

# MITR PHOL SUGAR CORPORATION LTD.

No. 25/2022  
15 March 2022

## CORPORATES

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

Last Review Date: 05/10/21

### Company Rating History:

Date	Rating	Outlook/Alert
04/06/20	A+	Negative
24/12/10	A+	Stable
02/11/07	A	Stable

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## RATIONALE

TRIS Rating downgrades the company rating on Mitr Phol Sugar Corporation Ltd. (MPSC) and the ratings on MPSC's senior unsecured debentures to "A" from "A+", with a "stable" outlook.

The rating downgrade reflects MPSC's materially elevated financial leverage relative to cash generation. We expect the company's financial leverage to remain at high levels over the next few years given the company's investment plan that will require sizable financing to fund planned capital expenditures. The ratings are also constrained by the volatility of sugarcane supplies and sugar prices, and the company's operational risk associated with its overseas sugar plants.

Nevertheless, the ratings continue to 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.

## KEY RATING CONSIDERATIONS

### Weakened operating results but revival expected

MPSC's operating results over the past two years have been pressured by a drastic contraction in sugarcane supplies following severe drought and lower plantation areas in several countries. MPSC's sugar production plunged by 18% from the 2018/2019 growing season. The ethanol and power businesses were also adversely affected by lower consumption during the Coronavirus Disease 2019 (COVID-19) pandemic and sugarcane shortages that resulted in higher fuel costs.

Although a rise in sugar prices in 2021 partly held up the profitability of MPSC's sugar business in Thailand, the company posted weaker operating results during the first nine months of 2021. This was mainly caused by higher raw material costs in the power business, coupled with losses from investments in Indonesia. MPSC recorded losses from new sugar plants in Indonesia totaling THB240 million in the first nine months of 2021, owing to lower domestic sugar prices during the COVID-19 pandemic and higher imported raw sugar costs.

As a result, earnings before interest, taxes, depreciation, and amortization (EBITDA) dropped to THB9.1 billion in the first nine months of 2021, from THB10 billion and THB13 billion during the same periods of 2019 and 2020. EBITDA margin also dropped to around 12% in the first nine months of 2021, compared with the levels of 15% and 18% in the same periods of 2019 and 2020.

MPSC's operating results are likely to continue facing significant challenges in the coming years stemming from uncertain sugar prices and rising freight costs. However, we expect the company's performance to revive during the forecast years, along with a supply correction and post-COVID-19 economic recovery. Sugarcane production volume should increase during the 2022-2023 season owing to improved rainfall and plantation areas for sugarcane. We also expect the company to benefit from the recent rise in sugar prices, while the production of more value-added products will improve the company's competitive edge and profitability in the medium to long term.

### **Leverage surged following sizable investments and working capital requirements**

MPSC's financial leverage has increased significantly, owing to higher working-capital requirements and sizable capital expenditures, together with declining profit during the industry downturn.

As of September 2021, MPSC's adjusted debt continuously rose to THB95.8 billion, owing to the substantial amount of investments in several refineries and sugar mills in Indonesia, and acquisitions of new power plants. The rise in debt was also partly due to increased working-capital requirements to fund the company's higher inventory costs in Thailand and China during the recent period of rising sugar prices. MPSC's inventory days surged to 115 days at the end of September 2021, from 80 and 90 days during the same periods of 2019 and 2020, respectively.

The total debt to capitalization ratio increased to 57.3% at the end of September 2021, from 54% in 2019. The adjusted debt to EBITDA rose to 8.8 times (annualized, from the trailing 12 months) in the first nine months of 2021, from 4.6-7.3 times in 2019-2020. Cash-flow protection during the industry downcycle also weakened significantly. The ratio of funds from operations (FFO) to adjusted net debt declined to 7.8% (annualized, from the trailing 12 months) in the first nine months of 2021, from 9%-17% in 2019-2020.

Going forward, we project MPSC's leverage to stay high due to a number of large investments in the pipeline. Total capital expenditures are projected to reach THB10-THB12 billion per year in 2022-2023. These mainly involve the development of a new sugar plant and acquiring several power plants in Thailand. The company also aims to expand its footprint in the wood-substitute business in Vietnam. We project the company's debt to capitalization ratio to increase to 58% in 2022-2023. The ratio of adjusted debt to EBITDA is projected to hover around 7.2 times in 2021 but should then improve to around 6.5 times in 2023.

### **Energy business cushions revenue fluctuation**

Apart from producing sugar, MPSC has expanded along the sugar value chain in order to maximize the utilization of sugarcane and by-products of the sugar production process. MPSC's sugar-related businesses are electricity generation and ethanol production. Currently, MPSC has an installed power generation capacity of 650 megawatts (MW) with 272.8 MW sold under power purchase agreements (PPA) with government agencies. Ethanol production is 1.49 million liters per day at full capacity.

In spite of the negative impacts from sugarcane feedstock shortages and lower demand during the COVID-19 period, revenue from the energy business (electricity and ethanol) increased by 9.7% year-on-year (y-o-y) to THB14.8 billion in the first nine months of 2021. The increase was mainly driven by capacity expansions of power plants.

