7	106.1
Wangkanai	100.0	106.8	103.2	100.5	105.8
Banpong	92.1	102.6	102.4	102.7	101.4
Kumpawapee	105.2	110.9	106.5	107.3	111.1
Kampangphet	103.0	105.2	105.8	105.7	103.2
Total	**100.2**	**109.3**	**106.7**	**104.0**	**107.9**

Source: OCSB

MPSC's Sugar Production Statistics in China

Performance	Growing Season			
	2013/ 2014	2014/ 2015	2015/ 2016	2016/ 2017
Sugarcane crushed (tonnes)	9,248,277	8,186,859	7,685,320	7,217,248
Growth (%)	(0.2)	(11.5)	(6.1)	(6.1)
Sugar production (tonnes)	1,173,926	1,027,215	932,247	914,234
Growth (%)	2.8	(12.5)	(9.2)	(1.9)
Cane crushing yield (kg./cane tonne)	126.92	125.47	121.30	126.70
Market share by sugar produced (%)	8.77	9.69	10.62	10.33

Source: MPSC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		----------------- Year Ended 31 December -----------			
	Jan-Sep 2017	2016	2015	2014	2013
Revenue	78,270	87,691	88,133	89,378	84,331
Gross interest expense	2,309	2,798	2,512	2,539	2,342
Net income from operations	5,891	1,719	3,174	4,550	4,505
Funds from operations (FFO)	14,671	11,199	12,447	12,690	12,775
Earnings before interest, tax, depreciation, and amortization (EBITDA)	18,364	13,787	15,807	14,803	15,424
Capital expenditures & Investments	22,172	15,986	10,905	7,486	9,927
Total assets	153,583	141,954	133,052	130,773	124,726
Total debts	65,722	63,356	56,831	57,704	51,699
Shareholders' equity	65,118	58,988	56,590	55,536	53,862
Operating income before depreciation and amortization as % of sales	21.88	14.17	16.40	14.52	16.84
Pretax return on permanent capital (%)	10.44 **	6.14	8.52	8.56	10.34
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	7.95	4.93	6.29	5.83	6.59
FFO/total debt (%)	23.05 **	17.68	21.90	21.99	24.71
Total debt/capitalization (%)	53.25	51.79	50.11	50.96	48.98

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

Mitr Phol Sugar Corporation Ltd. (MPSC)

Company Rating:	A+
Issue Ratings:	
MPSC185A: Bt700 million senior unsecured debentures due 2018	A+
MPSC18OA: 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+
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+
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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