

AQUA CORPORATION PLC

No. 129/2021
9 August 2021

CORPORATES

Company Rating: BBB-
Outlook: Stable

Last Review Date: 18/08/20

Company Rating History:

Date	Rating	Outlook/Alert
02/08/17	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Aqua Corporation PLC (AQUA) at “BBB-” with a “stable” outlook. The rating reflects the company’s track record as a provider of out-of-home media services. The rating also reflects the high level of recurring income AQUA earns from long-term warehouse rental contracts and the share of profit it receives from an affiliated company. However, AQUA’s strengths are offset by a number of factors including the prolonged impacts of the Coronavirus Disease 2019 (COVID-19) pandemic on the Thai economy and advertising spending.

KEY RATING CONSIDERATIONS

Impacts of COVID-19 depressed spending in out-of-home segment

According to a survey by The Nielsen Company (Thailand) Ltd., together with online advertising spending data from the Digital Advertising Association (Thailand) (DAAT), total advertising expenditure for out-of-home and transit media in Thailand dropped by 18.3% to THB11 billion in 2020. However, during the first six months of 2021, it rose by 4.2% year-on-year (y-o-y) to THB3.1 billion following growth from the low base in 2020 and the increase in advertising agency budgets.

AQUA’s total operating revenues declined by 22% to THB912 million in 2020. Earnings before interest, taxes, depreciation and amortization (EBITDA) declined to THB505 million in 2020, from THB661-THB676 million in 2018-2019. EBITDA margin also dropped to 55.4% in 2020, compared with 57.8%-61.9% in 2018-2019. The drop was mainly due to lower earnings from the advertising media segment.

During the first quarter of 2021, AQUA’s EBITDA still dropped by 13% y-o-y to THB151 million, compared with the same period of the previous year. TRIS Rating expects AQUA’s EBITDA margin will be in the range of 64%-74% during 2021-2023 assuming a gradual recovery in the economy.

A medium-sized out-of-home media service provider

AQUA’s market share, in terms of total revenue, ranged from 8%-12% during 2016-2020. AQUA is the third-largest provider of out-of-home media in Thailand. Despite holding third position, AQUA’s market share is relatively small, far below the share of Plan B Media PLC (PLANB). PLANB is the largest provider of out-of-home advertising with a market share of around 40% in 2020. TRIS Rating expects AQUA will maintain its current market position in the years ahead.

Recurring income helps stabilize margin and cash flow

AQUA generates recurring income from the rental of warehouse spaces and commercial properties. The company receives a share of profit from its 39.6% equity stake in Eastern Power Group PLC (EP; rated “BBB-/Stable” by TRIS Rating), which operates integrated printing and packaging services, and energy business.

The recurring income helps stabilize AQUA’s margin and cash flow. We estimate AQUA’s cash flow from long-term rental contracts in the warehouse and commercial property businesses will amount to THB300 million per year during 2021-2023. Rental income is expected to grow by 1%-5% per annum based on the rate hike provisions in the rental contracts. The gross margin of the warehouse rental business should remain high at 94% during 2021-2023.

Based on the secured long-term power purchase agreements (PPAs) with state-owned utilities and private power buyers, TRIS Rating estimates the company's share of profit from its investment in EP to amount to THB100-THB200 million per year during 2021-2023.

Moderate financial leverage

AQUA's financial leverage is considered moderate. AQUA's total debt to capitalization ratio rose to 39.1% in 2020 and to 41.2% at the end of March 2021, from 36.4% in 2019. This was due to an increase in its financial lease liability, caused primarily by the adoption of the Thai Financial Reporting Standards (TFRS) 16, during 2020 and higher capital expenditures during the first three months of 2021. Capital expenditure and investment are forecast to rise to THB767 million in 2021. Most of the spending is earmarked for mega Light-emitting Diode (LED) projects located in the prime areas of Bangkok. The capital budgets are expected to be around THB200-THB270 million during 2022-2023. As a result, the company's debt to capitalization ratio is expected to increase to 39%-41% during 2022-2023.

Most of AQUA's debt is made up of secured bank loans. As of March 2021, the ratio of priority debt to total debt exceeded 50%, which implies a significant subordination risk for the company's senior unsecured obligations, according to TRIS Rating's "Issue Rating Criteria".

