

KHON KAEN SUGAR INDUSTRY PLC

No. 155/2024
13 September 2024

CORPORATES

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

Last Review Date: 18/09/23

Company Rating History:

Date	Rating	Outlook/Alert
19/09/22	BBB+	Positive
28/09/20	BBB+	Stable
04/06/20	A-	Negative
04/09/19	A-	Stable
13/11/13	A	Stable
24/11/06	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Khon Kaen Sugar Industry PLC (KSL) and the rating on KSL's senior unsecured debenture at "BBB+" but revises the rating outlook to "stable" from "positive". The "stable" outlook reflects our expectation that KSL's relatively high leverage level will likely remain until the new sugar plant starts commercial operation expected in 2025.

The ratings reflect KSL's long track record in the sugar industry, diversification into sugar-related businesses, and moderate financial profile. However, the ratings are constrained by its elevated leverage stemming from large capital expenditures (CAPEX), the operational risks of running a new plant, and volatility of sugar prices and sugarcane supplies.

KEY RATING CONSIDERATIONS

Weaker operating performance in 2023 with little change expected in 2024-2026

KSL's performance in 2023 was weaker than the previous year despite a similar sugarcane volume and high worldwide sugar prices. Raw sugar prices increased significantly in 2023, rising from 20 cents per pound (c/lb) to 27 c/lb, a record for the past 10 years, owing to a supply deficit and concerns over global geopolitical risks. However, a derivatives loss along with cost pressure from higher sugarcane prices and other processing costs, cut into the overall margin. KSL's EBITDA margin declined to 15% in 2023 from 21.5% in 2022. EBITDA in 2023 dropped by 20% to THB2.8 billion from THB3.5 billion in 2022.

We expect this level of performance to remain consistent over the forecast years. The impacts from derivatives and high processing costs are likely to abate, leading to slightly better profitability. KSL's sugarcane volume in the 2023/2024 crop year fell by 18% to 5.4 million tonnes, due to weak rainfall and a shutdown of the company's Chonburi plant. However, with favorable average sugar prices ranging from 18-22 c/lb, operating revenue in 2024 is expected to decline by only 11%.

Sugarcane volume is expected to increase in the 2024/2025 and 2025/2026 harvest years thanks to the prospect of better rainfall and the commencement of a new plant in Sa Kaeo in 2024/2025. Worldwide sugar prices are expected to decline to the 15-18 c/lb range.

As a result, KSL's operating revenue is projected to range from around THB16.5-THB18.0 billion per year in 2024-2026. EBITDA margin should range from 17%-18% with EBITDA of around THB2.9-THB3.0 billion per year.

Satisfactory operations at the Lao plant

KSL has two sugar plants outside Thailand, in Cambodia and in the Lao People's Democratic Republic (Lao PDR). Operations at the sugar plant in Cambodia are currently halted while the sugar plant in the Lao PDR is operating normally. Revenue from the Lao plant contributed 4% of KSL's total revenue. Revenue and EBITDA in 2023 were THB677 million and THB280 million, respectively, significantly increasing from 2022, thanks to higher sugarcane production and worldwide sugar prices. EBITDA more than doubled from 2022. However, sugarcane volume for the 2023/2024 harvest year was lower due to lower level of rainfall. We expect revenue from the Lao plant to drop by 12% to around THB590 million in 2024.

Sugarcane production is anticipated to pick up in the 2024/2025 and 2025/2026 harvest years due to increased planting areas and the prospect of better rainfall. Nevertheless, with the projected drop in worldwide sugar prices, KSL's revenue is expected to fall to around THB480-THB500 million per year in 2025-2026.

Stable revenue from power and related businesses, but no dividend income from ethanol

Revenue from electricity generation, steam, and fertilizer accounted for 10% of KSL's total revenue in 2023 and the first nine months of 2024 (9M24). Apart from utilizing power internally, KSL sells electricity, mainly to state-owned utilities. Revenue from electricity came to THB1.6 billion in 2023 and THB1.2 billion for 9M24. We forecast the company's electricity revenue of THB1.4 billion per year during 2024-2026.

KSL also holds a 29.88% stake in BBGI PLC (BBGI), a producer of biodiesel and ethanol. KSL recorded an impairment of THB196 million on its investment in BBGI in 2023, following an assessment of the expected recoverable amount of investment in BBGI. We have not included dividend income from BBGI in our forecast in 2025-2026 since the company has underperformed in both the biodiesel and ethanol businesses, and more time is needed to assess the performance of its new ventures.

