

MITR PHOL SUGAR CORPORATION LTD.

No. 86/2023
18 May 2023

CORPORATES

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

Last Review Date: 15/03/22

Company Rating History:

Date	Rating	Outlook/Alert
15/03/22	A	Stable
04/06/20	A+	Negative
24/12/10	A+	Stable
02/11/07	A	Stable

Contacts:

Nauwarut Temwattanangkul
nauwarut@trisrating.com

Jutatip Chitphromphan
jutatip@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Sasiporn Vajarodaya
sasiporn@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Mitr Phol Sugar Corporation Ltd. (MPSC) and the ratings on MPSC's senior unsecured debentures at "A", with a "stable" outlook.

The ratings continue to reflect MPSC's market position as one of the world's leading sugar producers, well-accepted brand name, efficient sugar mill operations, geographic diversification, and diversified sources of income. However, the ratings are constrained by the volatility of sugarcane supplies and sugar prices, and the company's operational risk associated with its overseas sugar plants.

KEY RATING CONSIDERATIONS

Improved operating results

MPSC's financial performance recovered strongly in 2022. It was driven by a surge in sugar prices and improved sugarcane supplies on the back of favorable weather in several locations. The ethanol and power businesses also benefited from higher cane output and increased demand following the easing of COVID-19 measures. As a result, MPSC's operating revenue grew by 28.9% year-on-year (y-o-y) to THB135.7 billion in 2022, while earnings before interest, taxes, depreciation, and amortization (EBITDA) rose by 64.1% y-o-y to THB21.0 billion.

We expect MPSC to continue delivering sound operating results in 2023 on the back of a recent rise in worldwide sugar prices, while maintaining steady cane production in the current harvest. Sugar prices hit a six-year record high of 20.8 cents per pound in the first quarter of 2023, while MPSC's sugarcane supply was flat at 4.6 million tonnes in the 2022/23 crop year. However, we view MPSC's operating performance may come under pressure in 2024-2025 given the prospect of falling sugarcane supplies, particularly in Thailand, driven by an anticipated drought from El Nino phenomenon.

Under our baseline scenario, MPSC's total operating revenue is projected to reach THB136 billion in 2023 and hover around THB120-THB125 billion annually in 2024-2025, based on the likelihood of weak rainfall. Our forecast assumes the world sugar price will be around 20 cents per pound in 2023, decreasing to around 15-17 cents per pound in 2024-2025. As a result, we expect a rise in MPSC's EBITDA margin to around 16% in 2023 before hovering in the 13%-15% range during 2024-2025.

Substantial drop in leverage ratio, but large investments ahead

Despite sizable investment and working capital requirements, MPSC's financial leverage ratio dropped substantially following its sound operating profit in 2022. Adjusted debt was THB95.7 billion in 2022, up from THB92.8 billion in 2021. However, MPSC's debt to EBITDA ratio decreased substantially to 4.6 times in 2022 from 7.2-7.3 times in 2020-2021, while the debt to capitalization ratio fell to 51.8% in 2022 from 56% in 2020-2021. Cash-flow protection also improved significantly. The ratio of funds from operations (FFO) to adjusted net debt was 17.4% in 2022, up from 9%-10% in 2020-2021.

Going forward, we project MPSC's leverage to stay high due to a number of large investments in the pipeline. We project the company's debt to capitalization ratio to hover around 45%-50% in 2023-2025, whereas the ratio

of adjusted debt to EBITDA to decrease to 4.2 times in 2023 and hover around 5-5.3 times in 2024-2025 given the likelihood of lower cane output.

Energy business cushions revenue fluctuations

MPSC has expanded along the sugar value chain to maximize the utilization of sugarcane and by-products of the sugar production process. MPSC's sugar-related businesses are electricity generation and ethanol production. Currently, MPSC has an installed power generation capacity of 683.8 megawatts (MW) with 304.1 MW sold under power purchase agreements (PPA) with government agencies. Ethanol production is 1.5 million liters per day at full capacity.

As a result of increased sugarcane feedstock, capacity expansions of power plants, together with higher demand following the ease of impacts from COVID-19, revenue from the energy business (electricity and ethanol) increased by 25.8% y-o-y to THB24.3 billion in 2022.

At present, the power and ethanol businesses together contribute nearly 20% of MPSC's total revenues. Stable cash flow from the expanded energy business has partly held up MPSC's operating performance during the period of depressed sugar prices.

