

SRI TRANG AGRO-INDUSTRY PLC

No. 78/2022
23 May 2022

CORPORATES

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

Last Review Date: 08/04/22

Company Rating History:

Date	Rating	Outlook/Alert
18/10/21	A-	Positive
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 upgrades the company rating on Sri Trang Agro-Industry PLC (STA) and the ratings on its existing senior unsecured debentures to “A” from “A-”, with a “stable” outlook. The upgrades reflect the strong financial performance of STA in 2021, in line with TRIS Rating’s projections, as well as the continued global demand for rubber gloves, a gradual recovery of natural rubber (NR) products, and its improvements in efficiency and cost control.

The ratings continue to reflect STA’s leading position in the 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.

KEY RATING CONSIDERATIONS

Financial performance in line with forecasts

STA’s financial performance in 2021 was in line with TRIS Rating’s forecasts. Total operating revenue grew by 57% year-on-year (y-o-y) to THB118.6 billion, driven by recovery in the auto industry and continued strong demand in the rubber glove industry.

The company’s gross margin (including gains or losses from derivatives instruments) improved to 31% in 2021, from 29% in 2020, in line with our projection at 32%. The improvement was primarily due to a more favorable product mix and manageable raw material costs. Earnings before interest, taxes, depreciation, and amortization (EBITDA) also improved, increasing to THB32.5 billion in 2021, compared with THB3.3-THB5.8 billion in 2018-2019, and THB20.5 billion in 2020. As a result, STA reported a net profit of THB26.1 billion in 2021, in line with TRIS Rating’s forecast of THB27.3 billion.

STA’s total operating revenue shrank by 11% y-o-y in the first quarter of 2022 following the sharp decrease in revenue contribution from the glove segment. However, rising demand from the NR segment (midstream processing) partially offset lower revenue from the glove business. EBITDA also dropped by 74% y-o-y to THB3.1 billion in the first quarter of 2022, compared with THB12.1 billion for the same period in 2021. STA reported a net profit of THB2 billion in the first quarter of 2022, compared with THB10 billion for the same period in the prior year.

Demand recovery in NR industry

According to the International Rubber Study Group (IRSG), the gradual rise in NR supply and sharp increases in global demand during 2021-2022 led to a small deficit in the NR balance and rises in global NR prices in 2021-2022. The average prices for all NR products jumped by 17%-27% y-o-y in 2021 and 3%-17% for the first quarter of 2022 following the prolonged recovery of demand in the auto industry.

TRIS Rating expects the NR industry will remain strong for the remainder of 2022. Global NR consumption is forecast to expand by 3% in 2022, 3.4% in 2023, and 2.4% in 2024 amid the gradual reopening of economies worldwide and following the decline of NR stocks in the major markets, especially China. NR production is forecast to increase by 3.5% in 2022, 3.7% in 2023, and 2.7% in 2024.

Going forward, the recovery of NR business will help STA continue delivering satisfactory operating performances despite potential challenges in the glove business in the coming years. The acute scarcity of NR supply in Indonesia, following the spread of leaf fall disease, will likely support the ongoing shift in purchase orders from major tire manufacturers in Indonesia to Thailand, including STA.

Steady demand for rubber gloves

According to the Malaysian Rubber Glove Manufacturers Association (MARGMA), demand for rubber gloves worldwide is forecast to grow to 452 billion pieces per annum in 2022, from 160 billion pieces per annum in 2012, an average annual growth rate of 11%. Demand for rubber gloves worldwide is expected to remain strong in 2022-2023, particularly in the healthcare industry and non-healthcare industries such as food and beverage, electronics, and service and hospitality.

STA aims to expand NR and nitrile butadiene rubber (NBR) glove production during 2022-2024. However, the revenue contribution of NR and NBR gloves is expected to be 73%-80% and 20%-27% of the total, respectively, in 2022-2024.

Sound capital structure

STA's total debt to capitalization ratio rose to 22.4% as of December 2021 and to 24.2% as of March 2022. This was due to higher working capital needs, especially in inventory and long-term loans to fund the company's capital expenditures.

