

SRI TRANG AGRO-INDUSTRY PLC

No. 178/2021
18 October 2021

CORPORATES

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Positive

Last Review Date: 18/06/21

Company Rating History:

Date	Rating	Outlook/Alert
26/10/20	A-	Stable
25/10/19	BBB+	Negative
27/10/17	BBB+	Stable
05/08/11	A-	Stable
20/11/10	BBB+	Positive
30/09/09	BBB+	Stable
14/09/07	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Sri Trang Agro-Industry PLC (STA) and the ratings on its existing senior unsecured debentures at “A-” and revises the rating outlook to “positive” from “stable”. At the same time, TRIS Rating assigns the rating of “A-” to STA’s proposed the issue of up to THB4.5 billion in senior unsecured debentures. The proceeds from the new debenture issuance will be used to support STA’s working capital needs and planned capital expenditures.

The outlook revision reflects the prospect of a recovery in the natural rubber (NR) industry and continued demand for rubber gloves globally, driven by the ongoing Coronavirus Disease 2019 (COVID-19) pandemic, a notable change in the company’s product mix from commodity products to consumer products, plus improvements in efficiency and cost control.

The ratings continue to reflect STA’s leading position in the NR industry, its competitive edge in vertical integration, and the strong track record of the company’s management team. However, STA’s business profile is partly constrained by the cyclical and volatile nature of NR prices as well as the challenges the NR industry is facing amid an uncertain global economy.

KEY RATING CONSIDERATIONS

Robust operating results

STA’s consolidated operating performance continued to improve during 2020 through the first half of 2021, driven by a gradual recovery in the auto industry and continued strong demand in the rubber gloves industry.

STA’s total operating revenue jumped by 25% year-on-year (y-o-y) to THB75.7 billion in 2020. Revenue contribution from the gloves segment rose to 41% of total revenue, up from 20% in 2019. The company’s gross margin (including gains or losses from derivatives instruments) jumped to 29% in 2020, from 8% in 2019. The improvement was due primarily to a more favorable product mix and manageable raw material costs. Earnings before interest, taxes, depreciation, and amortization (EBITDA) also improved, increasing to THB20.5 billion in 2020 compared with THB3.5 billion in 2019. As a result, STA reported a net profit of THB9.5 billion in 2020, compared with a net loss of THB149 million in 2019.

During the first half of 2021, STA’s consolidated operating revenue and net profit remained strong. Operating revenue grew by 87% y-o-y. The revenue contribution from the gloves segment continued to rise to 46% from 27% in the same period of 2020. EBITDA improved substantially, rising to THB22.3 billion in the first half of 2021, compared to THB4.1 billion in the same period of 2020. STA reported a net profit of THB11.0 billion in the first six months of 2021, compared with THB1.9 billion in the same period of the prior year.

TRIS Rating expects STA to continue delivering sound operating results despite potential challenges in the coming years. The company’s strategy going forward is to focus on high-margin and innovative products such as multicolor gloves and protein allergen-free latex gloves. We expect the combination of rising revenue contribution from glove products, STA’s strategic focus on efficiency improvements and cost reductions, and the prospect of a post-COVID economic recovery, should help the company maintain satisfactory operating performance over the next few years.

Gradual recovery in NR industry expected

According to the International Rubber Study Group (IRSG), a decline in NR supply and demand worldwide during the COVID-19 pandemic led to a drop in global NR prices in 2020. However, the average prices for all NR products jumped by 29%-39% y-o-y during the first eight months of 2021 following a strong recovery of demand in the auto industry.

TRIS Rating expects the NR industry to continue to recover in the remainder of 2021. Global NR consumption is forecast to expand by 7.1% to 13.6 million tons in 2021 amid a gradual reopening of economies worldwide and following the exhaustion of NR stocks in the major markets, especially China. Consumption should then continue to grow by a further 4.2% in 2022 and 4.3% in 2023. NR production is forecast to increase by 6.5% to 13.9 million tons in 2021, then by 3.5% in 2022 and 3.6% in 2023. A shortfall in NR supplies could be expected from 2024 onwards.

