TRIS RATING
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TTCL PLC

No. 164/2019
11 October 2019

CORPORATES

Company Rating:	BB+
Outlook:	Stable

Last Review Date: 15/03/19

Company Rating History:

Date	Rating	Outlook/Alert
15/03/19	BB+	Stable
11/10/18	BBB-	Stable
29/12/17	BBB	Stable
28/03/14	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on TTCL PLC (TTCL) at "BB+" with a "stable" outlook. The rating reflects TTCL's acceptable track record in EPC (engineering, procurement, and construction) for the industrial segment, and cash flow stream from the power business. The rating also recognizes TTCL's improved capital structure and enhanced liquidity, following the recent divestments of assets in its power portfolio. Conversely, the rating is weighed down by its weak operating performance amidst the severe competition and cyclicality of the EPC industry.

KEY RATING CONSIDERATIONS

Divestments of assets bring down financial pressure

TTCL has carried out a series of major asset divestments in its power portfolio. The crucial decision was made in order to solidify its precarious capital structure and bring in sufficient liquidity.

TTCL's streak of weak operating performance, together with its hefty provision for receivables, drastically ran off the company's equity base over the past two years. This heightened TTCL's debt to capitalization ratio to 74% at the end of 2018, resulting in tight covenant headroom.

In late 2018, TTCL sold off a 30.5-megawatt (MW) solar farm project in Japan, worth Bt946 million. In April 2019, the company sold nearly 60% of its shares in the "Ahlone project", for Bt2.67 billion. The project, which is a 120-MW gas-fired power plant in Myanmar, is considered the company's core power-generating asset. TTCL later sold off its preference shares in the 110-MW combined cycle gas turbine power plant of Nava Nakorn Electricity Co., Ltd. (NNE), worth Bt838 million, in August 2019.

In all, TTCL will receive cash from divestments of around Bt3.5 billion and recognize profit of around Bt800 million in 2019. Although the gains are not enough to entirely offset the eroded equity base, the divestiture significantly strengthens TTCL's capital structure and enhances liquidity.

Business recovery remains a concern

Despite lessened liquidity pressure, the rating affirmation reflects TRIS Rating's view that TTCL's business recovery is still fragile. TTCL has recorded weak performance over the past few years, with steep declines in revenues. TTCL has been hurt by a slowdown in investments by private refining and petrochemical companies, as well as serious competitive threats.

Added to that, the company incurred cost overruns in some projects and suffered considerably as a result of overdue payments in relation to the Rock Salt Processing project, which caused TTCL to put aside a hefty allowance for Bt1.3 billion in 2018. For the first half of 2019, TTCL's operating performance remained weighed down by a significant allowance.

We hold the view that the company is highly vulnerable to the cyclicality of the EPC business, given the scope of its expertise and end market served. During the first nine months of 2019, TTCL barely secured any new contracts. As a result, TTCL's backlog stood at Bt12.4 billion at the end of June 2019, which is below our expectation. The total value of the projects in the backlog will secure future revenue for only one-two years.

Cash flow stream from the power segment

TTCL has invested in power projects such that the cash flow contribution from the power business partially offsets TTCL's exposure to the cyclical nature of the construction segment. In all, TTCL still holds 43% in the Ahlone project. Given TTCL's commitments to the project, we include the debts and cash flow of the project company, Toyo Thai Power Myanmar Co., Ltd. (TTPMC), on a proportionate basis in the financial assessment.

Despite TTCL's smaller stake, we expect the power business to generate sizable earnings before interest, taxes, depreciation, and amortization (EBITDA) of Bt400 million a year. TTCL is bent on investing in the expansion phase of the Ahlone project, which will increase production capacity by 356 MW. The project requires around Bt11-Bt12 billion in funds, which is beyond the company's current investment capability. However, we view the likelihood of the project materializing in the near term as remote, considering the slow-moving government bureaucracy of Myanmar. TTCL's leverage would increase considerably if the deal went through.

Acceptable track record in EPC for the industrial segment

TTCL has an acceptable track record in the domestic EPC market, particularly in the industrial plant segment. TTCL's business profile is substantiated by a list of large refining and petrochemical companies. The company is among the top five Stock Exchange of Thailand (SET)-listed contractors, in terms of revenue base and asset size. TTCL has moved to undertake larger projects and expand its footprint in several countries.

TTCL expects to gain business synergy and collaboration with Sojitz Corporation, which acquired a 9% share of TTCL last year and is currently the largest shareholder. TTCL should benefit in terms of enhanced business opportunities, however, the much-anticipated synergy is yet to be proven. In addition, the capacity expansions of TTCL's target customers could be slower than anticipated, given the slight growth of demand. In our base-case scenario, we have slashed the forecasted revenue of the company. We assume TTCL will secure new EPC contracts worth Bt10 billion a year over the next three years, a lower figure than our previous projection.

Given the current backlog, we expect TTCL to record revenue of Bt10.3 billion for 2019. Its revenue will then range around Bt8-Bt9 billion a year during 2020-2022. We believe TTCL could bring down its costs amid the slowdown in revenue, achieving an operating margin (operating profit before depreciation and amortization as a percentage of revenue) of around 7%-8%.

