

DOUBLE A (1991) PLC

No. 127/2020
28 August 2020

CORPORATES

Company Rating:	BBB
Issue Rating:	
Senior unsecured	BBB
Outlook:	Stable

Last Review Date: 30/04/20

Company Rating History:

Date	Rating	Outlook/Alert
05/08/19	BBB-	Stable
25/11/16	BBB-	Negative
26/10/15	BBB-	Stable
12/09/13	BBB	Stable
21/08/12	BBB	Negative
16/05/08	BBB	Stable
09/11/07	BBB	Alert Developing
28/02/06	BBB	Stable
16/11/05	BBB	Alert Developing
20/10/04	BBB	Stable

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RATIONALE

TRIS Rating upgrades the company rating on Double A (1991) PLC (DA) and the ratings on DA's outstanding senior unsecured debentures to "BBB" from "BBB-", with a "stable" rating outlook. The upgrade reflects an improvement in the company's operating performance during the last three years.

At the same time, TRIS Rating assigns the rating of "BBB" to DA's proposed issue of up to THB5 billion in senior unsecured debentures. The assigned issue rating replaces the previously assigned issue rating on the proposed debentures issue of up to THB3.65 billion announced on 30 April 2020, as the company decided to increase the issue size. The proceeds from the new debentures are intended for funding working capital, business expansion, and debt repayments.

The "BBB" ratings continue to reflect DA's position as one of the leading printing & writing (P&W) paper producers in Thailand and the solid brand name of "Double A" products. These strengths are partially offset by the cyclicity of the pulp and paper industry and stagnant global and domestic demand for P&W paper. The ratings also take into consideration DA's recent expansion into the packaging paper industry.

KEY RATING CONSIDERATIONS

Continued improvement in operating performance

DA's profitability has improved significantly over the past three years. DA initiated an improvement plan including rebalancing product mix, enhancing production efficiency, and reducing operating costs. The divestment of the company's high-cost Alizay paper mill in 2018 also boosted profitability.

The EBITDA margin (earnings before interest, tax, depreciation, and amortization as a percentage of total operating revenues) has risen to above 20% since 2018, up from a low of 8.2% in 2016. Annual EBITDA increased to above THB5 billion during 2018-2019, from below THB3 billion prior to 2017. The rise in profitability has lowered the debt to EBITDA ratio to below 4 times during the past two years, compared with the historical levels of 5-10 times.

Fully integrated operations underpin competitive edge

DA's competitive strength as one of the leading P&W paper producers in Thailand is underpinned by its fully integrated pulp and paper operations. These operations create synergy and help control costs. Pulp is the main raw material of paper production. As a commodity, pulp prices fluctuate. Hence, a paper producer running its own pulp mill typically has a cost advantage. DA has its own pulp production facilities, integrated with the company's paper mills in Prachinburi province.

Expansion into packaging paper

DA recently moved into the packaging paper industry. In 2019, the company built a new pulp mill using recovered paper (RCP) as raw material, located close to its existing pulp mills in Prachinburi province. The RCP pulp mill with a designed capacity of 270,000 tonnes per annum (tpa) cost DA nearly THB1 billion. The mill started production in the first quarter of 2020, and is expected to run at full capacity in 2021. DA has a 3-year offtake agreement with a Chinese paper producer, Shanying Group. This offtake agreement helps reduce both the procurement and demand risks as the partner will supply the raw

materials and provide a guaranteed minimum purchase for the RCP pulp produced. Furthermore, DA began producing kraft paper at its existing facilities in Prachinburi province in the first quarter of this year. The company can produce kraft paper up to 250,000 tpa, based on current capacity. This recent diversification into packaging paper alleviates concerns over the gradual decline in demand for P&W paper. Global consumption of P&W paper declined by an annual average of 3.3% during 2015-2019. In contrast, global consumption of paper containers grew by an annual average 1.6% (*source: Bloomberg*).

We expect the Coronavirus Disease 2019 (COVID-19) fallout to lower DA's total operating revenue to about THB18 billion in 2020, from THB19.2 billion in 2019. Paper sales in the first half of 2020 fell by 23.9% year-on-year (y-o-y) to THB6.91 billion. The company's total operating revenue is expected to recover in 2021 and reach THB22 billion in 2022, boosted by additional revenue from its new products including RCP pulp and kraft paper. Our base-case forecast assumes RCP pulp and kraft paper, in aggregate, will contribute THB3-THB4 billion in annual revenue during 2021-2022 to DA. Over the next three years, the company's EBITDA is projected to reach THB4-THB5 billion per annum, with an EBITDA margin of above 20%.

Leverage to stay at current level

We forecast DA's leverage to stay at the current level. Although the company plans to add its RCP pulp capacities, its operating cash flows should be sufficient to fund investment expenditures. Over the next three years, our base-case projection assumes investment expenditures will range between THB1-THB1.2 billion per annum. Taking into consideration the debt repayment of THB2.5-THB3 billion per annum, the forecast FFO (funds from operations) ranging between THB3-THB4 billion per annum should cover nearly all the expenditures. We expect the debt to capitalization ratio to hover around 55% and the debt to EBITDA ratio to range between 3-4 times during 2020-2022.