Continued strong demand in the gloves segment

TRIS Rating expects that the business outlook of rubber gloves will remain positive over the next few years. According to the Malaysian Rubber Glove Manufacturers Association (MARGMA), the demand for rubber gloves worldwide is forecast to grow to 420 billion pieces per annum in 2021, from 268 billion pieces in 2018, an average annual growth rate of 15%. Global rubber gloves demand is mainly driven by demand growth in the healthcare industry in the United States (US), Europe, and the rest of the world. The demand for rubber gloves worldwide is expected to remain strong at least until the second quarter of 2022 given the lingering impacts of the COVID-19 pandemic.

With strong demand for medical and non-medical applications, Sri Trang Gloves (Thailand) PLC (STGT) plans to utilize its capacity at above 90% with production capacity rising from 36 billion pieces in 2021 to 50 billion pieces in 2022 and 80 billion pieces in 2024.

Strengthened capital structure

STA's total debt to capitalization ratio remained at a minimal level of 10.5% as of December 2020, and continued to drop to 4% as of June 2021, thanks to the higher retained earnings and the remaining net proceeds from STGT's initial public offering (IPO) in July 2020.

Going forward, we expect STA's capital expenditure and investment to be THB6.9-THB14.2 billion per annum in 2021-2023. Most of the capital expenditure and investment are earmarked for expansion of gloves production capacity and rubber plants. Under our base-case scenario, STA's total debt to capitalization ratio is projected to be in the 17%-21% range during 2021-2023.

Strong liquidity

We expect STA to have strong liquidity over the next 12-18 months. The company has scheduled debt repayments of THB1.5-THB2.7 billion per annum during 2021-2023. Our base-case forecast projects STA's EBITDA to range from THB10-THB34 billion per annum. At the end of June 2021, cash on hand and short-term investments stood at THB27.5 billion, while unused credit facilities totaled more than THB25.2 billion.

Looking forward, STA's ratio of funds from operations (FFO) to total debt is projected to remain at extremely strong levels of 174% in 2021 and 56%-88% per annum in 2022-2023, while the EBITDA interest coverage ratio is forecast to improve to 40 times in 2021, and 11-15 times per annum in 2022-2023.

BASE-CASE ASSUMPTIONS

- Total revenues to grow by 51% y-o-y in 2021, declining to 13% in 2022, and flat at 0% in 2023.
- Gross profit margin of 32% in 2021, dropping to 12%-17% per annum in 2022-2023.
- Total capital spending of around THB14.2 billion in 2021, and THB6.9-THB11.5 billion per annum during 2022-2023.

RATING OUTLOOK

The "positive" outlook reflects the prospect of a recovery in the NR industry and continued strong demand for rubber gloves globally, a continued shift in product mix from commodity products to consumer products, plus efficiency improvement and cost control.

RATING SENSITIVITIES

STA's ratings could be revised upward if STA's capital structure and cash flow protection continue to improve in line with TRIS Rating's projections, with the EBITDA staying around 10.0-15.0 billion on a sustained basis. A rating downgrade could occur if the company's performance weakens materially, with the adjusted debt to EBITDA ratio staying above 4 times for an extended period. Any aggressive debt-funded expansion, which would potentially weaken the company's balance sheet

and cash flow protection, could also lead to a downgrade scenario.

COMPANY OVERVIEW

STA is a leading worldwide processor and merchandiser of NR. The company has 34 rubber processing plants for block rubber, ribbed smoked sheet, and concentrated latex, located in Thailand, Indonesia, and Myanmar, together with three glove processing plants, located in Thailand. As of 30 June 2021, the company’s total installed NR processing capacity was 2,815,092 tonnes per year and glove production capacity was 32.6 billion pieces per year.

