DOUBLE A (1991) PLC

No. 148/2024
29 August 2024

CORPORATES

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

Last Review Date: 02/11/23

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 its outstanding senior unsecured debentures at "BBB". At the same time, we revise the rating outlook to "positive" from "stable" to mirror the prospect that DA will be able to sustain its improved financial profile, sound earnings performance, and disciplined financial policy.

The ratings continue to reflect DA's position as a leading office paper producer, the solid brand of "Double A" products, and its fully integrated operations. These strengths are held back by the cyclicality of the pulp and paper industry and stagnant demand for printing & writing (P&W) paper over the long term. The ratings also factor in the ongoing group restructuring with the aim to reduce related party transactions.

KEY RATING CONSIDERATIONS

Strengthened financial profile

DA's adjusted debt dropped steadily, standing at THB10.5 billion as of June 2024, as cash generation continued to exceed cash outlays. The lower gearing helped improve the company's financial profile, with a debt to EBITDA ratio of 2.4 times (annualized with trailing 12 months) in the first half of 2024, declining from a high of 4.8 times in 2020. The "positive" outlook indicates the possibility of a rating upgrade if the debt to EBITDA ratio is sustained at levels below 3 times.

Expectation of sound earnings

We anticipate DA to arrive at THB4 billion in annual EBITDA over the 2024-2026 forecast period, driven by its strong competitiveness. We forecast the company's paper sales volume to grow by about 2% per annum on average, backed by its overseas market penetration plan. A small decrease in paper prices is anticipated, considering the lower cost pressure. As a result, we project DA's total operating revenue to range between THB25-THB26 billion per annum during 2024-2026, up from THB23.3 billion in 2023. Profitability should remain satisfactory, with an EBITDA margin of 15%-16%.

Possibility of stronger credit metrics

We assume the company will incur investment expenditures of THB1.5-THB2 billion per annum with dividend payments set to be THB1.2-THB1.3 billion per annum. Funds from operations (FFO) forecast at about THB3 billion per annum should cover these expenditures, resulting in no significantly additional debt requirements. As a result, we expect the debt to EBITDA ratio to stay at about 3 times during 2024-2026. We also forecast the FFO to debt ratio to stay in the 20%-30% range and the EBITDA interest coverage ratio to stay above 6 times over the forecast period. The debt to capitalization ratio is expected to be 50%-55%.

The "positive" outlook reflects the prospect of DA's earnings exceeding our expectation. This could occur from successful market penetration while keeping profit margins at satisfactory levels. In such a scenario, the debt to EBITDA ratio should be sustained below 3 times.

Solid competitive edge

We expect DA to remain competitive. The company is among the top ten largest cut-size paper producers in the world by capacity. The globally recognized “Double A” brand creates price premiums, keeping profit margins at satisfactory levels. Also, its strong marketing continues to boost revenue despite stagnant paper demand.

More importantly, DA’s paper production facilities integrated with pulp mills have created synergy and brought in cost competitiveness. Pulp is the main raw material for paper production. As a commodity, pulp prices fluctuate widely. A paper producer running its own pulp mill is supposed to enjoy superior profits. Global pulp prices have swung broadly during the past three years, but DA’s EBITDA margin has remained sound. The company’s efficient wood sourcing has helped control pulp production costs.

Stagnant global demand for P&W paper

DA’s strengths are held back by a gradual decline in long-term demand for P&W paper, pressured by a shift in consumer behavior towards digital media. Demand for P&W paper in the US and Europe is falling, while that in Asian countries is growing marginally. With its focus on Asian markets, DA still has room for growth. Also, a reduction in the global supply of P&W paper, following the closure of uncompetitive paper plants globally, has counterbalanced the drop in global demand for P&W paper.

Postponement of packaging paper expansion

DA previously introduced kraft paper and pulp made from recovered paper (RCP pulp) with the aim to enter the packaging paper industry. However, the new products have low price premiums, exposing the company to intense price competition. Consequently, DA has stepped back from the diversification plan while maintaining focus on office paper.

Currently, DA has two RCP pulp mills, located in Prachinburi Province. Given the low production levels, one has already been impaired, and the other one remains at risk of impairment. However, we expect the potential impairment loss, if materializing, will not cause material financial impacts. DA is assessing whether the mill can be used for new products under development.

Group restructuring

DA has been under group restructuring during the past several years. Looking forward, pulp-related assets under the same ultimate shareholder, Mr. Yothin Dumnernchanvanit and related parties, may have to be consolidated into DA to reduce related party transactions. We believe the ongoing group restructuring will not significantly affect DA’s financial profile.

