

# LOXLEY PLC

No. 72/2021  
5 May 2021

## CORPORATES

<b>Company Rating:</b>	BBB
<b>Issue Ratings:</b>	
Partially guaranteed	BBB+
<b>Outlook:</b>	Stable

Last Review Date: 07/05/20

### Company Rating History:

Date	Rating	Outlook/Alert
07/05/20	BBB	Stable
02/10/15	BBB+	Stable

### Contacts:

Pramuansap Phonprasert  
pramuansap@trisrating.com

Chanaporn Pinphithak  
chanaporn@trisrating.com

Wajee Pitakpaibulkij  
wajee@trisrating.com

Sasiporn Vajarodaya  
sasiporn@trisrating.com



WWW.TRISRATING.COM

## RATIONALE

TRIS Rating affirms the company rating on Loxley PLC (LOXLEY) at “BBB” and affirms the ratings on LOXLEY’s partially guaranteed debentures at “BBB+”. The rating outlook remains “stable”. The ratings on the partially guaranteed debentures are based on the credit profiles of both the guarantor and the issuer (LOXLEY). Forty-five percent (45%) of the sum of the outstanding principal plus interest is guaranteed by KASIKORNBANK PLC (KBANK), (rated “AA+/Stable” by TRIS Rating\*).

The ratings reflect LOXLEY’s diverse range of businesses and long-established relationships with its customers and suppliers. The ratings also take into account the sizable dividends the company receives from two major affiliates. Conversely, the ratings are tempered by LOXLEY’s relatively low profitability and the volatility of its project-based revenue.

## KEY RATING CONSIDERATIONS

### Improved operating profit margin

After a significant decline in profitability due to the provision for losses from a project undertaken in 2019, the company’s earnings before interest, taxes, depreciation, and amortization (EBITDA) margin improved to 2.3% in 2020 in tandem with its efforts to reduce selling and administrative expenses.

Going forward, the company aims to bid for more high-margin projects in which it has experience or proficiency. The company also plans to continuously improve its operating efficiency and further reduce overheads. We therefore expect its EBITDA margin to improve to the range of 3%-4% in 2021-2023. However, we still consider the company’s operating profit margin to be low due mainly to its high overhead costs. In addition, most government projects yield low profit margins as they are awarded through fiercely competitive biddings.

### Sustained revenue expected

At the end of December 2020, the company’s backlog stood at around THB8.6 billion, approximately 60% of which will be recognized as revenue in 2021. The company also generates recurring income from its trading business of around THB3.5 billion per annum.

TRIS Rating believes the government will launch more new projects to stimulate the domestic economy. Whereas the company’s trading business that focuses mainly on food and consumer goods, has been little affected by the Coronavirus Disease 2019 (COVID-19) pandemic. We project the company’s revenue to be in the range of THB13-THB14 billion during 2021-2023.

### Diverse business mix mitigates risk

LOXLEY offers a variety of products and services through its wholly-owned and majority-owned subsidiaries. The company’s businesses can be categorized into five strategic business groups: (1) information technology (IT), (2) energy, (3) network solutions, (4) trading, and (5) services. The diverse sources of revenue from multiple lines of business help alleviate fluctuations in its revenue to some extent.

LOXLEY has also invested in a number of affiliated companies and joint

\* The rating assigned to KBANK is based on public information which TRIS Rating believes that it provides a sufficient basis for the assessment of the credit profile of KBANK. The rating is assigned without the participation of KBANK.

ventures which widen its scope of business into areas such as the production and distribution of lubricants, as well as industrial coated and pre-painted steel. The shared profits from these affiliates have contributed a significant portion of LOXLEY's total EBITDA. Over the next three years, we project the dividends from these affiliates to be THB400-THB600 million per annum.

### Long-established client base

LOXLEY has built long-term relationships with its clients and suppliers. The company has a well-established market presence, particularly in the government sector, backed by its track record of completed projects for several government entities. The company is also a longstanding distribution agent for a number of internationally recognized suppliers.

LOXLEY has the expertise and capabilities to deliver high-quality products and services across a range of industries. The high-level technical skills possessed by LOXLEY's workforce position the company to drive innovation and create new business opportunities. These strengths enable LOXLEY to consistently win bids for both government and corporate projects.

### Improved financial profile

LOXLEY's financial profile has improved over the past year. The adjusted debt to EBITDA ratio improved to 6.8 times in 2020, a sharp decline from -10.7 times in 2019. The significant improvement was due to the combination of an increase in EBITDA and a reduction in debt owing to a lower level of inventory. The adjusted debt to capitalization ratio also declined materially to 30.1% in 2020 from 41.7% in 2019.

Our base-case forecast projects the company's annual EBITDA to stay in the range of THB400-THB500 million during 2021-2023, while adjusted debt to be THB2.0-THB2.7 billion, resulting in an adjusted debt to EBITDA ratio of 5-7 times over the next few years. We expect the adjusted debt to capitalization ratio to gradually improve to 25% in 2023.

