

# KHON KAEN SUGAR INDUSTRY PLC

No. 157/2022  
19 September 2022

## CORPORATES

<b>Company Rating:</b>	BBB+
<b>Issue Rating:</b>	
Senior unsecured	BBB+
<b>Outlook:</b>	Positive

**Last Review Date:** 08/09/21

### Company Rating History:

Date	Rating	Outlook/Alert
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+" and revises the rating outlook to "positive" from "stable".

The outlook revision reflects the prospect of an improvement in worldwide sugar prices and higher cane volume in Thailand, owing to the improved rainfall and plantation area, plus improvements in KSL's operational efficiency and cost control.

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 the volatility of sugar prices and sugarcane supplies, plus the company's operational risk of running sugar plants in neighboring countries.

## KEY RATING CONSIDERATIONS

### Improved sugar prices and rainfall drive operating performance

KSL's operating results during fiscal year (FY) 2020 through FY2021 have been pressured by a drastic contraction in sugarcane supplies following severe drought and lower plantation areas in Thailand, that in line with TRIS Rating's forecast. The company's total operating revenue declined to THB10.7 billion. However, earnings before interest, taxes, depreciation, and amortization (EBITDA) margin improved to 17% in FY2021, compared with 10% in the same period of the prior fiscal year, following a rise in sugar prices.

KSL's operating performance improved significantly in the first nine months of FY2022 following improvements in worldwide sugar prices and rising cane volume in Thailand, owing to favorable weather in the 2021/2022 harvest season. EBITDA improved to THB3.1 billion in the first nine months of FY2022, from THB1.6 billion during the same period of FY2021. EBITDA margin was reported at 23.2% in the first nine months of FY2022, compared with 21.7% in the same period of the previous fiscal year. In addition, the company's selling and administrative expenses remained tightly controlled. Thus, KSL reported a net profit of THB1.3 billion in the first nine months of FY2022, compared with a net profit of THB467 million in the same period of the prior fiscal year.

Going forward, we expect KSL to continue delivering sound operating results despite potential challenges in the coming years. Under TRIS Rating's baseline scenario, KSL's total operating revenue is projected to increase by 55% to THB16.5 billion in FY2022, and will stay at around THB14.3-THB16.0 billion in FY2023-FY2024, based on the likelihood of improved rainfall and plantation areas in the upcoming harvest seasons. Our forecast assumes the world sugar price will be around 20 cents per pound in FY2022, and will stay at around 15-19 cents per pound in FY2023-FY2024. As a result, we expect a rise in KSL's EBITDA margin to around 21.5% in FY2022 and in the range of 17%-19% range during FY2023-FY2024.

### Overseas operations remain satisfactory

KSL has operated sugar plants in the Lao People's Democratic Republic (Lao PDR) and Cambodia since FY2010. The combined revenue contribution from the Lao PDR and Cambodia has amounted to less than 5% of total revenues. Currently, KSL's sugar operation in Cambodia is in the process of divestment. However, sugar production in the Lao PDR remained satisfactory during the

first nine months of FY2022, owing to higher selling prices of sugar and molasses and higher margins from selective products. The foreign subsidiaries in the two locations reported a combined profit of THB49.5 million in the first nine months of FY2022, flat from the same period of the prior fiscal year.

### Moderate leverage

KSL's financial leverage has remained moderate, owing to higher working-capital needs, but lower capital expenditures. Total debt to capitalization ratio dropped to 48% at the end of October 2021, compared with 49.2% at the end of October 2020. Total adjusted debt dropped to THB18 billion as of July 2022 after reaching a seasonal peak in the first half of FY2022. Nevertheless, the company plans to keep its capital expenditure in the THB150-THB300 million per year range during FY2022-FY2024. Most of the spending is earmarked for innovation projects and annual maintenance. The company's debt to capitalization ratio should therefore gradually decline to 37%-45% during FY2022-FY2024, compared with 48%-49% in FY2020-FY2021. Cashflow protection is forecast to increase to 14%-16% in FY2022-FY2024, from 3%-7% during FY2020-FY2021.

