UNIQUE ENGINEERING AND CONSTRUCTION PLC

No. 52/2024
4 April 2024

CORPORATES

Company Rating:	BBB
Issue Ratings:	
Senior unsecured	BBB-
Outlook:	Negative

Last Review Date: 12/05/23

Company Rating History:

Date	Rating	Outlook/Alert
12/04/23	BBB	Negative
16/03/22	BBB	Stable
01/04/21	BBB+	Negative
25/06/18	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Unique Engineering and Construction PLC (UNIQ) at "BBB" and also affirms the ratings on UNIQ's existing senior unsecured debentures at "BBB-", with a "negative" rating outlook.

The ratings continue to reflect its competitive strengths in undertaking large public infrastructure projects and its substantial backlog. However, they are tempered by elevated financial leverage resulting from increased accounts receivable (A/R) and unbilled receivables, the cyclical nature of the engineering and construction (E&C) industry, and significant reliance on a few large construction projects.

The "negative" outlook reflects the challenges the company is facing to substantially reduce its working capital investment, particularly in A/R and unbilled receivables, accelerate its cash collection, and reduce its debts as targeted.

The issue ratings being one notch below the company rating reflects the subordination of UNIQ's senior unsecured debentures since most of its debts are secured debts. As of December 2023, UNIQ's priority debt to total debt ratio was 63%, exceeding the 50% threshold according to TRIS Rating's "Issue Rating Criteria".

KEY RATING CONSIDERATIONS

High financial leverage

Over the past few years, the rising levels of A/R and unbilled receivables have placed significant burden on UNIQ's balance sheet. The company typically finances its working capital investment, especially A/R and unbilled receivables, through short-term loans and debentures. At the end of 2023, A/R and unbilled receivables increased to THB28.9 billion, up from below THB17 billion in 2018. This led to an increase in debt to THB22.9 billion in 2023, from below THB10 billion in 2018. The debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio remained high at 8.1 times in 2023, up from historical levels of 2-4 times.

Looking ahead, UNIQ's financial leverage will primarily depend on its ability to reduce the outstanding balances of A/R and unbilled receivables. UNIQ is likely to face challenges in achieving this reduction as per our forecast. This is because its A/R and unbilled receivables are largely related to government projects, for which the disbursement of the fiscal budget is often delayed. Considering this, we anticipate the company reducing its A/R and unbilled receivables to around THB19-THB23 billion, with turnover days of A/R and unbilled receivables of around 600-800 days during 2024-2026. Additionally, we expect the company to decrease its debt to EBITDA ratio to below 8 times. Any deviations from these targets may potentially lead to downward adjustments in ratings.

Volatile operating margins

UNIQ's profitability is volatile and significantly influenced by the cyclical nature and competitive landscape of the E&C industry. Fluctuating construction material and labor costs, along with intense competition, put pressure on the company's operating margins. Over the past five years, UNIQ's gross profit margin has fluctuated between 10%-21%, while its EBITDA margin has varied between 12%-22%.

Looking ahead, we anticipate UNIQ’s gross profit margin to remain in the 16%-17% range during 2024-2026, supported by significant contribution from high-margin projects. We also expect the company’s EBITDA margin to stay above 17% over the next three years, primarily due to effective cost management practices such as centralized cost management; flexible cost structure utilizing several subcontractors; and increased efficiency from investments in new equipment, potentially reducing the need for a larger workforce. However, a downside scenario with an EBITDA margin of lower than 17% will pressure the ratings on UNIQ.

Competitive strengths in public infrastructure construction

TRIS Rating expects UNIQ to maintain its position as a major contractor for public infrastructure projects. The company has risen to become the fifth-largest E&C contractor listed on the Stock Exchange of Thailand (SET), as measured by 2023 revenue. UNIQ’s strengths are underpinned by its strong track record of undertaking large-scale public infrastructure projects.

Given this track record, the company has secured key large construction projects worth around THB74 billion in total over the past three years. Its backlog reached a peak of THB62 billion in 2022 before dropping to around THB52 billion in 2023, as there were few large construction projects opened for bidding in 2023. The current backlog, together with our expectation that the company will sign new construction contracts of not less than THB2 billion per annum, should help secure a revenue stream of THB10-THB11 billion per annum during 2024-2026. However, key challenges remain: the ability to deliver revenue with satisfactory margins, and the ability to speed up cash collection to reduce the debts utilized to fund its working capital.

