

DOUBLE A (1991) PLC

No. 165/2023
31 August 2023

CORPORATES

Company Rating:	BBB
Issue Ratings:	
Senior unsecured	BBB
Outlook:	Stable

Last Review Date: 25/08/22

Company Rating History:

Date	Rating	Outlook/Alert
28/08/20	BBB	Stable
05/08/19	BBB-	Stable
25/11/16	BBB-	Negative
26/10/15	BBB-	Stable
12/09/13	BBB	Stable
21/08/12	BBB	Negative
16/05/08	BBB	Stable
09/11/07	BBB	Alert Developing
28/02/06	BBB	Stable
16/11/05	BBB	Alert Developing
20/10/04	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Double A (1991) PLC (DA) and the ratings on DA's outstanding senior unsecured debentures at "BBB", with a "stable" outlook. At the same time, we assign the rating of "BBB" on DA's proposed issue of up to THB2.5 billion in senior unsecured debentures. The proceeds from the new debentures will mainly be used to repay its outstanding debentures.

The ratings reflect DA's position as a leading printing & writing (P&W) paper producer in Thailand, the solid brand name of "Double A" products, and its fully integrated operations. These strengths are partially offset by the cyclical nature of the pulp and paper industry and stagnant demand for P&W paper over the long-term. The ratings also take into consideration the company's strategy to expand into the packaging paper industry.

KEY RATING CONSIDERATIONS

Fully integrated operations keep competitiveness

We believe DA, as a leading P&W paper producer, will remain competitive. Its fully integrated pulp and paper operations enable synergy and help control costs. Pulp is the main raw material for paper production. As a commodity, pulp prices fluctuate widely. Therefore, a paper producer running its own pulp mill typically has cost advantages and less volatile margins.

Global pulp prices have skyrocketed in the past two years, resulting from Russia-Ukraine tensions and surging energy prices. Having its own pulp production facilities integrated with its paper mills in Prachinburi Province, DA experienced fewer adverse impacts from the raw material price increases. Despite a power plant outage during February-May 2022, the company's performance remained satisfactory. DA reported a drop in earnings before interest, taxes, depreciation, and amortization (EBITDA) to about THB3.4 billion in 2022, which still exceeded our forecast of just under THB3 billion.

Stagnant global demand for P&W paper

The ratings are weighed down by a gradual decline in demand for P&W paper over the long term, pressured by a shift in consumer behavior towards digital media. During 2018-2022, global consumption of P&W paper declined by 2.3% per annum (*source: Bloomberg*). In fact, demand for P&W paper in the US and Europe is falling, while in Asian countries it is growing minimally. With its focus on Asian markets, DA still has room for growth. Its P&W paper sales volume grew by about 1% per annum over the last five years.

A reduction in the global supply of P&W paper, due to the closure of paper plants around the world, has counterbalanced the drop in global demand for P&W paper. The declining number of paper producers, coupled with DA's cost competitiveness and strong brand recognition, help lessen concerns over a significant drop in the company's revenues and profits.

Expansion into packaging paper

DA has been developing several new products in addition to its conventional products. The company recently introduced kraft paper and pulp made from recovered paper (RCP pulp), used in the packaging industry. These new products are manufactured at its facilities in Prachinburi Province.

However, we do not expect the new products to contribute significant revenue and earnings over the next three years, considering their development stages. We believe DA will continue to follow its “last-man standing strategy”, focusing on cut-size paper. The solid brand name of “Double A” has created price premiums, keeping the company’s profit margins satisfactory. DA is seeking for new S-curve, emphasizing new product development. Our base-case projection expects expenditure on new product development will remain minimal over the next three years.

Earnings to recover in 2023

Our projection assumes DA’s total operating revenue will stay flat at about THB23 billion per annum over the next three years. Despite weakening export demand and tough economic conditions, the company’s recent increases in product prices should offset the expected softening sales volume.

Looking forward, we expect DA’s earnings to improve, bolstered by a drop in major raw material prices including pulp, chemicals, and shipping costs. In our base-case forecast, the company’s EBITDA is likely to stay in the range of THB3.5-THB4 billion per annum over the next three years. Its EBITDA margin is projected to improve to 15%-17% during 2023-2025, from 14.3% in 2022.

Leverage to remain under control

We forecast a slight decline in DA’s financial leverage. The company is assumed to incur annual investment expenditures of about THB1 billion during 2023-2025. Including debt repayments of THB1.5-THB2.5 billion per annum, we project total cash outlay to be in the THB2.5-THB3.5 billion per annum range. The company’s funds from operations (FFO), forecast to be THB2.5-THB3 billion per annum, should almost cover all the expenditures.

Our base-case projection expects a slight improvement in DA’s cash flow against debt in the years ahead. The company’s FFO to debt ratio will likely increase to about 20% during 2023-2025, from 19.3% in 2022. Its debt to EBITDA ratio is forecast to hover around 3.5 times, falling from 4 times last year.

