

STARK CORPORATION PLC

No. 238/2022
23 December 2022

CORPORATES

Company Rating: BBB+
Outlook: Stable

Last Review Date: 30/05/22

Company Rating History:		
Date	Rating	Outlook/Alert
30/05/22	BBB+	Alert Negative
26/03/21	BBB+	Stable

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RATIONALE

TRIS Rating removes the “CreditAlert” with “negative” implication placed on the company rating on STARK Corporation PLC (STARK) since 30 May 2022. At the same time, we affirm the company rating on STARK at “BBB+” with a “stable” outlook.

The “BBB+” rating continues to reflect STARK’s leading position in the wire and cable (W&C) business in the ASEAN region, the strong reputation and established operating record of Phelps Dodge International Thailand Ltd. (PDITL), as well as its enhanced profitability from a strategic shift to focus on high-margin products. However, the rating is constrained by the company’s susceptibility to raw material price risk and currency exchange risk.

KEY RATING CONSIDERATIONS

Acquisition of Leoni’s automotive cable business called off

TRIS Rating removes the “negative” CreditAlert placed on STARK since 30 May 2022. The CreditAlert followed STARK’s announcement to acquire LEONI Kabel GmbH and LEONISCHE Holding Inc. from LEONI AG at a cost of not exceed EUR560 million (equivalent to about THB20.6 billion). This planned acquisition raised concerns over STARK’s rising financial leverage as the transaction was to be funded 75% by debt.

However, on 13 December 2022, STARK announced its withdrawal from the acquisition, citing adverse changes and new information which have resulted in a material negative financial impact on the business of target companies as a reason. The new capital of THB5.58 billion raised for the acquisition would be used for other investments, subject to shareholders’ approval.

Leading position in the ASEAN wire and cable industry

STARK’s W&C business has production bases in two countries, Thailand and Vietnam. As of September 2022, total W&C production capacity was 222,600 tonnes per annum, comprising 85,600 tonnes in Thailand and 137,000 tonnes in Vietnam. In the first nine months of 2022, the W&C business in Thailand contributed about 57% of its total revenue, while the W&C business in Vietnam contributed 35%. The rest came from the logistics business.

STARK’s credit strength is largely supported by PDITL’s strong reputation and expertise in the W&C industry. PDITL, its wholly-owned subsidiary, is a leading W&C manufacturer in Thailand with production technology from its former owners, Phelps Dodge Corporation, and General Cable. Currently, PDITL is the largest W&C manufacturer in Thailand, with a market share of 22% in 2021. The company’s competitive advantages reflect its solid product brand, the long-standing operational record in Thailand of over 50 years, and the broad range of product offerings. PDITL is the only domestic manufacturer capable of producing extra high voltage cable (over 230 kilovolts).

STARK’s W&C business in Vietnam is operated under Thipha Cables (TPC) and Dong Viet Non-Ferrous Metal and Plastic (DVN). TPC is a large W&C manufacturer, while DVN is a producer of copper and aluminum rod in Vietnam. After STARK’s takeover in the first quarter of 2020, the operating efficiency of TPC&DVN’s factories has improved due to the introduction of PDITL’s best practices and production know-how.

Improved profitability from focus on high-margin products

In TRIS Rating's view, STARK's strategy to focus on medium to extra high voltage cables play an important role in generating stronger profitability. In the first nine months of 2022, the normalized earnings before interest, taxes, depreciation, and amortization as a percentage of revenue (EBITDA margin), excluding gain or loss from foreign exchange, increased to 19.8% from 17.5% in 2021 and 14.5% in 2020.

PDITL has a variety of high-margin cables, including medium to extra high voltage cables and specialty cable. PDITL's sales from these product groups have increased noticeably, rising to 61% of its total revenue in the first half of 2022 from 51% in 2021 and 44% in 2020. PDITL's competitiveness in the high-margin segment is likely to strengthen further as the company plans to add new production capacity for extra high voltage cables as well as launch more new specialty products.

