

# NAWARAT PATANAKARN PLC

No. 16/2021  
25 February 2021

## CORPORATES

Company Rating:	BB+
Outlook:	Stable

Last Review Date: 14/02/20

### Company Rating History:

Date	Rating	Outlook/Alert
14/02/20	BB+	Stable
28/02/19	BBB-	Stable
28/02/18	BBB-	Negative
01/04/14	BBB-	Stable

### Contacts:

Auyporn Vachirakanjanaporn  
auyporn@trisrating.com

Rapeepol Mahapant  
rapeepol@trisrating.com

Monthian Chantarklam  
monthian@trisrating.com



WWW.TRISRATING.COM

## RATIONALE

TRIS Rating affirms the company rating on Nawarat Patanakarn PLC (NWR) at “BB+” with a “stable” rating outlook. The rating reflects the company’s track record of undertaking a broad range of construction projects for the public and private sectors, its sizable backlog, as well as a promising outlook for public-sector construction work in the near-to-intermediate term. However, the rating is held back by the company’s weak profitability, and low cashflow protection against financial leverage.

## KEY RATING CONSIDERATIONS

### Track record in a broad range of works

NWR is the sixth largest contractor listed on the Stock Exchange of Thailand (SET), based on annual revenue and assets. The company undertakes a broad range of civil construction work, including the construction of commercial buildings, industrial factories, power plants, roads, expressways, reservoirs, ports, tunnels, etc. NWR also manufactures precast concrete components for various types of civil and infrastructural works.

NWR undertakes construction projects for both public- and private-sector clients. However, the company focus on public infrastructure projects. In the past five years, revenue from public-sector projects amounted to about 70% of total annual revenue, while the rest came from private-sector projects.

### A record-high backlog

The rating recognizes NWR’s sizable backlog, which should help secure revenue for the next two years. After its lowest backlog in 2017, NWR signed a host of new contracts worth a combined THB30 billion during 2018 through the first nine months of 2020. The company still has a significant number of opportunities to secure contracts for forthcoming projects, serving as the main contractor or as a sub-contractor.

As of September 2020, NWR’s backlog stood at THB21.6 billion, a record figure for the company. The projects in backlog are expected to generate revenue of around THB1.7 billion for the remainder of 2020, THB8.7 billion in 2021, THB6.1 billion in 2022, and the rest in 2023. The sizable backlog should help the company achieve its revenue targets.

### Pandemic impact on construction activities

The outbreak of the Coronavirus Disease 2019 (COVID-19) has caused significant disruptions to construction activities. Construction contractors have experienced a range of direct impacts, such as shortages of labor, disrupted supplies of goods and materials, and shifting of construction schedules due to lockdowns.

However, we are seeing a greater contraction in private construction than in the public segment as the pandemic exacerbated the already weak market sentiment, strained consumer purchasing power, and delayed new projects. The outlook for private construction remains dim as residential construction represents around half of this market segment. The residential property market in Thailand has endured a period of sluggish demand since late 2019, aggravated by the economic fallout from COVID-19.

### Promising outlook for public construction

In stark contrast to the private sector, public construction holds out a more

promising outlook in the near-to-intermediate term. In 2020, overall domestic construction grew by 2.2% year-on-year (y-o-y). While private-sector construction tailed off by 2.2%, the public segment staged a robust 5.7% growth. We hold the view that government spending and state enterprise outlays will continue to be key supporting factors for the pandemic-hit economy, while recoveries in exports and tourism remain shaky. Hence, NWR's revenue is poised to grow in the next few years, helped by its focus on public-sector contracts.

We maintain a positive view on the domestic engineering and construction (E&C) industry over the medium term, considering the government's continued efforts to strengthen national infrastructure. However, public spending and investment will need to accelerate to reinvigorate the economy. In all, the downside risks to the E&C industry include ongoing intense competition, and delays in project bidding and awarding. The resurgence of COVID-19, meanwhile, has disrupted the recovery.

#### **Weak profitability lingers**

NWR's weak profitability is the main negative factor weighing on the company's rating. NWR's gross margin for construction is relatively lower than those of its peers. The thinner margin is the result of fiercely competitive bidding, given the number of new public infrastructure projects that have come up for tender. At the same time, NWR needs to secure new contracts to counter backlog depletion. Furthermore, NWR has endured low gross margins for high-value projects, particularly infrastructure projects and power plants, which were subcontracted from other main contractors. The company has also encountered significant delays in work schedules and suffered considerable cost overruns in some projects. NWR has been unable to cut its high operating expenses to offset the low margins.

