

## Press Release

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### TRIS Rating Affirms Company & Issue Ratings of "KSL" at "A-" with "Stable" Outlook

TRIS Rating Co., Ltd. has affirmed the company and senior debenture ratings of Khon Kaen Sugar Industry PLC (KSL) at "A-" with "stable" outlook. The ratings reflect KSL's long track record in the Thai sugar and sugarcane industry, diversification into sugar-related businesses, and efficient sugar mill operations. The ratings also take into consideration the company's expansion, the regulatory and operational risks of its sugar operations in Lao PDR and Cambodia, and the volatility of sugarcane supply and sugar prices.

The "stable" outlook reflects TRIS Rating's expectation that KSL will maintain its market position in the Thai sugar industry. The sugarcane plantations and sugar mills in Lao PDR and Cambodia are expected to break even in FY2012, while the new sugar complex in Bo Ploy should strengthen KSL's sugarcane procurement ability. The company is expected to maintain a healthy financial position to accommodate higher business risk from foreign operations.

TRIS Rating reported that 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 68% of the company's shares. The company owns and operates four sugar plants in Khon Kaen, Kanchanaburi, and Chonburi provinces, with a combined cane crushing capacity of 64,000 cane tonnes per day. During the last five years, the KSL Group has been able to procure 4-5 million tonnes of sugarcane per year and produce an average of 500,000 tonnes of sugar per year. For the 2010/2011 production period, the KSL Group's sugar production in Thailand was 622,330 tonnes, ranked number five with 6.44% market share, following the Mitr Phol Group (19.34%), the Thai Roong Ruang Group (16.67%), the Thai Ekkalak Group (11.27%), and the Wangkanai Group (7.82%). The company's crushing yield for the 2010/2011 growing season, based on standard sugarcane, was 91.01 kilograms (kg.) per cane tonne, better than the industry average of 89.58 kg.

Since 2006, KSL has expanded along the sugar value chain to maximize the utilization of sugarcane. These related businesses include electricity generation and ethanol production. During the 2007 to 2009 fiscal year (FY), revenue from the energy business (ethanol and electricity) accounted for an average of 10% of total sales, while the energy business contributed an average of 29% of total net profit. In FY2010, revenue from the energy business contributed 8.85% of total sales, while contributing 170.57% of total net profit, due to losses in derivative contracts from the sugar business.

TRIS Rating said, sugar plants of KSL in Lao PDR and Cambodia started commercial production in the 2009/2010 production period. Sugarcane procurement for both plants was 102,266 tonnes in the 2009/2010 season and increased to 300,299 tonnes in the 2010/2011 season. Sugarcane production in these two countries was lower than expectation due to the lack of skilled labor and difficulties in farm management. All raw sugar produced from these two plants is exported to the European Union (EU). KSL expects the sugar production of these two plants to reach a break-even level in the 2011/2012 period.

In order to strengthen its sugarcane procurement ability, KSL is relocating and then expanding a new sugar complex in Bo Ploy, Kanchanaburi province, with an investment cost of Bt7,250 million. The new sugar complex consists of a sugar plant, an ethanol plant, and a power plant. The first phase of the project started in the 2010/2011 season and the second phase will be in the 2011/2012 season. The company plans to invest in another project in Loei province, comprising a sugar plant and a power plant. The total investment is expected to be Bt3,800 million and the project is scheduled for launch in the 2013/2014 season.

In FY2010 (November 2009-October 2010), KSL's total sales were Bt12,071 million, up by 4.81% from FY2009, due mainly to higher prices of sugar and ethanol. The operating income before depreciation and amortization to sales ratio dropped from 13.45% in FY2009 to 5.05% in FY2010, due mainly to the losses from derivative contracts, high raw material costs from lower-than-expected sugarcane supply, the one-year delay of the Bo Ploy project, and the operating losses from sugar businesses in Lao PDR and Cambodia. For the first six months of FY2011, ending April 2011, total sales grew by 4.27% from the same period in the previous year to Bt6,742 million, as sugar prices continued to increase. KSL's net profit for the first six months of FY2011 also increased, rising to Bt695 million, up by 129.40% from the same period in the previous year. The sharp increase was due to lower losses from

(Continue on page 2)

derivative contracts. As of April 2011, total debt increased to Bt15,645 million and the total debt to capitalization ratio was relatively high at 60.24%, due to the investments in the new sugar complex and the seasonally peak working capital requirements needed during the sugarcane crushing period. The leverage ratio is expected to improve after the new sugar complex in Bo Ploy is fully utilized.

TRIS Rating said about the global sugarcane production volume and sugar prices that they are both very volatile. For the 2010/2011 season, sugarcane production in Thailand hit a record high at 95.38 million tonnes owing to the increase in planting area, improved planting yield, and favorable weather. The world raw sugar price in January 2011 was high at 36.11 cents/pound (lb), due to decreased sugarcane production in Australia. The price eased to 26.64 cents/lb in May 2011, due to sugar production increase in Thailand. However, the price recovered in June 2011 to 29.75 cents/lb and is expected to remain high as sugar production in Brazil is lower than expected. -- End

**Khon Kaen Sugar Industry PLC (KSL)**

**Company Rating:**

Affirmed at A-

**Issue Ratings:**

KSL11NA: Bt780 million senior debentures due 2011

Affirmed at A-

KSL12NA: Bt500 million senior debentures due 2012

Affirmed at A-

**Rating Outlook:**

Stable

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**TRIS Rating Co., Ltd./**[www.trisrating.com](http://www.trisrating.com)

Contact: [rapee@tris.co.th](mailto:rapee@tris.co.th), Tel: 0-2231-3011 ext 500/Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand

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