

SRI TRANG GLOVES (THAILAND) PLC

No. 100/2023
31 May 2023

CORPORATES

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

Last Review Date: 08/08/22

Company Rating History:

Date	Rating	Outlook/Alert
23/05/22	A	Stable
18/10/21	A-	Positive
15/06/21	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Sri Trang Gloves (Thailand) PLC (STGT) and the ratings on its existing senior unsecured debentures at “A”, with a “stable” outlook. The rating affirmation follows the same rating action on Sri Trang Agro-Industry PLC (STA) as per STGT’s assessed group status as a “core subsidiary” of STA (rated “A/stable”).

TRIS Rating’s assessment of STGT’s stand-alone credit profile (SACP) is lowered to “a-” from “a” level. The lower SACP reflects the deteriorating financial performance of the glove business as a result of a sharp decline in average selling prices (ASP) of rubber gloves, driven by an oversupply post Coronavirus Disease 2019 (COVID-19).

The SACP continues to reflect the company’s position as one of the leading global manufacturers of rubber gloves with a diversified customer base. However, STGT’s business profile is constrained by the cyclical and volatile nature of raw material prices, selling prices of rubber gloves, foreign exchange rates, and intense competition among major industry players.

KEY RATING CONSIDERATIONS

Core subsidiary of STA

We view STGT as a core subsidiary of STA, which means the rating on STGT is assigned at the same level as that on STA according to TRIS Rating’s “Group Rating Methodology”. STGT’s core subsidiary status reflects a strong parent-subsidiary relationship between the two entities. STA is STGT’s ultimate shareholder, holding a 56% stake in the company. STA’s top management has a dominant influence over STGT’s business strategies and financial policies. The importance of STGT to STA is underscored by its contribution of 34% of STA’s consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA) in 2022.

The core subsidiary assessment also takes into consideration the high level of business integration. STA has an agreement to provide natural rubber concentrated latex to STGT, securing raw material supply for glove production. In addition, STA and STGT share resources in several areas, including information technology (IT) and logistics. STGT also collaborates with STA in research and development (R&D) to develop new and innovative latex glove products.

Glove oversupply persists

Glove manufacturers worldwide are still facing an industry supply surplus of NR gloves following the end of the COVID-19 pandemic. Existing players expanded their capacity during 2021-2022 causing average selling prices ASPs to decline drastically during that period. However, the oversupply situation is expected to ease in 2023-2025 and the demand-supply equilibrium should be reached from 2025 onwards.

The Malaysian Rubber Glove Manufacturers Association (MARGMA) expects worldwide demand for rubber gloves to grow steadily by 8%-12% per annum in 2023-2024. The increasing usage of gloves in more sectors and industries has become part of the new norm, which should support steady demand over the next few years.

STGT's sales volume reached 28.8 billion pieces in 2022, growing by 5.6% year-on-year (y-o-y). TRIS Rating's base-case forecast projects STGT's sales volume to grow by 7% per annum, in line with MARGMA's projection.

Deteriorating financial results

STGT's financial performance in 2022 was substantially weaker than TRIS Rating's forecasts. Total operating revenue shrank by 51% y-o-y to THB23.5 billion, compared with our forecast of THB27.7 billion. STGT's gross margin (including gains or losses from derivatives instruments) dropped sharply to 17% in 2022, from 55%-57% in 2020-2021. The deterioration was mainly attributed to falling ASPs. EBITDA also plummeted, decreasing to THB3.6 billion in 2022, compared with THB17.3-THB27.3 billion in 2020-2021. As a result, STGT reported a net profit of THB1.7 billion in 2022, compared with THB14.4-THB23.7 billion in 2020-2021.

STGT's total operating revenue shrank by 35% y-o-y in the first three months of 2023 following the sharp drops in ASPs of rubber glove products and sales volumes. EBITDA also dropped by 60% y-o-y to THB620 million for the same period. STGT reported a net profit of THB132 million in the first three months of 2023, compared with THB1.1 billion in the same period of the prior year.

