

# SRI TRANG AGRO-INDUSTRY PLC

No. 99/2023  
31 May 2023

## CORPORATES

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
Senior unsecured	A
<b>Outlook:</b>	Stable

**Last Review Date:** 08/07/22

### Company Rating History:

Date	Rating	Outlook/Alert
23/05/22	A	Stable
18/10/21	A-	Positive
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”, with a “stable” outlook.

The ratings reflect the persistent global demand for natural rubber (NR) products in the automotive industry and the company’s 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, the ratings also incorporate our concerns over expected weakening operating performances of the rubber glove business, 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

### Moderate revenue growth

The company’s total operating revenues were reported at THB111 billion in 2022, down from THB119 billion in 2021. Revenue from NR products, accounting for 79% of total revenue, grew by 24% to THB87.7 billion. While revenue from gloves, accounting for 21%, was down by 52% to THB22.9 billion because of the steep drop in average selling prices (ASP) as the Coronavirus Disease 2019 (COVID-19) has been brought under control and global supply rapidly increased. Its earnings before interest, taxes, depreciation and amortization (EBITDA) declined to THB10.4 billion in 2022, from THB32.5 billion in 2021.

STA’s total operating revenues fell by 13% to THB24.5 billion in the first quarter of 2023 as ASP of NR products and gloves fell due to the economic slowdown worldwide and ongoing surplus of gloves.

TRIS Rating expects STA’s total operating revenue to increase only slightly in 2023, then grow by 5%-16% per annum during 2024-2025. The moderate revenue growth is in line with our assumption that the company will gain market share from other existing players and the expectation that NR stocks in key markets such as China, the European Union (EU), and the United States (US) will decline.

### Acceptable operating performance

STA’s gross margin (including gains or losses from derivatives instruments) declined to 14.8% in 2022, from 30.7% in 2021. The declining gross margin was due to a change in STA’s product mix. Sales of the glove segment, which carry higher margins, accounted for 21% of total sales in 2022, down from 40% in 2020-2021.

Gross margin narrowed to 12.1% in the first quarter of 2023 because of the lower ASP of both main products. However, NR prices are expected to fare better in the remainder of 2023 as demand is likely to pick up and tire manufacturers are expected to have lower stock levels. Glove business still faces significant challenges from the drop in ASP and intense competition.

STA’s strategy going forward is to focus on capturing more market share, efficiency improvements and cost reductions by cutting workforce and using machinery to partially replace labor-intensive operations. Thus, we expect STA’s gross margin should maintain at around 12% in 2023-2025.

## Strong capital structure

STA's total debt to capitalization ratio declined to 21.1% as of December 2022 and to 19.9% as of March 2023. This was due to lower working capital needs, especially in inventory.

Moreover, STA's capital expenditures are expected to decline to THB7.3 billion in 2023, and to THB3.6-THB5.2 billion per year in 2024-2025. Most capital expenditure is earmarked for the expansion of rubber plants and glove production capacity. Under our base-case scenario, STA's total debt to capitalization ratio is projected to be 23%-25% during 2023-2025.

## Robust liquidity

We expect STA's liquidity to remain strong over the next 12-18 months. Due to information as of March 2023, STA's anticipated uses of funds over the next 12 months will comprise debts due totaling THB10 billion, planned capital expenditures of THB7.3 billion, and a dividend payout ratio of 50%. STA's sources of funds consisted of THB20.4 billion in cash and cash equivalents and THB42.3 billion in unused credit facilities. Funds from operations (FFO) are forecast to reach around THB7.9 billion in 2023.

We expect STA to comply with the financial covenants on its debt obligations. The company's net debt to equity ratio at the end of March 2023 was 0.24 times, well below the financial covenant limit of 3 times.

As of March 2023, STA's total interest-bearing debt of THB38.4 billion included priority debt of THB1.94 million. The priority debt comprised unsecured debts at the subsidiary level. The company's priority debt to total debt ratio was low at 5%.

## BASE-CASE ASSUMPTIONS

- Total revenues to grow by 1% y-o-y in 2023, then grow by 5%-16% during 2024-2025.
- Gross profit margin of 12% per annum in 2023-2025.
- Total capital spending of around THB7.3 billion in 2023, and THB3.6-THB5.2 billion per annum during 2024-2025.

## RATING OUTLOOK

The "stable" outlook reflects the prospect of a recovery in the rubber glove demand and continued strong global demand for NR, coupled with STA's efficiency and cost control improvements.

