

KHON KAEN SUGAR INDUSTRY PLC

No. 178/2023
18 September 2023

CORPORATES

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

Last Review Date: 19/09/22

Rating History:

Date	Rating	Outlook/Alert
19/09/22	BBB+	Positive
28/09/20	BBB+	Stable
04/06/20	A-	Negative
04/09/19	A-	Stable
13/11/13	A	Stable
24/11/06	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Khon Kaen Sugar Industry PLC (KSL) and the rating on KSL's senior unsecured debenture at "BBB+". The rating outlook remains "positive".

The "positive" outlook reflects KSL's strong operational performance under overall favorable market conditions in 2022 and the prospect of an improvement in leverage within the next 12-24 months, after substantial investment for new sugar plant.

The ratings reflect KSL's long track record in the sugar industry, diversification into sugar-related businesses, and benefits from a favorable regulatory environment. However, the ratings are constrained by higher leverage from large capital expenditures (CAPEX) in 2023-2024, plus an operational risk of running a new plant, and the volatility of sugar prices and sugarcane supplies.

KEY RATING CONSIDERATIONS

Satisfactory performance in 2022 but a decline expected in 2023-2025

KSL's performance in 2022 was satisfactory with higher sugarcane and worldwide sugar prices. Revenue increased by 55% to THB16.5 billion, from THB10.7 billion in 2021. Earnings before interest, taxes, depreciation, and amortization (EBITDA) doubled to THB3.6 billion in 2022, while the EBITDA margin was 21.5%, the highest level in the past five years.

However, we expect KSL's operating performance over the forecast period to drop from the 2022 level. Although KSL's sugarcane volume in the 2022/2023 crop year was the same as the previous crop year at 6.6 million tonnes while the worldwide sugar price averaged 21-22 cent/pound (ct/lb), higher than in 2022, cost pressure from higher sugarcane prices and other processing costs such as utility costs cut into the overall margin.

In the 2023/2024 and 2024/2025 crop years, we expect KSL's sugarcane production to be hit by lower rainfall resulting from the El Nino phenomenon. The shutdown of the Chonburi plant in 2024 caused a slight reduction in sugarcane volume, while the new plant is expected to bring increased volume in the 2024/2025 crop year. Worldwide sugar prices are projected to drop slightly from 2023 but remain favorable at around 17-18 ct/lb. However, costs are still likely to pressure the margins.

As a result, KSL's operating revenue is projected to reach around THB17.9 billion in 2023, then drop to around THB13-THB15.5 billion per year in 2024-2025. EBITDA is likely to be around THB2.9 billion in 2023 and THB2.5-THB2.7 billion per year during 2024-2025. EBITDA margin should range from 16%-19% during the forecast years.

Investment to push up leverage

Investment in the new plant is anticipated to push up KSL's financial leverage. KSL relocated its sugar plant in Chonburi Province with a capacity of 3,500 sugarcane tonnes per day to a new sugar plant in Sa Kaeo Province with a capacity of 20,000 sugarcane tonnes per day. In the same area, a new power plant will be constructed. Construction will take place during 2023-2024. The commencement of operations of both plants will be in the 2024/2025 production year. Total investment for both the sugar plant and power plant is expected to amount to THB4.7 billion during 2023-2024.

KSL's interest-bearing debt stood at THB16.6 billion as of July 2023 and should decline based on the company's scheduled loan repayments of approximately THB1-THB3 billion per year. However, with the new plant investment, the interest-bearing debt is expected to reach THB18 billion by the end of 2023-2025. The net debt to EBITDA was 5 times in 2022 and 6.2 times for the first nine months of 2023 (annualized 12 months). With an expected decline in EBITDA, along with the substantial planned CAPEX, we expect the net debt to EBITDA to rise to 6-7 times in 2023-2025.

Diversification to ethanol and power

KSL has expanded along the sugar value chain to maximize the utilization of sugarcane and by-products of the sugar production process. The major by-products are bagasse, filter cake, and molasses. The bagasse is mainly used as fuel in the company's power plants. Filter cake is used for fertilizers production while molasses are sold to BBGI Group, an associated company, for use in ethanol production.

Revenue from electricity generation, steam and fertilizer accounted for 10% of total revenue in 2022 and the first nine months of 2023 (9M2023). Apart from utilizing power internally, KSL sells electricity, mainly to state-owned utilities. Revenue from electricity came to THB1.3 billion in 2022 and for 9M2023. We forecast electricity revenue of THB1.5-THB1.7 billion during 2023-2025.

KSL also holds a 29.88% stake in BBGI, a producer of biodiesel and ethanol. We expect KSL to receive dividend income from BBGI of around THB80-THB100 million per year during the forecast years.

