

CHONBURI CONCRETE PRODUCT PLC

No. 21/2022
9 March 2022

CORPORATES

Company Rating: BB+
Outlook: Stable

Last Review Date: 31/03/21

Company Rating History:

Date	Rating	Outlook/Alert
14/09/17	BB+	Stable
05/04/17	BBB-	Negative
22/03/16	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Chonburi Concrete Product PLC (CCP) at “BB+” with a “stable” outlook. The rating continues to reflect CCP’s fair competitiveness and benefits from its business location in Chonburi province. The rating takes into consideration our expectation of CCP’s improving financial performance and leverage in the medium term. Conversely, the rating is still constrained by the company’s small scale of business, its geographical concentration risk, and its exposure to cyclicity and price competition in the building material industry.

KEY RATING CONSIDERATIONS

Fair competitiveness and location benefit in Chonburi province

CCP is a manufacturer and distributor of concrete products in the Eastern region of Thailand. CCP’s business strength lies in its entrenched operations of over 30 years and established customer bases in the Chonburi and nearby markets. The company’s core production and distribution facilities, including precast concrete plants, a lightweight concrete factory, and a modern trade retail shop, are in Chonburi province, providing the company with advantages in serviceability and delivery costs over rivals from other regions.

CCP’s business also benefits from the advanced economic development in Chonburi province and Rayong province, as seen from the higher-than-average economic growth in those areas over several years. In addition, several government mega projects, particularly in the Eastern Economic Corridor (EEC), also offer positive prospects for long-term demands for building materials.

Small business scale and geographical concentration

We view that CCP’s small business size continues to be a major constraint for a rating upgrade. The company’s asset size and cash flow base are well below those of higher-rated companies. This results in a relatively low financial resilience to weather unforeseen difficulties. Moreover, the company’s business profile also reflects a lack of geographical diversification as the main sources of revenue are in the Eastern region of Thailand.

Exposure to industry cyclicity and price competition

CCP’s business strengths are hindered by vulnerability to industry cycles as reflected in its volatile performance. We view that demand for the company’s products corresponds closely to up-down cycles of the economy, construction activities, and the government’s infrastructure outlays.

The building material market is highly competitive, characterized by acute price wars, little product differentiation, and large numbers of competitors. During a market slump, the competition tends to intensify. CCP often sees its profit margin plummet when market demand is weakening.

COVID-19 pandemic weakened operating results

CCP’s performance in 2021 was hurt by the emergence of new Coronavirus Disease 2019 (COVID-19) variants. Due to the government’s reintroduction of national lockdown measures, the progress of public infrastructure projects has been delayed repeatedly. CCP’s profitability was also pressured by a spike in prices of steel. The company’s revenue and earnings from ready-mixed concrete (RMC) and precast concrete continued to decline in 2021.

Nevertheless, these drops were partly counterbalanced by favorable performances in the lightweight concrete business thanks to rising demand for single detached houses.

Overall, the company reported a slight drop in revenue of 3.1% year-on-year (y-o-y) to THB2.36 billion in 2021, from THB2.44 billion in the same period of the previous year. The combination of stagnant industry demand and a surge in the steel prices in 2021 resulted in a drop in earnings before interest, taxes, depreciation, and amortization (EBITDA) by 14.6% to THB260 million in 2021, from THB304 million over the same period in 2020. EBITDA margin dropped to 10.9%, from 12.4% over the same period of the previous year.

Expected performance improvement with healthy financial status

With the prospect of post-COVID-19 recovery, we believe that construction activities will improve gradually. The government is likely to accelerate investments in public infrastructure projects as a key measure to bolster the economy. We expect CCP's profitability to improve and be more stable, considering its strategic focus on precast concrete products which provides higher margins and faces lesser competition than the ready-mixed concrete business. We expect the lightweight concrete and retail store businesses will continue to benefit from the reviving construction activities in the residential property sector.

In our base-case projection, we forecast that CCP's revenue will rise to THB2.4-THB2.5 billion per annum during 2022-2024, with its EBITDA margin to be around 12%-13%, translating into EBITDA of THB290-THB320 million per year. We expect CCP's financial profile to remain healthy as the company's outstanding debt continues to decline. In our base-case forecast, the funds from operations (FFO) to net debt ratio is projected to exceed 40% and the net debt to EBITDA ratio to fall below 2 times over the forecast period.

