

SRI TRANG GLOVES (THAILAND) PLC

No. 79/2022
23 May 2022

CORPORATES

Company Rating: A
Outlook: Stable

Last Review Date: 18/10/21

Company Rating History:

Date	Rating	Outlook/Alert
18/10/21	A-	Positive
15/06/21	A-	Stable

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RATIONALE

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

TRIS Rating’s assessment of STGT’s stand-alone credit profile (SACP) remains at “a” level. The SACP continues to reflect the strong financial performance of STGT in 2021, in line with TRIS Rating’s projections, as well as its position as a leading global manufacturer of rubber gloves with a diversified customer base, and its strong financial profile. However, STGT’s business profile is constrained by the cyclical and volatile nature of raw material prices, fluctuations in selling prices of rubber glove products and foreign exchange rates, and intense competition among 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 assigned 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 contribution of 84% of STA’s consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA) in 2021.

The core subsidiary assessment also takes into consideration the high level of business integration between STGT and its parent company. STA has an agreement to provide natural rubber (NR) concentrated latex to STGT, securing the latter’s raw material supply. In addition, STA provides locally sourced woodchips to support STGT’s glove manufacturing operations. 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.

Steady demand for rubber gloves

Despite the concerns over the recent decline of average selling prices (ASP) after enjoying a spectacular run, Malaysian Rubber Glove Manufacturers Association (MARGMA) expects the demand for rubber gloves worldwide will remain steady in 2022-2023. The increasing usage of gloves in more sectors and industries has become part of the new norm, which should support steady demand over the next few years.

In 2021, although the Coronavirus Disease 2019 (COVID-19) continued to drive global demand for rubber gloves, the worldwide shortages of shipping containers had led to a drop in STGT’s sales volume to 27.3 billion pieces in 2021, down 2.5% year-on-year (y-o-y).

STGT aims to expand NR and nitrile butadiene rubber (NBR) glove production, with the plan to expand its glove production capacity to 48 billion pieces in 2022, and 71 billion pieces in 2023, from 40 billion pieces in 2021. The production facilities have the flexibility to switch between NR and NBR glove

production lines. The revenue contribution of NR and NBR gloves is expected to be 73%-80% and 20%-27% respectively, in 2022-2024.

A key player in an oligopolistic market

Strategic location is a key barrier for potential new entrants to the industry. Southeast Asia, particularly Malaysia and Thailand, is the main center for global production of rubber gloves, with an aggregate market share of about 75%. There are few companies that have sufficient capacity to manufacture medical-grade rubber gloves because of large capital investments required. Licensing and certifications to various recognized international standards are also needed to comply with the legal and regulatory requirements related to this business. Currently, all the existing players are expanding their production capacities to capture growing global demand and maintain their market positions.

Financial performance in line with TRIS Rating's forecasts

STGT's financial performance in 2021 was in line with TRIS Rating's forecasts. Total operating revenue grew by 56% y-o-y to THB47.9 billion, in line with our forecast of THB45.1 billion. The revenue growth was driven by continued strong demand in the rubber glove industry. The revenue contributions from NR and NBR gloves remained steady at 58% and 42%, respectively, in 2021. STGT's gross margin (including gains or losses from derivatives instruments) increased to 57% in 2021, from 55% in 2020, outperforming TRIS Rating's projection of 46%. The improvement was mainly attributed to higher ASPs of all rubber glove products and economies of scale from glove production. EBITDA also improved, increasing to THB27.3 billion in 2021, compared with THB17.2 billion in 2020, and higher than our forecast of THB21.2 billion. As a result, STGT reported a net profit of THB23.7 billion in 2021, compared with THB14.4 billion in 2020.

STGT's total operating revenue shrank by 54% y-o-y in the first three months of 2022 following a sharp drop in ASPs of rubber glove products amid rising sales volumes. EBITDA also dropped by 86% y-o-y to THB1.6 billion in the same period. STGT reported a net profit of THB1.1 billion in the first three months of 2022, compared with THB10.1 billion in the same period of the prior year.

Going forward, we expect STGT will continue delivering sound operating performance despite potential challenges in the rubber glove business in the coming years. The company's strategy going forward is to focus on high-margin and innovative products such as surgical gloves and protein allergen-free latex gloves. We project STGT's total operating revenues will drop by 42% y-o-y in 2022, then grow by 8%-22% in 2023-2024 as ASPs of gloves are likely to decline by 55% y-o-y in 2022 and remain flat during 2023-2024. Declining prices are mainly the result of capacity expansions among the existing players and new entrants to the industry. We expect STGT's gross margin will drop to 20%-23% in 2022-2024.

Solid capital structure and high liquidity position

STGT's total debt to capitalization ratio fell to a very low level as of December 2021, thanks to the remaining cash proceeds from its initial public offering (IPO). The company continues to use proceeds of THB11.1 billion to expand its glove production capacity and improve production efficiency in 2020-2026. Of the remaining proceeds, THB2.3 billion is earmarked for loan repayments and THB1.2 billion for working capital and maintenance.

Going forward, capital expenditure and investment are expected to rise to THB4.0-THB10.3 billion per annum during 2022-2024. We project STGT's total debt to capitalization ratio will stay low for the next three years.

STGT has scheduled debt repayments of THB1.3-THB1.8 billion per annum during 2022-2024. Our base-case forecast projects STGT's EBITDA will be in the range of THB4-THB5 billion per annum. At the end of March 2022, the company had cash on hand and short-term investments of THB19 billion, plus unused credit facilities of more than THB2 billion.

