TRIS RATING
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CreditNews ข่าวเครดิต

TTCL PLC

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CORPORATES

Company Rating: BB+

Outlook: Stable

Last Review Date: 11/10/19

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 engineering, procurement, and construction (EPC) for the industrial segment, as well as steady cash flow stream from the power investment, and adequate liquidity. Conversely, the rating is constrained by the dim outlook and intense competition in TTCL's focused market. In addition, TTCL's revival efforts are likely to be hampered by the large allowances that will weigh down its operating results in the years ahead.

KEY RATING CONSIDERATIONS

Acceptable track record in its market segment

TTCL is an integrated EPC company, with an acceptable track record in the domestic market. The company has mainly targeted the industrial segment, including refineries and plants which produce petrochemicals, chemicals, fertilizer, oil and gas, and electrical power. The company is best known for the construction of petrochemical and power plants. TTCL is among the top five Stock Exchange of Thailand (SET)-listed contractors, in terms of revenue base and asset size. The company's business profile is substantiated by a customer list that includes several large refining and petrochemical companies. TTCL has also moved to undertake larger projects and expand its footprint in several countries, enabling the company to double its revenues.

Weakened competitive and financial strengths

The rating mirrors TTCL's competitive and financial strengths, which have weakened over the past few years. TTCL has reported continuously weakening operating performance, with steep declines in revenues and new contracts after Toyo Engineering Corporation, the founding and major shareholder, entirely divested its shares in the company. Moreover, TTCL has incurred cost overruns in several projects and suffered considerably from problematic receivables, which have forced the company to set aside substantial allowances. In total, TTCL set provisions of THB2.9 billion during 2018-2019, for overdue receivables from the Rock Salt Processing project in the Lao People's Democratic Republic (Lao PDR), a desalination plant in Qatar, and domestic petrochemical plants in Thailand.

Problems with the troublesome projects have continued in 2020 and TTCL expects to put aside an additional allowance of THB830 million to compensate for defective work in two power plants in Thailand. We view that these recent occurrences could dent TTCL's chances of securing new projects in the future. Added to that, the large provisions have substantially weakened the company's financial profile.

TTCL expects to gain business synergy and collaboration with Sojitz Corporation, which acquired a 9% share of TTCL in 2018. However, the much-anticipated synergy is yet to be proven. More recently, Idemitsu Kosan, a Japanese petroleum firm, acquired 5% of TTCL's shares. With the new partner, TTCL has set out to co-develop the production of black pellets, a bio-based fuel for power generation.

Divestment of assets to pay down debt

TTCL carried out a series of divestments in its power asset portfolio in 2018 and 2019, in an effort to improve its capital structure and strengthen short-term liquidity. The divestments included a significant portion of its core investment in Myanmar, the Ahlone project, which is a 120-megawatt (MW) gas-fired power plant. The company also sold off its shares in a Japan-based solar farm, plus a combined cycle gas turbine power plant and a solar project in Thailand. In total, TTCL received proceeds of THB4.7 billion from the divestitures, which were used primarily to reduce its debt burden.

A dim outlook and intense competition

We hold the view that TTCL will be highly vulnerable to the cyclicality of the EPC business, particularly in the area of its expertise and focused market segment. TTCL has been affected considerably by a slowdown in investment by private refining and petrochemical companies, as well as intense competition in the EPC industry.

The Coronavirus Disease 2019 (COVID-19) pandemic has also brought significant downside risks. Construction work was disrupted during the lockdown, with difficulties in importing machinery and equipment, etc. Although construction activities have resumed after the easing of lockdown measures, we expect TTCL will continue to endure a lingering slowdown in its focused market. The oil industry's plight is expected to weigh heavily on capital expenditure in the refining and petrochemical sector. At the same time, the power industry is seeking to scale down new investments in the wake of the country's high reserve of power generation capacity and the pandemic-induced decline of power demand. Given the prospect of a prolonged economic slump, we view TTCL's domestic business recovery as questionable.

TTCL's backlog stood at THB6.8 billion at the end of June 2020, which is below our expectation. TTCL has to date secured about THB2.5 billion in new contracts for 2020. The total value of the projects in the backlog is estimated to secure future revenue for only a year.

Cash flow stream from the power investment

TTCL's investment in the power generation business helps alleviate its vulnerability to the cyclical nature of the construction business. Currently, TTCL still holds about 40% in the Ahlone project. Given TTCL's commitments to the project, our financial assessment includes the debts and cash flow of the project company, Toyo Thai Power Myanmar Co., Ltd. (TTPMC), in proportion to TTLC's equity stake in the company. Despite TTCL's smaller stake, we expect the Ahlone project will bring in earnings before interest, taxes, depreciation, and amortization (EBITDA) of around THB300-THB400 million a year.

