TRIS RATING

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CreditNews ข่าวเครดิต

News for Investors

Announcement No. 558 23 July 2008

Khon Kaen Sugar Industry Public Company Limited

Company Rating:	A-
Issue Ratings:	
KSL10NA: Bt1,000 million senior debentures due 2010	A-
KSL12NA: Bt500 million senior debentures due 2012	A-
Up to Bt2,000 million senior debentures due within 2013	A-
Rating Outlook:	Stable

Rating History:	**Company Rating**	**Issue Rating**	
		Secured	**Unsecured**
29 Oct 2007	A-	-	A-
24 Nov 2006	A-	-	-

Rating Rationale

TRIS Rating affirms the company rating of Khon Kaen Sugar Industry PLC (KSL) and the ratings of KSL's existing debentures at "A-". At the same time, TRIS Rating assigns the rating of "A-" to KSL's proposed issue of up to Bt2,000 million in senior debentures. The ratings reflect the company's long track record in the Thai sugar and sugarcane industry, diversification into sugar-related businesses, and a healthy balance sheet. The ratings also take into consideration the company's exposure to regulatory and operational risks of sugar operations in Laos and Cambodia, the volatility of sugarcane supply and sugar prices, and regulatory risks in the domestic ethanol market.

KSL is one of the leading sugar producers in Thailand, established in 1945 by the Chinthammit family and associates. Currently, the Chinthammit family collectively holds 67% of the company's shares. The company owns and operates four sugar plants in Khon Kaen, Kanchanaburi, and Chonburi provinces, with combined cane crushing capacity of 66,000 cane tonnes per day. The capacity will increase to 78,000 cane tonnes per day after a sugar plant is relocated and expanded in 2010. During the last five years, the KSL Group has been able to procure 4-5 million tonnes of sugarcane per year. The Group's sugar production averaged 500,000 tonnes per year over the same period. For the 2007/2008 production period, the KSL Group was the 4th largest sugar producer in Thailand, with a 7.8% market share of sugarcane, following the Mitr Phol Group (18.3%), Thai Roong Ruang Group (17.0%) and Thai Ekkalak Group (12.8%). KSL's sugar production in the 2007/2008 crushing period was 606,071 tonnes, up by 14% from the previous year.

Apart from the sugar business, since 2006, KSL has expanded along the sugar value chain to maximize its utilization of sugarcane. These new businesses include ethanol production and electricity generation. In 2007, revenue from the ethanol business accounted for 4% of total sales, down from 9.7% in 2006, as government policy no longer pushes the discontinuation of the production and distribution of 95-octane gasoline. After oil prices soared in late 2007, demand for gasohol and ethanol gradually improved and the contribution from the ethanol business comprised 7.4% of total sales for the first six months of 2008. The operating income before depreciation and amortization to sales ratio remained relatively stable, ranging from 13%-17% during the last five years, due partly to the revenue sharing system of Thailand's sugar and sugarcane industry

Due to constraints on sugarcane supply in Thailand, in 2006, KSL started to invest in sugarcane plantations and sugar plants in Laos and Cambodia. The combined investment in these two projects is Bt4,700 million. KSL expects to export raw sugar from Laos and Cambodia to the European Union (EU) under the EBA (Everything But Arms) scheme in 2009 at prices higher than world market prices. The political, regulatory, and operational risks of running sugar plants in those countries remain concerns.

In addition to the overseas expansion, KSL plans to expand its sugar business in Kanchanaburi with a budget of Bt5,000-5,500 million. The new projects include the relocation of an existing sugar plant to Bo Ploy, Kanchanaburi, and expansion of the cane crushing capacity, a new ethanol plant, and a new power plant. The projects are scheduled to be completed in 2010

KSL's balance sheet has been healthy. As of April 2008, total debt was Bt6,271 million against an equity base of Bt10,026 million. The total debt to capitalization ratio rose from 26.53% in 2007 to 38.48% by the end of April 2008, partly due to the seasonality of working capital requirements during the sugarcane crushing period. The ratio is expected to slightly increase in 2008-2010 during the construction period of the sugar mills in Laos and Cambodia and the expansion in Kanchanaburi.

Sugarcane production volume in Thailand has been very volatile, depending on natural rainfall, plantation area, and cane prices relative to competing products. Sugarcane production in 2007/2008 was high at 73.3 million tonnes, due to plentiful water. Production in the 2008/2009 period is expected to reach the same level as the 2007/2008 period. Despite approximately 60% of KSL's sugar sales coming from export markets, its exposure to export sugar price volatility and Thai baht fluctuations are mitigated by the 70:30 revenue sharing system.

Rating Outlook

The "stable" outlook reflects the expectation that KSL will maintain its market position in the Thai sugar industry. Sugarcane plantations and sugar mill projects in Laos and Cambodia are expected to be well managed and within budget. The company is expected to maintain its healthy financial profile during the expansion in 2008-2010, which will accommodate the rise in business risks from foreign operations.

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