### Integration of downstream businesses

KSL's downstream businesses consist of power generation, ethanol, and fertilizer production. These related businesses mostly stem from the utilization of by-products from the sugar production process. The major by-products are bagasse, filter cake, and molasses. Bagasse is mainly used as fuel in the company's power plants. Filter cake is processed to make fertilizer for sugarcane cultivation. Molasses is utilized to produce ethanol. The company started its sugar-related businesses more than a decade ago.

The energy and fertilizer businesses contribute around 7%-11% of KSL's total revenue. Its involvement in ethanol production is represented by a 30% equity stake in BBGI PLC (BBGI). In our forecast, we project the company will receive THB100 million per annum of shared profit during FY2022-FY2024 from its investment in BBGI.

### Sound liquidity

We assess KSL to have adequate liquidity for the next 12 months. Debts coming due in FY2022 include long-term loans of around THB4.9 billion. KSL also has scheduled debt repayments of THB1.9-THB4.9 billion per year over the period of FY2022-FY2024. Funds from operations (FFO) are projected to range from THB1.8-THB2.8 billion per year during FY2022-FY2024 following a gradual recovery in sugar prices. Nevertheless, KSL's cash and cash equivalents of THB539 million, plus unused credit facilities of more than THB14.4 billion at the end of July 2022 should be sufficient to cover the loan repayments during FY2022-FY2024.

### BASE-CASE ASSUMPTIONS

- Total revenue to increase to THB16.5 billion in FY2022, and will stay at around THB14.3-THB16.0 billion during FY2023-FY2024.
- EBITDA margin at around 22% during FY2022, and in the range of 17%-19% per annum range during FY2023-FY2024.
- Total capital spending of around THB150-THB300 million per annum during FY2022-FY2024.

### RATING OUTLOOK

The "positive" outlook reflects the prospect of an improvement in worldwide sugar prices and higher cane volume in Thailand, owing to the improved rainfall and plantation areas, plus improvements in KSL's efficiency and cost control.

### RATING SENSITIVITIES

An upgrade scenario could occur if KSL's operating performance and profitability recover consistently on a sustained basis, while KSL is able to attain its deleveraging target by bringing down its net debt to EBITDA ratio below 7 times on a sustained basis.

We could lower the ratings if we believe KSL will sustain its net debt to EBITDA ratio at more than 8 times. This could result from earnings volatility due to adverse weather conditions or lower sugar prices.