TTCL has planned to invest in the expansion phase of the Ahlone project, which will increase production capacity by 380 MW. The project requires around THB20 billion for investment, which is beyond TTCL's current financial capability. Given the government red tape in Myanmar, we do not expect the expansion project to materialize in the near term. As such, we have not incorporated the project into our base-case forecast.

Revival efforts to face tough challenges

TTCL's efforts to revive its financial strength are likely to be hampered by the burdensome allowance of THB830 million spread over the period 2020-2022. In the first half of 2020, revenue came in at THB3.6 billion, a 38% drop year-over-year (y-o-y). Gross profit margin during 2019 through the first half of 2020 stayed in the 10%-13% range, improving from an average of 5%-6%. In our base-case scenario, we assume TTCL will secure new contracts worth THB2.5 billion in 2020, THB15 billion in 2021, and THB10 billion in 2022. We expect TTCL's revenue should range around THB7-THB8 billion a year during 2020-2022. The forecast also embeds our expectation that TTCL could bring down its costs during the period of lower revenues. We project EBITDA margin to hold at 4%-6%, and EBITDA to fall to the range of THB250-THB450 million a year, while funds from operations (FFO) should beTHB120-THB250 million per year.

Leverage on a declining trend

TTCL's financial leverage has declined substantially since 2018. 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 potential exposure. As of June 2020, adjusted net debt stood at THB2.6 billion. TTCL's debt to capitalization ratio was 54%.

In our base-case forecast, we project TTCL's debt to capitalization ratio to hover around 40% over the next three years. The ratio of FFO to debt is forecast to improve to a level of 10%-15%, while the EBITDA interest coverage ratio should be in the range of 2-4 times. Our projection does not incorporate the Ahlone expansion project or other new businesses.

Adequate liquidity

We assess TTCL's liquidity to be adequate over the next 12 months. At the end of June 2020, TTCL had THB2.6 billion in debt coming due over the next 12 months, largely comprising THB1.3 billion in short-term bank loans and THB1.1 billion in bonds. TTCL's liquidity source was THB2.4 billion in cash and short-term investments. We forecast TTCL's FFO over the next 12 months to be around THB100 million. We expect TTCL to roll over the short-term debts and refinance the maturing bonds to maintain its liquidity.

We expect the company to be able to comply with the financial covenants on its debt obligations over the next 12 to 18 months. According to the key financial covenant of bonds, TTCL has to maintain its interest-bearing debt to equity ratio below 3 times. The ratio at the end of June 2020 was 1.4 times.

BASE-CASE ASSUMPTIONS

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

- TTCL will secure new EPC contracts worth THB2.5 billion in 2020, THB15 billion in 2021, and THB10 billion in 2022.
- Gross margin of construction to be 9%-10%.
- EBITDA margin to be in the 4%- 6% range.
- Capital expenditures are set at THB70-THB80 million per year.
- Ahlone expansion project is excluded.

RATING OUTLOOK

The "stable" outlook reflects our expectation that TTCL could secure sizable new contracts to replenish its backlog and improve its profitability. The EBITDA margin is expected to stay between 4%-6%, the debt to capitalization ratio below 50%, and the FFO to debt ratio above 10% over the next three years.

RATING SENSITIVITIES

The rating is unlikely to be upgraded in the near term, but it could occur if TTCL strengthens its profitability and operating cash flow considerably while maintaining an acceptable financial leverage level on a sustained basis. Conversely, the rating and/or outlook could be revised downward if TTCL fails to secure enough contracts to maintain operating cash flow, or its performance deteriorates further. Downward pressure could also emerge if TTCL's capital structure deteriorates, which could stem from additional receivables provisions and/or a surge in debt obligations.

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 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.

