



# CreditUpdate เครดิตวาระ

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News for Investors

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## Double A (1991) Public Company Limited

<b>Company Rating:</b>	BBB
<b>Issue Ratings:</b>	
AA136A: Bt5,000 million senior debentures due 2013	BBB
Up to Bt2,500 million senior debentures due within 2014	BBB
<b>Rating Outlook:</b>	Stable

Rating History:	Company Rating	Issue Rating	
		Secured	Unsecured
4 May 2010	BBB/Stable	-	BBB
16 May 2008	BBB/Stable	-	-
9 Nov 2007	BBB/Alert Developing	-	-
28 Feb 2006	BBB/Stable	-	-
16 Nov 2005	BBB/Alert Developing	-	-
20 Oct 2004	BBB/Stable	-	-

### Rating Rationale

TRIS Rating affirms the company rating of Double A (1991) PLC (AA) and the ratings of AA's existing senior debentures at "BBB". At the same time, TRIS Rating assigns the rating of "BBB" to the company's proposed issue of up to Bt2,500 million in senior debentures. The proceeds from the new bond issuance will be used to refinance existing short-term debts. The ratings reflect the position of the company as the leading short-fiber pulp and printing & writing paper (P&W paper) producer in Thailand, a fully integrated and efficient mill, the relatively strong brand name of its "Double A" paper products, and an improving capital structure. However, these strengths are partially offset by the inherent price volatility in the pulp and paper industry though the company has transformed some of its products from commodity to consumer products, exposure to foreign exchange risk, concerns over several related-party transactions and the uncertainty of the company's investment and business reorganization plans.

As of January 2010, the company was 70.01% owned by the Dumnernchanvanit family. The company was delisted from the Stock Exchange of Thailand (SET) on 17 April 2008 after Mr. Yothin Dumnernchanvanit successfully acquired 78.52% of its shares. After delisting, the management planned to reorganize the company by divesting its three power plants, investing in the third paper mill (PM#3), and re-listing the company on a regional stock market in 2009. However, due to an unfavorable economic environment, the reorganization plan has been delayed. In mid-2009, the company sold the businesses of the power plants no. 5, 6, and 11 to related parties at a combined price of Bt3,800 million (net of VAT). The ultimate shareholders also plan to set up a holding company to own a majority of the company's shares. The new holding company may acquire the subsidiaries, e.g., Advance Paper Mill 3 Co., Ltd. and D.A. Packaging Co., Ltd. The holding company is expected to be listed on a foreign stock market and then invest in PM#3 instead of the company. However, the timing of the listing and the investment plans is still uncertain.

In addition, the company acquired land from two related companies, Thai Power Generating Co., Ltd. and Biomass Electricity Co., Ltd., to construct its own reservoir. This transaction has obtained a fairness opinion from an internationally recognized accounting firm which states, among other things, that the land purchase price is in the range of fair market value of the land in surrounding areas (ranging from Bt0.3 million to Bt2 million per rai) as per the announcement of the Treasury Department. However, TRIS

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Rating cautions that the combined land purchase price totaling Bt1,860.1 million is well above the appraised value of Bt292.9 million set by an independent valuer. The purchase prices in excess of the appraised values have raised concerns over the soundness of these related-party transactions though the construction of the company's own water reservoir will help reduce its related-party transactions in the future.

AA is the leading pulp and P&W paper producer in Thailand. The company owns two pulp mills, with a total production capacity of around 620,486 tonnes per annum (tpa), and three paper processing machines that provide total capacity of around 552,858 tpa. Around 70%-80% of pulp production is used internally for its paper mills; the remainder is sold in domestic and export markets. Revenue from paper sales accounted for 90% of total sales while revenue from pulp sales accounted for the rest. The company is the major exporter of short-fiber pulp in Thailand, exporting around 82,856 tonnes of dried pulp in 2008 and 71,304 tonnes in 2009. Export sales of pulp in 2009 dropped by 14% year-on-year (y-o-y) in terms of volume but plummeted by 37% y-o-y in terms of value as the export price declined by more than 25% y-o-y. Pulp prices are relatively volatile due to its commodity-like nature.

For paper products, the company focuses mainly on P&W paper. Prices for P&W paper are relatively stable, especially for cut-sized products, compared with pulp prices. Thus, the value of paper sales in 2009 dropped by around 10% y-o-y, in line with a drop in sales volume of around 7%. The drop in sales was resulted from a drop in market demand due to the economic crisis, which caused the company to focus more on the production cost rather than production quantity. Although revenues from pulp and paper dropped by 12% in 2009, profitability improved significantly. The company was able to maintain the paper selling prices while prices for raw materials like wood chips dropped by almost 27%. Thus, its gross profit margin improved significantly to around 35% in 2009 and the first quarter of 2010 from only 27% in 2008. Operating income as a percentage of sales increased from around 14.9% in 2008 to 23.4% in 2009. The operating margin dropped to 20.53% of sales in the first quarter of 2010 due to higher selling and administrative expenses. The profit margin has improved as wood cost has decreased since the economic crisis in late 2008. In addition, the company has also actively been promoting a program for the rice farmers to plant Double A paper trees on the ridges of rice fields, and also procuring paper trees from the farmers at lower prices. The company expects more beneficial result from the program in the next few years.

At the end of 2009 and through the first quarter of 2010, outstanding debts were around Bt11,000 million, down from Bt12,038 million at the end of 2008. Short-term borrowings accounted for around 40% of total debt. Most of the short-term borrowings were trade finance. The major portion of the long-term loans was 11% US dollar notes which will mature in 2012. At the end of 2009, the outstanding balance of the US dollar notes was US\$144.06 million. In November 2009, the company offered to buy back 51.02% of its outstanding US dollar notes. As of 2 March 2010, the company finalized a cash tender offer and was able to buy back US\$40.765 million of the notes. The company announced to redeem all of the outstanding notes by 19 June 2010. The redemption price for the notes was 105.625% of the principal plus accrued and unpaid interest up to, but not including, the redemption date. At the end of June 2010, the company repaid all of its outstanding US dollar notes using the proceeds from the Thai baht bond issuance of Bt5,000 million. In addition to repurchasing the notes, the company will proceed with a treasury stock program. However, its debt to capitalization ratio is expected to be around 50%-55%. At the end of the first quarter of 2010, the total debt to capitalization ratio was 44%.

### Rating Outlook

The "stable" outlook reflects the expectation that AA will be able to maintain the financial leverage and liquidity at appropriate levels. Although the reorganization and the investment plans are still uncertain, the company's financial profile should not deteriorate significantly from its current level. In addition, the company is expected to have only fair and necessary related-party transactions.

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