As of 30 June 2023, total debt excluding lease liabilities was reported at about THB13.4 billion, of which THB1.2 billion was classified as priority debt. As a result, the priority debt to total debt ratio was 8.9%, a level at which we view its unsecured creditors are not significantly disadvantaged to priority debt holders.

Well-managed liquidity

We believe DA will continue to manage its liquidity sufficiently. Over the next 12 months, debts totaling THB1.9 billion will be due, most of which are short-term bank loans for working capital. As of 30 June 2023, sources of liquidity included cash and marketable securities of THB1.8 billion and unused credit facilities of about THB2 billion, which should cover all debts coming due. DA generally prepays its debentures with cash or proceeds from a new debenture issuance. Debentures with prepayment options help the company manage its liquidity efficiently.

A key financial covenant on DA’s debentures requires the net interest-bearing debt to equity ratio to stay below 2 times. The ratio as of 30 June 2023 was 1.3 times. We expect the company to be able to comply with the covenant for at least the next 12-18 months.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating’s base-case forecast for 2023-2025 are as follows:

- Total operating revenue to stay at about THB23 billion per annum.
- EBITDA margin to stay in the 15%-17% range.
- Capital spending to be about THB1 billion per annum.

RATING OUTLOOK

The “stable” outlook reflects our expectation that DA will maintain its competitiveness in the P&W paper business, and that the company should perform in line with targets and keep its prudent investment policy as forecast.

RATING SENSITIVITIES

The rating upside could occur if DA’s earnings and financial profile significantly beat our estimates. This could happen in the event that the debt to EBITDA ratio stays around 3 times for a sustained period. Conversely, the ratings and/or outlook could be revised downward if the company’s operating performance and/or financial profile deteriorate materially.

COMPANY OVERVIEW

DA, previously named Advance Agro PLC or AA, was established in 1989 by the Dumnernchanvanit family (the Soon Hua Seng Group) as a pulp and paper producer. The company was listed on the Stock Exchange of Thailand (SET) in 1995, but was delisted on 17 April 2008. Mr. Yothin Dumnernchanvanit and affiliated parties remain the ultimate shareholders, holding a 98.9% stake in the company as of 31 March 2023.

DA currently owns and operates four paper mills and three pulp mills, all of which are located in Tha Toom district, Prachinburi Province. The four paper mills have a total design capacity of 748,000 tonnes per annum (tpa), while the three pulp mills have a total design capacity of 880,000 tpa. The pulp and paper operations are fully integrated. DA also has a joint venture with the Shanying Group investing in an RCP pulp mill with a design capacity of 385,000 tpa.

Paper sales currently account for 91% of DA's sales, followed by sales of pulp (6%), and revenue from wood chips and services (3%).

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown

Unit: %

	2019	2020	2021	2022	Jan-Jun 2023
Revenue (mil. THB)	19,124	16,790	19,335	23,353	11,900
Original Products					
Paper	91.3	83.2	80.5	88.2	91.2
Pulp	5.2	11.6	13.2	8.6	5.4
Others	3.5	1.4	1.8	2.8	3.2
New Products					
Kraft Paper		2.8	1.8	0.5	0.1
RCP Pulp		1.0	2.7	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0

Source: DA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2023	-----Year Ended 31 December-----			
		2022	2021	2020	2019
Total operating revenues	11,935	23,406	19,386	16,890	19,229
Earnings before interest and taxes (EBIT)	1,411	1,627	2,287	797	2,722
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,129	3,353	3,998	2,935	5,333
Funds from operations (FFO)	1,676	2,609	3,282	2,064	4,488
Adjusted interest expense	328	734	709	861	836
Capital expenditures	324	669	561	806	1,255
Total assets	26,685	25,874	24,388	24,711	30,984
Adjusted debt	11,992	13,539	12,628	14,137	15,039
Adjusted equity	8,761	7,720	7,145	6,872	12,504
Adjusted Ratios					
EBITDA margin (%)	17.84	14.33	20.62	17.38	27.73
Pretax return on permanent capital (%)	11.37 **	7.72	10.85	3.20	9.25
EBITDA interest coverage (times)	6.50	4.57	5.64	3.41	6.38
Debt to EBITDA (times)	2.90 **	4.04	3.16	4.82	2.82
FFO to debt (%)	27.78 **	19.27	25.99	14.60	29.84
Debt to capitalization (%)	57.78	63.69	63.87	67.29	54.60

* Consolidated financial statements

** Adjusted with trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Double A (1991) PLC (DA)

Company Rating:	BBB
Issue Ratings:	
DA240A: THB1,622.70 million senior unsecured debentures due 2024	BBB
DA252A: THB2,500.05 million senior unsecured debentures due 2025	BBB
DA261A: THB2,398.50 million senior unsecured debentures due 2026	BBB
DA268A: THB1,000 million senior unsecured debentures due 2026	BBB
DA278A: THB2,643 million senior unsecured debentures due 2027	BBB
DA292A: THB1,355 million senior unsecured debentures due 2029	BBB
Up to THB2,500 million senior unsecured debentures due within 7 years	BBB
Rating Outlook:	Stable

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