Given the current backlog, we forecast NWR's gross margin for the construction business at 5%-6% during 2020-2022, as opposed to 6%-7% on average in the past several years. We forecast revenues from construction will range from THB7-THB11 billion per year. At the same time, we expect sales of residential property will remain under immense pressure from the sluggish market. We project NWR to book revenue from residential sales of THB400-THB500 million per year, while sales of construction materials should stay in the region of THB0.7-THB1 billion per year. On the whole, we expect revenues from these two businesses will be insufficient to meaningfully strengthen NWR's overall profitability.

#### **Weak cashflow against debt**

For 2020, we estimate NWR's total revenue will be THB9 billion. We project earnings before interest, tax, depreciation, and amortization (EBITDA) to arrive at THB260 million as we expect NWR's operating expenses to remain high. In our base-case forecast for 2021-2022, we expect NWR's total revenue to increase to THB11-THB12 billion per year, propelled by its sizable backlog. Gross margin of construction should stay in the 5%-6% range. Overall gross margin is expected to stay at about 7%. With the backdrop of eroding margins, we anticipate flat to slightly negative net earnings in 2021-2022. We project EBITDA of THB600-THB700 million per year with funds from operations (FFO) of THB300-THB450 million per year.

The company's debt to capitalization ratio was 58.3% at the end of September 2020, up from 57.9% in 2019 and around 50% during 2015-2018. We expect NWR's debt will stay elevated as the lack of progress in some projects may become prolonged and higher working capital will be needed to undertake new projects.

In our base-case forecast, we project NWR's total debt to remain in the THB5-THB6 billion range during 2021-2022. The debt to capitalization ratio should stay at 55%-65%. We expect cash flow protection, as measured by the ratio of FFO to debt, to stay low at around 10%, with the EBITDA interest coverage ratio to be held at around 2.5 times.

#### **Loan rollovers**

At the end of September 2020, NWR's source of funds comprised THB963 million in cash, while the company had a substantial THB3.9 billion in short-term loans and long-term debts coming due over the next 12 months. Most of the debts were bank loans for working capital, which NWR repays from progress payments. We expect NWR will be able to roll-over most of its bank loans, given the ongoing progress of its projects.

We expect the company to be able to comply with the financial covenants on its debt obligations over the next 12-18 months. According to the key financial covenant of bank loans, NWR has to maintain its net interest-bearing debt to equity ratio below 2.25 times. The ratio at the end of September 2020 was 1.3 times.

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## BASE-CASE ASSUMPTIONS

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These are the key assumptions in TRIS Rating's base-case forecast for 2020-2022:

- Total revenue in the THB9-THB12 billion per year range.
- Overall gross profit margin around 7% on average.
- Newly signed construction contracts totalling THB13 billion in 2020, and THB7 billion per year in 2021 and 2022.
- Residential property sales of THB400-THB500 million per year.
- Construction materials sales of THB0.7-THB1.5 billion per year.
- Capital expenditures of around THB400 million per year.

## RATING OUTLOOK

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The "stable" outlook embeds our expectation that NWR will sustain its competitive edge in its core business and be able to secure sizeable contracts, given the promising outlook for public-sector construction. We expect cash flow protection to remain in line with our forecast, with the FFO to debt ratio staying at around 10%, and the debt to capitalization ratio remaining in the range of 55%-65%.

## RATING SENSITIVITIES

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A rating upgrade is unlikely in the near term but it could occur if NWR demonstrates a significant improvement in operating performance and substantially lowers its debt. To achieve that, the company will need to keep its debt to capitalization ratio at around 50% and the FFO to debt ratio above 15%.

Conversely, a downward revision to the rating could develop if NWR's operating performance is significantly worse than our forecast, which could occur from substantial cost overruns or significant provisions for doubtful receivable accounts. In that scenario, the ratio of FFO to debt could stay below 10% on a sustained basis.

## COMPANY OVERVIEW

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NWR, a general contractor, was established in 1976 by Mr. Mana Karnasuta. The company was listed on the SET in 1995. As of March 2020, NWR's major shareholder was Mr. Polpat Karnasuta (son of Mr. Mana Karnasuta), holding 10.2% of the total shares outstanding.

NWR undertakes a broad range of civil construction work, including the construction of buildings, factories, transportation infrastructure, ports, irrigation works, tunnels, and pipe jacking projects. The company undertakes construction projects for both public and private sector clients, engaging in civil construction work in Thailand and in neighboring countries such as Myanmar and Cambodia. NWR is the sixth-largest of the contractors listed on the SET, as judged by annual revenue and assets.

In 2001, NWR acquired a 60% stake in Utility Business Alliance Co., Ltd., which manages wastewater treatment plants. In addition, NWR secured a significant revenue stream from a nine-year contract to remove soil and excavate coal at the Mae Moh mine. The contract covered the period 2009-2018. The Mae Moh project was undertaken by the NWR-SBCC Joint Venture, in which NWR held a 50% stake.

