

Press Release

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TRIS Rating Affirms Company Rating of "CCP" at "BBB-" and Revises Outlook to "Negative" from "Stable"

TRIS Rating has affirmed the company rating of Chonburi Concrete Product PLC (CCP) at "BBB-" but has revised the outlook to "negative" from "stable". The "negative" outlook reflects the company's weakened operating performance, and elevated leverage. CCP's financial profile is likely to weaken over the next six to 18 months as a result of lingering high competition in the building material industry. This is also underpinned by the depressed market condition in the private sectors, which would continue to weigh negatively on CCP's sales and profitability. The outlook revision also incorporates the expected ongoing losses from its light-weight concrete segment and the company's softened cash flow protection against financial obligations. These negative factors are likely to impair the company's credit profile, and thus make it inconsistent to its current rating.

The rating continues to reflect CCP's established operation, adequate competitive strength in its market, and its moderate balance sheet. However, these strengths are partially offset by its small scale compared with its listed peers, regional concentration in Chonburi province, and involvement in a cyclical industry with intense competition.

The "negative" outlook reflects TRIS Rating's view that severe competition would continue to pressure the profitability of CCP's core business. The light-weight concrete segment may continue to post losses and the time it takes to recover is uncertain. TRIS Rating expects the company to reduce debt so as to ensure sufficient liquidity during this unfavorable market condition.

The rating could be downgraded if the operating performance weakens further and/or the outstanding debt remains relatively high or is higher than the current level. This could be measured from the FFO to total debt ratio staying below 20% for a longer period.

The outlook could be revised back to "stable" if the operating environment improves, resulting in a better operating performance, and/or the company prudently manages to reduce its leverage, uplifting the FFO to total debt ratio significantly.

CCP is a producer of concrete products in Chonburi province. The company was established in 1983. CCP's business covers three primary segments, (1) ready-mixed concrete and precast concrete segment, (2) modern-trade retailer business operated under Chonburi Kanyong Co., Ltd. (CKY) and (3) light-weight concrete segment operated under Smart Concrete PLC (SMART). CCP was listed on the Stock Exchange of Thailand (SET) in 2003. The full-year revenue in 2016 of CCP's group was Bt2.3 billion. The concrete segment contributed about 57% of total revenue. The retailer business and light-weight concrete segment generated 28% and 12% of the total revenue, respectively.

CCP's business strength lies in long-standing operation and competitiveness in its market. The company has been operating in Chonburi for over 30 years, earning acceptance in product quality and establishing a strong customer base in the province. Its major facilities and factories are located in Chonburi, providing the company with competitive advantages in serviceability and delivery cost over peers in the same region or elsewhere. A strong economic development in the Eastern region of Thailand is also an important factor supporting the company's revenue growth.

CCP's business scale is small compared with its listed peers. The company's market position is relatively weak as it is estimated to hold about 3% of the market share in the ready-mixed concrete industry. Meanwhile, CKY has only one retailer store and SMART's business size is small. CCP's business profile demonstrates a regional concentration risk as over 75% of sales revenue comes from Chonburi. Given its current scale of business, CCP is susceptible to repercussions of a market downturn. The rating takes into account CCP's volatility in revenue and profit margin. Demands for the company's products come from new constructions which are subject largely to the ups and downs of the economy. The competition in the building material industry is intense, characterized by price wars, little product differentiation, and a large number of competitors. Despite the government's much-anticipated outlays for several infrastructure projects in Chonburi and nearby provinces, biddings and contracts awards are delay

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and then make project executions slower than expected. As a result, most construction material suppliers often engage in price competition in order to secure remaining contracts, and then eventually put large pressures on profit margin.

CCP's financial performance has continued to weaken for the last two consecutive years. The company's ready mixed and precast concrete segment has partially benefited from the government projects. The revenue from the concrete segment was relatively stable despite a drop in the concrete price. CCP's profit margin declined steadily due largely to heavy markdowns among construction material suppliers getting orders from government-sponsored projects. The construction demands from the private sector continued to deteriorate and adversely affected CCP's remaining businesses. CCP's revenue in the retail and light weight concrete segments fell by about 11.3% and 10.2% year-on-year (y-o-y), respectively.

CCP's total revenue declined from the peak of Bt2.63 billion in 2014 to Bt2.4 billion in 2015 and Bt2.31 billion in 2016. The operating margin (before depreciation and amortization) also fell from 12% in 2014 to 9.6% in 2015 and to 8.5% in 2016. CCP's reported a worsened net profit from Bt54 million in 2015 to Bt12 million in 2016. The large portion of a drop in earnings was caused by its light-weight concrete segment which reported losses of Bt37 million in 2016, higher than losses of Bt14 million in 2015. In terms of cash flow, the funds from operations (FFO) also decreased from Bt171 million in 2015 to Bt157 million in 2016, dropping by 8.2%.

Apart from contracted cash flow generation, a higher-than-expected financial leverage dampens CCP's credit profile. The outstanding debt rose from Bt651 million as of December 2015 to Bt821 million as of December 2016, after the company issued a series of bonds totaling Bt410 million in 2016. The FFO to total debt ratio decreased to 19.1% in 2016, slightly worse than our credit guidance. CCP's short-term liquidity adds further concerns on the rating as CCP's also held Bill of Exchange (B/E) of about Bt200 million coming due from April to August 2017 while the company is expected to pay dividend worth Bt60 million in May. CCP's sources of fund, including credit facilities of Bt130 million and cash-on-hand of Bt32 million, is inadequate to cover its B/E and dividend payment in TRIS Rating's assessment. As a result, the company is expected to roll over a major portion of B/E, indicating a higher exposure to refinancing risk in the event of money market distress.

In TRIS Rating's view, Thailand's construction activities are expected to improve, driven by sizable government infrastructure projects and subsequent investments from the private sector. Chonburi and nearby provinces are expected to benefit considerably from the government-promoted Eastern Economic Corridor (EEC). However, the positive prospect in the East of Thailand is likely to attract more competitors, and thus limit price recovery in the medium term. The prolongation in the government projects or further slowdown in demand from the private sector will be main risks that may suppress the construction environment and CCP's performance for a longer period.

Chonburi Concrete Product PLC (CCP)

Company Rating:

BBB-

Rating Outlook:

Negative

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