

# SRI TRANG GLOVES (THAILAND) PLC

No. 92/2021  
15 June 2021

## CORPORATES

Company Rating:	A-
Outlook:	Stable

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## RATIONALE

TRIS Rating assigns the company rating of “A-”, with a “stable” outlook to Sri Trang Gloves (Thailand) PLC (STGT). The rating on STGT is capped by the rating on Sri Trang Agro-Industry PLC (STA) as STGT is a core subsidiary of STA (rated “A-/Stable” by TRIS Rating).

We assess STGT’s stand-alone credit profile at an “a” level. The stand-alone credit profile reflects STGT’s demonstrated strong revenue growth and cash generation with stable working capital management. The company remains one of the world’s leading glove manufacturers with a diversified customer base, sharply improved credit metrics, as well as an experienced and professional management team. However, STGT’s business profile is constrained by the cyclical and volatile nature of raw material prices, fluctuations in foreign exchange rates, and competition from major industry players.

## KEY RATING CONSIDERATIONS

### A core subsidiary of STA

We view STGT as a core subsidiary of STA, which means the rating on STGT is 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 56.1% 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 underpinned by its dominant contribution of up to 83% of STA’s consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA) in 2020.

The core subsidiary assessment also takes into consideration the high level of business integration between STGT and its parent company. STA has an agreement with STGT to provide natural rubber (NR) concentrated latex to STGT. This agreement secures STGT’s NR concentrated latex supply. In addition, STA provides local woodchips to support STGT’s glove production and operation. 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 glove products.

### Robust demand for rubber gloves

TRIS Rating expects that the glove business outlook will remain strong 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 212 billion pieces in 2018, an average annual growth rate of 15%. The global glove demand is mainly driven by the 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 until the second quarter of 2022 given the lingering impacts of the Coronavirus Disease 2019 (COVID-19) pandemic.

In 2020, the COVID-19 outbreak drove global demand for rubber gloves to an unprecedented level. STGT’s sales volume jumped by 41% year-on-year (y-o-y) to 28 billion pieces in 2020.

STGT's backlogs for NR and nitrile butadiene rubber (NBR) glove production are likely to overflow until mid-2022 and the third quarter of 2023, respectively. STGT plans to expand its glove capacity to 36 billion pieces in 2021, and 50 billion pieces in 2022, from 32.6 billion pieces in 2020.

### A key player in an oligopolistic market

Strategic location is a key barrier to entry for new competitors to this market. Southeast Asia, particularly Malaysia and Thailand, is the main center for the global production of rubber gloves, with an aggregate market share of about 85%. There are few companies that have significant capacity to manufacture medical-grade rubber gloves because of the required large capital investment, licensing, and certifications according to various recognized international standards, to comply with the legal and regulatory requirements related to this business. Currently, all the existing players are expanding their production capacities to capture the growing global demand and to maintain their market positions.

### Surge in financial results

STGT's total operating revenue grew steadily in the range of THB11.1-THB12.1 billion, an average annual growth rate of 9%, during 2017-2019, before surging to THB30.8 billion in 2020, a 154% y-o-y growth, and growing to THB15.5 billion in the first quarter of 2021 on the back of strong demand induced by the COVID-19 pandemic.

STGT's gross margin (including gains or losses from derivatives instruments) jumped to 55.3% in 2020, and 74% in the first three months of 2021, from the previous 7.1%-12% range in 2017-2019. The improvement was mainly attributed to higher selling prices of all rubber glove products, economies of scale from glove production, and the depreciation of the Thai baht. As a result, STGT reported a net profit of THB14.4 billion in 2020, compared with THB215-THB982 million in 2017-2019.

TRIS Rating forecasts that the impacts of the COVID-19 pandemic will likely continue for the rest of 2021. We project STGT's total operating revenues to continue to grow strongly by 48% y-o-y in 2021, by 37% in 2022, before decelerating to a 1% growth in 2023. We expect its gross margin to reach 46% in 2021 and stay high in a range of 18%-21% per annum in 2022-2023. STGT's EBITDA margin is forecast to be around 47% in 2021 and decline to 22%-26% in 2022-2023.

