



Date: August 2016  
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Renewal Issuer Credit Rating for:

<i>Instrument</i>	Commercial Papers (CPs)
<i>Issue Size</i>	Up to P1.5 Billion, to be issued in one lump sum or multiple tranches
<i>Use of Proceeds</i>	For purchase of inventories

Assigned Rating:

2016	PRS Aa (corp.)
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**RATIONALE**

The assigned rating of PRS Aa (corp.) for SL Agritech Corporation (SLAC) considers the following key strengths of the Company:

- Leading position in the Philippine rice industry;
- Positive growth prospects as supported by the introduction of new products and international expansion; and
- Sustained profitability.

The above credit rating is being assigned in relation to its proposed CPs amounting up to P1.5 billion.

SLAC has established itself as one of the leading rice companies in the Philippines. SLAC's operations are divided into two major business segments: a) the production of hybrid rice seeds and b) the production of premium rice.

SLAC is reportedly the largest local hybrid rice seed producer in the Philippines. Based on Company estimates, SL-8H, the Company's flagship product, accounts for 80% of total market share. In an effort to capture a larger market share, SLAC recently introduced two new hybrid rice seed varieties, the SL-12H and the SL-18H. These varieties, however, are still on limited distribution, taking into account on-going external adaptability testing.

SLAC's premium rice products, on the other hand, are offered under three brands, namely: Doña Maria, Cherry Blossom, and Willy Farms, each targeting a specific market segment. Intended for middle income earners, SLAC introduced the Willy Farms brand in 2015. According to SLAC's management, the Willy Farms brand line has already contributed positive margins to the Company.

Although SLAC maintained that the Company would continue to prioritize serving the domestic market, the Company will at the same time explore opportunities for international business expansion, particularly in India and China, two of the largest rice markets in the world. SLAC has already started exporting to neighboring countries such as Indonesia, Vietnam and Bangladesh.

SLAC almost doubled its earnings for fiscal year ending May 31, 2016. Net income grew by 80.4% to P459 million, from the previous year's P254.4 million on the back of better margins. SLAC was able to generate significant revenues while cutting down levels of operating cost and expenses relative to revenues (2016: 75.7% of revenues, 2015: 81.2%). Return on average assets (ROAA) and return on average equity (ROAE) were at 7.7% and 26.7%, respectively.

Actual results for the year were generally in line with company targets submitted to PhilRatings, for last year's credit rating exercise. SLAC expects to sustain double-digit growth in revenues over the projected period. Faster turnover is expected to support the expansion in revenues.

## **BUSINESS PROFILE**

SLAC is involved in the research, development, production and distribution of hybrid rice seeds and premium quality rice. SLAC has established itself as one of the leading rice companies in the Philippines.

SLAC's operations are divided into two major business segments: a) the production of hybrid rice seeds and b) the production of premium rice. To support this, the Company maintains four production and storage facilities, which are strategically located in the provinces of Laguna, Nueva Ecija, Davao Oriental and Davao Del Sur. Furthermore, with the increasing demand for both its hybrid rice seed and premium products, SLAC has started the expansion and modernization of its facilities. The initiative includes the extension of lot area for production, the construction of a milling plant and the construction of a bulk storage facility, among others.

### Products

#### *Hybrid Rice Seeds*

SLAC is reportedly the largest local hybrid rice seed producer in the Philippines. The Company's flagship product, the SL-8H, was first introduced in 2003. SL-8H is a high-yield rice variety with good adaptability to tropical conditions. The seeds are marketed through local distributors and dealers, financiers/big land owners, cooperatives/irrigators' associations, the Department of Agriculture Regional Offices and the Municipal Agricultural Office. SLAC has likewise started to export SL-8H to neighboring countries such as Indonesia, Vietnam and Bangladesh.