Adequate liquidity

We assess MPSC to have adequate liquidity over the next 12 months. Funding needs will include THB5.1 billion maturing debentures, THB2.1 billion maturing long-term loans, and capital expenditures of about THB10 billion. The sources of funds will come from FFO of around THB17 billion and undrawn short-term credit facilities of about THB30 billion. The liquidity buffer is backed by cash on hand and short-term securities totaling THB4.6 billion at the end of 2022. We view that the company's ability to access external funding sources, including the domestic debt capital market and bank financing, remains unchanged.

At the end of 2022, MPSC recorded THB13.1 billion of priority debt out of total debt (excluding lease liabilities) of THB93.8 billion. Most of MPSC's priority debt was at the subsidiary level. The ratio of priority debt to total debt was 14%.

BASE-CASE ASSUMPTIONS

- Revenues to reach around THB136 billion in 2023 and THB120-THB125 billion annually in 2024-2025.
- EBITDA margin of 16% in 2023 and 13%-15% in 2024-2025.
- Total capital spending of THB8-THB11 billion per year in 2023-2025.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that MPSC will maintain its leading position in both the Thai and Chinese sugar industries. Competitive edges from MPSC's diverse range of operations and sources of income should alleviate the volatility inherent in the sugar production business.

RATING SENSITIVITIES

The ratings on MPSC could be upgraded if the company is able to improve its operating cash flow and lower its leverage, with the net debt to EBITDA ratio staying below 5 times on a sustained basis.

On the contrary, MPSC's ratings could be downgraded in a scenario of materially higher-than-expected debt levels or weaker-than-expected profitability, that could potentially result in the company's adjusted debt to EBITDA ratio exceeding 8 times for a prolonged period.

COMPANY OVERVIEW

Founded in 1946 by the Vongkusolkrit family, MPSC is the leading sugar producer in Thailand. The Vongkusolkrit family collectively holds 100% of the company's shares through Mid-Siam Sugar Co., Ltd. MPSC owns and operates sugar mills in Thailand, China, the Lao PDR, and Australia. Owing to favorable weather and rainfall, MPSC's sugar production increased to 4.6 million tonnes in the 2021/2022 growing season, compared with 3.9 million tonnes in the 2020/2021 season. About half of MPSC's sugar volume was produced in Thailand and 24% in China.

In 2017, MPSC entered the sugar refining business in Indonesia through a joint venture with OLAM International Ltd. (OLAM), a leading food and agri-business company. In 2020, MPSC increased its stake in the venture by acquiring the remaining 50% share from OLAM. Additionally, MPSC invested in two joint-venture companies which own a sugar mill and a refinery in Java. At the end of 2022, the total investment cost was about THB13 billion. Following the sizable investments, MPSC owns a refinery and holds a 60% equity stake in a sugar mill and a 40% stake in a refinery in Indonesia. The total sugar volume was 0.7 million tonnes in 2022.

Although sugar is a commodity, MPSC is striving to build a brand to differentiate its products from those of its competitors. MPSC’s retail products are successfully marketed under the “Mitr Phol” brand in Thailand. The company aims to distribute its branded sugar products in other markets in the Asia-Pacific region.

MPSC also produces electricity, ethanol, wood-substitute materials, and fertilizer, and offers logistics services. In 2022, its total sales were THB134.3 billion. The sugar segment accounted for 74% of its total revenues while the power and ethanol segments together contributed 18%. MPSC owns 17 power plants. 14 plants are located in Thailand, and three in China (Funan, Ningming, and Chongzuo). The company sold electricity to the Electricity Generating Authority of Thailand (EGAT) and the Provincial Electricity Authority (PEA) under the Small Power Producer (SPP) scheme, totaling 304.1 MW in 2022. Additionally, MPSC holds investments in several other power plants, including solar floating power plants in Taiwan and a solar farm in Srakaew Province.