Going forward, we expect STGT's performance to weaken further in 2023, and then gradually recover in 2024-2025. We project STGT's total operating revenues to drop by 13% y-o-y, to THB20.5 billion in 2023, then grow by 7% per annum in 2024-2025. STGT's gross margin will likely drop to 13% in 2023, while EBITDA margin to decline to 14.8%. STGT's gross margins are expected to gradually rise to 14% while EBITDA margin should improve to around 15%-16% in 2024-2025 as demand-supply imbalances ease.

Robust capital structure and high liquidity

STGT's total debt to capitalization ratio remained low as of December 2022, thanks to the remaining cash proceeds from its performance during COVID-19 pandemic. As of March 2023, STGT's anticipated uses of funds over the next 12 months comprise debts due totaling THB1.7 billion, planned capital expenditures of THB2.4 billion, and a dividend payout ratio of 50%. STGT's sources of funds consisted of THB13 billion in cash and cash equivalents and THB2.1 billion in unused credit facilities. Funds from operations (FFO) are forecast to reach around THB2.7 billion.

BASE-CASE ASSUMPTIONS

- Total revenues to drop by 13% y-o-y in 2023, then grow by 7% annually in 2024-2025.
- Gross profit margin of 13%-14% in 2023-2025.
- Total capital spending of around THB2.4-THB2.8 billion per annum in 2023-2025.

RATING OUTLOOK

The "stable" outlook reflects the rating outlook on STA. We expect STGT will maintain its competitive position in the rubber glove industry, with prudent management of NR and NBR price risk, foreign exchange risk, as well as sufficient liquidity to cushion the effects of volatile NR and nitrile rubber (NBR) prices. We also expect STGT's status as a core subsidiary of STA will remain unchanged.

RATING SENSITIVITIES

The prospect of a higher level of assessed SACP for STGT is limited. On the contrary, negative pressure on the SACP would emerge in the event of a sustained deterioration in STGT's operating performance. Any debt-funded expansion, which materially weakens the company's balance sheet and cash flow protection, could also impact the SACP on STGT.

According to TRIS Rating's "Group Rating Methodology", a material change in the credit profile of STA or a material change in the linkage between STGT and STA could impact the company rating on STGT.

COMPANY OVERVIEW

STGT, one of Sri Trang Group's flagship companies, engages in the production and distribution of latex and nitrile examination 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. 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. In 2022, STGT had a market share of 7.2% of global glove consumption.

STGT, which is a subsidiary of STA, successfully raised funds via an IPO on the Stock Exchange of Thailand (SET) on 2 July 2020. The net proceeds of THB14.6 billion are primarily being used to expand capacity to serve global demand for gloves. STGT intends to achieve an annual production capacity of 56 billion pieces by 2024. The first increase in capacity came from the new Surat Thani plant (SR2) in June 2021. The remainder of the IPO proceeds will be used for a system application &

