TRIS RATING
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CreditNews ข่าวเครดิต

UNIQUE ENGINEERING AND CONSTRUCTION PLC

No. 55/2019
22 April 2019

CORPORATES

Company Rating:	BBB+
Issue Rating:	
Senior unsecured	BBB
Outlook:	Stable

Last Review Date: 27/12/18

Company Rating History:

Date	Rating	Outlook/Alert
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+". At the same time, TRIS Rating affirms the rating on UNIQ's senior unsecured debentures at "BBB". The issue rating one notch below the company rating reflects the ratio of the company's secured debt to total assets exceeding 20%, a threshold level under TRIS Rating's rating criteria.

The ratings reflect UNIQ's enhanced competitiveness, hefty backlog, and solid profitability. However, these strengths are offset by the company's heavy business concentration, a rise in financial leverage, as well as the cyclicality of and stiff competition in the engineering and construction (E&C) industry.

KEY RATING CONSIDERATIONS

Enhanced competitiveness

TRIS Rating expects UNIQ's competitiveness will stay on a positive pace. The company is poised for growth from the much-anticipated public transportation infrastructure projects in the years ahead, considering its enhanced record of bidding and completing large-scale projects.

UNIQ's enhanced competitive strengths have developed from its efforts to scale up its qualifications. At the first place, the company collaborated with leading China-based contractors to undertake much larger scale projects. This strategy raised its bidding success rate and led to transfers of construction technology.

UNIQ has continued to ratchet up its recognition after the Red Line (Bang Sue - Taling Chan) mass transit railway project. The project paved the way for the company to take on larger construction projects. UNIQ has subsequently won bids for sizable rail transportation infrastructure projects, consistently strengthening its market position. UNIQ's revenue has grown vigorously over the past five years.

UNIQ is the fourth-largest E&C contractor listed on the Stock Exchange of Thailand (SET), as measured by revenue and asset size. The company is now able to independently bid for large scale projects. The Orange Line (Thailand Cultural Center - Min Buri) is the first electric train project for which it bid without any joint venture partners.

Heavy business concentration

UNIQ's ratings are constrained by its heavy business concentration. The company's backlog is composed of just a few large infrastructure projects. The three largest projects under construction made up about 95% of the backlog as of December 2018. A failure to complete one or more projects or any significant interruptions in a project could seriously affect its operating performance.

In addition, UNIQ would continue to focus on public construction projects. Despite a promising outlook of public infrastructure projects over the coming years, the project implementation timelines are uncertain. Delays in bidding or awarding of contracts, or commencement of projects could hinder the company's growth.

Cyclical industry and stiff competition

Like other E&C contractors, UNIQ will continue to contend with the cyclicality of the industry and stiff competition. The E&C sector is, in essence, driven by projects of clients in the private sector and the public sector. As construction activities among private sector clients have been slow, contractors have moved towards government-sponsored projects. As a result, competition in bidding for public construction works is rampant, which strains the revenues and profits of all the firms in the industry.

Revenue stream propelled by hefty backlog

UNIQ's hefty backlog, worth about Bt30 billion as of December 2018, will help prevent a sharp drop in revenue. In the base case, TRIS Rating expects UNIQ's total operating revenue will range between Bt10-Bt17 billion per annum over the next three years. The wide range reflects a wavering sum of new construction contracts the company signs each year. In 2019, TRIS Rating expects UNIQ will acquire less new contracts due to a possible delay in the launch of sizable government infrastructure projects.

That said, TRIS Rating maintains a positive view on the domestic E&C industry over the next few years, in consideration of the outlays for a number of large-scale public infrastructure projects, including the government's transportation infrastructure development plan. Over the medium to long term, UNIQ should benefit from the government's efforts to push forward a number of infrastructure projects.

Solid profitability

UNIQ's profitability is robust. The operating margin (operating income before depreciation and amortization as a percentage of operating revenues) ranged between 19%-22% over the past five years, higher than other top-tier contractors. TRIS Rating expects UNIQ will keep profitability strong, thanks mainly to its efficient cost controls. The company's centralized cost center monitors changes in raw material purchases and prices, as well as increases bargaining power with its suppliers. It also keeps the cost structure flexible by using a large number of sub-contractors. This strategy keeps overhead costs low as it can wind down or expand throughout the industry cycles by adjusting the amount of sub-contracted work. On the downside, this strategy could cause a labor shortage, particularly if a number of public infrastructure projects are launched at the same time.

Intense competition and a rise in prices of main raw materials may dampen UNIQ's profitability over the next three years. Prices for concrete may keep rising if several infrastructure projects are launched. Minimum wage hikes, if materialize, will be another key factor pressuring profits. However, adverse impacts on the company's profits should be limited because the construction contracts typically contain escalation factors (K-factor). K-factor allows price adjustments.

Under TRIS Rating's base case, the operating margin will stay about 20% during 2019-2021, down from 22% in 2018. Despite the drop, the level of profitability is considered high. The operating margins of the other top-tier contractors rated by TRIS Rating stayed below 11% during the past five years.

