

KHON KAEN SUGAR INDUSTRY PLC

No. 60/2015

24 September 2015

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

Company Rating History:

Date	Rating	Outlook/Alert
13/11/13	A	Stable
24/11/06	A-	Stable

Contacts:

Jutatip Chitphromphan
jutatip@trisrating.com

Nauwarut Temwattanangkul
nauwarut@trisrating.com

Rungrat Suntornpagasit
rungrat@trisrating.com

Wiyada Pratoomsuwan, CFA
wiyada@trisrating.com

WWW.TRISRATING.COM

Rating Rationale

TRIS Rating affirms the company rating and the ratings of the senior unsecured debentures of Khon Kaen Sugar Industry PLC (KSL) at "A". At the same time, TRIS Rating assigns a rating of "A" to KSL's proposed issue of up to Bt1,000 million in senior unsecured debentures. The proceeds from the new debentures will be used to repay its existing short-term debt. The ratings reflect the company's long track record in the sugar and sugarcane industry and its diversification into sugar-related businesses. The ratings also take into consideration the ongoing worldwide slump in sugar prices, the operational risks of KSL's sugar operations in the Lao People's Democratic Republic (Lao PDR) and Cambodia, as well as the volatility of the supply of sugarcane.

KSL is one of the leading sugar producers in Thailand, established in 1945 by the Chinthammit family and associates. As of April 2015, the Chinthammit family collectively held 70.3% of the company's shares. The company owns and operates five sugar plants in Thailand, with a combined cane crushing capacity of 110,000 cane tonnes per day as of May 2015. KSL Group has procured 8.8 million tonnes of sugarcane in the 2014/2015 crushing period and produced 914,458 tonnes of sugar. KSL's sugar production in the 2014/2015 growing season was ranked fourth with a market share of 8.3%, trailing the Mitr Phol Group (19.5%), the Thai Roong Ruang Group (14.3%), and the Thai Ekkalak Group (9.2%).

Since fiscal year (FY) 2006, KSL has expanded along the sugar value chain to maximize the utilization of sugarcane. KSL's sugar-related businesses include electricity generating and ethanol producing. During FY2013 and FY2014, revenue from the energy segment (electricity and ethanol) accounted for 18% of total sales.

Apart from producing sugar in Thailand, KSL also operates sugar plants in the Lao PDR and Cambodia. The plants in the Lao PDR and Cambodia started commercial production in FY2010. The total investment in the Lao PDR and Cambodia was approximately Bt5,200 million. Sugar production volumes in the Lao PDR and Cambodia are currently small, compared with sugar operation in Thailand. Since starting up, the sugarcane yield in the Lao PDR has improved gradually, but the sugarcane yield in Cambodia has remained below the plan. As a result, the sugar production in both countries for the 2014/2015 growing season was only 35,000 tonnes, representing less than 5% of KSL's sugar production in Thailand. In addition, the sharp fall in sugar price further pushed down KSL's operations in the Lao PDR and Cambodia in FY2015. KSL's operations in the Lao PDR and Cambodia have continued to report losses. The combined loss totaled Bt204 million for the first nine months of FY2015.

During the first nine months of FY2015, total revenue was Bt12,728 million, up by 4% over the same period of FY2014. The rise was driven by 16% y-o-y increase in sales volumes of sugar, while an average sales price of sugar dropped by 9%. KSL's operating profit margin before depreciation and amortization for the first nine months of FY2015 declined to 20.3%, compared with 24.1% during the first nine months of FY2014. The drop was because of a plunge in sugar prices, higher production costs due to a lower cane crushing yield from unfavorable weather. The operating profit margin from ethanol and power were softer due to the drop in power tariff and production hiccup at its ethanol plant. However, the

CreditUpdate reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

CreditUpdates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

operating profit margin of power and ethanol remained satisfactory at 40% and 24%, respectively in the first nine months of FY2015. KSL’s earnings before interest, tax, depreciation, and amortization (EBITDA) during the first nine months of FY2015 slightly dropped to Bt3,003 million, from Bt 3,158 million over the same period of FY2014. KSL’s EBITDA interest coverage remained satisfactory at 4.8 times in the first nine months of FY2015, compared with 5.1 times in the first nine months of FY2014.

KSL’s financial leverage was seasonally high with a debt to capitalization ratio of 62.4%. KSL’s leverage is expected to improve at the end of FY2015. The fund from operation (FFO) to total debt ratio was flat at 10.9% (annualized with trailing 12 months) during the first nine months of FY2015, compared with 10.3% (annualized with trailing 12 months) over the same period of FY2014. Looking forward, KSL’s capital expenditures for FY2015-FY2017 will be around at Bt1,000 million per year, down from Bt3,000-Bt6,000 million per year in FY2013-FY2014 due to no major capacity expansion. With expected KSL’s total EBITDA of approximately Bt3,000 million per year and planned investments, the company’s leverage is expected to improve gradually. Cash flow protection is expected to be cyclically low in FY2015 as sugar price remained weak; however, it will be improved in the medium terms, following the recovery in sugar prices and declining debt level.

Rating Outlook

The “stable” outlook reflects TRIS Rating’s expectation that KSL will maintain its competitive position in the Thai sugar industry. The revenue sharing system of the Thai sugar industry, strong demand for ethanol, and the reliable income streams from the energy segment will partly cushion KSL’s financial performance during the sugar industry down cycle.

KSL’s credit upside is limited as long as sugar prices remain low. The downside risk could occur if sugar prices continue to slump, leading to noticeably weaker profitability for the extended periods. An aggressive debt-funded investment and persistently weaker cash flow protection are also the negative factors for KSL’s credit ratings.

Khon Kaen Sugar Industry PLC (KSL)

Company Rating:	A
Issue Ratings:	
KSL15DA: Bt1,000 million senior unsecured debentures due 2015	A
KSL174A: Bt1,000 million senior unsecured debentures due 2017	A
KSL198A: Bt1,000 million senior unsecured debentures due 2019	A
KSL199A: Bt1,000 million senior unsecured debentures due 2019	A
Up to Bt1,000 million senior unsecured debentures due within 2018	A
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Nov 2014 -July 2015	Year Ended 31 October				
		2014	2013	2012	2011	2010
Sales and service revenues	12,728	19,185	18,941	22,212	16,460	12,071
Gross interest expense	631	807	658	549	463	338
Net income from operations	1,088	1,610	1,658	2,321	1,875	132
Funds from operations (FFO)	2,324	2,957	2,579	3,505	2,829	580
Total capital expenditures	760	2,687	6,172	4,351	1,387	3,325
Total assets	44,985	40,134	36,017	29,617	23,820	23,153
Total debt	26,147	22,021	19,003	14,022	12,085	11,578
Shareholders' equity	15,759	14,833	13,703	12,032	9,214	9,934
Operating income before depreciation and amortization as % of sales	20.34	17.95	15.15	18.95	21.74	5.05
Pretax return on permanent capital (%)	6.28 **	6.30	7.27	14.37	15.09	2.54
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.76	4.73	5.14	8.29	8.37	2.65
FFO/total debt (%)	10.86 **	13.43	13.57	25.00	23.41	5.01
Total debt/capitalization (%)	62.39	59.75	58.10	53.82	56.74	53.82

* Consolidated financial statements

** Annualized with trailing 12 months

TRIS Rating Co., Ltd.

Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com

© Copyright 2015, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at <http://www.trisrating.com/en/rating-information/rating-criteria.html>.