

# KHON KAEN SUGAR INDUSTRY PLC

No. 142/2021  
8 September 2021

## CORPORATES

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

Last Review Date: 28/09/20

### 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+" with a "stable" rating outlook. The ratings reflect KSL's long track record in the sugar industry, diversification into other sugar-related businesses, and benefits from a favorable regulatory environment. However, the ratings are constrained by the volatility of sugarcane supplies and sugar prices, plus the company's operational risk of running sugar plants in neighboring countries.

## KEY RATING CONSIDERATIONS

### Rising sugar prices lift operating margin

KSL's operating results for fiscal year (FY) 2020 were in line with TRIS Rating's forecast. Total operating revenue declined to THB12.1 billion. KSL's earnings before interest, taxes, depreciation, and amortization (EBITDA) margin was 9.9% in FY2020, compared with our forecast of 8.1%, following a rise in raw material costs from low sugarcane supplies, driven by the severe drought in Thailand.

However, KSL's operating performance improved gradually in the first half of FY2021. EBITDA margin was reported at 29.8%, compared with 4.7% in the same period of the prior year. The improvement was due to higher sugar prices following the prolonged drop in sugarcane supplies in Thailand. In addition, the company attained a significantly wider margin from a higher volume of domestic sugar sales, while selling and administrative expenses remained under control. Thus, KSL reported a net profit of THB411 million in the first six months of FY2021, compared with a net loss of THB375 million in the same period of the prior year.

Going forward, we project KSL's total operating revenue to drop by 14% to THB10.5 billion in FY2021, then increase to THB11.9-THB14.3 billion in FY2022-FY2023, reflecting a gradual increase in sugarcane production, brought about by favorable weather for the upcoming crop harvests. Our base-case forecast assumes the world sugar price will be around 18.3 cents per pound in FY2021, declining to 13.5-15.0 cents per pound in FY2022-FY2023. As a result, we expect a rise in KSL's EBITDA margin to around 17.7% in FY2021 and in the 16.1%-19.0% range during FY2022-FY2023.

### Operations in neighboring countries to rebound gradually

KSL has operated sugar plants in the 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 improved during the first six months of FY2021. The improvement was driven by higher selling prices of sugar and molasses and higher margins from selective products. The foreign subsidiaries of two locations reported a combined profit of THB36 million in the first six months of 2021, compared with a combined loss of THB30 million over the same period of FY2020.

### Lower working capital requirements and limited capital expenditure push down leverage

KSL's inventory days remained flat at 73 days at the end of October 2020

following a lower level of sugar inventory. KSL also reduced its capital expenditure to THB480 million in FY2020, down from THB741 million in FY2019. As a result, KSL's total debt to capitalization ratio dropped to 49.2% at the end of October 2020, compared with 51.3% at the end of October 2019.

KSL's total adjusted debt rose to THB22.1 billion as of April 2021 due to seasonal working capital needs. Nevertheless, the company plans to cut capital expenditure to around THB300-THB400 million per year during FY2021-FY2023. Most of the spending is earmarked for capacity expansion for liquid sugar mills and maintenance. The company's debt to capitalization ratio should therefore gradually decline to 43%-47% during FY2021-FY2023, compared with 49%-51% in FY2019-FY2020. Cash flow protection is forecast to increase to 8%-11% in FY2021-FY2023, from 4%-10% during FY2019-FY2020.

### 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 40% equity stake in BBGI PLC (BBGI). In our base case forecast, we project the company will receive THB250-THB290 million per annum shared profit during FY2021-FY2023 from its investment in BBGI.

### Sound liquidity

We assess KSL should have adequate liquidity for the next 12 months. Debts coming due in FY2021 include long-term loans of around THB1.7 billion. KSL also has scheduled debt repayments of THB1.1-THB4.6 billion per year over the period of FY2022-FY2023. Funds from operations (FFO) are projected to range from THB1.4-THB1.8 billion during FY2021-FY2023 following a gradual recovery in sugar prices. Nevertheless, KSL's cash and cash equivalents of THB132 million, plus unused credit facilities of more than THB14.2 billion at the end of April 2021 should be sufficient to cover the loan repayments during FY2021-FY2023.

### BASE-CASE ASSUMPTIONS

- Total revenue to drop by 14% in FY2021, and increase by 14%-20% per annum during FY2022-FY2023.
- EBITDA margin to stay at around 18% during FY2021, then remain in the 16%-19% per annum range during FY2022-FY2023.
- Total capital spending of around THB300-THB400 million per annum during FY2021-FY2023.

### RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that KSL will maintain its competitive position in the Thai sugar industry. Thailand's sugar and sugarcane revenue sharing system as well as the revenue contribution from KSL's power business should alleviate the effects of volatility in the sugar production business.

### 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. A rating downgrade could occur if the company's performance weakens significantly for an extended period of time. Any aggressive debt-funded expansion that would materially weaken its balance sheet and cash flow protection, would also lead to a downgrade scenario.