Leverage declined considerably

TTCL's financial leverage substantially improved from 2018, aided by the gains from divestments of power assets. We note that TTCL's reported financial profile does not fully reflect the company's debt exposure. Therefore, we incorporate the debt of the Ahlone project on a proportionate basis to reflect the company's remaining potential exposure. As of June 2019, the ratio of debt to capitalization markedly fell to 55.2%, from 74.2% in 2018.

In our base case projection, we forecast that TTCL's total debt decline to around Bt3.9-Bt4.7 billion over the next three years, with the debt to capitalization ratio hovering around 50%. The ratio of funds from operations (FFO) to debt is forecast to improve to a level above 14% over the next three years, while EBITDA interest coverage ratio will be in the range of 3.2-4.0 times.

Liquidity should be manageable

We hold the view that TTCL's liquidity should be manageable. At the end of June 2019, TTCL had Bt3.9 billion in debt coming due over the next 12 months, largely comprising Bt1.5 billion in short-term bank loans and Bt2.4 billion in bonds. TTCL's liquidity source was Bt3.6 billion in cash and short-term investments. We forecast TTCL's FFO over the next 12 months to be around Bt400 million. We expect TTCL to roll over the short-term debts and refinance the maturing bonds to maintain its liquidity.

TRIS Rating expects that the company should be able to comply with its financial covenants over the next 12 to 18 months. According to the key financial covenants of bonds, TTCL has to maintain its interest-bearing debt to equity ratio below 3.0 times. The ratio at the end of June 2019 was 1.74 times.

BASE-CASE ASSUMPTIONS

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

- TTCL will secure new EPC contracts worth Bt2 billion in 2019 and Bt10 billion per annum during 2020-2022.
- Gross margin of construction is 7.5%.
- Overall operating margin will be in the 7%- 8% range.
- Capital expenditures are set at Bt80-Bt90 million per year over the next three years.

- Expansion of the Ahlone project is excluded.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that TTCL could secure sizable new contracts to replenish its backlog and improve its profitability. The operating margin is expected to stay between 7%-8% and the debt to capitalization ratio will stay at around 50% over the next three years.

RATING SENSITIVITIES

A rating upgrade could occur if TTCL considerably strengthens its profitability and operating cash flow, such that TTCL's operating margin stays above 8%, its FFO to debt ratio stay around 15% and its debt to capitalization ratio stay around 50% on a sustained basis.

Conversely, the rating and/or outlook could be revised downward if TTCL's operating performance and capital structure deteriorate further.

COMPANY OVERVIEW

TTCL is an EPC contractor based in Thailand. The company was established in 1985 as a joint venture between Italian-Thai Development PLC (ITD) and Toyo Engineering Corporation (TEC), a Japanese EPC firm. TTCL went public in 2008 and was listed on the Stock Exchange of Thailand (SET) a year later. TTCL is positioned as an integrated EPC contractor for industrial plants, including refineries and plants which produce petrochemicals, chemicals, fertilizer, oil and gas, and electrical power.

TEC gradually reduced its stake in TTCL from 22% to 10% during 2015-2017. In February 2018, TEC sold off its remaining shares in the company. In August 2018, Sojitz Corporation, the seventh-largest general trading and investment company in Japan, acquired a stake in TTCL and became the company's major shareholder. As of April 2019, Sojitz held approximately 9.1% of TTCL's outstanding shares. TTCL expects to gain synergy in business and collaboration from its major shareholder.

TTCL's track record of project execution is substantiated by a list of large refining and petrochemical companies. TTCL is among the top five SET-listed contractors, in terms of revenue base and asset size. The company is capable of undertaking large EPC projects and expanding its footprint geographically. As of June 2019, TTCL's backlog stood at around Bt12.4 billion.

TTCL has implemented a strategy to expand into the power business, a move that has helped the company secure EPC contracts and earn a steady revenue stream. TTCL's investments in power projects enable it to generate steady sources of income from multi-year power purchase agreements. TTCL undertook all the EPC work for its power project investments, which include natural gas-fired, biogas, and solar-powered plants.

TTCL entered the power business in 2010 when it invested in Nava Nakorn Electricity Co., Ltd. (NNE). NNE operates a 110-megawatt (MW) combined cycle gas turbine power plant. The company subsequently invested in and built a 120-MW gas-fired power plant in Ahlone, Myanmar, the "Ahlone project". TTCL, through its Myanmar-based subsidiary, owns 100% of the Ahlone project, which carries a total investment cost of about Bt5.5 billion.