At present, the power and ethanol businesses together contribute about 20% of MPSC's total revenues. The stable cash flow from the expanded energy business has partly held up MPSC's operating performance during the period of depressed sugar prices.

### **Adequate liquidity**

We assess MPSC to have adequate liquidity over the next 12 months. Funding needs will include THB4.5 billion for maturing debentures, THB4.5 billion for maturing long-term loans, and capital expenditures of about THB10 billion. The sources of funds will come from FFO of around THB10 billion and undrawn short-term credit facilities of about THB34 billion. We view that the company's ability to access external funding sources, including the domestic debt capital market and bank financing, remains unchanged.

As of September 2021, MPSC recorded THB14.7 billion of priority debt out of total debt (excluding lease liabilities) of THB94.3 billion. Most of MPSC's priority debt was at the subsidiary level. The ratio of priority debt to total debt was 16%. As its priority debt ratio is far below the 50% threshold, TRIS Rating views that MPSC's senior unsecured creditors are subject to low subordination risks.

### **BASE-CASE ASSUMPTIONS**

- Revenues are projected to hover around THB106-THB108 billion in 2021-2023.
- EBITDA margin to stay at around 12%-13% in 2021-2023.
- Total capital spending of THB7 billion in 2021 and THB10-THB12 billion per year in 2022-2023.

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## RATING OUTLOOK

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The “stable” outlook reflects TRIS Rating’s expectation that MPSC will maintain its leading position in both the Thai and Chinese sugar industries. MPSC’s competitive edges from its diverse range of operations, and sources of income should alleviate the volatile effects in the sugar production business.

## RATING SENSITIVITIES

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The ratings on MPSC could be upgraded if the company is able to improve its operating cashflow and lower its leverage, with the net debt to EBITDA ratio staying below 5 times on a sustained basis.

On the contrary, MPSC’s ratings could be downgraded if in a scenario of materially higher-than-expected debt levels or weaker-than-expected profitability, that could potentially result in the company’s adjusted debt to EBITDA ratio exceeding 8 times for a sustained period.

## COMPANY OVERVIEW

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Founded in 1946 by the Vongkusolkit family, MPSC is the leading sugar producer in Thailand. The Vongkusolkit family collectively holds 100% of the company’s shares through Mid-Siam Sugar Co., Ltd. MPSC owns and operates sugar mills in Thailand, China, the Lao PDR, and Australia. Owing to severe drought and lower plantation areas, MPSC’s sugar production plunged to 3.7 million tonnes in the 2020/2021 growing season, compared with 4.6 million tonnes in the 2018/2019 growing season. About 45% of MPSC’s sugar volume was produced in Thailand and 25% in China.

In 2017, MPSC entered the sugar refining business in Indonesia through a joint venture with OLAM International Ltd. (OLAM), a leading food and agri-business company. In 2020, MPSC increased its stake by acquiring the remaining 50% share from OLAM. Additionally, MPSC invested in two joint-venture companies which own a sugar mill and a refinery in Java. At the end of September 2021, the total investment cost was worth about THB13 billion. Following the sizable investments, MPSC owns a refinery and holds a 60% equity stake in a sugar mill and a 40% stake in a refinery. The total sugar volume was 0.6 million tonnes in 2021.

Although sugar is a commodity, MPSC is striving to build a brand in order to differentiate its products from those of its competitors. MPSC’s retail products are successfully marketed under the “Mitr Phol” brand in Thailand. The company aims to distribute its branded sugar products in other markets in the Asia-Pacific region.

MPSC also produces electricity, ethanol, wood-substitute materials, and fertilizer, and offers logistics services. During the first nine months of 2021, its total sales were THB73.6 billion. The sugar segment accounted for 70% of its total revenues while the power and ethanol segments together comprised 20%.

MPSC owns 17 power plants. Fourteen plants are located in Thailand, while the remaining three plants are in China (Funan, Ningming, and Chongzuo). The company sold electricity to the Electricity Generating Authority of Thailand (EGAT) and the Provincial Electricity Authority (PEA) under the Small Power Producer (SPP) scheme, totaling 272.8 MW in 2021. Additionally, MPSC holds investments in several other power plants, including solar floating power plants in Taiwan and a solar farm in Srakaew province.

KEY OPERATING PERFORMANCE

Chart 1: Raw Sugar Prices Worldwide



Note: Monthly prices of Futures Contract No. 11  
Source: New York Board of Trade, United States Department of Agriculture (USDA)

Table 1: MPSC's Revenue Breakdown

Unit: Mil. THB

Revenue	2017	2018	2019	2020	Jan-Sep 2021
Total sales & services	98,277	95,049	91,873	85,139	73,608
Y-o-y growth (%)	12.1	(3.3)	(3.3)	(7.3)	12.8
Proportion (%)					
Sugar in Thailand	42.6	40.7	39.1	30.4	32.6
Sugar in China	29.6	26.9	27.3	26.2	21.8
Sugar in Lao PDR	1.0	0.8	1.0	1.1	1.2
Sugar in Australia	5.7	5.7	4.5	6.9	4.4
Sugar in Indonesia	-	-	-	5.9	10.2
Power and ethanol	13.9	16.0	20.0	21.3	20.1
Wood substitute products and paper	4.7	5.4	5.6	5.9	6.5
Logistics & others	2.5	4.5	2.5	2.4	3.3
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: MPSC

