TRIS RATING
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THAI EASTERN GROUP HOLDINGS PLC

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CORPORATES

Company Rating: BBB-

Outlook: Stable

RATIONALE

TRIS Rating assigns the company rating to Thai Eastern Group Holdings PLC (TEGH) at "BBB-" with a "stable" outlook. The rating reflects the company's long track record in the natural rubber industry, its emphasis on quality and sustainability, as well as its diversification into the alternative power and organic waste management businesses. The ratings are constrained by weak operations in the company's oil palm business, which are, however, expected to improve following implementation of its investment plans. The volatility of rubber and palm prices, and fluctuations in exchange rates also weigh on the ratings.

KEY RATING CONSIDERATIONS

Proven track record in the rubber industry

TEGH's business profile is underpinned by its long track record in the natural rubber business, which contributed 77% of total revenue in 2022. The company has more than three decades of expertise in the natural rubber industry. In 2022, about 94% of revenue from the rubber business came from block rubber with the remainder (6%) from latex.

TEGH has a diversified customer base. Exports constituted 54% of its total rubber sales in 2022, while domestic sales accounted for 46%. Approximately 35% of total export sales were made to the European Union (EU) markets, 26% to the United States (US), and 19% to Japan. The remaining (20% of export sales) were mainly to China, India, and South Korea. With an emphasis on quality, TEGH has become a certified supplier for well-known tire producers globally.

Additionally, TEGH has focuses on sustainability and environmental concerns. This strategy has enabled the company to capitalize on emerging trends in the automotive industry such as green economy and carbon reduction.

In our base-case, we expect TEGH's revenue from the rubber business to reach around THB11 billion in 2023 before rising to THB13 billion in 2025, driven by the company's planned market expansion coupled with anticipated rapid growth in electric vehicles and the growing demand for sustainable raw materials.

Turnaround in oil palm business expected

Despite several challenges, we expect the company's oil palm business to improve gradually from 2023 onwards, supported by improved yields following planned capital expenditures.

The company's key products are crude palm oil (CPO), crude palm kernel oil (CPKO), and palm kernel. Its products are sold to oil refineries, biodiesel plants, and animal feed producers. Owing to aging machinery and a modest scale of operations, this business has generated low production yields and posted losses for several years.

We expect TEGH's oil palm business to improve gradually in terms of sale volume and margins. Our base case assumes the prices of CPO and CPKO will decline significantly over the next few years following price normalization. Sale volume is projected to increase by 5% per year with revenue from the palm business reaching THB1.9-2.3 billion annually in 2023-2025. We expect the

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palm business to generate a profit throughout the forecast period following planned improvements in productivity and capacity expansions.

Diversification into renewable energy and waste management

With its strategy to focus on sustainability and the bio-circular green economy, the company has expanded its business scope into renewable energy and waste management services. Initially, the company utilized organic waste discharged from its production processes to produce biogas at its plants in Chonburi Province. Later, the company began providing waste management services for other factories in the vicinity. The company has also developed a biogas power plant with a generating capacity of four megawatts (MW), one MW of which is sold to the Provincial Electricity Authority (PEA). At present, the revenue contribution from this business unit is minimal (1% of total revenue) as most of the biogas and renewable energy is used internally to reduce costs. However, TEGH expects the contribution to increase rapidly over the next few years, on the back of its capacity expansion.

Improved financial performance

TEGH's operating results have improved during the past few years, with substantial increases in revenue and satisfactory margins from the rubber business. Operating revenue rose to THB15.4 billion in 2022, from THB8.6 billion in 2018, representing a compound annual growth rate (CAGR) of 16%.

Thanks to higher margins from the rubber business due to a favorable product mix and rising natural rubber prices, TEGH's gross margin improved to 10%-11% in 2021-2022, up from 7%-8% in 2019-2020. As a result, earnings before interest, taxes, depreciation, and amortization (EBITDA) rose to THB900-THB1,100 million annually in 2021-2022, compared with around THB500 million in 2019-2020. EBITDA margin improved to 7.0%-8.1% in 2021-2022, compared with about 5.8% in 2019-2020.

Going forward, we expect TEGH to sustain its growth momentum with reasonable profit margins, despite imminent challenges from volatile commodity prices, rising inflation, and fluctuating exchange rates. Although the prices of natural rubber and palm are projected to dip from the extraordinarily high levels seen in 2022, we expect TEGH's revenue to hover in the THB13.6-THB15.5 billion range with an EBITDA margin of 7.2%-7.8% in 2023-2025. The performance should be supported by capacity expansion and demand growth in the auto industry, particularly in electric vehicles, in combination with the company's strategy to turnaround its palm business.

Capital structure strengthened

In September 2022, TEGH completed its initial public offering (IPO) and listing on the Stock Exchange of Thailand (SET) with proceeds of approximately THB1.3 billion. About 55% of the capital injection will be used for repayment of existing debts and the remainder is slated for capacity expansion and working capital needs. With the fresh capital and improved operating performance, TEGH's debt to EBITDA ratio dropped sharply to 2.8 times at the end of 2022, from 4.3 times in 2021.