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: MPSC's Revenue Breakdown

Unit: Mil. THB

Revenue	2018	2019	2020	2021	2022
Total sales & services	95,049	91,873	85,139	103,656	134,301
Y-o-y growth (%)	(3.3)	(3.3)	(7.3)	21.7	29.6
Proportion (%)					
Sugar in Thailand	40.7	39.1	30.4	32.6	34.4
Sugar in China	26.9	27.3	26.2	25.1	24.5
Sugar in Lao PDR	0.8	1.0	1.1	1.1	0.8
Sugar in Australia	5.7	4.5	6.9	4.5	4.6
Sugar in Indonesia	-	-	5.9	9.3	9.5
Power and ethanol	16.0	20.0	21.3	18.6	18.1
Wood substitute products and paper	5.4	5.6	5.9	6.3	5.5
Logistics & others	4.5	2.5	2.4	2.6	2.5
Total	100	100	100	100	100

Source: MPSC

Table 3: Sugar Crushing Yield in Thailand

Unit: Kg/tonne cane

Sugar Producer	Growing Season				
	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022
Mitr Phol	115.2	118.7	116.6	123.5	121.3
Thai Roong Ruang	107.4	108.7	106.1	109.5	102.3
Thai Ekkalak	102.1	104.5	106.3	108.1	110.8
KSL	108.8	110.9	108.1	110.8	107.2
Wangkanai	110.4	111.9	104.9	109.1	109.7
Banpong	103.7	101.5	106.3	104.1	99.2
Kumpawapee	109.4	112.6	118.4	115.2	118.6
Eastern Sugar	107.6	114.9	112.8	120.6	111.3
Total	109.0	111.3	110.8	113.8	110.3

Source: OCSB

Table 2: Sugar Production in Thailand

Unit: Mil. tonnes

Sugar Producer	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	2.50	2.42	1.34	1.24	1.45
Thai Ekkalak	1.19	1.03	0.60	0.47	0.64
KSL	1.20	1.14	0.58	0.53	0.70
Wangkanai	0.79	0.69	0.22	0.24	0.36
Banpong	0.52	0.58	0.38	0.27	0.28
Kumpawapee	0.41	0.39	0.24	0.17	0.29
Eastern Sugar	0.51	0.49	0.34	0.34	0.36
Others	4.86	4.92	2.98	2.65	3.73
Total	14.71	14.58	8.29	7.59	10.99

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

Table 4: MPSC's Sugar Production Statistics in China

Performance	Growing Season			
	2018/2019	2019/2020	2020/2021	2021/2022
Sugarcane crushed (tonnes)	9,029,709	8,022,501	7,724,763	9,287,214
Growth (%)	3.3	(11.2)	(3.7)	20.2
Sugar production (tonnes)	1,070,379	1,049,609	955,494	1,123,436
Growth (%)	2.8	(1.9)	(5.2)	17.6
Cane crushing yield (kg/cane tonne)	118.9	130.8	126.7	121.0

Source: MPSC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	135,681	105,297	86,885	94,943	98,674
Earnings before interest and taxes (EBIT)	8,655	3,766	2,722	8,352	4,018
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	21,018	12,807	11,783	17,214	13,037
Funds from operations (FFO)	16,699	9,102	7,840	13,108	8,972
Adjusted interest expense	3,211	2,991	3,004	3,262	3,281
Capital expenditures	7,820	9,196	6,720	8,527	13,605
Total assets	212,726	190,482	176,501	166,821	169,091
Adjusted debt	95,746	92,762	86,255	78,888	78,371
Adjusted equity	89,053	72,858	68,045	67,296	67,605
Adjusted Ratios					
EBITDA margin (%)	15.49	12.16	13.56	18.13	13.21
Pretax return on permanent capital (%)	4.80	2.27	1.76	5.58	2.68
EBITDA interest coverage (times)	6.54	4.28	3.92	5.28	3.97
Debt to EBITDA (times)	4.56	7.24	7.32	4.58	6.01
FFO to debt (%)	17.44	9.81	9.09	16.62	11.45
Debt to capitalization (%)	51.81	56.01	55.90	53.96	53.69

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

Mitr Phol Sugar Corporation Ltd. (MPSC)

Company Rating:	A
Issue Ratings:	
MPSC236A: THB2,610 million senior unsecured debentures due 2023	A
MPSC249A: THB3,200 million senior unsecured debentures due 2024	A
MPSC256A: THB2,400 million senior unsecured debentures due 2025	A
MPSC256B: THB2,210 million senior unsecured debentures due 2025	A
MPSC259A: THB1,000 million senior unsecured debentures due 2025	A
MPSC26DA: THB1,900 million senior unsecured debentures due 2026	A
MPSC286A: THB1,630 million senior unsecured debentures due 2028	A
MPSC28DA: THB2,200 million senior unsecured debentures due 2028	A
MPSC306A: THB3,650 million senior unsecured debentures due 2030	A
MPSC31NA: THB3,000 million senior unsecured debentures due 2031	A
MPSC33NA: THB2,150 million senior unsecured debentures due 2033	A
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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

© Copyright 2023, 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