Table 3: Sugar Crushing Yield in Thailand

Unit: Kg/tonne cane

Sugar Producer	Growing Season				
	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021
Mitr Phol	113.0	115.2	118.7	116.6	123.5
Thai Roong Ruang	106.5	107.4	108.7	106.1	109.5
Thai Ekkalak	108.5	102.1	104.5	106.3	108.1
KSL	106.1	108.8	110.9	108.1	110.8
Wangkanai	105.8	110.4	111.9	104.9	109.1
Banpong	101.4	103.7	101.5	106.3	104.1
Kumpawapee	111.1	109.4	112.6	118.4	115.2
Eastern Sugar	108.5	107.6	114.9	112.8	112.9
<b>Total</b>	<b>107.9</b>	<b>109.0</b>	<b>111.3</b>	<b>110.8</b>	<b>113.8</b>

Source: OCSB

Table 2: Sugar Production in Thailand

Unit: Mil. tonnes

Sugar Producer	Growing Season				
	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021
Mitr Phol	1.98	2.73	2.92	1.61	1.68
Thai Roong Ruang	1.58	2.50	2.42	1.34	1.24
Thai Ekkalak	0.94	1.19	1.03	0.60	0.47
KSL	0.72	1.20	1.14	0.58	0.53
Wangkanai	0.39	0.79	0.69	0.22	0.24
Banpong	0.44	0.52	0.58	0.38	0.27
Kumpawapee	0.28	0.41	0.39	0.24	0.17
Eastern Sugar	0.38	0.51	0.49	0.34	0.32
Others	3.32	4.86	4.92	2.98	2.98
<b>Total</b>	<b>10.03</b>	<b>14.71</b>	<b>14.58</b>	<b>8.29</b>	<b>7.59</b>

Source: Office of the Cane and Sugar Board (OCSB)

Table 4: MPSC's Sugar Production Statistics in China

Performance	Growing Season			
	2017/2018	2018/2019	2019/2020	2020/2021
Sugarcane crushed (tonnes)	8,740,987	9,029,709	8,022,501	7,724,763
Growth (%)	21.1	3.3	(11.2)	(3.7)
Sugar production (tonnes)	1,041,729	1,070,379	1,049,609	995,494
Growth (%)	13.9	2.8	(1.9)	(5.2)
Cane crushing yield (kg/cane tonne)	119.7	118.9	130.8	123.7

Source: MPSC

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**

Unit: Mil. THB

	Jan-Sep 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	74,237	86,907	94,943	98,674	99,624
Earnings before interest and taxes (EBIT)	2,402	2,744	8,352	4,018	10,386
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	9,061	11,805	17,214	13,037	18,112
Funds from operations (FFO)	6,220	7,883	13,108	8,972	13,861
Adjusted interest expense	2,259	2,983	3,262	3,281	2,961
Capital expenditures	4,922	6,720	8,527	13,605	19,170
Total assets	193,430	176,501	166,821	169,091	167,896
Adjusted debt	95,802	86,261	78,888	78,371	74,661
Adjusted equity	71,515	68,045	67,296	67,605	71,452
<b>Adjusted Ratios</b>					
EBITDA margin (%)	12.21	13.58	18.13	13.21	18.18
Pretax return on permanent capital (%)	1.16	1.77	5.58	2.68	7.57
EBITDA interest coverage (times)	4.01	3.96	5.28	3.97	6.12
Debt to EBITDA (times)	8.82	7.31	4.58	6.01	4.12
FFO to debt (%)	7.84	9.14	16.62	11.45	18.56
Debt to capitalization (%)	57.26	55.90	53.96	53.69	51.10

**RELATED CRITERIA**

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

**Mitr Phol Sugar Corporation Ltd. (MPSC)**

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
MPSC229A: THB2,000 million senior unsecured debentures due 2022	A
MPSC220A: THB2,000 million senior unsecured debentures due 2022	A
MPSC233A: THB2,500 million senior unsecured debentures due 2023	A
MPSC236A: THB2,610 million senior unsecured debentures due 2023	A
MPSC249A: THB3,200 million senior unsecured debentures due 2024	A
MPSC256A: THB2,400 million senior unsecured debentures due 2025	A
MPSC256B: THB2,210 million senior unsecured debentures due 2025	A
MPSC259A: THB1,000 million senior unsecured debentures due 2025	A
MPSC26DA: THB1,900 million senior unsecured debentures due 2026	A
MPSC286A: THB1,630 million senior unsecured debentures due 2028	A
MPSC28DA: THB2,200 million senior unsecured debentures due 2028	A
MPSC306A: THB3,650 million senior unsecured debentures due 2030	A
MPSC31NA: THB3,000 million senior unsecured debentures due 2031	A
MPSC33NA: THB2,150 million senior unsecured debentures due 2033	A
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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