We project TEGH's debt to EBITDA ratio to stay in the range of 3.3-4.3 times during 2023-2025, while the debt to capitalization ratio should stay below 55% during the same period.

All TEGH's consolidated debt was secured bank loans under its subsidiaries. As of December 2022, the ratio of its priority debt to total debt far exceeded 50%, which implies a significant subordination risk for the company's senior unsecured obligations, according to TRIS Rating's "Issue Rating Criteria".

Adequate liquidity profile

Over the next 12 months, we expect TEGH to have adequate liquidity. Our base case projects EBITDA of THB1.0-THB1.2 billion per annum in 2023-2025. At the end of 2022, TEGH had cash on hand of THB215 million and approximately THB2 billion in unused credit facilities. The company's main uses of funds in the coming year will be interest expenses and repayments of long-term obligations totaling about THB200 million.

BASE-CASE ASSUMPTIONS

- Operating revenues to be around THB13.6 billion in 2023 on the back of palm price normalization, before rising to THB14.2-THB15.5 billion per annum during 2024-2025.
- EBITDA margin in the 7.2%-7.8% range during 2023-2025.
- Total capital spending of around THB1 billion in 2023 and THB300-THB400 million per year during 2024-2025.

RATING OUTLOOK

The "stable" outlook reflects our expectation that TEGH will maintain its competitive position in the natural rubber industry, as well as an adequate liquidity position, and a balance sheet strong enough to withstand the effects of volatile rubber and palm prices.

RATING SENSITIVITIES

The rating upside could materialize if TEGH delivers stronger-than-expected operating results such that its EBITDA size exceeds THB2.5 billion and/or debt-to-EBITDA ratio remains below 2.5 times on a sustained basis. On the contrary, a downgrade could occur if its operating performance is materially weaker than expected or if TEGH makes any debt-funded investments that materially weaken its balance sheet and cash flow protection, such that the net debt to EBITDA ratio exceeds 5 times for an extended period.

COMPANY OVERVIEW

TEGH was incorporated in 2007 as a holding company. The company successfully raised funds via an IPO on the SET in September 2022. TEGH's major shareholder is the Kokanutaporn family, holding a stake of about 75% at the end of 2022.

The group entered the oil palm business in 1991 and expanded into the rubber business in 1994. The group subsequently diversified into renewable energy in 2010 and waste management services in 2018. Besides its own investments, the group has established joint ventures with strategic partners, such as Sime Darby Group, a leading oil palm producer based in Malaysia, and Sumitomo Rubber Industries, a global tire and rubber company based in Japan.

TEGH is a holding company with operating subsidiaries in three core businesses comprising i) natural rubber, ii) crude palm oil, and iii) renewable energy and organic waste management. Natural rubber contributed 77% of TEGH's revenue in 2022, followed by palm (22%), and renewable energy and organic waste management (1%).

The group's plants are in Chonburi Province with capacity of about 346,000 tonnes per year of rubber, and 638,000 tonnes per year of palm oil. The company also operates a biogas power plant with a generating capacity of four MW, one MW of which is sold to the PEA under a long-term power purchase agreement (PPAs).

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown by Business

Unit: %

Product	2018	2019	2020	2021	2022
Natural rubber business	78	85	84	83	77
Crude palm oil business	21	14	14	16	22
Renewable energy & organic waste management	1	1	1	1	1
Total sales	**100**	**100**	**100**	**100**	**100**
Total sales (THB mil)	8,566	8,098	8,196	11,088	15,403

Source: TEGH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----------------------Year Ended 31 December ---------------------				
	2022	2021	2020	2019	2018
Total operating revenues	15,428	11,114	8,225	8,118	8,587
Earnings before interest and taxes (EBIT)	796	670	154	192	407
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,082	901	469	468	750
Funds from operations (FFO)	946	785	354	325	626
Adjusted interest expense	126	99	107	122	114
Capital expenditures	362	249	146	137	99
Total assets	6,938	6,482	5,288	5,307	5,213
Adjusted debt	3,037	3,890	3,463	3,625	3,513
Adjusted equity	3,246	2,084	1,439	1,402	1,329
Adjusted Ratios					
EBITDA margin (%)	7.02	8.11	5.70	5.77	8.73
Pretax return on permanent capital (%)	12.53	11.92	3.00	3.78	14.33
EBITDA interest coverage (times)	8.61	9.14	4.38	3.85	6.57
Debt to EBITDA (times)	2.81	4.32	7.38	7.74	4.69
FFO to debt (%)	31.15	20.18	10.21	8.96	17.83
Debt to capitalization (%)	48.34	65.11	70.64	72.11	72.55

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology – Corporate, 26 July 2019

Thai Eastern Group Holdings PLC (TEGH)

Company Rating:	BBB-
Rating Outlook:	Stable

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