### Strengthened capital structure

STGT's total debt to capitalization ratio was a very low level as of December 2020, thanks to the net proceeds of THB14.6 billion from its initial public offering (IPO) and shares listing on the Stock Exchange of Thailand (SET) in July 2020. The company aims to use proceeds of THB11.1 billion to expand its glove production capacity and improve production efficiency in 2020-2026. The remaining proceeds of THB2.3 billion are earmarked for loan repayments and THB1.2 billion for working capital and maintenance.

STGT's capital expenditure and investment ranged from THB1.3-THB3.3 billion in 2018-2020. Going forward, capital expenditure and investment are expected to rise to THB4.4-THB11.3 billion per annum during 2021-2023. We project STGT's total debt to capitalization ratio to stay low for the next three years.

### Strong liquidity

We expect STGT to have ample liquidity over the next 12-18 months. The company has scheduled debt repayments of THB0.8-THB1.4 billion per annum during 2021-2023. Our base-case forecast projects STGT's EBITDA to be in the range of THB6.5-THB22 billion per annum. At the end of March 2021, the company had cash on hand and short-term investments of THB29.5 billion, plus unused credit facilities of more than THB5.03 billion.

Looking forward, STGT's ratio of funds from operations (FFO) to total debt is projected to surge to more than 200% in 2021-2023, while the EBITDA interest coverage ratio is forecast to improve to 100 times in 2021 and decline to 34% in 2022-2023.

### BASE-CASE ASSUMPTIONS

- Total revenues to grow by 48% y-o-y in 2021, decline by 37% in 2022, and grow by 1% in 2023.
- Gross profit margin to stay around 47% in 2021, then drop to 18%-21% per annum in 2022-2023.
- Total capital spending of around THB9.1-THB11.3 billion per annum in 2021-2022, and THB4.4 billion in 2023.

### 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 on NR and NBR price risks, foreign exchange risk, as well as sufficient liquidity to cushion the effects of volatile NR and NBR prices. We also expect STGT's status as a core subsidiary of STA will remain unchanged in the foreseeable future.

**RATING SENSITIVITIES**

The rating on STGT will move in tandem with the rating on STA, although its stand-alone credit profile could further strengthen if the company stabilizes cash generation and profitability while maintaining a strong balance sheet on a sustained basis.

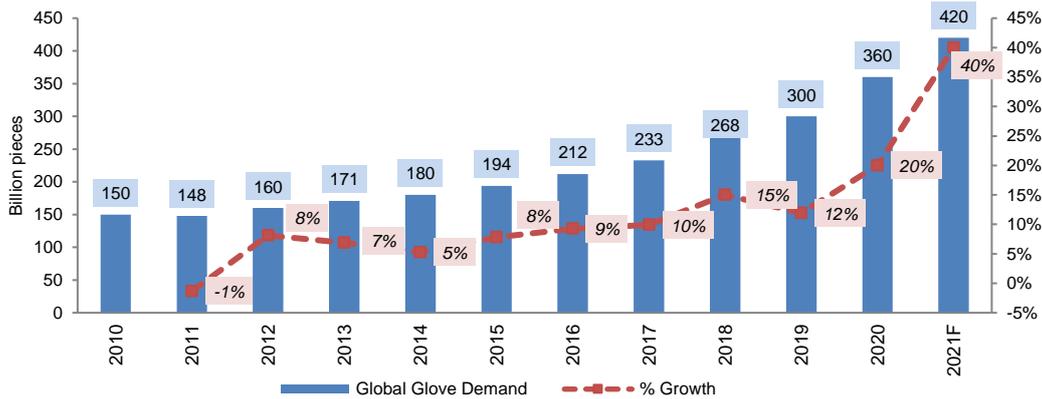
**COMPANY OVERVIEW**

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 140 countries around the world. The main markets are Asia, the US, and the European Union (EU). With an annual installed production capacity of 33 billion pieces as of 31 December 2020, STGT is Thailand’s biggest glove producer and is ranked 3rd among the world’s leading producers. In 2020, STGT had a market share of 8% of global glove consumption.