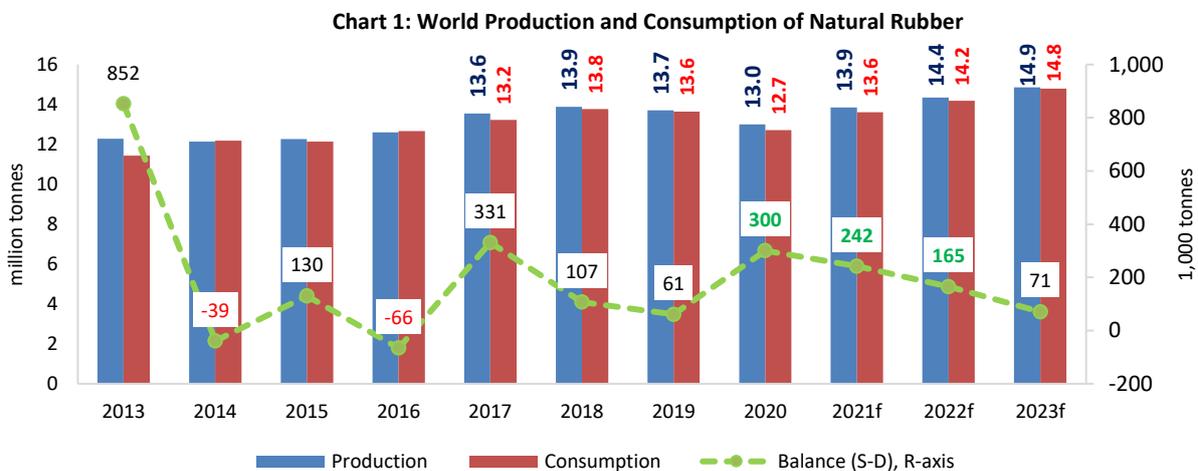
Approximately 99.9% of the company’s NR products are sold directly to customers and dealers, which are mostly tyre manufacturers. Exports accounted for 82% of total sales. China was the largest export market, accounting for 64% of export sales during the first half of 2021.

Currently, the major NR producing nations are Thailand, Indonesia, Vietnam, and Malaysia. In 2021, these three countries are forecast to account for 65% of the NR produced worldwide. Thailand is the largest producer, with a total production volume of 4.7 million tonnes, followed by Indonesia (3.1 million tonnes), and Vietnam (1.3 million tonnes). In terms of consumption, demand for NR worldwide is expected to increase to 13.6 million tonnes in 2021 from 12.7 million tonnes in 2020, growing by 7.1% per annum. China consumes around 41% of the global NR output.

STGT, one of Sri Trang Group’s flagship companies, engages in the production and distribution of latex and nitrile examination gloves as well as industrial gloves for customers in over 170 countries around the world. The main markets are Asia, the US, and the European Union (EU). With an annual installed production capacity of 35 billion pieces as of 30 June 2021, STGT is Thailand’s biggest glove producer and is ranked among the world’s leading producers.

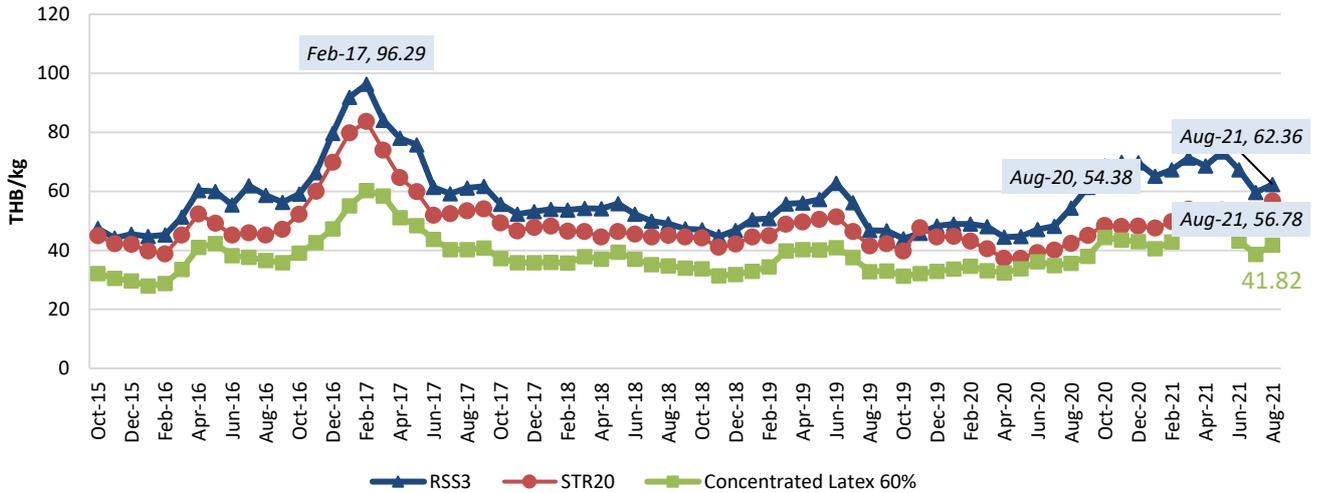
STGT, which is a subsidiary of STA, successfully raised funds via an IPO on the SET on 2 July 2020. STGT’s net proceeds of THB14.6 billion will primarily be used toward a planned capacity expansion to serve the global demand for gloves. STGT intends to achieve an annual production capacity of 50 billion pieces by 2022, and 80 billion pieces by 2024. The remainder of the IPO proceeds will be used for a SAP installation to improve efficiency and loan repayment, as well as for working capital. Following the IPO, from the third quarter of 2020 onwards, STA has become a major shareholder of STGT with a 56.1% direct and indirect shareholding.