In an effort to capture a larger market share, SLAC recently introduced two new hybrid rice seed varieties, the SL-12H and the SL-18H. These varieties, however, are still on limited distribution, taking into account on-going external adaptability testing. The key features of the hybrid rice seed varieties are outlined in the following table:

Table 1. SLAC Hybrid Rice Seed Varieties

Variety	Description	Average Yield (Metric tons/hectare)
SL - 8H	Medium to long grain with high milling recovery; aromatic and premium rice quality;	10
SL - 12H	Medium round grain; good eating quality (soft and chewy); resistant to pest and diseases during wet season; non-shattering and can optimize yield up to 90% maturity	9
SL - 18H	Good eating quality; non-shattering and can optimize yield up to 90% maturity	9

### *Premium Rice*

SLAC's premium rice products are offered under three brands, namely: Doña Maria, Cherry Blossom, and Willy Farms, each targeting a specific market segment. Intended for middle income earners, SLAC introduced the Willy Farms brand in 2015. The product line comes in three varieties: a) Sticky Jasmine Rice, b) Long Grain Japanese Textured Rice, and c) Premium Dinorado Rice. According to SLAC's management, the Willy Farms brand line has already contributed positive margins to the Company. Willy Farms is priced lower than Doña Maria. While it is basically of the same quality still, it may have more broken pieces and the aroma may not be as strong as Dona Maria.

The succeeding table presents a brief description of the Company's rice products.

Table 2. Rice Products

Variety	Description	Market	Packaging (kg)
Doña Maria Jasponica	Combines the fragrant aroma of Jasmine rice and the excellent eating quality of Japanese rice. When cooked, the grains achieve a soft and chewy texture enhanced further by its aroma	High to mid - income segment	0.3 2 1  5 25 10
Doña Maria Jasponica Brown	Offers the healthy benefits of brown rice to the Jasmine-Japanese rice mix. High in fiber with no cholesterol and fully	High to mid - income segment	0.3 2 1  5 10

	flavoured by the natural nutty texture of brown rice, the variant is an alternative for health-conscious, rice-loving Filipino families		
Doña Maria Jasponica Plus	Combination of Jasponica Brown rice and Jasponica rice. This product specifically targets customers who are still unfamiliar with brown rice but would like to make the change.	High to mid - income segment	2 5
Doña Maria Jasponica Congee	Can be an alternative to “malagkit” rice. It can be used in making risotto, sticky rice and maki.	High to mid - income segment	2
Doña Maria Miponica	Combination of the clear, translucent, long and slender grain quality of Milagrosa and the exceptional eating quality of Japanese rice. Fluffy and sticky with a pleasant aroma, Miponica rice is easy to cook and stays soft throughout.	High to mid - income segment	0.3 5   2   10 25
Doña Maria Miponica Brown	The brown rice alternative of the Milagrosa and Japanese rice mix. It still maintains the long grain and sticky qualities of the Miponica rice.	High to mid - income segment	1 10   2
Cherry Blossom	A mix of straight milled SL hybrid rice	Mid-income segment	2 25   5
Willy Farms Sticky Jasmine Rice	Contains the fragrance of Jasmine in sticky rice and is ideal for paella, arroz ala valenciana and risotto.	Mid-income segment	2 25   5
Willy Farms Long Grain Japanese Textured Rice	Has the quality and texture of Japanese rice but in long grains.	Mid-income segment	2 5
Willy Farms Premium Dinorado Rice	Caters to all types of occasions and preparations	Mid-income segment	2 25   10   5

The Company’s rice products are primarily distributed through retail stores, which include supermarkets, groceries and price clubs. These are also made commercially available through wholesalers and dealers. In addition, SLAC supplies premium rice products to hotels, restaurants and cafes.

### Competition

SLAC mainly competes with three other local companies, as enumerated in the table below, for its hybrid rice seed products. These companies offer alternative hybrid rice seed varieties in the local market. Based on Company estimates, SL-8H reportedly accounts for 80% of the total market share for hybrid rice seeds in the Philippines.

