

LOXLEY PLC

No. 77/2024
8 May 2024

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 02/05/23

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on Loxley PLC (LOXLEY) at “BBB”, with a “stable” rating outlook. The rating reflects the company’s diversified income streams, consistent dividend receipts, and the company’s long-term relationships with customers and suppliers. Nevertheless, the rating is constrained by intense competition, the inherently uncertain and volatile nature of the turnkey project business, and the company’s weak profitability.

KEY RATING CONSIDERATIONS

Revenue expected to rebound

During the next three years, we expect LOXLEY’s revenue to grow, ranging from THB11.7-THB13.0 billion. The revenue is poised to be fueled by a substantial backlog, increasing trading revenue, and new projects open for bidding. As of December 2023, LOXLEY’s backlog totaled THB7.2 billion, which is expected to be realized as revenue of THB5.6 billion in 2024 and about THB1.6 billion during 2025-2026. Moreover, government-related projects should resume from mid-2024 onwards, following the government budgeting process, with more project launches in 2025. We expect the company to secure more new projects, driven by several initiatives in the pipeline and the promising landscape of Thailand’s information and communication technology (ICT) infrastructure development. In the trading business, we expect revenue to rebound through diversification into new product distributions, expansion of distribution channels, and broader market coverage.

In 2023, LOXLEY’s revenue declined, primarily due to substantially reduced earnings in the trading business, notably in the distribution of soybean oil products. This sector faced tough competition from palm oil products, which are substitute products with cheaper prices. On the other hand, the company’s revenue in other businesses and services remained relatively steady, buoyed by its substantial backlog, notwithstanding delays in government budget allocation. LOXLEY’s total revenue in 2023 was THB11.1 billion, down by 11% from the previous year.

Diverse business mix helps mitigate risk

LOXLEY offers a variety of products and services through the company and its subsidiaries. The company offers an array of products and services across five strategic business groups: (1) information technology (IT), (2) energy, (3) network solutions, (4) trading, and (5) services. The diverse revenue streams across multiple lines of business help mitigate fluctuations in its earnings to a certain extent.

Additionally, LOXLEY has made strategic investments in affiliated companies and joint ventures, broadening its business scope to include areas such as lubricant production and distribution, as well as industrial coated and pre-painted steel. Profits derived from these affiliated firms have notably bolstered the company’s earnings before interest, taxes, depreciation, and amortization (EBITDA), enhancing overall stability.

Strong and reliable dividend receipts from investment companies

During 2018-2022, LOXLEY received annual dividends of THB350-THB500 million from its associates, primarily BP-Castrol (Thailand) Limited (BP Castrol) and NS BlueScope (Thailand) Limited (NS BlueScope). BP Castrol specializes in lubricant oil manufacturing, while NS BlueScope produces industrial coated

and pre-painted steel. In 2023, LOXLEY's dividend receipts rose to about THB600 million, propelled by strong performance of NS BlueScope. These dividends accounted for a significant proportion of about 45%-70% of LOXLEY's EBITDA.

Looking ahead, we expect annual dividend receipts to remain at about THB500 million over the forecast period, supported by anticipated satisfactory operating performance of both BP Castrol and NS BlueScope over the next three years.

Sustained profit margins

LOXLEY's EBITDA rose to THB822 million in 2023 from THB730 million in 2022, mainly attributed to increased dividends from associated companies and the absence of the provision for losses from a project undertaken in 2019.

Looking ahead, we forecast LOXLEY's EBITDA to be THB670-THB770 million annually over the next three years, with an EBITDA margin in the 5.5%-6.0% range. We expect profitability in the trading business to gradually recover as sales rebound and the expansion into new higher margin products. Also, strong dividend receipts are expected to stabilize the company's EBITDA and EBITDA margin. We expect the company to prudently manage costs and expenses to enhance profitability further. However, it's noteworthy that government projects tend to yield low profit margins due to the intense competition.

Long-standing relationship with clients

LOXLEY has long-standing relationships and a proven track record of successful project delivery with its clients and suppliers. The company's market presence, particularly in the government sector, is underpinned by a history of completed projects for numerous government entities. The company has a broad customer base spanning private enterprises, financial institutions, and government agencies. Additionally, LOXLEY acts as a trusted agent and distributor for several globally renowned suppliers.

With expertise and capabilities across various industries, LOXLEY consistently delivers high-quality products and services. The technical proficiency of its staff drives innovation and cultivates new business opportunities. These strengths enable LOXLEY to consistently secure bids for projects from both government and corporate entities.