Satisfactory operations at the Laos plant

KSL has two sugar plants outside Thailand, in Cambodia and the Lao People's Democratic Republic (Lao PDR). Operations at the sugar plant in Cambodia are currently halted and the plant is in process of divestment while the sugar plant in Lao PDR is operating normally. The operating performance of the Lao PDR plant was satisfactory in 2022. Revenue and EBITDA were THB535 million and THB117 million, respectively. The plant contributed about 3% of total revenue.

We expect revenue from the abroad operations to grow to THB740 million in 2023, up by 38% from 2022, following the recovery of sugarcane production and higher worldwide sugar prices. We expect sugarcane volume in the 2023/2024 harvest year to fall due to declining rainfall, before picking up in the 2024/2025 harvest year as KSL plans to increase planting areas. As a result, revenue is expected at THB500-THB600 million per year in 2024-2025.

Manageable liquidity

We assess KSL's liquidity as adequate. Its source of funds comprised cash on hand of THB171 million and undrawn uncommitted credit facilities of THB13.8 billion at the end of July 2023. Funds from operations (FFO) over the next 12 months are expected to be around THB2 billion. On the other hand, the company had long-term debt of THB3.4 billion due over the next 12 months. The company's planned CAPEX over the next 12 months are around THB2.6 billion, including new plant of THB2.1 billion.

According to the key financial covenant on KSL's bank loans and debentures, the company has to maintain its interest-bearing debt to equity ratio below 2.0 times. The ratio at the end of July 2023 was 0.77 times. TRIS Rating believes the company will easily remain in compliance over the next 12 to 18 months.

BASE-CASE ASSUMPTIONS

- Operating revenue to increase to THB17.9 billion in 2023 and stay around THB13.0-THB15.5 billion per annum during 2024-2025.
- EBITDA margin in the 16%-19% range during 2023-2025.
- Total capital spending of around THB2.5-THB3.0 billion per annum during 2023-2024 largely for construction of new plants, and THB600 million in 2025.

RATING OUTLOOK

The "positive" outlook reflects the prospect of an improvement in KSL's leverage within 12-24 months after substantial investment for new plants in 2023-2024.

RATING SENSITIVITIES

An upgrade scenario could occur if KSL's operating performance and profitability recover consistently with a net debt to EBITDA ratio well below 7 times on a sustained basis. On the contrary, a downgrade could occur if its operating performance is materially weaker than expected or if KSL makes any debt-funded investment that materially weakens its balance sheet and cash flow protection, such that the net debt to EBITDA ratio exceeds 8 times for a prolonged period.