Table 3. Competitors - Hybrid Rice Seeds

<b>Company</b>	<b>Variety</b>
Syngenta Philippines, Inc.	Frontline Gold
Pioneer Hi-Bred Philippines, Inc.	Phb 77   Phb 79   Phb 81
Bayer Cropscience, Inc.	Arize Bigante Plus Arize Bigante (TEJ)   Arize H 64

For its rice products, SLAC considers companies producing premium rice varieties such as

Jasmine rice, Japanese rice, Thai Jasmine rice, Brown rice, Red rice, Long Grain rice and High-fiber rice as its main competitors. Brands that produce these varieties include Sunnywood, LH Cereal Corp. (Vita Rice), Northern Luzon (Farmer's Choice), Worthgold, and Qualigrains, among others.

Table 4. Select Premium Rice Product Retail Price

Brand	Variety	Price per 5 kg bag (PhP)		Price Change (+/-/=)	Price per kg (PhP)* As of July 16, 2016
		As of Aug 23, 2015	As of July 16, 2016		
Doña Maria	Jasponica Brown	453.0	453.0	=	90.6
	Miponica Brown	453.0	453.0	=	90.6
	Miponica	453.0	453.0	=	90.6
	Jasponica Plus	448.0	448.0	=	89.6
	Jasponica	442.0	442.0	=	88.4
Cherry Blossom		428.0	428.0	=	85.6
Sunnywood (Harvesters)	Red Rice		420.0		84.0
	Thai Jasmine	470.0	415.0	-55.0	83.0
	Gold Premium Sticky Rice	415.0	403.0	-12.0	80.6
	Fluffy Long Grain		340.0		68.0
	Healthy Brown Rice		317.0		63.4
Sunnywood (Jordan Farms)	Black Rice		548.0		109.6
	Red Rice		452.0		90.4
	Brown Rice	395.0	407.0	+12.0	81.4
Vita Rice	Brown Healthy	308.0	308.0	=	61.6
	Whole Grain	305.0	305.0	=	61.0
	Fragrant Dinorado	302.0	302.0	=	60.4
	Long Grain	289.0	289.0	=	57.8

\*Deduced | Source: SM Supermarket (SM Makati) store checking by PhilRatings

SLAC implements a premium pricing strategy. The per kg cost for SLAC products ranges from P85 to P90. This was unchanged from last year's retail price. Sunnywood (Harvesters) recorded a downward price adjustment over the last year, while Vita Rice products remained the least expensive among the given brands. Also remarkable, in general, was the addition of newer premium rice product lines in the local rice market. At current prices, except for select varieties of Sunnywood (Jordan Farms), SLAC products were priced P18 more, on the average.

#### Ownership, Management and Strategy

SLAC is fully-owned by the Lim family. As of May 2016, the beneficial owners of SLAC's issued and outstanding shares of common stocks were as presented in the table below.

Table 5. Ownership

Name	Relationship with the Company	Percentage Ownership
Henry Lim Bon Liong	Chairman, President and Chief Executive Officer (CEO)	40.49

Joseph Lim Bon Huan	Director	36.49
Gerry Lim Bon Hiong	Director, Executive Vice President (EVP) and Chief Finance Officer	16.00
Ruben Lim Bon Siong	Director	7.00
Evelyn Lim	Director	0.02

*Note: Mr. Henry Lim Bon Liong, Mr. Joseph Lim Bon Huan, Mr. Gerry Lim Bon Hiong, Mr. Ruben Lim Bon Siong and Ms. Evelyn Lim are siblings.*

SLAC is likewise affiliated with the Sterling Paper Group of Companies (Sterling Paper Group). The Sterling Paper Group is a diversified conglomerate involved in the manufacture of paper products, importation and distribution of school and office supplies, furniture, retailing, real estate development and agriculture.

Mr. Henry Lim Bon Liong serves as company Chairman, President and CEO. He is concurrently the Chairman and CEO of the Sterling Paper Group. He likewise holds key positions in various business and civic organizations in the country. Mr. Henry Lim Bon Liong holds a Bachelor of Science degree in Mechanical Engineering from the University of the Philippines.

Although SLAC remains to be a family enterprise, the Company is supported by a team of experienced professionals with the technical expertise and understanding of the rice industry. Mr. Zhang Zhao Dong, for example, is EVP of Research and Development. Mr. Zhang Zhao Dong was previously the Vice Director and Senior Scientist of China National Hybrid Rice Research and Development Center.