## RATING SENSITIVITIES

STA's credit upside is limited in the near term. A rating downgrade could occur if the company's performance weakens materially, with the adjusted debt to EBITDA ratio staying above 3 times and EBITDA staying below THB10 billion 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 35 rubber processing plants for block rubber, ribbed smoked sheet, and concentrated latex, located in Thailand, Indonesia, and Myanmar, together with six glove processing plants, located in Thailand. As of 31 March 2023, the company had a total installed NR processing capacity of 3,420,000 tons per year and glove production capacity of 54.8 billion pieces per year.

Approximately 99.9% of the company's NR products are sold directly to customers and dealers, mostly comprising tire manufacturers. Exports accounted for 88% of its total sales. China was the largest export market, accounting for 51% of STA's export sales in 2022.

Currently, the major NR producing nations are Thailand, Indonesia, Vietnam, and Ivory Coast. In 2022, these three countries are forecast to account for 73% of the NR produced worldwide. Thailand is the largest producer, with a total production volume of 5.3 million tons, followed by Indonesia (2.7 million tons), and Vietnam (1.3 million tons). In terms of consumption, demand for NR worldwide is expected to increase to 14.6 million tons in 2022 from 13.8 million tons in 2021, growing by 6% per annum. China consumes around 40% of the global NR output.

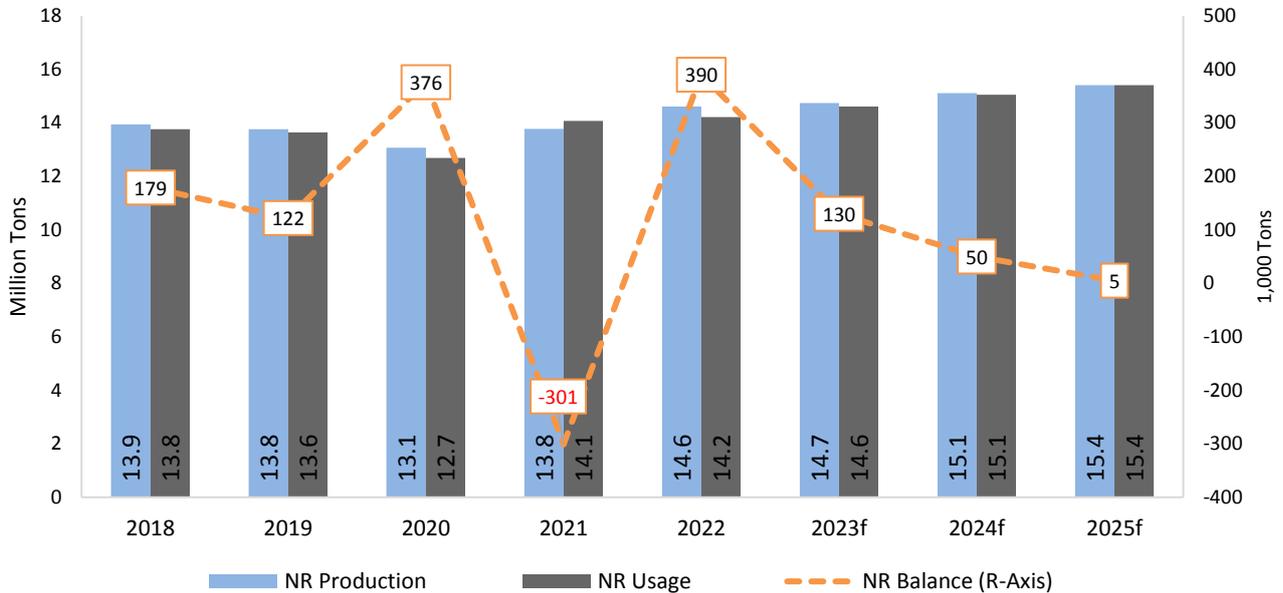
Sri Trang Gloves (Thailand) PLC (STGT), one of Sri Trang Group's flagship companies, engages in the production and distribution of latex and nitrile examination gloves as well as industrial gloves for customers in over 170 countries around the world. The main markets are Asia, the US, and the EU. With an annual installed production capacity of 54.8 billion pieces as of 31 March 2023, 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 initial public offering (IPO) on the Stock Exchange of Thailand (SET) on 2 July 2020. STGT's net proceeds of THB14.6 billion will be primarily used toward a planned capacity

expansion to serve the global demand for gloves. STGT intends to achieve an annual production capacity of 48 billion pieces by 2022, and 56 billion pieces by 2024. The remainder of the IPO proceeds will be used for a system application & product (SAP) program 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% direct and indirect shareholding.

