TRIS RATING
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CreditUpdate
New Issue Report

MITR PHOL SUGAR CORPORATION LTD.

No. 38/2018
28 May 2018

CORPORATES

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

Company Rating History:

Date	Rating	Outlook/Alert
24/12/10	A+	Stable
02/11/07	A	Stable

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RATIONALE

TRIS Rating affirms the rating of "A+" for the company rating and the ratings of the outstanding senior unsecured debentures of Mitr Phol Sugar Corporation Ltd. (MPSC). At the same time, TRIS Rating assigns the rating of "A+" to MPSC's proposed issue of up to Bt10,100 million in senior unsecured debentures. The proceeds from the new debentures will be used for repay its existing debt and planned capital expenditures.

The ratings reflect MPSC's market position as one of the world's leading sugar producers, well-accepted brand name, efficient sugar mill operations, geographic diversification, and diversified sources of income. The ratings are partially offset by the cyclical and the volatile nature of the prices of sugar and sugarcane, as well as the ongoing sugar industry restructuring in Thailand.

MPSC posted weaker operating results. Revenue grew by 2.6% year-on-year (y-o-y) to Bt23,922 million in the first three months of 2018. Despite the increase in revenue, the operating profit margin fell. The ratio of operating income before depreciation and amortization to sales, including gains from future contracts deteriorated to 23.9% in the first quarter of 2018, compared with 31.5% over the same period in 2017. The drop was due to poor results in the sugar segment following the sluggish sugar price, while ethanol and power segments were benefited from lower fuel cost on the back of rising fuel supply from higher cane volume in the 2017/2018 crop year. Earnings before interest, tax, depreciation, and amortization (EBITDA) slipped by 19.7% y-o-y to Bt6,186 million in the first quarter of 2018. Funds from operations (FFO) also shrank, sinking by 21.6% y-o-y to Bt4,604 million.

Due to weaker operating performance, and a jump in working capital needs during the sugarcane harvest period, the ratio of total debt to capitalization jumped to 59.2% as of March 2018, compared with 50%-52% in 2014-2017. The FFO to total debt ratio was 13.9% (annualized, from the trailing 12 months) in the first quarter of 2018, compared with 18%-22% in 2014-2017. Despite the drop, liquidity remained acceptable.

Looking forward, the competition among sugar producers in the domestic market is expected to intensify. Every producer would like to gain more shares in domestic market. Nevertheless, TRIS Rating holds the view that MPSC would stay competitive amidst the rising competition, given its scale, the efficiency of its mills, wide market coverage, nationwide distribution channels, and strong brand name.

RATING OUTLOOK

The "stable" outlook reflects the expectation that MPSC will maintain its leading position in both the Thai and Chinese sugar industries. MPSC is expected to retain its competitiveness even after the sugar industry in Thailand is liberalized.

Under TRIS Rating's base case scenario, MPSC's EBITDA is forecast to drop to around Bt17,000 million in 2018 under the low sugar prices worldwide and would gradually improve to approximately Bt21,000 million per year along the cycle of sugar prices. FFO is projected to hold at Bt13,000 million in 2018 and climb to Bt16,000 million in 2020. MPSC plans to issue new debentures worth up to Bt10,100 million. About half of the proceeds will be used for repay existing debt while the remainder will be used for planned capital expenditures. The capital expenditures and the degree of leverage after the debenture issuance are both in line with TRIS Rating's projection. Leverage will peak in the first half of 2018, then decline in the second half. The rise in leverage is due to a huge increase in inventory and the resultant increase in working capital. According to TRIS Rating's estimation, the total debt to capitalization ratio will hover around 60% in the first half of 2018, and then decline gradually to around 52% at the end of 2018. Given the projected levels of cash flow and capital expenditures, leverage should hold at a moderate level. Over the next three years, the FFO to total debt ratio is projected to stay in the range of 18%-24% and the EBITDA interest coverage ratio is expected to hold at 5-6 times.

RATING SENSITIVITIES

MPSC's ratings or outlook would be downgraded if MPSC's operating performance or market position is significantly weaker than expected, causing cash flow protection to deteriorate for a sustained period of time. Any large, debt-funded investment that would weaken the debt to capitalization ratio would also be a negative factor for MPSC's credit ratings. On the contrary, the rating upside case could emerge if MPSC's financial profile is significantly strengthened on a sustainable basis.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		--------------- Year Ended 31 December ------------			
	Jan-Mar 2018	2017	2016	2015	2014
Revenue	23,922	98,277	87,691	88,133	89,378
Gross interest expense	751	2,928	2,798	2,512	2,539
Net income from operations	1,325	4,310	1,645	3,174	4,550
Funds from operations (FFO)	4,604	15,515	11,199	12,447	12,690
Earnings before interest, tax, depreciation, and amortization (EBITDA)	6,186	17,791	13,713	15,807	14,803
Capital expenditures & Investments	2,712	21,361	15,986	10,905	7,486
Total assets	197,847	167,896	141,992	133,052	130,773
Total debts	102,924	76,310	63,356	56,831	57,704
Shareholders' equity	70,829	71,452	59,126	56,590	55,536
Operating income before depreciation and amortization as % of sales	23.88	16.48	14.17	16.40	14.52
Pretax return on permanent capital (%)	5.08**	7.62	6.08	8.52	8.56
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	8.24	6.08	4.90	6.29	5.83
FFO/total debt (%)	13.85 **	20.33	17.68	21.90	21.99
Total debt/capitalization (%)	59.24	51.64	51.73	50.11	50.96

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

Mitr Phol Sugar Corporation Ltd. (MPSC)

Company Rating:	A+
Issue Ratings:	
MPSC18OA: Bt2,150 million senior unsecured debentures due 2018	A+
MPSC199A: Bt900 million senior unsecured debentures due 2019	A+
MPSC199B: Bt1,900 million senior unsecured debentures due 2019	A+
MPSC209A: Bt1,300 million senior unsecured debentures due 2020	A+
MPSC20OA: Bt1,000 million senior unsecured debentures due 2020	A+
MPSC20OB: Bt1,850 million senior unsecured debentures due 2020	A+
MPSC219A: Bt2,000 million senior unsecured debentures due 2021	A+
MPSC21OA: Bt2,000 million senior unsecured debentures due 2021	A+
MPSC229A: Bt2,000 million senior unsecured debentures due 2022	A+
MPSC22OA: Bt2,000 million senior unsecured debentures due 2022	A+
MPSC233A: Bt2,500 million senior unsecured debentures due 2023	A+
MPSC249A: Bt3,200 million senior unsecured debentures due 2024	A+
MPSC256A: Bt2,400 million senior unsecured debentures due 2025	A+
MPSC259A: Bt1,000 million senior unsecured debentures due 2025	A+
MPSC26DA: Bt1,900 million senior unsecured debentures due 2026	A+
MPSC28DA: Bt2,200 million senior unsecured debentures due 2028	A+
MPSC186A: RMB126 million senior unsecured debentures due 2018	A+
Up to Bt10,100 million senior unsecured debentures due within 12 years	A+
Rating Outlook:	Stable

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