Gradual decline in leverage expected

We anticipate KSL's financial leverage will rise in 2024 following the investment in a new sugar plant before gradually declining from 2025 onwards. The company relocated operations at its plant in Chonburi with a capacity of 3,500 sugarcane tonnes per day to a new sugar plant in Sa Kaeo with a capacity of 20,000 sugarcane tonnes per day. A new power plant is being constructed in the same area. Both plants are scheduled to commence operation in the 2024/2025 production year. The investment for both the sugar plant and power plant is expected to total THB5.7 billion during 2023-2025.

With the intensive investment for the new plants, we expect KSL's interest-bearing debt to reach THB17.0 billion at the end of 2024, increasing from THB14.4 billion at the end of 2023. However, the debt level should decline based on the company's scheduled loan repayments of approximately THB1-THB3 billion per year. The net debt to EBITDA ratio was 5.1 times in 2023 and 6.1 times for the first nine months of 2024 (annualized). We expect the net debt to EBITDA ratio to gradually decline to around 5 times within the next two years from 5.7 times in 2024.

Manageable liquidity

KSL's sources of funds comprised cash on hand of THB147 million and undrawn uncommitted credit facilities of THB13.8 billion at the end of July 2024. Funds from operations (FFO) over the next 12 months are projected to be around THB2.1 billion. On the other hand, the company will have maturing debt over the next 12 months totaling THB11.2 billion, comprising short-term debt of THB8.7 billion, long-term debt of THB2.5 billion, and lease liabilities of THB13 million. The company's planned CAPEX is around THB3.5 billion, THB3.3 billion of which is earmarked for the new plant.

According to the key financial covenant on KSL's bank loans and debentures, the company is required to maintain its interest-bearing debt to equity ratio below 2.0 times. The ratio at the end of July 2024 was 0.86 times. We believe the company will remain in compliance on the covenant over the next 12 to 18 months.

Debt structure

As of July 2024, KSL's total interest-bearing debt stood at THB19.4 billion. This included THB3.6 billion in priority debt comprising unsecured debts at the subsidiary level. The priority debt to total debt ratio was 19%.

BASE-CASE ASSUMPTIONS

- Operating revenue to stay around THB16.5-THB18.0 billion per annum during 2024-2026.
- EBITDA margin in the 17%-18% range during 2024-2026.
- Total capital spending of THB3.5 billion in 2024, largely for the construction of new plants, and for investments of around THB700 million per annum during 2025-2026.

RATING OUTLOOK

The "stable" outlook reflects the expectation that KSL's relatively high leverage level will likely remain until the new sugar plant starts commercial operation expected in 2025. The company's operating performance and leverage level will remain in line with our forecasts.

RATING SENSITIVITIES

An upgrade scenario could occur if KSL significantly enlarges its earnings and strengthens its balance sheet, such that the net debt to EBITDA ratio stays below 4 times on a sustained basis. On the contrary, a downgrade could occur if operating performance turns out to be materially weaker than our expectations.