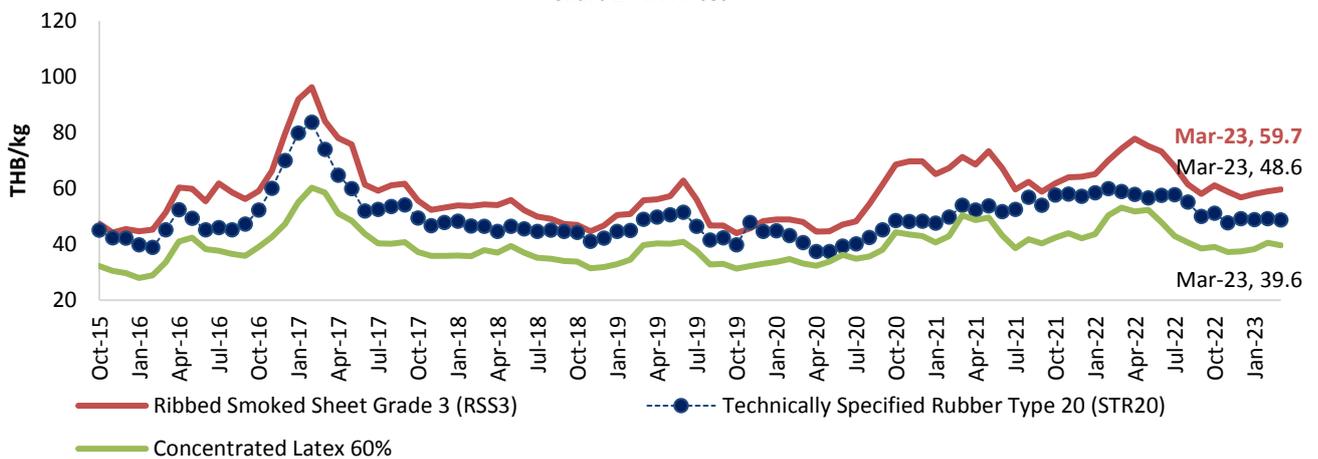
**KEY OPERATING PERFORMANCE**

**Chart 1: World Production and Consumption of NR**



Source: International Rubber Study Group (IRSG)

**Chart 2: NR Prices**



Source: Rubber Authority of Thailand (RAOT)

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

Unit: Mil. THB

	Jan-Mar 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	24,527	110,876	118,648	75,749	60,465
Earnings before interest and taxes (EBIT)	792	7,354	29,574	17,773	783
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,688	10,438	32,534	20,523	3,306
Funds from operations (FFO)	1,207	8,666	28,981	18,283	2,166
Adjusted interest expense	381	1,237	848	701	923
Capital expenditures	1,944	10,490	11,755	2,495	4,004
Total assets	114,822	117,084	114,527	93,117	58,331
Adjusted debt	17,397	18,527	18,826	6,274	27,259
Adjusted equity	69,850	69,186	65,049	53,397	25,488
<b>Adjusted Ratios</b>					
EBITDA margin (%)	6.88	9.41	27.42	27.09	5.47
Pretax return on permanent capital (%)**	5.24	6.78	30.65	25.17	1.43
EBITDA interest coverage (times)	4.43	8.44	38.38	29.28	3.58
Debt to EBITDA (times)	1.93	1.77	0.58	0.31	8.24
FFO to debt (%)**	40.89	46.77	153.94	291.40	7.95
Debt to capitalization (%)	19.94	21.12	22.45	10.51	51.68

Note: All ratios have been adjusted by operating leases.

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

**Sri Trang Agro-Industry PLC (STA)**

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
STA247A: THB1,500 million senior unsecured debentures due 2024	A
STA24DA: THB1,000 million senior unsecured debentures due 2024	A
STA253A: THB2,000 million senior unsecured debentures due 2025	A
STA257A: THB500 million senior unsecured debentures due 2025	A
STA257B: THB1,000 million senior unsecured debentures due 2025	A
STA25DA: THB1,000 million senior unsecured debentures due 2025	A
STA264A: THB1,800 million senior unsecured debentures due 2026	A
STA26NA: THB679 million senior unsecured debentures due 2026	A
STA26NB: THB979 million senior unsecured debentures due 2026	A
STA273A: THB500 million senior unsecured debentures due 2027	A
STA277A: THB2,400 million senior unsecured debentures due 2027	A
STA28DA: THB1,250 million senior unsecured debentures due 2028	A
STA293A: THB1,000 million senior unsecured debentures due 2029	A
STA297A THB1,100 million senior unsecured debentures due 2029	A
STA314A: THB700 million senior unsecured debentures due 2031	A
STA31DA: THB1,250 million senior unsecured debentures due 2031	A
STA323A: THB2,000 million senior unsecured debentures due 2032	A
STA324A: THB1,180 million senior unsecured debentures due 2032	A
STA327A: THB1,000 million senior unsecured debentures due 2032	A
STA343A: THB1,500 million senior unsecured debentures due 2034	A
Up to THB842 million senior unsecured debentures due within 12 years	A
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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