Going forward, we expect STA's capital expenditure and investment will reach THB18.4 billion per annum in 2022, then decline to THB5.4-THB11.2 billion per year in 2023-2024. Most capital expenditure and investment are earmarked for the expansion of glove production capacity and rubber plants. Under our base-case scenario, STA's total debt to capitalization ratio is projected to be 27%-31% during 2022-2024.

Strong liquidity

We expect STA will have strong liquidity over the next 12-18 months. The company has scheduled debt repayments of THB2.7-THB4.4 billion per annum during 2022-2024. Our base-case forecast projects STA's EBITDA will be THB12-THB15 billion per annum. At the end of March 2022, cash on hand and short-term investments stood at THB21.1 billion, while unused credit facilities totaled more than THB20 billion.

Looking forward, STA's ratio of funds from operations (FFO) to total debt is projected to remain strong, in the range of 35%-40% per annum in 2022-2024, while the EBITDA interest coverage ratio is forecast to range 10-18 times per annum in 2022-2024.

BASE-CASE ASSUMPTIONS

- Total revenues to grow by 3% y-o-y in 2022, then grow by 10%-15% during 2023-2024.
- Gross profit margin of 13%-14% per annum in 2022-2024.
- Total capital spending of around THB18.4 billion in 2022, and THB5.4-THB11.2 billion per annum during 2023-2024.

RATING OUTLOOK

The "stable" outlook reflects the prospect of recovery in the NR industry and continued strong global demand for rubber gloves, plus STA's efficiency improvement and cost control.

RATING SENSITIVITIES

STA's credit upside is limited in the near term following this upgrade. A rating downgrade could occur if the company's performance weakens materially, with the adjusted debt to EBITDA ratio staying above 3 times and EBITDA staying below THB10 billion for an extended period. Any aggressive debt-funded expansion, which would potentially weaken the company's balance sheet and cash flow protection, could also lead to a downgrade scenario.

COMPANY OVERVIEW

STA is a leading worldwide processor and merchandiser of NR. The company has 34 rubber processing plants for block rubber, ribbed smoked sheet, and concentrated latex, located in Thailand, Indonesia, and Myanmar, together with three glove processing plants, located in Thailand. As of 31 March 2022, the company had a total installed NR processing capacity of 2,960,000 tons per year and glove production capacity of 42 billion pieces per year.

Approximately 99.9% of the company's NR products are sold directly to customers and dealers, mostly comprising tire manufacturers. Exports accounted for 88% of its total sales. China was the largest export market, accounting for 37% of STA's export sales during the first three months of 2022.

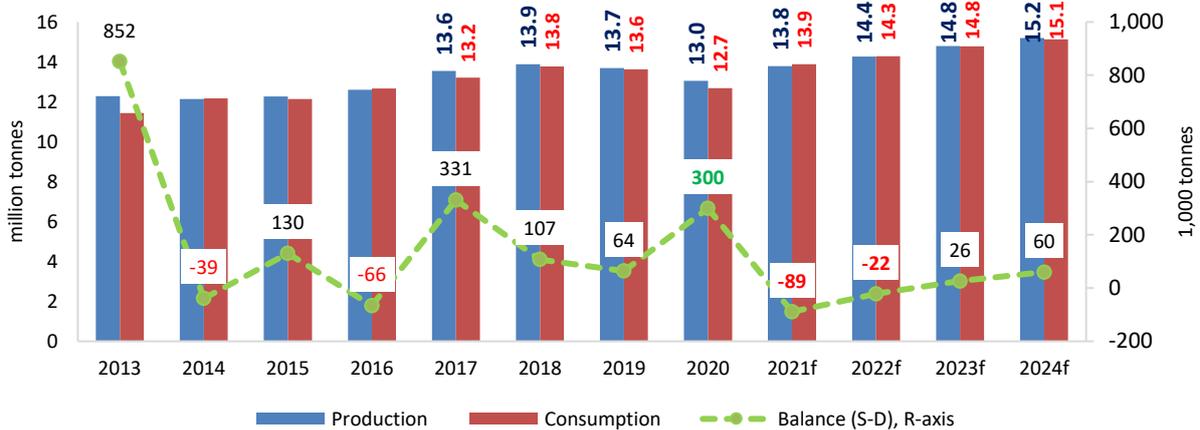
Currently, the major NR producing nations are Thailand, Indonesia, Vietnam, and Malaysia. In 2021, these three countries are forecast to account for 65% of the NR produced worldwide. Thailand is the largest producer, with a total production volume of 4.8 million tons, followed by Indonesia (2.9 million tons), and Vietnam (1.3 million tons). In terms of consumption, demand for NR worldwide is expected to increase to 14.3 million tons in 2022 from 13.9 million tons in 2021, growing by 3% per annum. China consumes around 41% of the global NR output.

Sri Trang Gloves (Thailand) PLC (STGT), one of Sri Trang Group’s flagship companies, engages in the production and distribution of latex and nitrile examination gloves 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 among the world’s leading producers.

STGT, which is a subsidiary of STA, successfully raised funds via an initial public offering (IPO) on the Stock Exchange of Thailand (SET) on 2 July 2020. STGT’s net proceeds of THB14.6 billion will be primarily used toward a planned capacity expansion 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 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.

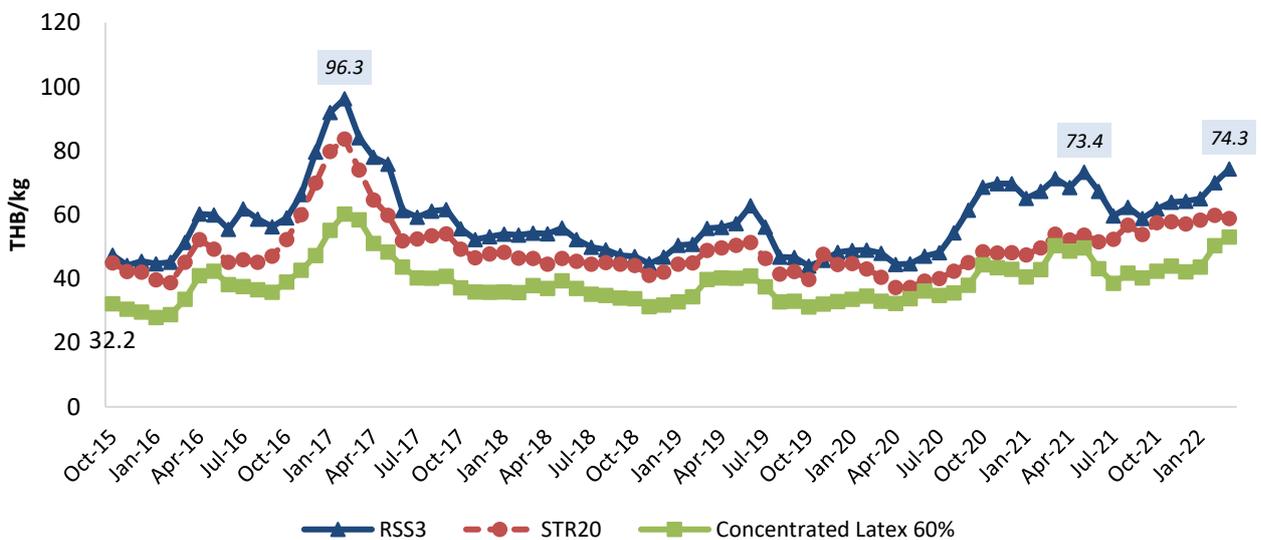
KEY OPERATING PERFORMANCE

Chart 1: World Production and Consumption of Natural Rubber

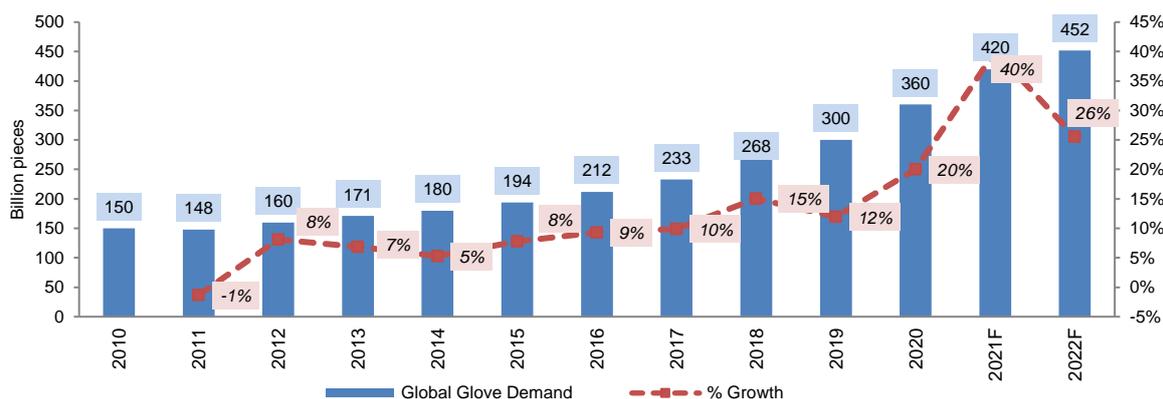


Source: International Rubber Study Group (IRSG)

Chart 2: Natural Rubber Prices



Source: Rubber Authority of Thailand (RAOT)

Chart 3: Global Glove Consumption


Sources: STA and Malaysia Rubber Glove Manufacturers Association (MARGMA)

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December-----				
	Jan-Mar 2022	2021	2020	2019	2018
Total operating revenues	28,044	118,648	75,749	60,465	73,298
Earnings before interest and taxes (EBIT)	2,429	29,574	17,773	783	3,297
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,135	32,534	20,523	3,306	5,783
Funds from operations (FFO)	2,758	28,981	18,283	2,166	4,414
Adjusted interest expense	253	848	701	923	962
Capital expenditures	3,468	11,755	2,495	4,004	2,964
Total assets	116,942	114,527	93,117	58,331	58,414
Adjusted debt	21,379	18,768	6,274	27,259	24,099
Adjusted equity	66,895	65,049	53,397	25,488	26,411
Adjusted Ratios					
EBITDA margin (%)	11.18	27.42	27.09	5.47	7.89
Pretax return on permanent capital (%) **	19.81	30.66	25.17	1.43	5.94
EBITDA interest coverage (times)	12.38	38.38	29.28	3.58	6.01
Debt to EBITDA (times)	0.91	0.58	0.31	8.24	4.17
FFO to debt (%) **	97.50	154.42	291.40	7.95	18.32
Debt to capitalization (%)	24.22	22.39	10.51	51.68	47.71

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
- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019

Sri Trang Agro-Industry PLC (STA)

Company Rating:	A
Issue Ratings:	
STA234A: THB1,000 million senior unsecured debentures due 2023	A
STA247A: THB1,500 million senior unsecured debentures due 2024	A
STA24DA: THB1,000 million senior unsecured debentures due 2024	A
STA253A: THB2,000 million senior unsecured debentures due 2025	A
STA257A: THB500 million senior unsecured debentures due 2025	A
STA25DA: THB1,000 million senior unsecured debentures due 2025	A
STA264A: THB1,800 million senior unsecured debentures due 2026	A
STA273A: THB500 million senior unsecured debentures due 2027	A
STA28DA: THB1,250 million senior unsecured debentures due 2028	A
STA293A: THB1,000 million senior unsecured debentures due 2029	A
STA314A: THB700 million senior unsecured debentures due 2031	A
STA31DA: THB1,250 million senior unsecured debentures due 2031	A
STA323A: THB2,000 million senior unsecured debentures due 2032	A
STA324A: THB1,180 million senior unsecured debentures due 2032	A
STA343A: THB1,500 million senior unsecured debentures due 2034	A
Rating Outlook:	Stable

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