### Acceptable liquidity profile

We assess the company to have an adequate liquidity position over the next 12 months. As of December 2020, LOXLEY's sources of funds comprised cash on hand of THB2.47 billion and short-term investments worth THB316 million. We project funds from operations (FFO) to be around THB250 million in the next 12 months. The company also has undrawn credit facilities of around THB2.6 billion. These sources of funds should be sufficient to cover the funding need for debt service and investments over the next 12 months. LOXLEY has long-term debt repayment obligations of around THB927 million coming due in the next 12 months. As of December 2020, the company's outstanding short-term obligations amounted to THB1.69 billion. The company's investment budget for 2021 is approximately THB150 million.

We expect LOXLEY will be able to comply with its debenture covenants over the next 12 to 18 months. The debt to equity ratio at the end of December 2020 was 1.31 times, below the debenture covenant of 2.5 times.

Most of LOXLEY's debt was at the subsidiary level and consisted mainly of project loans. As of December 2020, the ratio of priority debt to total debt exceeded 50%. Thus, the rating on LOXLEY's senior unsecured debt could potentially be one notch below the company rating, reflecting the structural subordination risk.

### Guarantor's credit profile

The company rating on KBANK reflects the bank's strong competitive position supported by its solid franchise as the second-largest commercial bank in Thailand by assets as well as its diversified loan portfolio, strong capital position, and above-average profitability. The rating also takes into consideration the bank's superior funding and liquidity profile. However, the rating is constrained by KBANK's relatively high exposure to the SME segment, which remains vulnerable amid the economic downturn.

### BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions for LOXLEY's operations for the period during 2021-2023 are as follows:

- Revenues to be THB13-THB14 billion per annum.
- EBITDA margin to improve to the 3%-4% range.
- Investment budget to total around THB150 million.

### RATING OUTLOOK

The "stable" outlook reflects our expectation that LOXLEY will maintain its competitive position in bidding for projects and continue to show a sustainable level of project-based revenue and profit margin.

## RATING SENSITIVITIES

LOXLEY's ratings could be upgraded if the company's operating performance significantly improves and its cash flow substantially enlarges, couple with the company's ability to improve its adjusted debt to EBITDA ratio to fall below 5 times on a sustainable basis. A rating downgrade is possible should LOXLEY's financial performance weaken significantly, which could be caused by its weakening competitive edge to win project bids or a material decline in dividends from its major affiliates.

## COMPANY OVERVIEW

LOXLEY was established in 1939 by the two co-founders, Mr. Ng Yuk Long Lamsam and Mr. Andrew Beattie of W.R. LOXLEY Company of Hong Kong. Its original business was the export of primary products, such as rice and lumber. In the late 1950s, LOXLEY moved into the trading of industrial and advanced technology products. The company went public in 1993 and was listed on the Stock Exchange of Thailand (SET) in 1994. Over the past several years, LOXLEY has enlarged and diversified its scope of business through its own operations and through a number of subsidiaries, associated companies, and joint ventures. LOXLEY currently has 24 subsidiaries, 17 associated companies, and four joint ventures.

## KEY OPERATING PERFORMANCE

**Table 1: LOXLEY's Revenue Breakdown**

Unit: %

Strategic Business Group	2015	2016	2017	2018	2019	2020
1. Information Technology	22	22	21	27	26	22
2. Services	13	12	13	19	17	13
3. Energy	11	11	11	11	14	11
4. Network Solution	12	19	26	15	19	32
5. Trading	29	28	23	25	23	24
6. Others	10	8	7	6	4	4
<b>Total</b>	<b>96</b>	<b>99</b>	<b>101</b>	<b>103</b>	<b>104</b>	<b>106</b>
Less related transaction	4	1	-1	-3	-4	-6
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: LOXLEY

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

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total operating revenues	14,311	12,645	13,188	15,639	13,710
Earnings before interest and taxes (EBIT)	227	(609)	377	181	422
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	331	(336)	750	593	766
Funds from operations (FFO)	100	(629)	447	313	503
Adjusted interest expense	199	220	221	223	220
Capital expenditures	53	110	105	150	546
Total assets	15,559	16,197	15,097	16,210	15,710
Adjusted debt	2,244	3,594	3,370	3,285	2,667
Adjusted equity	5,224	5,015	6,000	6,294	6,625
<b>Adjusted Ratios</b>					
EBITDA margin (%)	2.31	(2.66)	5.69	3.79	5.59
Pretax return on permanent capital (%)	2.14	(5.55)	3.39	1.62	3.82
EBITDA interest coverage (times)	1.67	(1.53)	3.40	2.66	3.49
Debt to EBITDA (times)	6.77	(10.70)	4.49	5.54	3.48
FFO to debt (%)	4.45	(17.51)	13.27	9.53	18.87
Debt to capitalization (%)	30.05	41.74	35.96	34.29	28.70

\* Consolidated financial statements

**RELATED CRITERIA**

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

**Loxley PLC (LOXLEY)**

<b>Company Rating:</b>	BBB
<b>Issue Rating:</b>	
LOXLEY22DA: THB700 million partially guaranteed debentures due 2022	BBB+
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 02-098-3000

© Copyright 2021, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at [www.trisrating.com/rating-information/rating-criteria](http://www.trisrating.com/rating-information/rating-criteria)