Leverage to hold around the current level

The debt to capitalization ratio rose steadily to 51.9% in 2018, from 33.3% in 2014, as UNIQ acquired larger scale public works construction projects. Public works construction generally requires large investments in working capital, due partly to delays in site handover and payments, as well as variation of orders during construction. Over the next three years, TRIS Rating expects gearing will hover around the current level, as the company will likely continue to undertake large scale public works construction projects.

The delivery of some large projects in 2019, particularly the Red Line (Bang Sue Grand Station and Depots), should lower the investments in working capital and hence lower the debt level. However, leverage will rise again when UNIQ undertakes new large scale projects. TRIS Rating expects the debt to capitalization ratio will vary between 30%-50% over the next three years. Cash flow in relation to debt should fluctuate, depending on the debt level. We expect the ratio of funds from operations (FFO) to debt will stay above 25%.

Manageable liquidity

UNIQ should prudently manage its liquidity over the next three years. About two-thirds of total debts are short-term project financing from banks. Project financing provides flexible debt repayment terms. The company has Bt0.6-Bt1.3 billion in long-term debt coming due in the years ahead. FFO, expected between Bt1.5-Bt2.5 billion per annum during 2019-2021, should be sufficient to cover the long-term debt coming due. As of December 2018, UNIQ had combined cash and undrawn credit facilities of approximately Bt5.4 billion as other sources of liquidity.

A key financial covenant in UNIQ's debentures requires the net interest-bearing debt to equity ratio to stay below 3.5

times. The company was in compliance with this key financial covenant with a ratio of about 1.1 times at the end of 2018. TRIS Rating believes the company will stay in compliance for at least the next 12-18 months.

BASE-CASE ASSUMPTIONS

- UNIQ will secure new construction contracts for Bt5.0 billion in 2019 and Bt20 billion per year in 2020 and 2021.
- Of the total backlog (Bt30 billion), 80% will be recognized as revenue over the next three years.
- Operating margin will stay about 20%.
- Total capital spending will range between Bt0.5-Bt0.8 billion per annum.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that UNIQ will maintain its competitive edge in public works construction. In addition, UNIQ's profitability will remain robust. Leverage is expected to hold around the current level.

RATING SENSITIVITIES

A rating upgrade could emerge if UNIQ can significantly enhance its revenue base, reduce reliance on a few projects, while keeping profitability robust and leverage under control. In contrast, UNIQ's ratings and/or outlook could be revised downward if the financial profile deteriorates substantially, possibly due to project delays or cost overruns or inefficient working capital management, slashing the operating margin below 12% or pushing the debt to capitalization ratio over 60%.

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 approximately 37% of the company's shares as of March 2019. 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 infrastructure, and 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

Table 1: Backlog as of Dec 2018

Project	Project Owner	Backlog (Bt Bil.)	% of Total
Double Track Railway (Lop Buri - Pak Nam Pho) #1 & #2	SRT	16.6	55
Orange Line #4 & #6: Thailand Cultural Center - Min Buri	MRTA	9.2	31
Red Line #1: Bang Sue Grand Station and Depots	SRT	2.5	8
Road Construction: Nakhon Nayok 3001 crossroad highway 305 to Ban Bangnamprieo	DRR	8.0	3
Others	-	8.0	3
Total		**29.9**	**100**

SRT = State Railway of Thailand
MRTA = Mass Rapid Transit Authority of Thailand
DRR = Department of Rural Road
Source: UNIQ

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Year Ended 31 December				
	2018	2017	2016	2015	2014
Total operating revenues	12,983	12,675	12,665	10,183	8,200
Operating income	2,859	2,755	2,389	2,035	1,679
Earnings before interest and taxes (EBIT)	1,621	1,569	1,475	1,242	948
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,859	2,755	2,389	2,035	1,679
Funds from operations (FFO)	2,032	2,072	1,797	1,505	1,240
Adjusted interest expense	617	452	381	345	309
Capital expenditures	409	428	891	444	564
Total assets	29,340	27,561	23,735	18,990	15,264
Adjusted debt	8,340	7,245	5,084	4,793	2,823
Adjusted equity	7,740	7,297	6,748	6,159	5,652
Adjusted Ratios					
Operating income as % of total operating revenues (%)	22.02	21.73	18.86	19.98	20.47
Pretax return on permanent capital (%)	10.01	11.08	11.85	11.12	11.86
EBITDA interest coverage (times)	4.63	6.10	6.26	5.89	5.44
Debt to EBITDA (times)	2.92	2.63	2.13	2.36	1.68
FFO to debt (%)	24.37	28.60	35.34	31.41	43.93
Debt to capitalization (%)	51.87	49.82	42.97	43.76	33.31

* *Consolidated financial statements*

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Unique Engineering and Construction PLC (UNIQ)

Company Rating:	BBB+
Issue Rating:	
UNIQ222A: Bt2,000 million senior unsecured debentures due 2022	BBB
Rating Outlook:	Stable

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