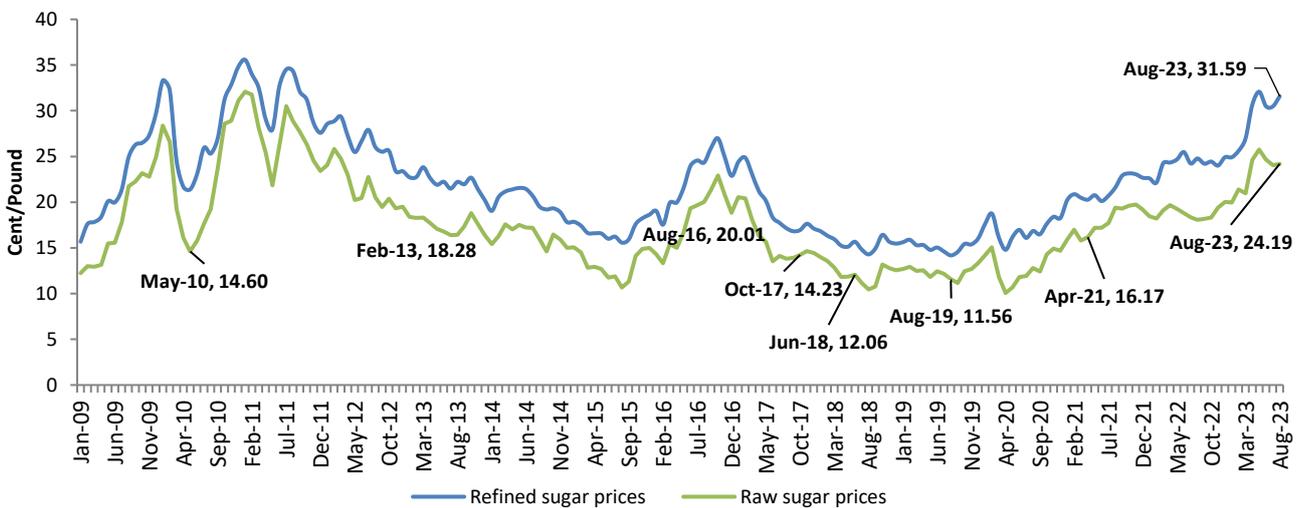
COMPANY OVERVIEW

KSL is one of the leading sugar producers in Thailand, established in 1945 by the Chinthammit family and associates. As of April 2023, the Chinthammit family collectively held 72% of the company’s shares. The company owns and operates four sugar plants in Thailand, with a combined cane crushing capacity of 128,000 cane tonnes per day as of September 2023. The Chonburi plant, with cane crushing capacity of 3,500 cane tonnes per day was closed in 2023 to relocate to a new sugar plant in Sa Kaeo with cane crushing capacity of 20,000 cane tonnes per day. KSL is also building a power plant in the same area in Sa Kaeo. The plants in Sa Kaeo are expected to commence operation in the 2024/2025 crop year. KSL procured 6.6 million tonnes of sugarcane in the 2022/2023 crop year and produced 0.75 million tonnes of sugar. The company’s sugar production in the 2022/2023 growing season ranked fourth in the industry, with a market share of 6.8%. KSL trailed Mitr Phol Group (21.3%), Thai Roong Ruang Group (16.5%), and ThaiEkkalak Group (7.2%).

BBGI PCL (BBGI) was established in October 2017 to produce bio-based products through a merger of KSL Green Innovation PLC (KGI), a subsidiary of KSL, and BBP Holding Co., Ltd. (BBH), a subsidiary of Bangchak Corporation PLC (BCP). BBGI is Thailand’s largest producer of biofuel with a total production capacity of 1,800,000 litres per day, consisting of 800,000 litres per day of ethanol and 1,000,000 litres per day of biodiesel. In March 2022, BBGI was listed on the Stock Exchange of Thailand (SET). The company received net proceeds of THB4.45 billion from the fund raising. KSL ultimately holds 29.88% in BBGI, and BCP ultimately holds 45%.

KEY OPERATING PERFORMANCE

Chart 1: Raw Sugar Prices Worldwide



Note: Monthly prices of Futures Contract No. 11

Source: New York Board of Trade, United States Department of Agriculture (USDA)

Table 1: Sugar Production in Thailand
Unit: Mil. tonnes

Sugar Producers	Growing Season				
	2018/ 2019	2019/ 2020	2020/ 2021	2021/ 2022	2022/ 2023
Mitr Phol	2.92	1.61	1.68	2.34	2.36
Thai Roong Ruang	2.42	1.34	1.24	1.45	1.82
KSL Group	1.14	0.58	0.53	0.70	0.75
Thai Ekkalak	1.03	0.60	0.47	0.64	0.80
Wangkanai	0.69	0.22	0.24	0.36	0.50
Eastern Sugar	0.49	0.34	0.34	0.36	0.42
Khonburi	0.37	0.19	0.23	0.31	0.35
Kumpawapee	0.39	0.24	0.17	0.29	0.22
Buriram	0.35	0.22	0.22	0.29	0.24
Bangpong	0.58	0.38	0.27	0.28	0.32
Others	4.55	2.79	2.44	3.16	3.27
Total	14.58	8.29	7.59	10.15	11.06

Source: Office of the Cane and Sugar Board (OCSB)
Table 2: KSL's Revenue Breakdown by Business
Unit: %

Products	2019	2020	2021	2022	Nov 2022- Jul 2023
Sugar sales					
- Thailand	84.7	80.7	79.2	83.6	81.3
- Laos PDR & Cambodia	1.6	4.0	4.0	3.3	4.2
Electricity sales	7.4	10.6	11.3	8.3	9.0
Services and others	6.3	4.7	5.5	4.8	5.5
Total sales	100	100	100	100	100

Source: KSL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Nov-Jul 2023	-----Year Ended 31 October -----			
		2022	2021	2020	2019
Total operating revenues	14,426	16,549	10,660	12,012	18,605
Earnings before interest and taxes (EBIT)	1,213	2,187	1,171	410	1,761
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,187	3,557	1,809	1,196	2,883
Funds from operations (FFO)	1,685	3,065	1,376	648	1,997
Adjusted interest expense	353	433	428	503	721
Capital expenditures	499	194	220	480	741
Total assets	42,169	41,650	41,521	41,122	44,121
Adjusted debt	16,646	16,660	18,558	18,920	20,018
Adjusted equity	21,516	21,363	20,112	19,546	19,021
Adjusted Ratios					
EBITDA margin (%)	15.16	21.49	16.97	9.96	15.49
Pretax return on permanent capital (%)	3.82 **	5.67	3.02	1.03	4.20
EBITDA interest coverage (times)	6.19	8.21	4.22	2.38	4.00
Debt to EBITDA (times)	6.23 **	4.68	10.26	15.82	6.94
FFO to debt (%)	12.34 **	18.40	7.42	3.42	9.98
Debt to capitalization (%)	43.62	43.82	47.99	49.19	51.28

Note: All ratios have been adjusted by operating leases.

* Consolidated financial statements

** Annualized 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

Khon Kaen Sugar Industry PLC (KSL)

Company Rating:	BBB+
Issue Rating:	
KSL27DA: THB2,000 million senior unsecured debentures due 2027	BBB+
Rating Outlook:	Positive

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