Highly concentrated on few large construction projects

UNIQ’s backlog is highly concentrated on a few large construction projects because the company mainly focuses on the bidding of large public infrastructure projects. As of 31 December 2023, the company’s top five projects represented 90% of its backlog. Therefore, failure to complete one or two projects or any significant interruption in a project could significantly affect its operating performance.

UNIQ's operations face occasional challenges due to delayed handovers of construction sites, revisions of project master plans, and remedial work, which are common in large-scale public infrastructure projects. In addition, since most of its clients are government agencies, delayed payments are fairly common. However, the risk of defaulted payments is considered low. Therefore, UNIQ must carefully manage project timelines and secure projects with sufficient margins to cover its operating and financial costs.

Tight but manageable liquidity

We consider UNIQ’s liquidity to be tight but manageable. The company will have significant debt obligations maturing over the next 12 months, including THB14 billion in short-term loans, primarily in promissory notes (P/N), THB1.6 billion in debentures, THB110 million in lease liabilities, and THB43 million in long-term loans.

The repayment of short-term loans is relatively flexible, as banks typically extend or roll over the loan tenor to align with project timelines. These loans will be repaid from proceeds received from project owners. UNIQ expects to cover the maturing long-term loans with its funds from operations (FFO), while the debentures are anticipated to be partially funded through new debenture issuance and cash on hand. At the end of 2023, the company had THB2.8 billion in cash on hand and an undrawn corporate loan of around THB1.0 billion. Also, the company had undrawn project loans of around THB12 billion, which can be used to support its construction works.

A key financial covenant on UNIQ’s debentures requires the net interest-bearing debt (IBD) to equity ratio to stay below 3.5 times. The company met this key financial covenant, with the ratio of about 2.3 times at the end of 2023. We believe the company will stay compliant with the financial covenant over the forecast period.

BASE-CASE ASSUMPTIONS

- UNIQ to report revenue of THB10-THB11 billion per annum during 2024-2026.
- UNIQ to secure new construction contracts of around THB2 billion per annum during 2024-2026.
- Gross profit margin to stay around 16%-17%% during 2024-2026.
- EBITDA margin to stay around 17%% during 2024-2026.
- Total capital spending to range around THB500-THB600 million per year.
- Days of A/R and unbilled receivables to drop to around 600-800 days during 2024-2026.

RATING OUTLOOK

The "negative" outlook reflects the challenges the company is facing to significantly reduce its working capital investment, especially A/R and unbilled receivables, accelerate its cash collection, and reduce its debts as forecasted. Failure to reduce A/R and unbilled receivables in the next 6-12 months may lead to a rating downgrade.

RATING SENSITIVITIES

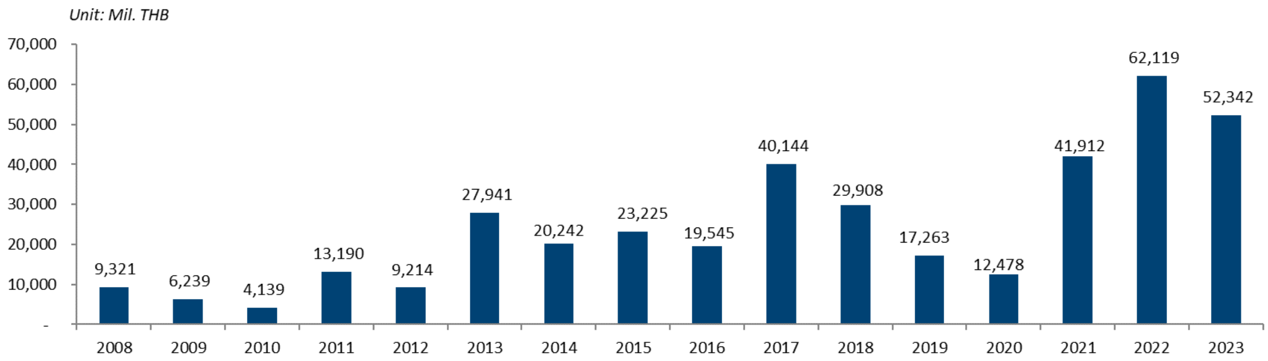
The ratings on UNIQ could be revised downward if its operating performance and/or financial profile deteriorate beyond our expectations, and its debt to EBITDA ratio remains persistently above 8 times with no signs of improvement. Conversely, the company's outlook could be revised to "stable" if it achieves its targeted operating results, significantly reduces A/R and unbilled receivables, and successfully improves its financial position, resulting in a debt to EBITDA ratio well below 8 times.