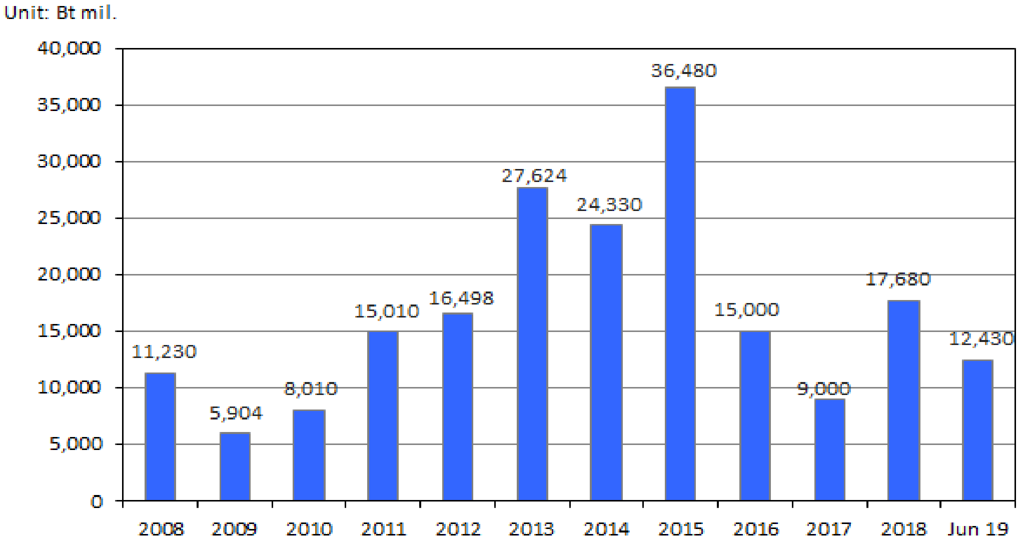
TTCL has recorded subdued performance over the past few years, as a result of slowdown in investment by private refining and petrochemical companies. TTCL's revenue totaled Bt8.4 billion in 2018, a continued decline from Bt10.5 billion in 2017 and around Bt20 billion per annum during 2014-2016. In addition to the precipitous drop-off in revenue, TTCL has suffered as a result of substantial overdue payments in relation to the Rock Salt Processing project, a contract to build a rock salt exploitation and processing plant in the Lao PDR.

As a result, TTCL has put aside a hefty allowance for doubtful accounts of around Bt1.3 billion. The company reported a net loss of Bt2 billion in 2018. The massive loss almost entirely wipes out TTCL's retained profits, causing further deterioration of its capital structure. TTCL decided to divest some of the assets in its power business portfolio in 2019 in response to the precarious financial profile. TTCL sold its entire shareholding in NNE. The company also sold partial stakes in the Ahlone project to subsidiaries of Chugoku Electric Power Co., Inc., and Shikoku Electric Power Co., Inc. After the divestment this year, TTCL retains a 43% share in the Ahlone project.

For the first half of 2019, TTCL recorded revenue of Bt5.8 billion. Its gross margin for construction improved to 11.5%, up from 6.8% over the same period last year. The company put aside substantial provisions for doubtful accounts of around Bt320 million while it reported gains from divestments of Bt690 million. In all, TTCL generated EBITDA of Bt558 million during the first half of 2019.

KEY OPERATING PERFORMANCE

Table 1: Backlog at Year End



Source: TTCL

Table 2: Construction Revenue Breakdown by Location

Unit: %

Location	2012	2013	2014	2015	2016	2017	2018	Jan-Jun 2019
Domestic	53.7	58.2	49.2	44.0	34.0	38.5	48.5	55.4
Overseas	46.3	41.8	50.8	56.0	66.0	61.5	51.5	44.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Revenue (Bt mil.)	**11,358**	**17,865**	**19,575**	**21,524**	**20,024**	**10,447**	**8,328**	**5,669**

Source: TTCL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Jun *** 2019	------------Year Ended 31 December ----------- 2018	2017	2016	2015
Total operating revenues	5,782	8,360	10,474	20,028	21,534
Operating income	527	(2,038)	795	1,016	912
Earnings before interest and taxes (EBIT)	241	(2,202)	225	895	1,094
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	558	(1,944)	1,058	1,240	1,372
Funds from operations (FFO)	346	(2,265)	690	701	844
Adjusted interest expense	193	475	437	445	370
Capital expenditures	16	652	117	90	108
Total assets	18,317	19,360	23,865	25,812	25,897
Adjusted debt	3,899	7,883	10,118	6,710	8,242
Adjusted equity	3,167	2,747	4,095	6,341	6,289
Adjusted Ratios					
Operating income as % of total operating revenues (%)	8.70	(23.95)	7.10	5.01	4.23
Pretax return on permanent capital (%)	(15.70) **	(15.55)	1.41	5.65	7.22
EBITDA interest coverage (times)	2.89	(4.09)	2.42	2.79	3.71
Debt to EBITDA (times)	(2.58) **	(4.05)	9.56	5.41	6.01
FFO to debt (%)	(47.74) **	(28.74)	6.82	10.45	10.24
Debt to capitalization (%)	55.18	74.16	71.19	51.41	56.72

* *Consolidated financial statements*
** *Annualized with trailing 12 months*
*** *Adjusted financial profile with inclusion of assets, liabilities, and cash flow of the Ahlone project in proportion to TTCL's stakes (43%)*

RELATED CRITERIA

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

TTCL PLC (TTCL)

Company Rating:	BB+
Rating Outlook:	Stable

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