### Strategy

During the management meeting, SLAC maintained that the Company would continue to prioritize serving the domestic market, with plans to expand its distribution network to include wet markets and other viable channels. SLAC, nevertheless, will continue to explore opportunities for international business expansion, particularly in India and China, two of the largest rice markets in the world.

## **FINANCIAL PROFILE**

### Profitability

#### *Fiscal Year 2015 vs. Fiscal Year 2016*

SLAC almost doubled its earnings for fiscal year ending May 31, 2016. Net income grew by 80.4% to P459 million, from the previous year's P254.4 million, on the back of better margins. SLAC was able to generate significant revenues while cutting down levels of operating cost and expenses relative to revenues (2016: 75.7% of revenues, 2015: 81.2%).

Total revenues stood at P2.6 billion, higher by 26.9%, mainly attributable to the continued growth in sales of hybrid rice seeds (+35.8%) and rice products (+8.4%). Sales of hybrid rice seeds remained the bulk of net sales, representing 64.8% of total (2015: 59.5%). It should be noted though that the slowdown in the growth in sales of rice products resulted in the further shift in revenue mix in favor of hybrid rice seeds. By geographical market, domestic operations contributed 97% of net sales, while foreign exports accounted for the remaining

three percent. There was a noticeable decline in net sales from exports since 2014. Net sales from exports amounted to P76.2 million for fiscal year ending May 31, 2016, down by 18% from a year ago (P92.9 million) and by 43.3% from the 2014 level (P134.4 million). The decline was due to lower parental line seeds (F1 seeds) exports as a result of successful seed production in the market countries.

ROAA and ROAE were at 7.7% and 26.7%, respectively.

Actual results for the year were generally in line with company targets submitted to PhilRatings, for last year's credit rating exercise. SLAC expects to sustain double-digit growth in revenues over the projected period. Faster turnover is expected to support the expansion in revenues.

#### Cashflow Coverage and Liquidity

As of May 31, 2016, cash and cash equivalents grew by 18.8% but were primarily due to net proceeds from short-term notes payable. For the third consecutive year, operating cash flows were negative despite robust earnings. The increases in receivables and inventories during the year continued to drag internal cash generation. Nonetheless, interest payments were adequately covered. Earnings before interest and taxes (EBIT) interest coverage ratio improved to 3.5x as of end-May 2016. Current ratio was also maintained at 1x.

Over the projected period, operating cash flows are expected to be positive. These, however, will remain insufficient to fully support short-term notes payable. The P1.5 billion CP is likely to be settled through refinancing. Should the company face immediate funding requirements, SLAC has access to a significant amount of bank lines and other credit facilities as of August 9, 2016.

#### Capital Management

Debt levels as of May 31, 2016 was double that of total shareholders' equity. Debt to equity (DE) ratio stood at 2.1x. Total debt was P4.2 billion, while total equity stood at P2 billion. The expansion in equity (+31%) came from the retention of earnings, as well as from a stock dividend declaration amounting to P100 million.

Even with the P1.5 billion CP issuance, DE ratio is expected to improve over the projected period. This will result from the combined effect of reduced borrowings and the significant growth in total equity (at 24.4% two-year average rate).

It was recently reported in the newspapers that SLAC will be pursuing an initial public offering (IPO) by the second half of 2017. During the management meeting with PhilRatings, SLAC's management clarified that there are no definite plans for the IPO but affirmed its intention to go public sometime in the future, subject to market and other conditions.