Healthy capital structure

In 2023, LOXLEY maintained a strong financial profile with reduced financial leverage. Adjusted net debt decreased to THB819 million from THB1.5-THB2.2 billion during 2021-2022. The adjusted debt to EBITDA ratio improved to 1.0 times in 2023, compared with 2.0-2.6 times in 2021 and 2022. The adjusted debt to capitalization ratio declined notably, falling to 11.4% in 2023 from 19.4% in 2022.

We expect LOXLEY to maintain its healthy financial profile over the next three years, supported by substantial dividend receipts. We project the adjusted net debt to EBITDA ratio to be 1.4-1.5 times, while the adjusted net debt to capitalization ratio should remain below 15% during 2024-2026.

Adequate liquidity profile

We assess LOXLEY to have an adequate liquidity position over the next 12 months. As of December 2023, the company's sources of funds included THB2.9 billion in cash and cash equivalents, with undrawn credit facilities of THB3.6 billion. Funds from operations (FFO) over the next 12 months are expected to be nearly THB550 million. The funds will be allocated towards capital expenditures and scheduled debt repayments. As of December 2023, the company's outstanding short-term bank loans amounted to about THB760 million, around half of which were project financing loans. These short-term project loans are expected to be repaid upon project completion. In addition, LOXLEY has long-term debt repayment obligations of around THB130 million coming due in 2024. Capital expenditure and investment for 2024 are expected to total around THB350 million.

According to LOXLEY's key debenture covenants, the company is obliged to maintain the debt-to-equity ratio below 2.5 times. At the end of 2023, the ratio was 0.7 times. We believe the company should have no problems in complying with the financial covenants over the forecast period.

Debt structure

As of December 2023, LOXLEY's consolidated debt, excluding lease liabilities, was THB2.7 billion. The company's priority debt consisted of nearly THB1.3 billion secured loans and debts owed by its subsidiary. The ratio of priority debt to total debt was about 50% at the end of December 2023.

BASE-CASE ASSUMPTIONS

TRIS Rating’s assumptions for LOXLEY’s operations for the period 2024-2026 are as follows:

- Revenues of THB11.7-THB13.0 billion per annum.
- EBITDA margin at 5.5%- 6.0%.
- Capital expenditure and investment totaling around THB350 million per annum.

RATING OUTLOOK

The “stable” outlook reflects our expectation that LOXLEY will maintain its competitive edges, ensuring continuous acquisition of new projects and consistent receipt of dividend income.

RATING SENSITIVITIES

The rating on LOXLEY could be upgraded if operating performance and cash flow from the company’s core businesses improve substantially and the company maintains a modest level of financial leverage. Conversely, a rating downgrade would happen if LOXLEY’s financial performance deteriorates significantly, which could be caused by weakening competitiveness in project bidding or by 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 subsidiaries, associated companies, and joint ventures. LOXLEY currently has 35 subsidiaries, 16 associated companies, and two joint ventures.

KEY OPERATING PERFORMANCE

Table 1: LOXLEY’s Revenue Breakdown

Unit: %

Strategic Business Group	2019	2020	2021	2022	2023
1. Information Technology	26	22	23	21	24
2. Services	17	13	11	12	14
3. Energy	14	11	8	6	8
4. Network Solution	17	31	20	19	23
5. Trading	23	24	37	38	30
6. Others	6	6	6	9	6
Total	104	106	104	104	104
Less related transaction	(4)	(6)	(4)	(4)	(4)
Total	100	100	100	100	100

Source: LOXLEY

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Total operating revenues	11,075	12,446	11,696	14,311	12,645
Earnings before interest and taxes (EBIT)	625	354	785	227	(609)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	822	730	801	332	(336)
Funds from operations (FFO)	593	495	545	92	(624)
Adjusted interest expense	164	154	168	199	220
Capital expenditures	83	71	60	53	110
Total assets	13,570	14,350	15,072	15,559	16,197
Adjusted debt	819	1,447	2,102	2,236	3,594
Adjusted equity	6,348	6,008	5,965	5,224	5,015
Adjusted Ratios					
EBITDA margin (%)	7.4	5.9	6.9	2.3	(2.7)
Pretax return on permanent capital (%)	6.2	3.4	7.6	2.1	(5.5)
EBITDA interest coverage (times)	5.0	4.7	4.8	1.7	(1.5)
Debt to EBITDA (times)	1.0	2.0	2.6	6.7	(10.7)
FFO to debt (%)	72.4	34.2	25.9	4.1	(17.4)
Debt to capitalization (%)	11.4	19.4	26.1	30.0	41.7

* Consolidated financial statements

RELATED CRITERIA

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

Loxley PLC (LOXLEY)

Company Rating:	BBB
Rating Outlook:	Stable

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