

DOUBLE A (1991) PLC

No. 145/2022
25 August 2022

CORPORATES

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

Last Review Date: 23/08/21

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

Contacts:

Rapeepol Mahapant
rapeepol@trisrating.com

Tern Thitinuang, CFA
tern@trisrating.com

Parat Mahuttano
parat@trisrating.com

Wiyada Pratoomsuwan, CFA
wiyada@trisrating.com



WWW.TRISRATING.COM

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. 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 recent strategy of expanding into packaging paper and other bio-based products.

KEY RATING CONSIDERATIONS

Fully integrated operations underpin competitive edge

The ratings mirror DA's competitive strength as the leading P&W paper with fully integrated pulp and paper operations. These integrations create synergy and help control costs. Pulp is the major raw material of paper production. As a commodity, pulp prices fluctuate widely. Therefore, a paper producer running its own pulp mill typically has cost advantage and less volatile margins.

Recent Russia-Ukraine tensions have resulted in wood and pulp supply shortages, particularly in Europe, pushing up global pulp prices significantly. Coupled with escalating energy prices, some pulp and paper mills have had to reduce or even temporarily halt production. Having its own pulp production facilities integrated with its paper mills in Prachinburi province, DA has experienced less adverse impacts from this supply shock. During the first half of 2022, the company's paper export volume increased by 8.7% year-on-year (y-o-y) to 216,952 tonnes.

Product line extension

As a strategy for creating new S-curves, DA has been developing several new products on top of its conventional products. The company has recently entered the packaging paper industry, introducing kraft paper and pulp made from recovered paper (RCP pulp), produced at its facilities in Prachinburi province. Moreover, it is developing other new products, such as dissolving pulp used for textiles, with the aim to penetrate new markets. The new product development should cost DA THB600-THB700 million in total.

The product line extension will help alleviate concerns over the gradual long-term decline in demand for P&W paper due to the shift in consumer behavior towards digital media. As the new products are in the early stages of development and production, our base-case forecast assumes their revenues will contribute less than 10% of DA's total operating revenue over the next three years. We believe the company's revenue will continue to be mainly derived from its key products, especially cut-size paper. The solid brand name of "Double A" has enabled price premiums, boosting DA's competitiveness.

Revenue on growth path

We estimate DA's total operating revenue to increase to THB22-25 billion per annum during 2022-2024, from THB19.4 billion in 2021. The company should benefit from increasing demand for pulp and paper following the resumption of economic activities, plus the tight supply of pulp and paper in the wake of the Russia-Ukraine conflict. Its plan to raise selling prices will also help bolster its top line.

Production problems to pressure 2022 results

We forecast the company will record lower profits this year, due mainly to problems with electricity supply. The power plant outage during February-May 2022 had significant impacts on DA's pulp production, forcing DA to purchase pulp outside for its paper production and heightening production costs. As a result, the company's earnings before interest, taxes, depreciation, and amortization (EBITDA) is forecast to decline to about THB3 billion in 2022, from THB4 billion in 2021. Its EBITDA as a percentage of total operating revenue (EBITDA margin) will likely reach a bottom of about 13% in 2022, from 20.6% in 2021.

Profitability to improve next year

We expect a gradual recovery in DA's profitability with the company having resumed normal operations in May 2022. Our base-case projection predicts its annual EBITDA to reach THB3.5 billion, with a rise in the EBITDA margin to about 14% during 2023-2024. Despite the improvement, the EBITDA margin will likely stay below historical records, given the rising raw material and freight costs. The company's plan to raise selling prices and sell more premium paper under the "Double A" brand should help lessen any adverse impacts on its margins.

Leverage remains under control

We do not expect DA to make any large spending in the coming years. Investment expenditures and debt repayments should range between THB2-2.5 billion per annum over the next three years. However, the power plant incident may cause a decline in funds from operations (FFO), raising DA's debt to EBITDA ratio to over 4 times in 2022. Given the earnings recovery prospects, we project the debt to EBITDA ratio to improve to about 3 times during 2023-2024. The company's debt to capitalization should hover around 60% throughout the forecast period.