### **ECONOMY AND INDUSTRY**

In the fourth quarter of 2015, the economy grew by 6.3%, leading to a full-year growth of 5.8%. According to the National Economic and Development Authority (NEDA), the 2015 growth rate, although lower than the 7% to 8% target, was still considered respectable, given the difficult external environment, the onset of El Niño, and the challenges in government spending during the first semester. Strong domestic demand fueled the growth,

led by significant improvements in government spending and household consumption. Government final consumption expenditure improved with a 9.4% growth for 2015. This was an almost six-fold increase from the previous year's 1.7% growth. Household final consumption expenditure likewise grew by 6.2% in 2015. On the supply side, the service sector remained the main driver of the economy, at 6.7% growth. Average inflation rate was recorded at 1.4% in 2015, below the Central Bank's target range of 2%-4% for the year. The country's annualized real per capita gross domestic product (GDP) as of end-2015 amounted to P74,631, up by 4.0% from P71,728 as of end-2014.

The Philippine economy became the fastest growing economy in the region in the first quarter of 2016, with GDP growth of 6.9%. This was ahead of regional leader, China, with 6.7%. The latest result exceeded market expectations of a 6.6% growth rate, placing the country on track its full-year target of 6.8% to 7.8%. Growth in the first quarter was mainly investment driven given expansion in fixed capital (+25.5%) and construction (+12%), among others. Domestic consumption also remained strong. On the supply side, the industry and services sectors posted significant contributions. These sectors grew by 8.7% and 7.9%, respectively. Inflation remained at 1.1% in March 2016.

#### Rice Supply and Consumption

Rice is a staple food in the Philippines. Based on a survey from the Philippine Statistics Authority (PSA) in 2012, Filipino households spend 12% of total family income for cereals and cereals preparations. In 2015, rice crop production amounted to 18.1 million metric tons. This was equivalent to 38.1% (P151.6 billion) of total crop production value (P398 billion), at constant prices, in the country. *(Analysts' Note: Statistics in the PSA website have different cut-off dates. This report uses data as of the latest date available.)*

Table 6. Rice Supply Utilization

<b>In Thousand Metric Tons (MT)</b>	<b>2013</b>	<b>2014</b>	<b>Growth Rate (%)</b>
<b>Supply</b>			
Beginning Stocks	2,524	2,126	(15.8)
Rice Production	12,059	12,405	2.9
Rice Importation	398	1,074	169.8
Total Rice Supply	14,981	15,605	4.2
<b>Demand</b>			
Apparent Consumption	11,355	11,408	0.5
Rice Consumption per capita (kg/year)	115.64	114.22	(1.2)

Total rice supply grew by 4.2% in 2014. The growth in supply was supported by an increase in rice production (+2.9%) and to a larger extent by an increase in rice importation (+169.8%). Although this was the case, the country's rice self-sufficiency remained high at 92%. Rice consumption, on the other hand, was almost flat at 11.4 million metric tons. Per capita consumption, however, was lower by 1.2%.

Newly-elected President, Rodrigo Duterte, has expressed his strong support for the agriculture industry. As part of its 10-point socio-economic agenda, the new leadership plans to "promote rural and value chain development towards increasing agricultural and rural enterprise productivity and rural tourism." Department of Agriculture Secretary, Emmanuel Piñol, vowed to allocate more funds and support for the sector. Furthermore, it is the Secretary's intention to push for higher yields while lowering production cost. These positive pronouncements bode well for the agriculture industry; the latter specifically beneficial towards the adoption of hybrid rice seeds in the country.

### Weather

Beginning July 2016, the Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAGASA) announced the end of the El Niño phenomenon. According to PAGASA, oceanic and atmospheric indicators have returned to neutral values for the first time since the onset of El Niño in 2015.

The weather bureau, however, warned of the likelihood of La Niña developing this year. Based on recent forecasts, the country may experience the effects of La Niña during the last four months of 2016. La Niña is characterized by cooler than normal sea surface temperatures in the Pacific Ocean. While El Niño brings excessively dry conditions to the Philippines, La Niña causes higher-than-average rainfall in the country.

When asked for comments, SLAC mentioned that it views La Niña and El Niño as opportunities rather than threats to the company. In the case of La Niña, the usually drought-stricken areas present itself as additional markets for SLAC. With hybrid rice seeds being highly adaptable to tropical conditions, SLAC believes that there is an ever-present need for adoption of the use/planting of hybrid rice seeds in the country given weather disturbances brought about by climate change.