Adequate liquidity

We assess CCP to have adequate liquidity over the next 12 months. Sources of funds included cash on hand and cash equivalent of THB168 million at the end of 2021 with an estimated FFO of THB260 million over the next 12 months. CCP's uses of funds will include long-term loan repayments of THB215 million, capital expenditures of THB160 million, and an estimated dividend payment of THB35 million.

Debt structure

At the end of 2021, CCP's consolidated debt, excluding financial lease, was THB569 million, all of which was priority debt, comprising secured debt owed by CCP. The priority debt to total debt ratio is 100%.

BASE-CASE ASSUMPTIONS

- Revenue will recover to THB2.4-THB2.5 billion per annum during 2022-2024.
- EBITDA margin to improve to 12%-13% during 2022-2024.
- Capital expenditures of THB160 million per annum.
- Dividend payout ratio of 60%.

RATING OUTLOOK

The "stable" outlook reflects our expectation of CCP's strengthening financial profile with a continued decline in its outstanding debt. We expect the company to maintain competitiveness in its stronghold market areas and benefit from the accelerating investments in the EEC.

RATING SENSITIVITIES

Upward rating pressure would emerge should CCP arrive at a streak of higher and more stable earnings. This could occur from CCP's significant expansion of market shares or diversification of its product portfolio into new market segments. At the same time, the company should be able to maintain its FFO to net debt ratio over 40% and net debt to EBITDA ratio below 2 times on a sustained basis. We expect CCP to manage its liquidity more prudently to withstand the impacts of adverse market conditions.

Downward pressure on the rating would develop if CCP's operating performance and/or its level of cash flow against debt obligations weaken significantly, which could be the case if its FFO to debt ratio falls below 10% or the net debt to EBITDA ratio stays above 5 times for a sustained period.

COMPANY OVERVIEW

CCP is a producer of concrete products in Chonburi province. The company was established in 1983 and was listed on the Stock Exchange of Thailand (SET) in 2003. CCP's business covers three primary segments, 1) ready-mixed concrete and precast concrete business, 2) modern-trade retail business, and 3) lightweight concrete business.

CCP's concrete segment primarily produces RMC and precast concrete. The company's precast concrete segment focuses on the production of large drainpipe systems and paving stones. The products are sold under the "CCP" brand and distributed in Chonburi and nearby provinces. The modern-trade retail segment is operated by Chonburi Kanyong Co., Ltd. (CKY), a wholly-owned company established in 1983. CKY's trading store is named "Kanyong Home Store", distributing basic building materials and home improvement products in Chonburi. The lightweight concrete segment is operated under Smart Concrete PLC, which was established in 2004 and listed on the Market for Alternative Investment (MAI) in September 2014. In August 2018, the company sold almost of its RMC plants to a cement producer and changed its business to RMC trading and outsourcing instead.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	2,378	2,457	2,639	2,421	2,357
Earnings before interest and taxes (EBIT)	81	134	119	(6)	24
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	260	304	283	158	196
Funds from operations (FFO)	225	262	235	102	145
Adjusted interest expense	28	32	42	48	41
Capital expenditures	169	157	139	100	158
Total assets	2,833	2,856	2,895	2,935	2,976
Adjusted debt	494	646	800	875	898
Adjusted equity	1,572	1,491	1,426	1,389	1,461
Adjusted Ratios					
EBITDA margin (%)	10.9	12.4	10.7	6.5	8.3
Pretax return on permanent capital (%)	3.5	5.9	5.2	(0.3)	1.0
EBITDA interest coverage (times)	9.3	9.5	6.8	3.3	4.8
Debt to EBITDA (times)	1.9	2.1	2.8	5.5	4.6
FFO to debt (%)	45.6	40.5	29.4	11.7	16.2
Debt to capitalization (%)	23.9	30.2	35.9	38.6	38.1

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology – Corporate, 26 July 2019

Chonburi Concrete Product PLC (CCP)

Company Rating:	BB+
Rating Outlook:	Stable

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