Debt structure

As of 30 June 2024, DA’s total debt excluding lease liabilities was reported at THB13.9 billion, of which nearly THB1 billion was priority debt, translating to a priority debt to total debt ratio of 6.9%.

Well-managed liquidity

We believe DA will continue to manage its liquidity properly. As of June 2024, DA had THB6.5 billion in debt coming due in the next 12 months, including THB4.1 billion in debentures. Meanwhile, sources of liquidity included cash and marketable securities of THB3.9 million and unused credit facilities of THB1.9 billion. Inclusive of the new debenture issuance of THB2.5 billion in July 2024, sources of liquidity should cover all the maturing debts.

DA has a concentrated debt structure which heavily relies on debentures as the major funding source. As of June 2024, debentures totaled THB11.5 billion, representing 81.4% of the total debt. The heavy reliance on debentures has exposed DA to rollover risk. However, the company’s debentures with prepayment options, plus unused credit facilities, helps it manage liquidity efficiently. DA generally prepays its debentures with cash or proceeds from a new debenture issuance.

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 2024 was 1.0 time. We expect the company to remain compliant with this financial covenant for at least the next 12-18 months.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating’s base-case forecast for 2024-2026 are as follows:

- Total operating revenue to stay in the THB25-THB26 billion per annum range.
- EBITDA margin to range between 15%-16%.
- Capital spending to be THB1.5-THB2 billion per annum.
- Dividend payments to be THB1.2-THB1.3 billion per annum.

RATING OUTLOOK

The "positive" outlook indicates the possibility of a rating upgrade if DA can sustain strong earnings results and continue to pursue a prudent financial strategy.

RATING SENSITIVITIES

The ratings could be upgraded if the debt to EBITDA ratio continues to stay below 3 times. This could occur from forecast-beating operating performances and disciplined financial policy.

Conversely, we could revise the rating outlook to "stable" from "positive" if the debt to EBITDA ratio stays above 3 times. We could also consider revising the ratings downward if DA significantly underperforms or carries out aggressive capital spending and/or dividend payments, that materially worsen its financial profile.

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 2024.

DA currently owns and operates four paper mills and two pulp mills, all of which are located in Tha Toom District, Prachinburi Province. The four paper mills have a total design capacity of 745,000 tonnes per annum (tpa), while the two pulp mills have a total design capacity of 427,000 tpa. The pulp and paper operations are fully integrated.

Currently, paper sales accounts for 89% of DA's sales, followed by sales of pulp (8%). Revenue from other products remain minimal at about 3%.

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown

Unit: %

	2020	2021	2022	2023	Jan-Jun 2024
Revenue (mil. THB)	**16,790**	**19,335**	**23,353**	**23,276**	**12,296**
Paper	86	82	88	89	89
Pulp	13	16	9	7	8
Others	1	2	3	4	3
Total	**100**	**100**	**100**	**100**	**100**

Source: DA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2024		------------Year Ended 31 December ----------- 2023	2022	2021	2020
Total operating revenues	12,331		23,335	23,406	19,386	16,890
Earnings before interest and taxes (EBIT)	1,663		2,624	1,622	2,287	797
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,323		4,202	3,348	3,998	2,935
Funds from operations (FFO)	1,847		3,406	2,604	3,282	2,064
Adjusted interest expense	321		677	734	709	861
Capital expenditures	349		816	687	561	806
Total assets	28,277		26,946	25,873	24,388	24,711
Adjusted debt	10,470		11,562	13,539	12,628	14,137
Adjusted equity	10,348		9,403	7,720	7,145	6,872
Adjusted Ratios						
EBITDA margin (%)	18.8		18.0	14.3	20.6	17.4
Pretax return on permanent capital (%)	12.1	**	11.7	7.7	10.9	3.2
EBITDA interest coverage (times)	7.2		6.2	4.6	5.6	3.4
Debt to EBITDA (times)	2.4	**	2.8	4.0	3.2	4.8
FFO to debt (%)	34.2	**	29.5	19.2	26.0	14.6
Debt to capitalization (%)	50.3		55.1	63.7	63.9	67.3

* *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:	
DA24OA: THB1,622.7 million senior unsecured debentures due 2024	BBB
DA261A: THB2,398.5 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
DA284A: THB1,500 million senior unsecured debentures due 2028	BBB
DA292A: THB1,355 million senior unsecured debentures due 2029	BBB
DA317A: THB1,000 million senior unsecured debentures due 2031	BBB
Rating Outlook:	Positive

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