

SRI TRANG AGRO-INDUSTRY PLC

No. 44/2021
18 June 2021

CORPORATES

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

Last Review Date: 08/02/21

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-" with a "stable" outlook. At the same time, TRIS Rating assigns the rating of "A-" to STA's proposed issue of up to THB2.0 billion in senior unsecured debentures. The proceeds from the new debenture issuance will be used to support STA's working capital needs.

The ratings continue to reflect STA's leading position in the natural rubber (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.

STA's total operating revenue remained in line with TRIS Rating's projection for 2020. Total operating revenue jumped by 25% year-on-year (y-o-y) to THB75.7 billion in 2020. The revenue contribution from the glove segment rose to 41% of the total, up from 20% in 2019 following prolonged strong demand induced by the Coronavirus Disease 2019 (COVID-19) pandemic. The company's gross margin (including gains or losses from derivatives instruments) jumped to 29% in 2020, from 7% in 2019. The improvement was due primarily to a more favorable product mix and lower raw material costs. Earnings before interest, taxes, depreciation, and amortization (EBITDA) also improved to THB20.7 billion in 2020, compared with THB3.3 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 three months of 2021, STA's total operating revenue and net profit remained strong. Total operating revenue grew by 81% y-o-y. The revenue contribution from the glove segment improved to 49%, up from 22% in the same period of 2020. STA's gross margin jumped to 32% in the first quarter of 2021, compared to 14% in the same period of the prior year. EBITDA also improved, rising to THB12.1 billion in the first quarter of 2021, compared to THB1.8 billion in the same period of 2020.

STA's financial profile remained robust. STA's total debt to capitalization ratio improved to 3.9% as of March 2021, from 10.5% at the end of December 2020. Under our base-case projection, STA's total debt to capitalization ratio is projected to be in the 7%-13% range during 2021-2023.

We expect STA to maintain strong liquidity over the next 12-18 months. The company has scheduled debt repayments of THB1.4-THB3.3 billion per annum during 2021-2023. At the end of March 2021, its cash on hand and short-term investments stood at THB32 billion, with unused credit facilities of more than THB16.5 billion.

RATING OUTLOOK

The "stable" outlook reflects the expectation of TRIS Rating that STA will maintain its competitive position in the NR industry with an increasing revenue contribution from the glove business. We also expect the company to prudently manage NR price risk and foreign exchange risk, and to maintain sufficient liquidity to cushion the effects of volatile NR prices.

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

RATING SENSITIVITIES

STA's credit upside is limited in the near term following the recent upgrade in 2020. A rating downgrade could occur if the company's performance weakens materially, with its adjusted debt to EBITDA ratio staying above 4 times for an extended period. Any aggressive debt-funded expansion, which would potentially weaken its balance sheet and cash flow protection, could also lead to a downgrade scenario.

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-
STA264A: THB1,800 million senior unsecured debentures due 2026	A-
STA314A: THB700 million senior unsecured debentures due 2031	A-
Up to THB2,000 million senior unsecured debentures due within 4 years	A-
Rating Outlook:	Stable

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