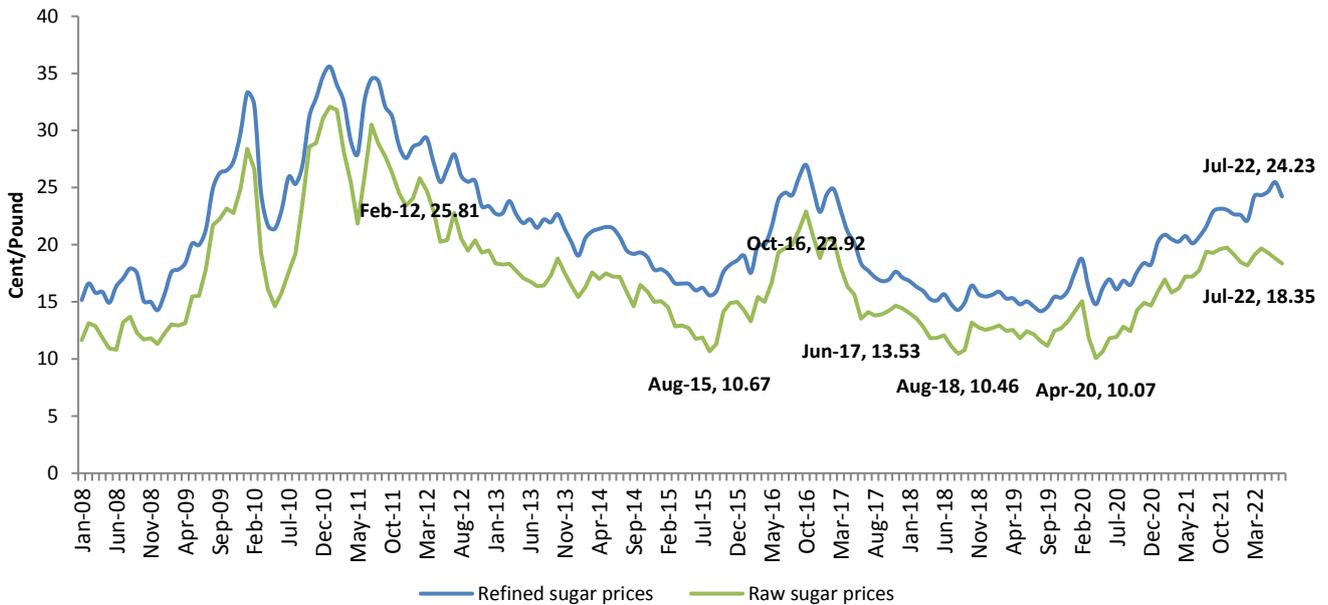
### COMPANY OVERVIEW

KSL is one of the leading sugar producers in Thailand, established in 1945 by the Chinthammit family and associates. As of April 2021, the Chinthammit family collectively held 72% of the company's shares. The company owns and operates five sugar plants in Thailand, with a combined cane crushing capacity of 131,500 cane tonnes per day as of May 2022. KSL procured 6.56 million tonnes of sugarcane in the 2021/2022 crop year and produced 0.70 million tonnes of sugar. The company's sugar production in the 2021/2022 growing season ranked third in the industry, with a market share of 7%. KSL trailed Mitr Phol Group (23.0%) and Thai Roong Ruang Group (14.3%).

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 1,710,000 litres per day, consisting of 900,000 litres per day of ethanol and 810,000 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 30% 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				
	2017/ 2018	2018/ 2019	2019/ 2020	2020/ 2021	2021/ 2022
Mitr Phol	2.73	2.92	1.61	1.68	2.34
Thai Roong Ruang	2.13	2.42	1.34	1.24	1.45
KSL Group	1.20	1.14	0.58	0.53	0.70
Thai Ekkalak	1.19	1.03	0.60	0.47	0.64
Wangkanai	0.79	0.69	0.22	0.24	0.36
Eastern Sugar	0.51	0.49	0.34	0.32	0.33
Khonburi	0.44	0.37	0.19	0.23	0.31
Kumpawapee	0.41	0.39	0.24	0.17	0.29
Buriram	0.38	0.35	0.22	0.22	0.29
Bangpong	0.52	0.58	0.38	0.27	0.28
Others	4.79	4.55	2.79	2.44	3.16
<b>Total</b>	<b>14.71</b>	<b>14.58</b>	<b>8.29</b>	<b>7.59</b>	<b>10.15</b>

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

**Table 2: KSL's Revenue Breakdown by Business**

Unit: %

Products	2018	2019	2020	2021	Nov 2021- Apr 2022
Sugar sales					
- Thailand	83.7	84.7	80.7	79.2	82.4
- Laos PDR & Cambodia	2.5	1.6	4.0	4.0	2.1
Ethanol and fertilizer sales	-	-	-	-	-
Electricity sales	6.8	7.4	10.6	11.3	9.2
Services and others	7.0	6.3	4.7	5.5	6.3
<b>Total sales</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: KSL

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

	-----Year Ended 31 October -----				
	Nov-Jul 2022	2021	2020	2019	2018
Total operating revenues	13,264	10,660	12,012	18,605	18,705
Earnings before interest and taxes (EBIT)	1,902	1,171	410	1,761	1,751
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,073	1,809	1,196	2,883	2,890
Funds from operations (FFO)	2,696	1,376	648	1,997	2,011
Adjusted interest expense	321	428	503	721	737
Capital expenditures	115	220	480	741	1,177
Total assets	44,128	41,521	41,122	44,121	45,542
Adjusted debt	18,034	18,558	18,920	20,018	23,597
Adjusted equity	21,598	20,112	19,546	19,021	18,639
<b>Adjusted Ratios</b>					
EBITDA margin (%)	23.17	16.97	9.96	15.49	15.45
Pretax return on permanent capital (%)**	5.38	3.02	1.03	4.20	4.25
EBITDA interest coverage (times)	9.57	4.22	2.38	4.00	3.92
Debt to EBITDA (times)	5.53	10.26	15.82	6.94	8.17
FFO to debt (%)**	15.40	7.42	3.42	9.98	8.52
Debt to capitalization (%)	45.50	47.99	49.19	51.28	55.87

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

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**Khon Kaen Sugar Industry PLC (KSL)**

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

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