

KHON KAEN SUGAR INDUSTRY PLC

No. 97/2013

13 November 2013

Company Rating: A

Outlook: Stable

Rating History:

Date	Company	Issue (Secured/ Unsecured)
29/10/07	A-/Sta	-/A-
24/11/06	A-/Sta	-

Rating Rationale

TRIS Rating upgrades the company and senior debenture ratings of Khon Kaen Sugar Industry PLC (KSL) to "A" from "A-". The upgrade reflects the company's strengthened business profile following the successful operation of its new sugar mill complex at Bo Ploy district in Kanchanaburi province and growing contribution from energy business. The ratings continue to reflect KSL's market position as one of the leading sugar producers in Thailand and its diversification into sugar-related businesses. The ratings also take into consideration the company's exposure to the regulatory and operational risks of its sugar operations in the Lao People's Democratic Republic (Lao PDR) and Cambodia, as well as the volatility of both sugar prices and the supply of sugarcane.

KSL was established in 1945 by the Chinthammit family and associates. Currently, the Chinthammit family collectively holds 70.0% of the company's shares. The company owns and operates five sugar plants in Thailand, with a combined cane crushing capacity of 92,000 cane tonnes per day. The KSL Group has been able to procure 7.7 million tonnes of sugarcane in the 2012/2013 period and produced 738,952 tonnes of sugar. KSL's sugar production was ranked fourth with a market share of 7.4%, following the Mitr Phol Group (19.9%), the Thai Roong Ruang Group (16.3%), and the Thai Ekkalak Group (9.3%).

Since 2006, KSL has expanded along the sugar value chain to maximize the utilization of sugarcane. During 2007 through 2012, KSL's revenue from the energy business (ethanol and electricity) accounted for an average of 10% of total sales. Earnings before interest, tax, depreciation and amortization (EBITDA) from the energy segment contributed around 20% of total EBITDA during the same period. Sugar business in Laos PDR and Cambodia are currently small, compared with sugar operation in Thailand. The sugar production in both countries for 2012/2013 season was only 35,000 tonnes, representing less than 5% of KSL's sugar production in Thailand. The company expects sugar operation in both countries to reach a break-even level in the 2013/2014 period.

Due to constraint on sugarcane supply in surrounding areas of existing sugar mills, KSL developed a new sugar complex at Bo Ploy district, Kanchanaburi province, with a total investment cost of Bt7,250 million. After completion in October 2012, the KSL Group's cane crushing capacity increased by 43.8% from 64,000 tonnes per day to 92,000 tonnes per day. KSL's sugar production share simultaneously improved from 6.4% in 2010/2011 to 7.4% in 2012/2013. Its ethanol capacity was also more than double from 150,000 liters per day to 350,000 liters per day.

Despite declining trend of sugar price, KSL's financial performances for fiscal year (FY) 2012-2013 were satisfactory. Total revenue rose by 35% to Bt22,212 million, from Bt16,460 million in FY2011, due primarily to the start up of sugar mills in Kanchanaburi province and Loei province. EBITDA for FY2012 rose to Bt4,580 million from Bt3,891 million in 2011. EBITDA from ethanol and electricity businesses increased from Bt500 million in 2011 to Bt1,000 million in 2012. Ethanol selling volume increased more than 200% following new ethanol capacity of the Bo Ploy complex and the bright prospects of ethanol consumption after the ban of gasoline 91 since 1 January 2013.

KSL's financial leverage was relatively stable with a debt to capitalization ratio of 50%-55% at the end of each fiscal year, ending 31 October. During 2014-2016,

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given its moderate capital expenditures of Bt2,000 million to Bt3,000 million per year and expected EBITDA of approximately Bt3,000 million to Bt4,000 million per year, the company's leverage is expected to maintain at this level.

Global sugarcane production volumes and sugar prices are both very volatile. For the 2012/2013 season, sugarcane production in Thailand was around 100 million tonnes, increasing from 98 million tonnes in the 2011/2012 crop year. After peaking at 36.11 cents per pound (lb) in January 2011, the world price for raw sugar fell gradually and has hovered at around 18-19 cents/lb since January 2013 because production volumes in many major sugar producing countries have increased.

Rating Outlook

The "stable" outlook reflects TRIS Rating's expectation that KSL will maintain its competitive position in the Thai sugar industry. Revenue sharing system of the sugar industry and growing contribution from ethanol and power businesses will be a cushion for the company during the down cycle of the sugar industry.

Khon Kaen Sugar Industry PLC (KSL)

Company Rating:	A
Issue Ratings:	
KSL14DA: Bt1,500 million senior debentures due 2014	A
KSL15DA: Bt1,000 million senior debentures due 2015	A
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Year Ended 31 October					
	Nov 2012 -Jul 2013	2012	2011	2010	2009	2008
Sales and service revenues	15,345	22,212	16,460	12,071	11,517	10,768
Gross interest expense	498	549	463	338	242	214
Net income from operations	1,560	2,354	1,890	159	901	860
Funds from operations (FFO)	2,298	3,505	2,829	580	1,397	1,321
Total capital expenditures	4,925	4,351	1,387	3,325	3,821	2,390
Total assets	37,228	29,617	23,820	23,153	20,512	16,985
Total debt	20,188	14,022	12,085	11,578	7,552	5,116
Shareholders' equity	12,099	12,032	9,214	9,934	10,894	10,457
Operating income before depreciation and amortization as % of sales	14.74	18.44	21.80	5.05	13.45	14.20
Pretax return on permanent capital (%)	7.32 **	14.50	15.16	2.67	9.15	10.46
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	6.03	8.35	8.41	2.73	8.05	8.61
FFO/total debt (%)	11.38 **	25.00	23.41	5.01	18.50	25.82
Total debt/capitalization (%)	59.01	53.82	56.74	53.82	40.94	32.85

* Consolidated financial statements

** Non-annualized

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