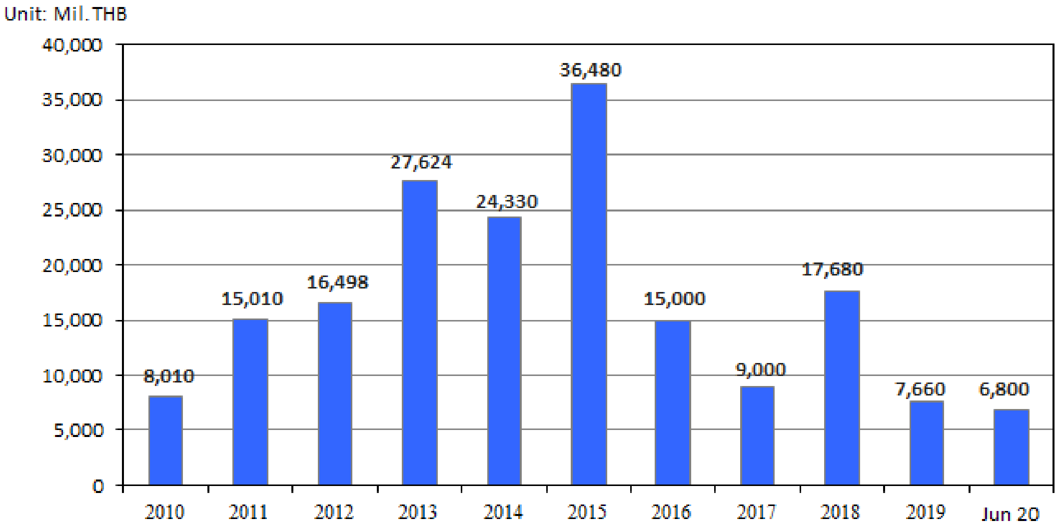
TEC gradually reduced its stake in TTCL from 22% to 10% during 2015-2017. In February 2018, TEC sold off its remaining shares in the company. In August 2018, Sojitz, the seventh-largest general trading and investment company in Japan, acquired a stake in TTCL and became the company's major shareholder. As of July 2020, Sojitz held approximately 9.1% of TTCL's outstanding shares. In October 2020, Idemitsu Kosan, a Japanese petroleum firm, acquired 5% of TTCL's shares.

TTCL has a strategy to expand into the power business, a move that has helped the company secure EPC contracts and earn steady revenue streams. TTCL's investments in power projects enable it to generate steady sources of income from multi-year power purchase agreements. Since 2010, TTCL has invested in several power projects. TTCL has undertaken all the EPC work for its power project investments, which include natural gas-fired, biogas, and solar-powered plants. TTCL's major power asset is the Ahlone project, a 120-MW gas-fired power plant in Myanmar.

TTCL has recorded substantial overdue payments and cost overrun in several projects. As a result, TTCL put aside hefty allowances for doubtful accounts in 2018 and 2019, which would have caused a serious deterioration in its capital structure. To prevent any deterioration, TTCL decided to divest its power-generating assets, including a significant portion of the Ahlone project. The proceeds from the divestiture have been used to pay down debt and maintain liquidity.

KEY OPERATING PERFORMANCE

Table 1: Backlog at Year End



Source: TTCL

Table 2: Construction Revenue Breakdown by Location

Unit: %

Location	2013	2014	2015	2016	2017	2018	2019	Jan-Jun 2020
Domestic	58.2	49.2	44.0	34.0	38.5	48.5	62.9	60.4
Overseas	41.8	50.8	56.0	66.0	61.5	51.5	37.1	39.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Revenue (mil. THB)	**17,865**	**19,575**	**21,524**	**20,024**	**10,447**	**8,328**	**10,497**	**3,408**

Source: TTCL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

		------------Year Ended 31 December -----------			
	Jan-Jun 2020	**2019**	**2018**	**2017**	**2016**
Total operating revenues	3,590	10,711	8,360	10,474	20,028
Earnings before interest and taxes (EBIT)	363	(659)	(2,202)	225	895
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	405	(236)	(1,944)	1,058	1,240
Funds from operations (FFO)	180	(660)	(2,265)	690	701
Adjusted interest expense	147	372	475	437	445
Capital expenditures	6	110	652	117	90
Total assets	14,565	17,149	19,360	23,865	25,812
Adjusted debt	2,656	2,114	7,883	10,118	6,710
Adjusted equity	2,252	2,078	2,747	4,095	6,341
Adjusted Ratios					
EBITDA margin (%)	11.31	(2.15)	(22.85)	9.46	6.12
Pretax return on permanent capital (%)	(6.04) **	(6.26)	(15.55)	1.41	5.65
EBITDA interest coverage (times)	2.75	(0.64)	(4.09)	2.42	2.79
Debt to EBITDA (times)	(6.83) **	(8.94)	(4.05)	9.56	5.41
FFO to debt (%)	(30.62) **	(31.21)	(28.74)	6.82	10.45
Debt to capitalization (%)	54.12	50.43	74.16	71.19	51.41

* *Consolidated financial statements*
** *Annualized with trailing 12 months*
Note Adjusted financial profile with inclusion of assets, liabilities, and cash flow from the Ahlone project in proportion to TTCL's stakes since 2019

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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