COMPANY OVERVIEW

UNIQ was founded in 1994 by Mr. Prasong Suviwattanachai and listed on the SET in 2007. The Suviwattanachai Family remains the major shareholder, holding around 36% of the company's shares as of December 2023. The company is an E&C contractor, providing an extensive range of turnkey construction and related services for fundamental infrastructure such as roads, bridges, underpasses, highways, underground infrastructures, as well as mass transit systems and stations. It focuses on public sector projects in Thailand such as electric trains, double-track railways, and roads.

KEY OPERATING PERFORMANCE

Chart 1: Backlog



Source: UNIQ

Table 1: Existing Backlog of Key Projects

No	Project	Project Owner	Contract Value (Mil. THB)	Realized Revenue (Mil. THB)	Backlog (Mil. THB)	Progress of Work (%)	Project's Share of Total Backlog (%)
1	Double Track Project: Banphai-Nakhonphanom Contract 2	SRT	28,306	5,576	22,730	20%	43%
2	Purple Line Project Contract 4: Memorial Bridge - Dao Khanong Section	MRTA	14,982	3,791	11,191	25%	21%
3	High Speed Rail Contract 4 - 2: Civil Works (Don Mueang-Nava Nakorn)	SRT	10,570	4,357	6,213	41%	12%
4	High Speed Rail Contract 4 - 6: Civil Works (Phrakeaw - Saraburi)	SRT	9,429	4,339	5,090	46%	10%
5	Rama 3-Dao Khanong Expressway Project: Contract 1	EXAT	5,145	3,289	1,856	64%	4%
6	Other projects	-	66,636	61,375	5,261	92%	10%
	Total		**135,068**	**82,726**	**52,342**		

Source: UNIQ

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-------------------Year Ended 31 December ----------------				
	2023	2022	2021	2020	2019
Total operating revenues	10,423	10,388	10,993	10,891	12,075
Earnings before interest and taxes (EBIT)	1,427	290	846	1,113	1,657
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,296	1,271	2,118	2,286	2,652
Funds from operations (FFO)	1,015	144	1,246	1,387	1,656
Adjusted interest expense	1,211	993	824	792	725
Capital expenditures	193	331	77	3,334	1,783
Total assets	45,571	45,043	41,362	33,563	32,821
Adjusted debt	18,693	16,428	15,190	14,827	10,685
Adjusted equity	8,241	8,120	8,059	8,045	8,146
Adjusted Ratios					
EBITDA margin (%)	22.0	12.2	19.3	21.0	22.0
Pretax return on permanent capital (%)	4.7	1.0	3.3	5.1	9.0
EBITDA interest coverage (times)	1.9	1.3	2.6	2.9	3.7
Debt to EBITDA (times)	8.1	12.9	7.2	6.5	4.0
FFO to debt (%)	5.4	0.9	8.2	9.4	15.5
Debt to capitalization (%)	69.4	66.9	65.3	64.8	56.7

* *Consolidated financial statements*

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Unique Engineering and Construction PLC (UNIQ)

Company Rating:	BBB
Issue Ratings:	
UNIQ248A: THB839.3 million senior unsecured debentures due 2024	BBB-
UNIQ257A: THB2,440.1 million senior unsecured debentures due 2025	BBB-
UNIQ262A: THB3,000 million senior unsecured debentures due 2026	BBB-
UNIQ267A: THB1,441.5 million senior unsecured debentures due 2026	BBB-
Rating Outlook:	Negative

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