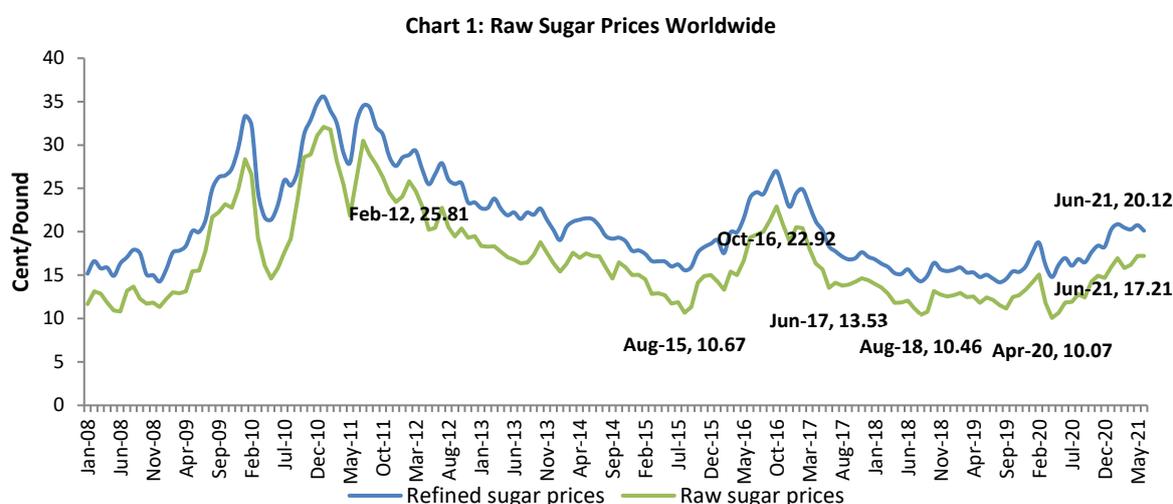
### COMPANY OVERVIEW

KSL is one of the leading sugar producers in Thailand, established in 1945 by the Chinthammit family and associates. As of April 2020, the Chinthammit family collectively held 70% 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 April 2021. KSL procured 4.77 million tonnes of sugarcane in the 2020/2021 crop year and produced 0.53 million tonnes of sugar. The company's sugar production in the 2020/2021 growing season ranked third in the industry, with a market share of 7%. KSL trailed Mitr Phol Group (22.1%) and Thai Roong Ruang Group (16.4%).

KSL Green Innovation PLC (KGI), a subsidiary of KSL, merged with BBP Holding Co., Ltd. (BBH), a subsidiary of Bangchak Corporation PLC (BCP). The merged operation under BBGI represents a business alliance for the production of bio-based products. BCP holds 60% of BBGI; the remaining 40% is held by KSL. The total investment in BBGI was THB3.24 billion. BBGI

was established in October 2017 and became Thailand's largest producer of bio-fuel 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. BBGI has planned for an initial public offering (IPO) in FY2022 to secure the funds it needs for business expansion.

## KEY OPERATING PERFORMANCE



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				
	2016/ 2017	2017/ 2018	2018/ 2019	2019/ 2020	2020/ 2021
Mitr Phol	1.98	2.73	2.92	1.61	1.68
Thai Roong Ruang	1.42	2.13	2.42	1.34	1.24
KSL Group	0.72	1.20	1.14	0.58	0.53
Thai Ekkalak	0.94	1.19	1.03	0.60	0.47
Eastern Sugar	0.38	0.51	0.49	0.34	0.32
Banpong	0.44	0.52	0.58	0.38	0.27
Wangkanai	0.39	0.79	0.69	0.22	0.24
Khonburi	0.27	0.44	0.37	0.19	0.23
Kumpawapee	0.28	0.41	0.39	0.24	0.17
Others	3.21	4.79	4.55	2.79	2.44
<b>Total</b>	<b>10.03</b>	<b>14.71</b>	<b>14.58</b>	<b>8.29</b>	<b>7.59</b>

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

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

Unit: %

Products	2017	2018	2019	2020	Nov 2020- Apr 2021
Sugar sales					
- Thailand	73.2	83.7	84.7	80.7	70.4
- Laos PDR & Cambodia	3.9	2.5	1.6	4.0	5.7
Ethanol and fertilizer sales	13.4	-	-	-	-
Electricity sales	4.8	6.8	7.4	10.6	15.1
Services and others	4.7	7.0	6.3	4.7	8.8
<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

	Nov 2020- Apr 2021	-----Year Ended 31 October -----			
		2020	2019	2018	2017
Total operating revenues	4,116	12,100	18,605	18,705	16,186
Earnings before interest and taxes (EBIT)	690	410	1,761	1,751	1,028
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,228	1,196	2,883	2,890	2,114
Funds from operations (FFO)	917	760	2,013	2,009	1,438
Adjusted interest expense	208	503	721	737	675
Capital expenditures	155	480	741	1,177	3,123
Total assets	45,589	41,122	44,121	45,542	42,991
Adjusted debt	22,139	18,920	20,018	23,597	21,811
Adjusted equity	19,883	19,546	19,021	18,639	18,092
<b>Adjusted Ratios</b>					
EBITDA margin (%)	29.83	9.89	15.49	15.45	13.06
Pretax return on permanent capital (%)**	3.30	1.03	4.20	4.25	2.71
EBITDA interest coverage (times)	5.89	2.38	4.00	3.92	3.13
Debt to EBITDA (times)	10.46	15.82	6.94	8.17	10.32
FFO to debt (%)**	6.74	4.02	10.06	8.51	6.59
Debt to capitalization (%)	52.68	49.19	51.28	55.87	54.66

Note: All ratios have been adjusted by operating leases

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

## RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

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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>	Stable

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**TRIS Rating Co., Ltd.**

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