STGT, which is a subsidiary of STA, successfully raised funds via an IPO on the SET on 2 July 2020. The 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 2026, the additional capacity coming first from the new Surat Thani plant (SR2) in May 2021. 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.

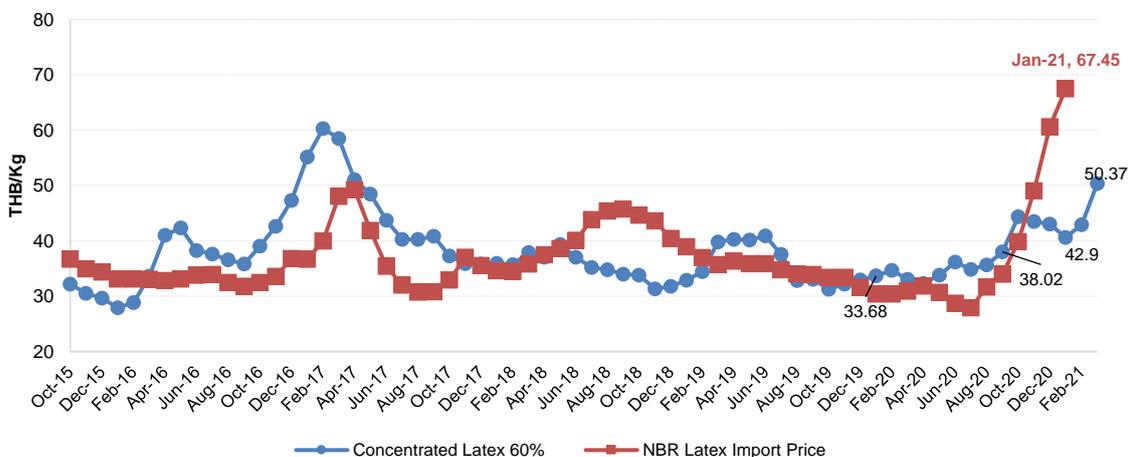
**KEY OPERATING PERFORMANCE**

**Chart 1: Global Glove Consumption**



Sources: STGT and Malaysia Rubber Glove Manufacturers Association (MARGMA)

**Chart 2: 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 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	15,477	30,781	12,110	11,071	11,317
Earnings before interest and taxes (EBIT)	11,313	16,100	897	1,340	(155)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	11,609	17,245	1,730	1,975	363
Funds from operations (FFO)	10,823	15,492	1,374	1,603	317
Adjusted interest expense	49	205	252	166	40
Capital expenditures	1,414	2,053	3,180	1,536	711
Total assets	54,168	44,236	13,216	10,652	6,721
Adjusted debt	0	0	6,655	4,789	3,011
Adjusted equity	41,271	31,697	4,402	3,789	1,870
<b>Adjusted Ratios</b>					
EBITDA margin (%)	75.01	56.03	14.28	17.84	3.20
Pretax return on permanent capital (%)**	89.81	64.25	8.62	18.31	(2.24)
EBITDA interest coverage (times)	237.93	84.29	6.86	11.91	9.05
Debt to EBITDA (times)	0.00	0.00	3.85	2.43	8.30
FFO to debt (%)**	2,550,060,849,704.36	1,549,219,379,255.59	20.64	33.47	10.54
Debt to capitalization (%)	0.00	0.00	60.19	55.83	61.69

Note: All ratios have been adjusted by operating leases.

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

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

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**Sri Trang Gloves (Thailand) PLC (STGT)**

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<b>Company Rating:</b>	A-
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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