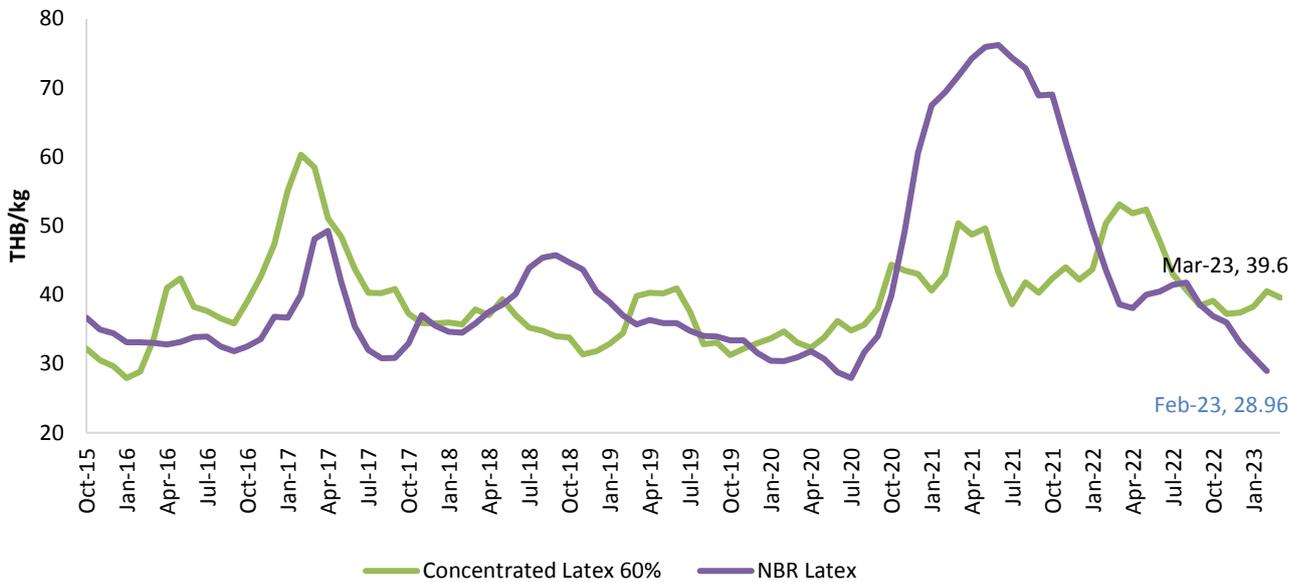
product (SAP) program installation to improve efficiency and loan repayment, as well as for working capital. Following the IPO, from the third quarter of 2020 onwards, STA has become a major shareholder of STGT with a 56.1% direct and indirect shareholding.

In August 2021, STGT established new subsidiary, with paid-up capital of USD 100 million, namely, Sri Trang Gloves Global Pte, Ltd. (STGG), operating in financial asset management and financial investment. In October 2021, STGT established another new subsidiary, with paid-up capital of 10,000 billion rupiah, namely PT Sri Trang Gloves Indo (STGI), distributing gloves in Indonesia

In June 2022, STGT established new subsidiary, with paid-up capital of USD500,000, namely Sri Trang Responsible Gloves Supply, Inc. (STRG), distributing gloves in the US. In August 2022, STGT established another subsidiary, Sri Trang Gloves Philippines Inc. (STGP), with paid-up capital of 10.47 million pesos, for the distribution of gloves in the Philippines.

KEY OPERATING PERFORMANCE

Chart 1: Concentrated Latex and NBR Import Prices



Sources: Rubber Authority of Thailand (RAOT) and Rubber Intelligence Unit (RIU)

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	4,615	23,504	47,909	30,781	12,110
Earnings before interest and taxes (EBIT)	227	2,069	26,013	16,100	897
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	620	3,550	27,261	17,246	1,730
Funds from operations (FFO)	492	3,100	24,506	15,489	1,302
Adjusted interest expense	87	276	240	205	252
Capital expenditures	439	7,076	10,649	2,076	3,180
Total assets	48,333	48,529	51,303	44,236	13,216
Adjusted debt	0	0	0	0	6,655
Adjusted equity	36,994	36,811	38,213	32,260	4,402
Adjusted Ratios					
EBITDA margin (%)	13.44	15.10	56.90	56.03	14.28
Pretax return on permanent capital (%)**	2.31	4.46	60.51	63.55	8.62
EBITDA interest coverage (times)	7.16	12.87	113.65	84.16	6.86
Debt to EBITDA (times)	0.00	0.00	0.00	0.00	3.85
FFO to debt (%)**	n.m.	n.m.	n.m.	n.m.	19.57
Debt to capitalization (%)	0.00	0.00	0.00	0.00	60.19

n.m. = Not meaningful

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 Gloves (Thailand) PLC (STGT)

Company Rating:	A
Issue Ratings:	
STGT259A: THB550 million senior unsecured debentures due 2025	A
STGT299A: THB400 million senior unsecured debentures due 2029	A
STGT329A: THB550 million senior unsecured debentures due 2032	A
Rating Outlook:	Stable

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