In Vietnam, low voltage cable remains a major contribution of W&C sales, making up 75% of the total in the first half of 2022. STARK is upgrading the factory in Vietnam and is applying for certificates to increase the production of high voltage cable with a target to raise the revenue proportion of high-margin products to 40% of the total in the future.

Susceptibility to raw material price and exchange rate volatilities

Approximately 70%-80% of W&C production cost come from copper and aluminum. STARK's high exposure to price fluctuations of the metals renders the company's earnings and working capital volatile. STARK mitigates these risks through a cost-plus pricing strategy and a policy to fix raw material prices after order confirmation. We assess that STARK's earnings are also exposed to foreign exchange risk, stemming from lengthy supplier credit terms of about 360 days for imports of raw materials. However, with these very long credit terms, the hedging contracts can partly mitigate the risk, in our view.

Increasing working capital needs to support sales

We view that fast-growing W&C sales during 2021-2022, rising raw material costs, and lengthening collection periods have resulted in longer cash conversion cycles and negative operating cash flow. But the company has been able to fulfil the rising working capital needs by seeking new short-term credit facilities and through new bond issuances. STARK's total debt rose to THB16 billion at the end of September 2022 from THB14.3 billion at the end of 2021. Nonetheless, the impact of the rising debt has been compensated by stronger earnings. STARK's earnings continued to exceed our expectations. STARK's EBITDA (including foreign exchange gain and loss) for the first nine months of 2022 reached THB4.8 billion, exceeding a full-year EBITDA of THB4.3 billion in 2021.

Maintained financial profile

Going forward, STARK should benefit from strong W&C demands in Thailand and Vietnam over the next few years. The company's profit margin is likely to remain at a high level, given the company's sales focus on high-value cables and ongoing cost-reduction programs. During 2022-2024, we forecast that STARK's revenue will be between THB28-THB31 billion per annum. STARK's EBITDA margin will likely remain in the 15%-18% range, translating into an EBITDA of THB4.5-THB5.8 billion per annum. We expect STARK's financial status to stay firm with the net debt to EBITDA ratio in a range of 2.5-4 times, close to the current level.

Liquidity still manageable

Over the next 12 months, we anticipate that the company's sources of funds should cover the uses of funds. Liquidity sources include cash on hand of THB0.45 billion at the end of September 2022 and estimated funds from operations of THB2.7 billion over the next 12 months. The primary uses of funds over the same period comprise loan repayments of about THB1.97 billion and planned investments of about THB0.96 billion. The debentures totaling THB2.78 billion due in 2023, will likely be refinanced with new debenture issuances.

We have not incorporated the new capital increase in our liquidity assessment. STARK successfully raised THB5.58 billion fresh capital in October 2022, but the use of the proceeds is still limited to the acquisition of LEONI's automotive cable business.

Debt structure

At the end of September 2022, STARK's reported debt, excluding financial lease, was THB15.8 billion. The priority debt, including secured debts and debts of subsidiaries, totaled about THB9.1 billion. The ratio of priority debt to total debt was about 57.7%. As its priority debt ratio is above our threshold of 50%, we view that STARK's unsecured creditors are significantly disadvantaged with respect to claims against its assets.

BASE-CASE ASSUMPTIONS

- Revenue of about THB28-THB31 billion during 2022-2024.
- EBITDA in the range of THB4.5-THB5.8 billion per annum during 2022-2024.
- Capital expenditure of THB0.4-THB1.0 billion per annum during 2022-2024.
- Dividend payout at 50% of net profit, beginning in 2023

RATING OUTLOOK

The “stable” outlook reflects our expectation that STARK will maintain its market position in the W&C manufacturing industry in Thailand and Vietnam. We expect the company’s strengthening profit margin will be sustainable, given more contributions from high voltage cable and ongoing cost optimization programs.

RATING SENSITIVITIES

An upward revision on the rating and/or outlook could happen if STARK’s revenue base and cash flow materially enlarge from the current levels. This may arise from successful expansion of the company’s W&C business or other businesses.