Acceptable cash flow protection

TRIS Rating expects that over the next 12 months, the company will have outstanding debts of THB775 million. AQUA plans to redeem debentures of THB453 million due in 2022 with long-term loans from commercial banks.

Our base-case forecast projects the company's funds from operations (FFO) will be around THB435 million over the same period. Its liquidity buffer is acceptable with cash on hand of THB23 million and unused credit facilities of THB120 million as of March 2021. Looking forward, AQUA's FFO to total debt ratio is projected to decline to 13.5%-22.6% in 2021-2023 while the EBITDA interest coverage ratio is forecast to be 5-6 times over the same period.

BASE-CASE ASSUMPTIONS

- Revenues to drop by 12% in 2021 and to grow by 18%-46% per annum during 2022-2023.
- EBITDA margin to be in the 64%-74% per annum range.
- Total capital spending of THB767 million in 2021, and to decline to THB200-THB270 million during 2022-2023.

RATING OUTLOOK

The "stable" outlook reflects our expectation that AQUA will maintain its market position in the out-of-home advertising media industry, with adequate liquidity and its total debt to capitalization ratio staying at around 40%.

RATING SENSITIVITIES

A rating downgrade could happen if AQUA's profitability or performance deteriorates materially, possibly due to a prolonged weak economic environment. Any debt-funded expansion which would significantly weaken its balance sheet and cash-flow protection, would also lead to a rating downgrade scenario. In contrast, the rating could be upgraded if the company materially enlarges and stabilizes its cash generation while maintaining a strong balance sheet on a sustained basis.

COMPANY OVERVIEW

AQUA was established in 1994 as a provider of hire-purchase loans for electrical home appliances. The company was listed on the Stock Exchange of Thailand (SET) in September 2004. In 2007, MIDA Assets PLC (MIDA), led by the leosivikul family, became the company's major shareholder. The family decided to terminate the hire purchase business.

As of March 2021, AQUA's major shareholders comprised Mr. Pakorn Mongkoltada (holding 12.6% of the company's shares), Mr. Kumpol Virathepsuporn (holding 6.9%), and Ms. Kanchanarat Wonghan (holding 5.1%).

AQUA has operated as an investment management company since 2007. In that year, AQUA bought 50% of AQUA Ad PLC (AQUA Ad), a provider of out-of-home media services. In 2010, AQUA acquired a 43.8% stake in EP. In 2011, AQUA bought all of the remaining shares in AQUA Ad. In 2014, AQUA expanded its investment portfolio to include businesses that generate recurring income. In 2015, it acquired Thai Consumer Distribution Center Co., Ltd. (TCDC) and Accomplish Way Holding Co., Ltd., which operate built-to-suit warehouses for rent. In 2016, AQUA developed a rehabilitation resort, and then leased the property to "The Cabin ChiangMai" in order to earn rental income.

As of July 2019, AQUA had acquired a 100% stake in S. Thana Media Co., Ltd., which operates out-of-home media services

in Thailand. The total acquisition cost was THB380 million.

In November 2020, AQUA terminated the lease agreement with The Cabin and returned all project areas to this company.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	Jan-Mar 2021	2020	2019	2018	2017
Total operating revenues	214	912	1,170	1,068	953
Earnings before interest and taxes (EBIT)	53	550	667	541	404
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	151	505	676	661	474
Funds from operations (FFO)	115	412	482	503	230
Adjusted interest expense	31	121	120	112	128
Capital expenditures	172	220	194	229	577
Total assets	8,381	8,283	7,804	6,862	6,686
Adjusted debt	3,161	2,873	2,626	2,384	2,284
Adjusted equity	4,508	4,477	4,586	4,059	3,763
Adjusted Ratios					
EBITDA margin (%)	70.49	55.41	57.83	61.90	49.72
Pretax return on permanent capital (%)	6.63	7.30	9.61	8.44	7.08
EBITDA interest coverage (times)	4.84	4.17	5.62	5.91	3.71
Debt to EBITDA (times)	6.56	5.69	3.88	3.61	4.82
FFO to debt (%)	12.53	14.32	18.34	21.10	10.08
Debt to capitalization (%)	41.21	39.09	36.41	37.00	37.77

Note: All ratios have been adjusted by operating leases.

* Consolidated financial statements

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Issue Rating Criteria, 15 June 2021

Aqua Corporation PLC (AQUA)

Company Rating:	BBB-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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