TRIS RATING
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CHONBURI CONCRETE PRODUCT PLC

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CORPORATES

Company Rating: BB+
Outlook: Stable

Last Review Date: 09/03/22

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 reflects the company's modest business scale, geographical concentration of its businesses, and the recent weaker-than-expected operating performance. However, the rating is supported by CCP's relatively low financial leverage and the expected recovery in its profitability, given stabilizing raw material prices.

KEY RATING CONSIDERATIONS

Rating constrained by modest scale and high business concentration

CCP's business is relatively small. The company's cash-flow base and asset size are well below those of higher-rated companies. In addition, its core production and distribution facilities for ready-mixed concrete (RMC), precast concrete, and lightweight concrete (LWC) are located in Chonburi Province. Consequently, its customer base is concentrated in Chonburi and the surrounding provinces. Although CCP is expected to benefit from advanced economic development in Chonburi Province and investment in the Eastern Economic Corridor (EEC), the company still has to compete with large companies like Siam Cement PLC, Siam City Cement PLC, and TPI Polene PLC.

Looking forward, CCP plans to diversify its RMC and precast concrete businesses to other provinces, using mobile RMC plants. Currently, the company has set up mobile RMC plants in Nong Khai Province, close to the construction sites of double-track railways. Mobile RMC plants allow for greater flexibility while the investment cost is comparatively low. The success of this business model will help diversify its locations and the end-markets served. However, the company does not expect a significant revenue contribution from these investments in the near term.

Cost pressure weakened operating performance more than anticipated

CCP's performance was weaker than projected. Even though strong demand in the private construction sector was sufficient to compensate for weak demand in public construction, rising raw material costs significantly pressured CCP's profitability and caused its cash flow to fall below our base-case forecast. CCP's revenues in the first nine months of 2022 (9M22) were in line with our target. However, its earnings before interest, taxes, depreciation and amortization (EBITDA) for the period reached only 62% of our full year forecast with a 16% decline year-on-year (y-o-y).

CCP's gross profit margin (GPM) narrowed to 10.2% in 9M22, from 12.2% in 9M21. Its EBITDA margin in 9M22 also dropped to 9.7% from a peak of 12.4% in 2020 and 10.9% in 2021. Substantial increases in steel prices dragged down the GPM for precast concrete. High diesel price as well as higher cement prices, following skyrocketing coal prices, also hit the GPMs of most products.

Gradual improvement in financial performance expected

Looking forward, CCP's profitability is expected to improve slightly as pressure from rising raw material prices subsides amid the global economic slowdown. The increasing number of public construction projects in 2023 should also help stimulate demand for precast products and RMC though the growth in demand for LWC may not be as strong as in the last couple of years.

In our base-case projection, CCP's revenues are expected to maintain at around THB2.3-THB2.4 billion per annum during 2023-2025. We forecast EBITDA to slightly recover to the range of THB250-THB265 million per year over the same period, with EBITDA margin in the 10.5%-11.5% range. The recovery in the profit margin would be driven by lower steel and cement prices in 2023 compared with 2022. Steel prices have already weakened since the second half of 2022 while coal and crude oil prices retreat as fears of supply disruptions ease.

Investment in warehouse business, if successful, could strengthen CCP's credit profile

CCP recently formed a joint venture (JV) with WHALE Logistics (Thailand) Co., Ltd. (WHALE) to provide free zone warehousing management services near Laem Chabang Port and the EEC. CCP holds a 51% share in the JV, which has total registered capital of THB10 million. For the first phase of the investment, CCP will build a warehouse with total leasable area of 2,800 square meters on its own land and rent it out to the JV. CCP's investment in the building and infrastructure is expected to be around THB40 million. Meanwhile, WHALE, a leading logistics service provider in Laem Chabang and the EEC, will help with the operations of the JV. CCP expects to complete the construction and begin renting out the warehouse to the JV by the end of this year. Since the warehouse is located in the free zone and close to Laem Chabang Port, demand is expected to be strong. The company anticipates annual rental income of around THB10 million.