The rating and/or outlook could be revised downward if the company’s net debt to EBITDA ratio stays above 5 times for a sustained period. This could result from new merger and acquisition transactions involving excessive debt-financing that materially weakens the company’s balance sheet.

COMPANY OVERVIEW

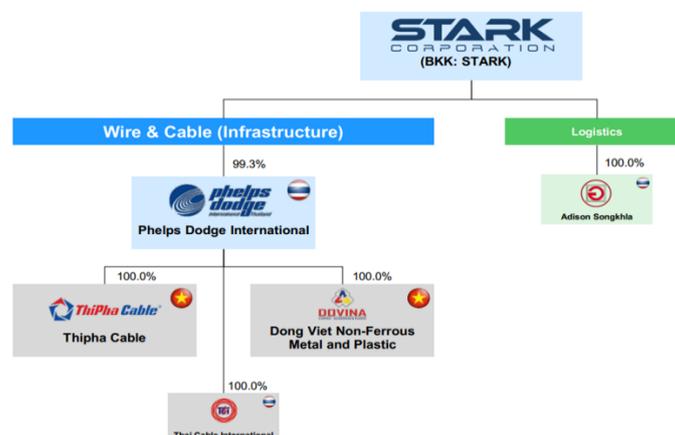
STARK is a leading W&C manufacturer in ASEAN. The company became a listed company on the Stock Exchange of Thailand (SET) in July 2019 following the incorporation of PDITL into Siam Inter Multimedia PLC and the transformation of its business to W&C manufacturing. The company simultaneously divested its legacy media business and was renamed STARK in July 2019. STARK’s major shareholder is Mr. Vonnarat Tangkaravakoon, holding approximate an 71% stake in the company at the end of August 2022.

STARK’s businesses consist of W&C manufacturing and logistics services. The W&C business is operated through four subsidiaries, PDITL, TPC, DVN, and Thai Cable International Co., Ltd. (TCI). PDITL is a well-known W&C manufacturer with holding the largest market share in Thailand. TPC is a W&C manufacturer and DVN is a producer of copper and aluminum rod in Vietnam. TPC and DVN are both located in the same area and cooperate with each other. TCI is a small W&C manufacturing company in Thailand, targeting the retail market. STARK acquired TPC&DVN and TCI in March 2020. The logistics business solely consists of Adisorn Songkhla Co., Ltd. (ADS), a company offering manpower and recruitment services for oil and gas companies. STARK took over ADS in December 2019.

In 2021, the company’s revenue was THB27.1 billion. The W&C business contributed about 93% of total revenue, with the remainder coming from the logistics business. PDITL contributed about 49% of the total revenue, followed by TPC&DVN with 39% and 5% from TCI. ADS’s revenue accounted for 7% of total revenue.

GROUP STRUCTURE

Chart 1: STARK’s Business Structure



Source: STARK

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	21,857	27,107	16,899	11,539	11,864
Earnings before interest and taxes (EBIT)	4,472	3,888	2,501	1,057	1,134
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,805	4,320	2,865	1,260	1,310
Funds from operations (FFO)	3,090	2,628	1,750	621	714
Adjusted interest expense	1,018	945	662	491	426
Capital expenditures	180	207	320	478	376
Total assets	47,096	39,142	27,358	12,655	13,781
Adjusted debt	15,570	13,331	11,257	3,772	4,566
Adjusted equity	8,734	6,591	3,676	2,313	1,818
Adjusted Ratios					
EBITDA margin (%)	22.0	15.9	17.0	10.9	11.0
Pretax return on permanent capital (%)	27.2 **	20.8	21.0	14.4	28.8
EBITDA interest coverage (times)	4.7	4.6	4.3	2.6	3.1
Debt to EBITDA (times)	2.4 **	3.1	3.9	3.0	3.5
FFO to debt (%)	28.0 **	19.7	15.5	16.5	15.6
Debt to capitalization (%)	64.1	66.9	75.4	62.0	71.5

* 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

STARK Corporation PLC (STARK)

Company Rating:	BBB+
Rating Outlook:	Stable

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