NWR has expanded into the property development sector, a strategic shift designed to ramp up its revenue base. In 2013, NWR set up a wholly-owned property developer, Mana Patanakarn Co., Ltd. (MANA). MANA develops residential property projects under the "Baranee" brand. In November 2014, MANA launched an SDH project, "Baranee Park Romklao", valued at THB1 billion. In August 2015, MANA launched "Aspen Condo", its first low-rise condominium project, targeting the middle- to low-end market segments. The Aspen Condo has four phases, consisting of 1,448 units. The project value is THB2.8 billion. The average selling price is THB2 million per unit. In October 2015, MANA launched another housing project, "Baranee Residence", worth around THB800 million.

The company expanded into the production and distribution of construction materials in December 2013 when NWR established Advance Prefab Co., Ltd. Advance Prefab manufactures concrete products for use in NWR's construction projects as well as for sale to the public.

The construction segment generates most (85%-90%) of the company's total revenue. During the past five years, the building and transportation infrastructure segments contributed the majority of the revenue, accounting for 70%-80% of revenue each year.

**KEY OPERATING PERFORMANCE**

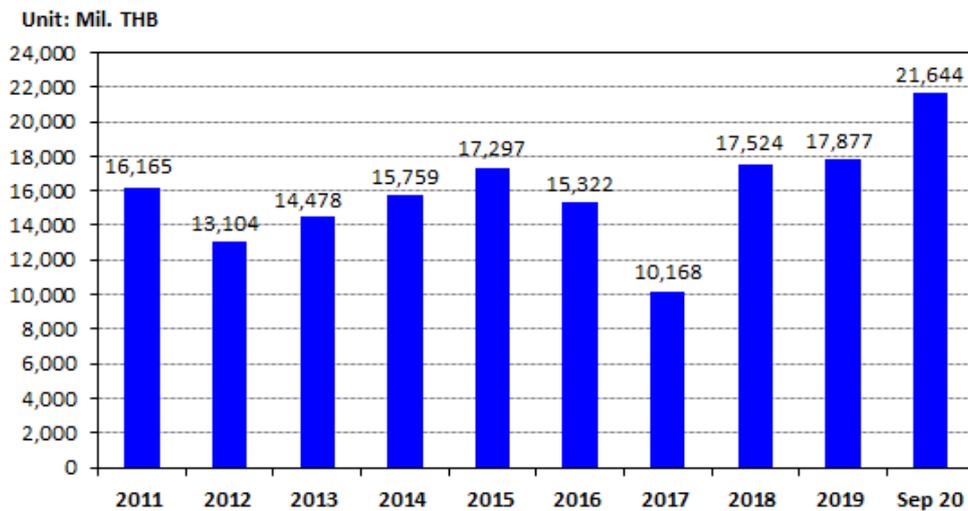
**Table 1: Construction Revenue Breakdown by Type of Project**

Unit: %

Type of Project	2013	2014	2015	2016	2017	2018	2019	Jan-Sep 2020
Buildings, factories, plants	54	51	32	21	26	38	16	9
Transportation infrastructure	29	28	40	48	45	52	68	76
Coal excavation	15	12	12	11	13	0	0	0
Tunnels & pipe jacking	1	7	11	15	10	9	16	15
Marine work	0	2	6	5	6	1	0	0
<b>Total</b>	<b>100</b>							

Source: NWR

**Chart 1: Backlog as of Sep 2020**



Source: NWR

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	Jan-Sep 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	7,252	7,822	10,536	10,611	9,372
Earnings before interest and taxes (EBIT)	276	(268)	630	106	317
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	627	182	1,202	901	984
Funds from operations (FFO)	424	(51)	946	648	726
Adjusted interest expense	192	233	231	246	234
Capital expenditures	120	262	160	362	921
Total assets	14,441	13,354	13,043	13,206	13,869
Adjusted debt	4,704	4,569	3,389	4,225	3,750
Adjusted equity	3,361	3,324	3,957	3,531	3,746
<b>Adjusted Ratios</b>					
EBITDA margin (%)	8.64	2.33	11.41	8.49	10.50
Pretax return on permanent capital (%)	0.80 **	(3.02)	7.12	1.20	3.56
EBITDA interest coverage (times)	3.27	0.78	5.19	3.66	4.21
Debt to EBITDA (times)	8.62 **	25.05	2.82	4.69	3.81
FFO to debt (%)	5.93 **	(1.12)	27.92	15.35	19.37
Debt to capitalization (%)	58.33	57.88	46.14	54.47	50.03

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

Note: During 2016-2018, all ratios have been adjusted by including JV's financial performance (NWR-SBCC JV) on pro-rata basis.

## RELATED CRITERIA

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

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**Nawarat Patanakarn PLC (NWR)**

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<b>Company Rating:</b>	BB+
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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