BASE-CASE ASSUMPTIONS

- Total revenues to drop by 42% y-o-y in 2022, then grow by 8%-22% in 2023-2024.
- Gross profit margin to be 20%-23% in 2022-2024.
- Total capital spending of around THB4.0-THB10.3 billion per annum in 2022-2024.

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 of NR and NBR price risk, 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.

RATING SENSITIVITIES

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

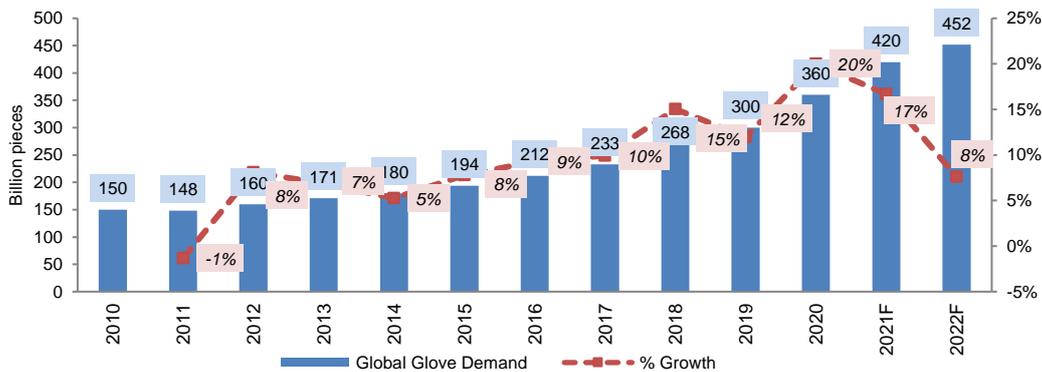
COMPANY OVERVIEW

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 170 countries around the world. The main markets are Asia, the US, and the European Union (EU). With an annual installed production capacity of 42 billion pieces as of 31 March 2022, STGT is Thailand’s biggest glove producer and is ranked in the world’s leading producers. In 2021, STGT had a market share of 7% of global glove consumption.

STGT, which is a subsidiary of STA, successfully raised funds via an IPO on the Stock Exchange of Thailand (SET) on 2 July 2020. The net proceeds of THB14.6 billion are primarily being used to expand capacity to serve the global demand for gloves. STGT intends to achieve an annual production capacity of 48 billion pieces by 2022 and 102 billion pieces by 2026. The first increase in capacity came from the new Surat Thani plant (SR2) in June 2021. The remainder of the IPO proceeds will be used for a system application & product (SAP) program 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.

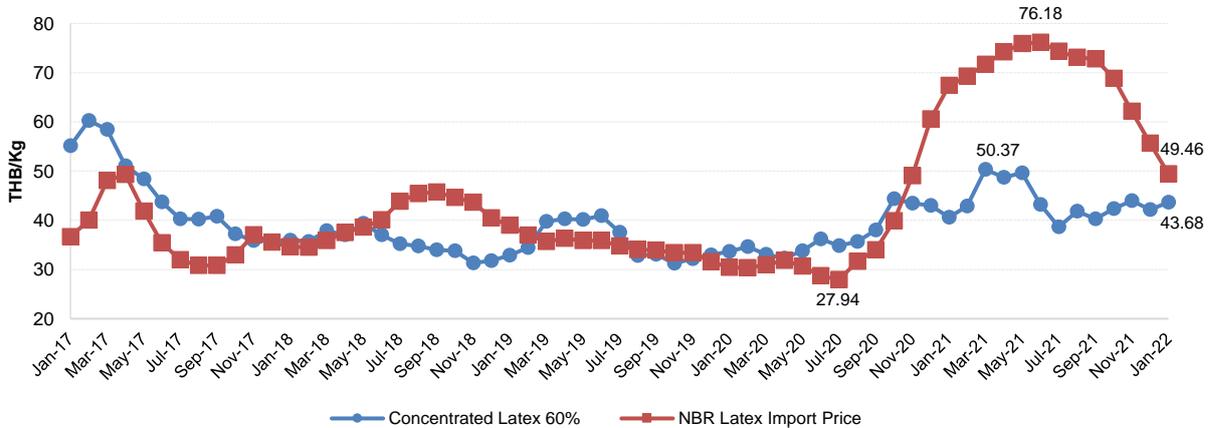
KEY OPERATING PERFORMANCE

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 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	7,150	47,909	30,781	12,110	11,071
Earnings before interest and taxes (EBIT)	1,217	26,013	16,100	897	1,340
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,559	27,261	17,246	1,730	1,975
Funds from operations (FFO)	1,413	24,506	15,489	1,302	1,564
Adjusted interest expense	64	240	205	252	166
Capital expenditures	2,734	10,649	2,076	3,180	1,536
Total assets	51,695	51,303	44,236	13,216	10,652
Adjusted debt	0	0	0	6,655	4,789
Adjusted equity	39,201	38,213	32,260	4,402	3,789
Adjusted Ratios					
EBITDA margin (%)	21.80	56.90	56.03	14.28	17.84
Pretax return on permanent capital (%) **	34.34	60.51	63.55	8.62	18.31
EBITDA interest coverage (times)	24.47	113.65	84.16	6.86	11.91
Debt to EBITDA (times)	0.00	0.00	0.00	3.85	2.43
FFO to debt (%) **	1,578,879,161,414.08	2,450,609,604,271.45	1,548,929,717,395.63	19.57	32.65
Debt to capitalization (%)	0.00	0.00	0.00	60.19	55.83

Note: All ratios have been adjusted by operating leases.

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019

Sri Trang Gloves (Thailand) PLC (STGT)

Company Rating:	A
Rating Outlook:	Stable

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