As of 30 June 2022, total debt was reported at about THB14 billion, of which TH1.1 billion was secured debt classified as priority debt. This means the ratio of priority debt to total debt was about 8%. Since DA's priority debt ratio was below our trigger of 50%, we view that its unsecured creditors are not significantly disadvantaged.

Well-managed liquidity

We believe DA will continue to adequately manage its liquidity. Over the next 12 months, debts totaling THB2.4 billion will be due, comprising short-term bank loans for working capital of THB1.3 billion, long-term bank loans and financial leases of THB123 million, and maturing debentures of THB995 million. As of 30 June 2022, cash and marketable securities stood at THB560 million, with unused credit facilities of THB2.4 billion. These liquid assets should be sufficient to cover all debts coming due. DA plans to repay the debentures coming due with its operating cash flows.

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 2022 was 1.9 times. We expect the company to be able to comply with the covenant for at least the next 12-18 months.

BASE-CASE ASSUMPTIONS

- Total operating revenue to range from THB22-THB25 billion per annum during 2022-2024.
- EBITDA margin to stay between 13%-14%.
- Capital spending to be THB300-THB800 million per annum.

RATING OUTLOOK

The "stable" outlook reflects our expectation that DA will maintain its competitiveness in the P&W paper business and its profitability and cash generation will recover during 2023-2024.

RATING SENSITIVITIES

The rating upside is limited in the near term. In contrast, 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 2022.

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 designed capacity of 748,000 tonnes per annum (tpa), while the three pulp mills have a total designed 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 designed capacity of 385,000 tpa.

Paper sales currently account for 90% of DA's sales, followed by sales of pulp (6%), and revenue from wood chips and services (4%).

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown

Unit: %

	2018	2019	2020	2021	Jan-Jun 2022
Revenue (mil. THB)	20,770	19,124	16,790	19,335	10,679
Original Products					
Paper	89.7	91.3	83.2	80.5	89.7
Pulp	6.5	5.2	11.6	13.2	5.5
Others	3.8	3.5	1.4	1.8	3.9
New Products					
Kraft Paper			2.8	1.8	0.8
RCP Pulp			1.0	2.7	-
Total	100.0	100.0	100.0	100.0	100.0

Source: DA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	10,717	19,386	16,890	19,229	20,826
Earnings before interest and taxes (EBIT)	541	2,287	797	2,722	2,721
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,345	3,998	2,935	5,333	5,228
Funds from operations (FFO)	953	3,282	2,064	4,488	4,269
Adjusted interest expense	386	709	861	836	955
Capital expenditures	332	561	806	1,255	590
Total assets	25,112	24,388	24,711	30,984	33,926
Adjusted debt	13,794	12,628	14,137	15,039	15,544
Adjusted equity	6,932	7,145	6,872	12,504	14,587
Adjusted Ratios					
EBITDA margin (%)	12.55	20.62	17.38	27.73	25.11
Pretax return on permanent capital (%)	6.76 **	10.85	3.20	9.25	8.19
EBITDA interest coverage (times)	3.49	5.64	3.41	6.38	5.47
Debt to EBITDA (times)	4.43 **	3.16	4.82	2.82	2.97
FFO to debt (%)	17.29 **	25.99	14.60	29.84	27.47
Debt to capitalization (%)	66.55	63.87	67.29	54.60	51.59

* Consolidated financial statements

** Adjusted with trailing 12 months

RELATED CRITERIA

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

Double A (1991) PLC (DA)

Company Rating:	BBB
Issue Ratings:	
DA235A: THB1,000 million senior unsecured debentures due 2023	BBB
DA240A: THB1,623 million senior unsecured debentures due 2024	BBB
DA252A: THB2,500 million senior unsecured debentures due 2025	BBB
DA261A: THB2,399 million senior unsecured debentures due 2026	BBB
DA268A: THB1,000 million senior unsecured debentures due 2026	BBB
DA278A: THB2,645 million senior unsecured debentures due 2027	BBB
DA292A: THB1,355 million senior unsecured debentures due 2029	BBB
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2022, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria