

BURIRAM SUGAR PLC

No. 98/2022
24 June 2022

CORPORATES

Company Rating:	BBB-
Outlook:	Stable

RATIONALE

TRIS Rating assigns the company rating to Buriram Sugar PLC (BRR) at “BBB-” with a “stable” rating outlook. The rating reflects the company’s long track record in the sugar industry, as well as its diversification into the power and packaging businesses. These strengths are constrained by its single sugar mill production, cyclical nature of sugar prices, volatility of sugarcane supply, and the company’s high leverage.

KEY RATING CONSIDERATIONS

Long track record in the sugar industry

BRR’s business profile is underpinned by its track record of almost 60 years in the sugar industry. The company’s major products are raw sugar and brown sugar. To broaden its product portfolio, BRR has added refined sugar production over the past few years.

About 80% of BRR’s sugar products are exported through international traders, with the remainder (20%) sold domestically. In the domestic market, most of BRR’s products are sold through distributors. Its products are well-known in local communities of Buriram province and the northeastern region of Thailand. BRR has also expanded its market through wholesalers in southern, central, and eastern regions, as well as distributing through modern trade and food services channels.

Relatively small business scale with single mill

The company operates a single mill in Buriram province. This single mill production means BRR is exposed to concentration risk in terms of operations and procurement. However, the procurement risk is partly offset by the company’s status as the only sugar producer in Buriram province. Additionally, BRR and other mills in nearby provinces allocate zoning for sugarcane procurement to prevent competition for supplies.

BRR’s sugar production volume is also relatively small compared with other sugar millers in Thailand. The company has held a market share of 2.4%-2.9% of the country’s sugar production volume over the past five years. Revenue from BRR’s sugar business ranged from THB2.9-THB4.7 billion over the same period. However, despite its small scale, BRR ranks among the top three of fifty-seven Thai sugar millers in terms of sugar yield. The company’s high yield is attributed mainly to the quality of sugarcane produced in the areas surrounding its plant.

Diversification into power business

BRR has expanded along the sugar value chain to maximize the utilization of sugarcane and by-products of the sugar manufacturing process. BRR’s major sugar-related business is electricity generation. Revenue from electricity sales has accounted for 9%-10% of BRR’s total revenue during the past five years.

BRR has three biomass power plants with combined electricity generating capacity of 29.7 megawatts (MW), 16 MW of which were sold to the Provincial Electricity Authority (PEA) under long-term Power Purchase Agreements (PPAs). The power business generates stable revenue stream which partly offsets the volatility of sugar prices.

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Steady expansion in packaging business

As part of a strategic move to utilize by-products and to capture the rising trend for environmental-friendly products, BRR has diversified into the biodegradable packaging business. The company uses pulp from bagasse to produce food packaging products such as plates, and bowls. Most packaging products (about 90%) are targeted for export to the US, EU, and other countries under original equipment manufacturer (OEM) orders. BRR also sells products under its own brand “SEW” in the domestic market.

At present, the contribution from this business is minimal, accounting for around 1% of the company’s revenue. BRR expects the contribution to grow rapidly to 7% of revenue over the next few years, on the back of secured purchase orders and its expansion plan, coupled with rising demand for sustainable packaging products.

Recovery in operating performance

We expect BRR’s operating performance to recover over the forecast period, supported by improved sugarcane productivity and escalating sugar prices.

During 2019-2021, BRR’s operating results weakened significantly, following severe drought in Thailand, declining sugar consumption during the COVID-19 pandemic, and plummeting global sugar prices. During the industry down cycle, the average sugar price slumped to around 12 cents per pound (c/lb), compared with 16-18 c/lb in prior years. Sugarcane production volume in Thailand also declined for three consecutive years, plunging to 66.7 million tonnes in 2020/21, down 50.6% from 134.9 million tonnes in 2017/18, following unfavorable weather and drought.

In line with industrywide trends, BRR’s sugarcane volume slid to 1.8 million tonnes in 2020/21, down by 44.2% from 3.2 million tonnes in 2017/18. BRR’s deteriorated operating results also came by losses from new refining plants in 2019. As a result, revenue declined to THB4-THB5 billion in 2019-2021, from THB5.7 billion in 2018. BRR’s earnings before interest, taxes, depreciation, and amortization (EBITDA) also decreased to THB252-THB695 million in 2019-2021, compared with around THB 1 billion in 2018. Profit from sugar business was curbed by lower cane supplies and sugar prices, while profit from electricity sales was also slashed by higher fuel costs as a result of tight raw material supplies.

However, BRR’s operating results improved substantially in the first quarter of 2022. This followed rises in sugar production volume and sugar prices. BRR’s sugarcane volume in the latest crop (2021/22) rose by 34.8% year-on-year (y-o-y), while the average sugar price climbed to 18.6 c/lb, up by 14.5% y-o-y during the first quarter of 2022. As a result, BRR’s revenue increased by 108.5% y-o-y to THB2.3 billion, while EBITDA surged by 73.9% y-o-y to THB 534 million.

Despite imminent challenges from container shortages, rising inflation pushing up costs, as well as the uncertainty of economic recovery, we believe BRR’s operating performance will further improve in the coming years. Increased sugarcane volume will not only lift revenues and margins in the sugar business, but also in the power business. Additionally, we expect a greater revenue contribution from the packaging business. Under our base-case forecast, we assume world sugar prices will average of around 20 c/lb in 2022, before declining to 18 c/lb and 15.0 c/lb in 2023 and 2024, respectively. We project BRR’s operating revenue to be THB5.4-THB6 billion per annum during 2022-2024, while EBITDA should be in THB800-THB1,000 million per annum range over the same period.

Rising financial leverage

Owing to capital investment in new projects, together with declining profit during the industry downtrend, BRR’s financial leverage has increased significantly over the past few years.

As of March 2022, BRR’s adjusted debt stood at THB6.9 billion, up from THB5.8 billion in 2017. Adjusted debt to EBITDA rose to 10.2 times in 2021 and 8.3 times (annualized, from the trailing 12 months) in the first quarter of 2022, compared with 5.3 times in 2017. The total debt to capitalization ratio increased to 74.4% at the end of March 2022, from 70.2% in 2017.

We expect BRR’s leverage ratios to improve gradually on the back of improved performance. Total capital expenditure and investments are projected to be THB200 million per year in 2022-2024, mainly involve capacity expansion in the packaging business. We project the company’s debt to capitalization ratio to decline to 68% in 2024. The ratio of adjusted debt to EBITDA is projected to improve to around 6.2-6.5 times in 2022-2024.

Adequate liquidity profile

Over the next 12 months, we expect BRR to have adequate liquidity. Our base case projects EBITDA to be THB800-THB1,000 million per annum in 2022-2024 as sugar prices rebound to satisfactory levels.

At the end of March 2022, BRR had THB56 million cash on hand and THB2.1 billion in unused credit facilities. The main uses of funds in the coming year will be interest expenses and repayments of long-term obligations totaling about THB700 million.

BASE-CASE ASSUMPTIONS

- Operating revenues are projected to be around THB5.4-THB6.0 billion during 2022-2024.
- EBITDA margin to stay at around 16% in 2022, then remain in the 14%-15% per annum range during 2023-2024.
- Total capital spending of around THB200 million per year during 2022-2024.

RATING OUTLOOK

The “stable” outlook reflects our expectation that BRR will sustain its competitive position in the sugar industry in Thailand. We expect BRR to maintain sufficient liquidity or back-up credit facilities to meet its repayment obligations. Thailand’s sugar revenue sharing system, reliable revenue from the power business, as well as contributions from the packaging business should alleviate the effects of volatility in the sugar production business.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term. The rating upside could materialize if BRR steadily delivers stronger-than-expected operating results and capital structure. On the contrary, a downgrade could occur if operating performance is materially weaker than expected or if BRR makes any debt-funded investment that materially weakens its balance sheet and cash flow protection, such that the ratio of net debt to EBITDA exceed 8 times for a sustained period.

COMPANY OVERVIEW

BRR, formerly named Sahathairungruang Sugar Co., Ltd., was established in 1963 and listed on the Stock Exchange of Thailand (SET) in 2014. The company’s major shareholder is the Tangtongwechakit family, holding a stake of about 75% in the company at the end of 2021.

BRR owns and operates one sugar mill located in Buriram province, with a cane crushing capacity of 24,000 cane tonnes per day. The company procured 2.37 million tonnes of sugarcane in the 2021/2022 production period and produced 286,339 tonnes of sugar. Its market share was 2.8% in terms of volume of sugar produced. BRR’s sugar products can be divided into raw sugar, brown sugar, and refined sugar. Its own brands comprise “Double Key” and “BRUM”.

The company’s crushing yield is high. During the crushing seasons spanning 2018 to 2022, the yield ranged from 120-124 kilograms (kg) per cane tonne. These yields placed BRR among the top three sugar millers in Thailand. The crushing yield of BRR has consistently exceeded the annual industry average of 109-114 kg per cane tonne over the past five years.

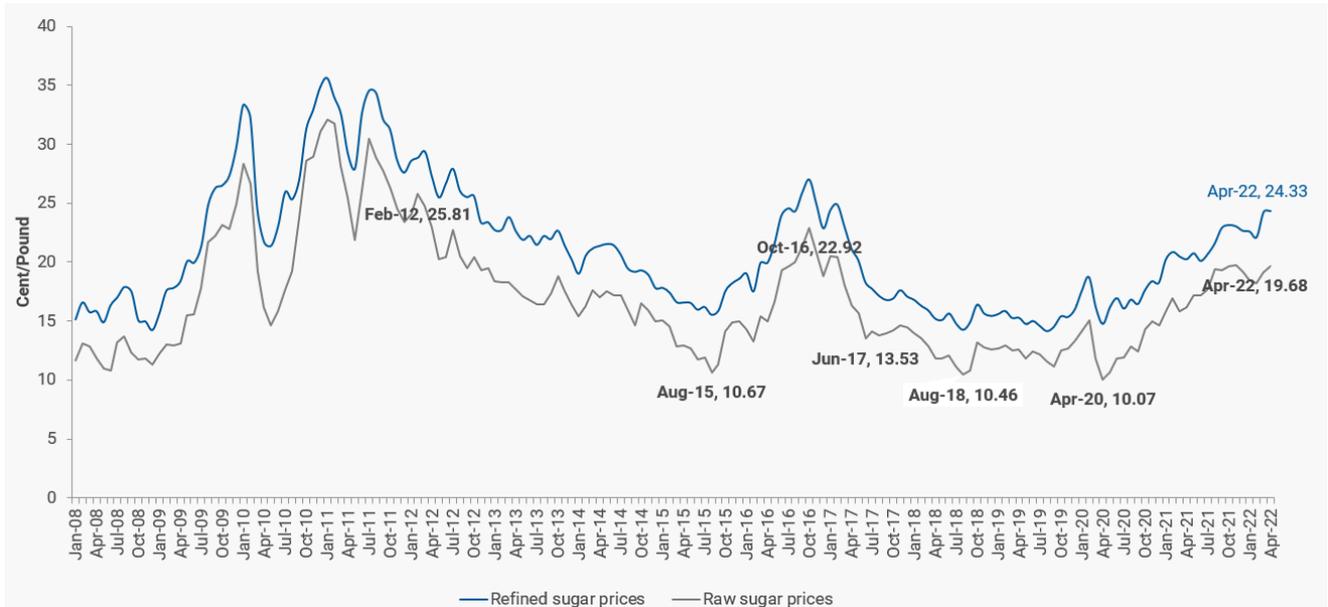
BRR has good relationship with individual cane growers. The company offers broad-based support to cane growers, including advance of cash, fertilizer, chemical, sugarcane variety, or other agricultural machines and equipment. In the 2021/2022 production year, BRR had approximately 188,000 rai of contract planting area spread across approximately 7,500 growers.

BRR’s sugar-related businesses include the production of electricity, fertilizer, and packaging. Sale from the sugar business contributed 76% of BRR’s total revenue in 2021, followed by electricity sale (10%), fertilizer (8%), packaging business (1%) and others (5%).

For the electricity business, BRR has three power plants, two of which have long-term contracts to sell totaling 16 MW of power to PEA under the very small power producer (VSPP) scheme. In 2017, BRR sold its future income streams from these two power plants to Buriram Sugar Group Power Plant Infrastructure Fund (BRRGIF) for THB 3.6 billion, while the company also invested in a 33.3% stake in BRRGIF. Additionally, BRR has expanded into the packaging business utilizing bagasse from sugarcane.

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: Sugar Production in Thailand

Unit: Mil. tons

Sugar Producer	Growing Season				
	2017/ 2018	2018/ 2019	2019/ 2020	2020/ 2021	2021/ 2022
Mitr Phol	2.73	2.92	1.61	1.68	2.34
Thai Roong Ruang	2.50	2.42	1.34	1.24	1.45
KSL	1.20	1.14	0.58	0.53	0.70
Thai Ekkalak	1.19	1.03	0.60	0.47	0.63
Korat	0.55	0.64	0.29	0.40	0.58
Wangkanai	0.79	0.69	0.22	0.24	0.36
Eastern Sugar	0.51	0.49	0.34	0.32	0.33
Khonburi	0.44	0.37	0.19	0.23	0.31
BRR	0.38	0.35	0.22	0.22	0.29
Banpong	0.52	0.58	0.38	0.27	0.27
Kumpawapee	0.41	0.39	0.24	0.17	0.28
Banpong	0.52	0.58	0.38	0.27	0.28
Others	4.03	4.13	2.65	2.09	2.86
Total	14.71	14.58	8.29	7.59	10.13

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

Table 2: BRR's Revenue Breakdown by Business

Unit: %

Product	2018	2019	2020	2021	Jan-Mar 2022
Sugar and molasses sales	79	80	78	76	77
Electricity sales	10	10	9	10	6
Fertilizer sales	7	8	8	8	10
Packaging sales	-	-	1	1	2
Others	5	3	4	5	6
Total sales	100	100	100	100	100

Source: BRR

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December-----				
	Jan-Mar 2022	2021	2020	2019	2018
Total operating revenues	2,296	3,965	3,983	5,048	5,723
Earnings before interest and taxes (EBIT)	457	318	339	(94)	698
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	534	596	695	252	1,006
Funds from operations (FFO)	519	390	336	(161)	591
Adjusted interest expense	11	197	338	404	399
Capital expenditures	41	104	188	712	923
Total assets	10,578	9,057	8,663	9,429	10,276
Adjusted debt	6,863	6,103	6,066	6,738	6,821
Adjusted equity	2,358	1,937	1,856	1,863	2,501
Adjusted Ratios					
EBITDA margin (%)	23.26	15.02	17.45	5.00	17.58
Pretax return on permanent capital (%)	5.49	3.96	4.07	(1.04)	7.75
EBITDA interest coverage (times)	47.70	3.03	2.06	0.62	2.52
Debt to EBITDA (times)	8.34	10.25	8.73	26.71	6.78
FFO to debt (%)	9.89	6.39	5.54	(2.39)	8.67
Debt to capitalization (%)	74.43	75.90	76.57	78.34	73.18

RELATED CRITERIA

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

Buriram Sugar PLC (BRR)

Company Rating:	BBB-
Rating Outlook:	Stable

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