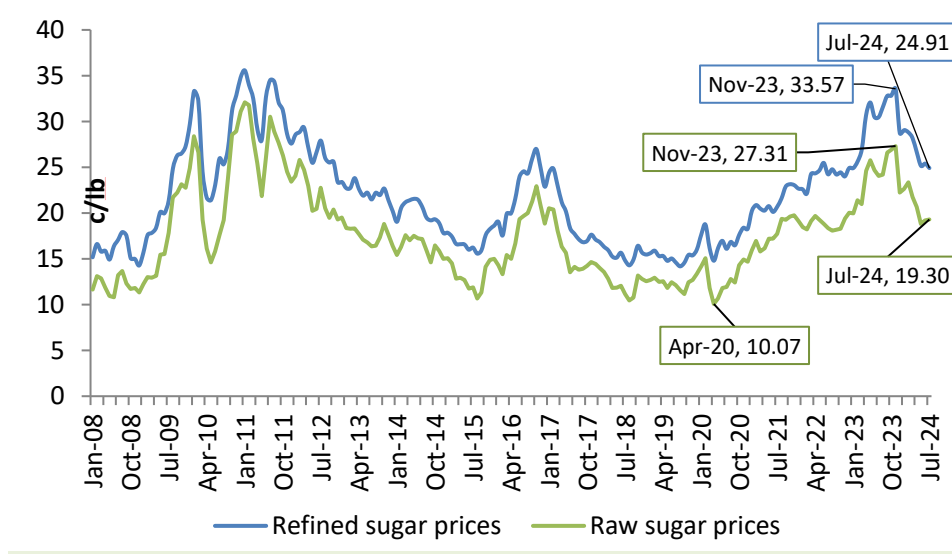
COMPANY OVERVIEW

KSL is one of the leading sugar producers in Thailand, established in 1945 by the Chinthammit Family and associates. As of April 2024, the Chinthammit Family collectively held 72% of the company’s shares. The company owns and operates four sugar plants in Thailand, with a combined cane crushing capacity of 128,000 cane tonnes per day as of September 2024. The Chonburi plant, with cane crushing capacity of 3,500 cane tonnes per day was closed in 2023 and relocated to a new sugar plant in Sa Kaeo with cane crushing capacity of 20,000 cane tonnes per day. KSL is also building a power plant in the same area in Sa Kaeo. The plants in Sa Kaeo are expected to commence operation in the 2024/2025 crop year. KSL procured 5.4 million tonnes of sugarcane in the 2023/2024 crop year and produced 0.57 million tonnes of sugar. The company’s sugar production in the 2023/2024 growing season ranked fourth in the industry, with a market share of 6.4%. KSL trailed Mitr Phol Group (23.9%), Thai Roong Ruang Group (14.3%), and Korach Industry Sugar Group (6.5%).

BBGI was established in October 2017 to produce bio-based products through a merger of KSL Green Innovation PLC (KGI), a subsidiary of KSL, and BBP Holding Co., Ltd. (BBH), a subsidiary of Bangchak Corporation PLC (BCP). BBGI is Thailand’s largest producer of biofuel with a total production capacity of 1,800,000 litres per day, consisting of 800,000 litres per day of ethanol and 1,000,000 litres per day of biodiesel. In March 2022, BBGI was listed on the Stock Exchange of Thailand (SET). The company received net proceeds of THB4.45 billion from the fundraising. KSL ultimately holds 29.88% of BBGI, while BCP ultimately holds 45%.

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. tonnes

Sugar Producers	Growing Season				
	2019/ 2020	2020/ 2021	2021/ 2022	2022/ 2023	2023/ 2024
Mitr Phol	1.61	1.68	2.34	2.36	2.11
Thai Roong Ruang	1.34	1.24	1.45	1.82	1.26
KSL Group	0.58	0.53	0.70	0.75	0.57
Thai Ekkalak	0.60	0.47	0.64	0.80	0.51
Wangkanai	0.22	0.24	0.36	0.50	0.33
Eastern Sugar	0.34	0.34	0.36	0.42	0.38
Khonburi	0.19	0.23	0.31	0.35	0.28
Kumpawapee	0.24	0.17	0.29	0.22	0.17
Buriram	0.22	0.22	0.29	0.24	0.28
Bangpong	0.38	0.27	0.28	0.32	0.21
Others	2.79	2.44	3.16	3.27	2.71
Total	8.29	7.59	10.15	11.06	8.81

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

Table 2: KSL's Revenue Breakdown by Business

Unit: %

Products	2020	2021	2022	2023	Nov 2023- Jul 2024
Sugar sales					
- Thailand	80.7	79.2	83.6	82.3	80.9
- Lao PDR & Cambodia	4.0	4.0	3.3	3.7	2.9
Electricity sales	10.6	11.3	8.3	9.2	9.9
Services and others	4.7	5.5	4.8	4.8	6.3
Total sales	100	100	100	100	100

Source: KSL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Nov 2023 – Jul 2024	-----Year Ended 31 October -----			
		2023	2022	2021	2020
Total operating revenues	12,678	18,604	16,549	10,660	12,012
Earnings before interest and taxes (EBIT)	1,697	1,713	2,180	1,171	410
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,555	2,844	3,550	1,809	1,196
Funds from operations (FFO)	1,995	2,239	3,058	1,376	648
Adjusted interest expense	487	479	433	428	503
Capital expenditures	3,069	941	194	220	480
Total assets	45,957	39,798	41,650	41,521	41,122
Adjusted debt	19,484	14,423	16,660	18,558	18,920
Adjusted equity	22,336	21,577	21,363	20,112	19,546
Adjusted Ratios					
EBITDA margin (%)	20.2	15.3	21.5	17.0	10.0
Pretax return on permanent capital (%)**	5.5	4.6	5.7	3.0	1.0
EBITDA interest coverage (times)	5.2	5.9	8.2	4.2	2.4
Debt to EBITDA (times)**	6.1	5.1	4.7	10.3	15.8
FFO to debt (%)**	13.1	15.5	18.4	7.4	3.4
Debt to capitalization (%)	46.6	40.1	43.8	48.0	49.2

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

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

Khon Kaen Sugar Industry PLC (KSL)

Company Rating:	BBB+
Issue Rating:	
KSL27DA: THB2,000 million senior unsecured debentures due 2027	BBB+
Rating Outlook:	Stable

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