KEY OPERATING PERFORMANCE



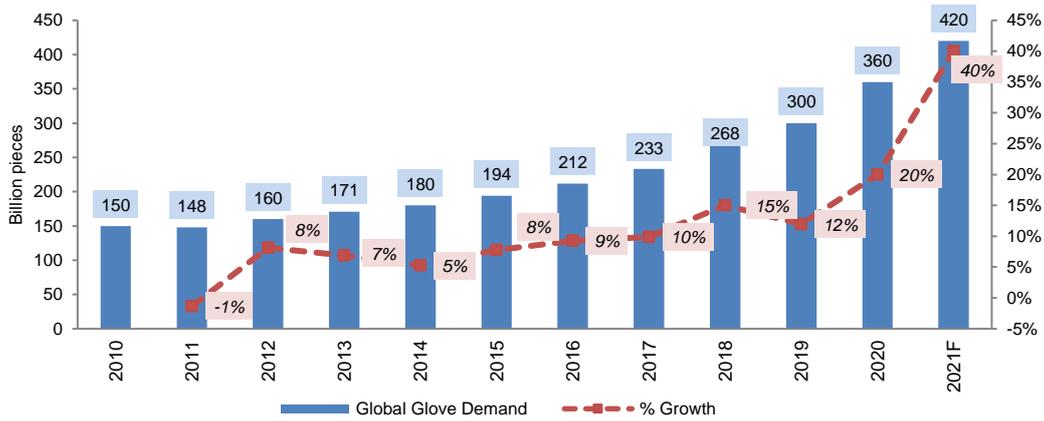
Source: International Rubber Study Group (IRSG)

Chart 2: Natural Rubber Prices



Source: Rubber Authority of Thailand (RAOT)

Chart 3: Global Glove Consumption



Source: STA and Malaysia Rubber Glove Manufacturers Association (MARGMA)

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	61,494	75,749	60,465	73,298	89,565
Earnings before interest and taxes (EBIT)	20,733	17,773	1,019	3,297	(1,076)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	22,289	20,523	3,542	5,783	3,070
Funds from operations (FFO)	20,117	18,155	2,634	4,576	1,818
Adjusted interest expense	389	701	923	962	1,231
Capital expenditures	4,005	2,495	4,004	2,964	3,167
Total assets	102,268	93,117	58,331	58,414	59,708
Adjusted debt	2,655	6,274	27,259	24,099	30,600
Adjusted equity	63,759	53,397	25,488	26,411	23,277
Adjusted Ratios					
EBITDA margin (%)	36.25	27.09	5.86	7.89	3.43
Pretax return on permanent capital (%)**	45.32	25.17	1.85	5.94	(1.99)
EBITDA interest coverage (times)	57.29	29.28	3.84	6.01	2.49
Debt to EBITDA (times)	0.07	0.31	7.70	4.17	9.97
FFO to debt (%)**	1,306.64	289.36	9.66	18.99	5.94
Debt to capitalization (%)	4.00	10.51	51.68	47.71	56.80

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
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Sri Trang Agro-Industry PLC (STA)

Company Rating:	A-
Issue Ratings:	
STA234A: THB1,000 million senior unsecured debentures due 2023	A-
STA247A: THB1,500 million senior unsecured debentures due 2024	A-
STA257A: THB500 million senior unsecured debentures due 2025	A-
STA264A: THB1,800 million senior unsecured debentures due 2026	A-
STA314A: THB700 million senior unsecured debentures due 2031	A-
Up to THB4,500 million senior unsecured debentures due within 10 years	A-
Rating Outlook:	Positive

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