

# AQUA CORPORATION PLC

No. 136/2022  
11 August 2022

## CORPORATES

**Company Rating:** BBB-  
**Outlook:** Stable

**Last Review Date:** 02/02/22

### 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 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 its small-sized portfolio of rental properties located in limited areas. The rating also incorporates our concern over the company’s future investments.

## KEY RATING CONSIDERATIONS

### Divestment in out-of-home media strengthened capital structure

AQUA announced its plan to divest all its shares in the out-of-home media business to PLAN B Media PLC (PLANB) in late January 2022. The transaction value is THB2.88 billion. The company plans to use the proceeds from the divestment to repay existing debts, and to fund future investments and working capital. In addition, AQUA also purchased a 1.96% stake in PLANB, for THB606.48 million in May 2022. Following completion of the transaction, AQUA will focus on its real estate for rent business, investments in the peer-to-peer lending, as well as energy, printing, and packaging businesses.

We expect the divestiture of media business to result in AQUA’s total operating revenues dropping by 63% year-on-year (y-o-y) to THB304 million in 2022, while its earnings before interest, taxes, depreciation and amortization (EBITDA) staying at THB333 million. The total debt to capitalization ratio is likely to stay at around 6%, and its adjusted debt to EBITDA ratio to fall below 2 times in 2022-2024.

### Recurring income helps stabilize margin and cash flow

AQUA generates recurring income from the rental of warehouse spaces and commercial properties. Moreover, 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, as well as 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 2022-2024. Rental income will likely to be flat based on the rental contracts. The gross margin of the warehouse rental business should remain high at 90% during 2022-2024. Based on the secured long-term power purchase agreements (PPAs) with state-owned utility buyers and private power buyers, TRIS Rating estimates the company’s share of profit from its investment in EP to amount to THB90-THB120 million per year during 2022-2024.

### Moderate financial leverage

AQUA has moderate financial leverage. Its total debt to capitalization ratio declined to 34.9% at the end of 2021 and to 28.6% at the end of March 2022, from 39.1% at the end of 2020. This was due to a capital increase in late 2021.

Capital expenditure and investment are forecast to rise to THB1 billion in 2022. Most of the spending is earmarked for peer-to-peer lending business and

purchasing shares in PLANB. The capital budgets are expected to be limited during 2023-2024. As a result, we project the company's debt to capitalization ratio to drop to 6% during 2022-2024.

Most of AQUA's debt is made up of secured bank loans. As of March 2022, the ratio of priority debt to total debt exceeded 50%, which implies a significant subordination risk for the company's unsecured obligations, according to TRIS Rating's "Issue Rating Criteria".

### Acceptable cash flow protection

We expect that over the next 12 months, the company will have outstanding debts of THB862 million. AQUA has already refinanced the debentures of THB453 million due in 2022.

Our base-case forecast projects the company's funds from operations (FFO) to be THB120-THB170 million over the same period. Its liquidity buffer is acceptable with cash on hand of THB396 million and the remaining proceeds of divestment of THB964 million. Looking forward, we project AQUA's FFO to total debt ratio to be 32%-34% in 2022-2024 while the EBITDA interest coverage ratio to be 2.5-3 times over the same period.

### BASE-CASE ASSUMPTIONS

- Revenues to drop by 63% in 2022 and to grow by 4%-18% per annum during 2023-2024.
- EBITDA margin to be above the 60% per annum range.
- Total capital spending of THB1 billion in 2022, and to be limited during 2023-2024.

### RATING OUTLOOK

The "stable" outlook reflects our expectation that AQUA will continue to earn recurring income from long-term warehouse rental contracts and the share of profit from an affiliated company.

### RATING SENSITIVITIES

A rating downgrade could happen if AQUA's profitability or performance deteriorates materially. 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 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 2022, AQUA's major shareholders comprised Mr. Pakorn Mongkoltada (17.4% of the company's shares), Ms. Kanchanarat Wonghan (10.1%), and the remaining shareholders with 72.5%.

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 Chiang Mai" in order to earn rental income.

As of July 2019, AQUA 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.

In January 2022, AQUA recently announced that it had approved plans to divest all of its ordinary shares in the out-of-home media business, comprising Aqua Ad Co., Ltd. (AA) and M.I.S. Media Co., Ltd. (MIS), together with ordinary shares of Boardway Media Co., Ltd. (BWM) and S. Thana Media Co., Ltd. (STN) to PLANB.

In April 2022, AQUA purchased 60% stake in Peer For All Co., Ltd. (PFA) from News Network Corporation PLC (NEWS), with total investment of THB0.3 million.

In June 2022, AQUA approved the investment of 60% in the peer-to-peer lending business via PFA, the company's subsidiary in Nestify Co., Ltd. (Nestify), with total investment of THB360 million.

In July 2022, AQUA approved the investment of 35% in Thai Parcels PLC, engaging in the delivery business and offering parcel delivery services in Thailand, as well as providing cash on delivery services, with total investment of THB214 million.

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

	Jan-Mar 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	71	815	912	1,170	1,068
Earnings before interest and taxes (EBIT)	10	448	550	667	541
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	159	575	505	676	661
Funds from operations (FFO)	126	420	356	516	520
Adjusted interest expense	27	125	121	120	112
Capital expenditures	71	781	220	194	229
Total assets	8,010	9,162	8,283	7,804	6,862
Adjusted debt	2,071	2,809	2,873	2,626	2,384
Adjusted equity	5,162	5,237	4,477	4,586	4,059
<b>Adjusted Ratios</b>					
EBITDA margin (%)	223.30	70.56	55.41	57.83	61.90
Pretax return on permanent capital (%) **	5.39	5.52	7.30	9.61	8.44
EBITDA interest coverage (times)	5.80	4.60	4.17	5.62	5.91
Debt to EBITDA (times)	3.56	4.88	5.69	3.88	3.61
FFO to debt (%) **	20.61	14.94	12.38	19.65	21.81
Debt to capitalization (%)	28.63	34.91	39.09	36.41	37.00

Note: All ratios have been adjusted by operating leases.

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022

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**Aqua Corporation PLC (AQUA)**

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<b>Company Rating:</b>	BBB-
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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