If the first phase is successful, CCP plans to invest in a second phase. For the second phase, the company plans to build a 4-storey warehouse with total leasable area of 18,800 square meters. The investment cost is expected to be around THB200 million. However, investment in the second warehouse will start only when the first warehouse is complete and successfully rented out to end users. Despite the inclusion of capital expenditures for both phases in our projections, CCP's funds from operations (FFO) to net debt ratio should still exceed 40% and its net debt to EBITDA ratio should remain below 2.5 times over the forecast period. In our view, diversification into the logistics business, if successful, would be a credit positive for CCP since the warehouse business is less volatile and has a better profit margin than CCP's existing businesses.

Modest financial leverage with adequate liquidity

The rating on CCP is supported by its relatively modest financial leverage and adequate liquidity. Despite the company's planned investments, CCP's debt to EBITDA ratio is expected to stay below 2.5 times while its debt to capitalization ratio is expected to range around 20%-25% over the next two years. Despite its low financial leverage, CCP was unable to comply with the debt service coverage ratio covenant (based on the separated financial statements) on its bank loans. At the end of 2021, this ratio was 0.85 times, lower than the minimum requirement of 1.2 times but CCP did receive a covenant waiver from its lender. Due to its weaker-than-expected profitability, CCP may continue in breach of its debt service coverage ratio covenant tested on end-of-2022 financials. However, given it modest leverage and adequate liquidity, the company is expected to receive a waiver from its lender.

Looking forward, we assess CCP to have sufficient liquidity over the next 12 months. CCP's sources of funds included cash on hand and cash equivalents of THB187 million at the end of 9M22 with estimated FFO of THB220 million for the following 12 months. Its uses of funds are mainly long-term loan repayments of THB92 million and capital expenditures of around THB130 million.

Debt structure

At the end of September 2022, CCP's consolidated debt, excluding financial lease, was THB530 million, all of which was secured debt. Thus, CCP's priority debt to total debt ratio was 100%.

BASE-CASE ASSUMPTIONS

- Revenue in the range of THB2.3-THB2.4 billion per annum during 2023-2024.
- EBITDA margin of 10.5%-11.0% during 2023-2024.
- Capital expenditures, including the investment in both phases of its warehouse business, around THB500 million over 2023-2024.

RATING OUTLOOK

The "stable" outlook reflects our expectation that CCP would deliver operating performance as targeted. CCP's financial leverage should not significantly deteriorate from the current level despite investments in new businesses. We also expect the company to maintain competitiveness in its stronghold market areas and benefit from investments in the EEC.

RATING SENSITIVITIES

CCP's rating and/or outlook could be revised upward should the company successfully enlarge its business scale while maintaining relatively low financial leverage such that its FFO to net debt ratio remains over 40% and net debt to EBITDA ratio stays below 2 times on a sustained basis.

Downward pressure on the rating and/or outlook would emerge if CCP's operating performance continues weakening or the company aggressively pursues debt-funded investments causing its FFO to debt ratio to fall below 20% or its debt to EBITDA ratio rises close to 5 times for a lengthy 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) RMC and precast concrete business, 2) modern-trade retail business, and 3) LWC 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 LWC 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 all 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 -----------			
	Jan-Sep 2022		2021	2020	2019	2018
Total operating revenues	1,887		2,378	2,457	2,641	2,421
Earnings before interest and taxes (EBIT)	54		81	134	114	(6)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	183		260	304	279	158
Funds from operations (FFO)	154		225	266	231	102
Adjusted interest expense	17		28	32	42	48
Capital expenditures	55		169	157	139	100
Total assets	2,855		2,833	2,856	2,895	2,935
Adjusted debt	501		494	646	800	875
Adjusted equity	1,547		1,572	1,491	1,426	1,389
Adjusted Ratios						
EBITDA margin (%)	9.69		10.92	12.38	10.56	6.54
Pretax return on permanent capital (%)	2.30	**	3.54	5.90	5.00	(0.26)
EBITDA interest coverage (times)	10.56		9.29	9.52	6.68	3.33
Debt to EBITDA (times)	2.23	**	1.90	2.12	2.87	5.52
FFO to debt (%)	39.10	**	45.58	41.15	28.86	11.66
Debt to capitalization (%)	24.47		23.90	30.24	35.93	38.64

* *Consolidated financial statements*
** *Adjusted with trailing 12 months*

RELATED CRITERIA

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

Company Rating:	BB+
Rating Outlook:	Stable

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