Liquidity should be manageable

DA should be able to manage its liquidity properly over the next 12 months. During June-December 2020, debts totaling about THB2.84 billion will be due. Of this amount, short-term loans for working capital comprise THB2.61 billion and long-term bank loans comprise THB0.23 billion. As of 31 May 2020, cash and marketable securities were THB0.85 billion, unused credit facilities were THB1.64 billion, and accounts receivable were about THB3 billion. These liquid assets should be sufficient to cover all debts due in 2020. DA has no debentures due in the remainder of 2020 but does have THB2.2 billion debentures due in 2021. The company plans to partly refinance the debentures due in 2021 with new ones.

A key financial covenant on DA's debentures requires the net interest-bearing debt to equity ratio to stay below 2 times. The ratio as of 30 June 2020 was 1.2 times. We believe that the company will remain in compliance with the covenant for the next 12-18 months.

BASE-CASE ASSUMPTIONS

- Total operating revenue to range between THB18-Bt22 billion per annum during 2020-2022.
- EBITDA margin to stay above 20%.
- Debt to EBITDA ratio to be 3-4 times.
- Capital spending to be THB1-THB1.2 billion per annum.

RATING OUTLOOK

The "stable" outlook reflects our expectation that DA will maintain its competitiveness in the P&W paper business. Recent expansion into packaging paper will help the company diversify its sources of revenue and boost growth amid a declining trend in P&W paper consumption.

RATING SENSITIVITIES

The rating upside is limited in the near term. In contrast, the ratings and/or outlook could be revised downward if the impact of the COVID-19 fallout on the company's performance turns out to be more severe than anticipated or if the company's financial profile deteriorates more than expected.

COMPANY OVERVIEW

DA, previously named Advance Agro PLC or AA, was established in 1989 by the Dumnernchanvanit family (the Soon Hua Seng Group) as a pulp and paper producer. The company was listed on the Stock Exchange of Thailand (SET) in 1995, but was delisted on 17 April 2008. Mr. Yothin Dumnernchanvanit and affiliated parties remain the ultimate shareholders, holding a 98.9% stake in the company as of 31 March 2020.

DA currently owns and operates four paper mills and three pulp mills, all of which are located in the Tha Toom district in Prachinburi province. The four paper mills have a total designed capacity of 745,000 tpa, while the three pulp mills have a total designed capacity of 697,000 tpa. The pulp and paper operations are fully integrated.

Currently, paper sales account for about 86% of DA's sales, followed by sales of pulp (13%), and revenue from services (1%).

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown

Unit: %

	2016	2017	2018	2019	Jan-Jun 2020
Revenue (mil. THB)	26,121	21,888	20,770	19,117	8,063
Paper	89.0	93.6	89.7	91.3	85.7
Pulp	2.4	2.7	6.5	5.2	12.7
Wood chips	7.5	2.0	0.9	1.0	-
Services	1.1	1.6	2.9	2.5	1.6
Total	100.0	100.0	100.0	100.0	100.0

Source: DA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2020	Year Ended 31 December			
		2019	2018	2017	2016
Total operating revenues	8,089	19,203	20,826	21,927	26,271
Earnings before interest and taxes (EBIT)	652	3,145	2,721	830	(727)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,815	5,352	5,228	3,712	2,146
Funds from operations (FFO)	1,435	4,585	4,946	2,781	1,212
Adjusted interest expense	438	855	955	1,017	1,186
Capital expenditures	356	1,224	590	677	958
Total assets	32,638	30,984	33,926	39,763	42,692
Adjusted debt	15,512	15,039	15,544	19,530	20,281
Adjusted equity	12,467	12,504	14,587	15,545	17,352
Adjusted Ratios					
EBITDA Margin (%)	22.44	27.87	25.11	16.93	8.17
Pretax return on permanent capital (%)	5.65 **	10.69	8.19	2.25	(1.89)
EBITDA interest coverage (times)	4.15	6.26	5.47	3.65	1.81
Debt to EBITDA (times)	3.89 **	2.81	2.97	5.26	9.45
FFO to debt (%)	21.62 **	30.49	31.82	14.24	5.97
Debt to capitalization (%)	55.44	54.60	51.59	55.68	53.89

* Consolidated financial statements

** Adjusted with trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Double A (1991) PLC (DA)

Company Rating:	BBB
Issue Ratings:	
DA235A: THB2,000 million senior unsecured debentures due 2023	BBB
DA241A: THB2,350 million senior unsecured debentures due 2024	BBB
DA252A: THB3,500 million senior unsecured debentures due 2025	BBB
Up to THB5,000 million senior unsecured debentures due within 10 years	BBB
Rating Outlook:	Stable

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