

UNIQUE ENGINEERING AND CONSTRUCTION PLC

No. 58/2023
12 April 2023

CORPORATES

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

Last Review Date: 30/11/22

Rating History:

Date	Rating	Outlook/Alert
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-”. However, we revise the rating outlook on UNIQ to “negative” from “stable”.

The “negative” outlook reflects the company’s weaker-than-expected operating performance. UNIQ’s profitability and financial profile markedly slipped from last year’s projection. The key deviations were squeezed gross profit margin and increased debts as well as interest expenses to support its working capital requirements. In addition, without the one-off gain from the sale of its lands, the company would have suffered a net loss.

The ratings continue to reflect UNIQ’s competitive strengths in undertaking large public infrastructure projects and its sizeable backlog. The ratings however are weighed down by the company’s lower profit margins amid the intense competition and rising construction material and labor costs, the cyclical nature of the engineering and construction (E&C) industry, and material reliance on a few large construction projects.

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 2022, UNIQ’s priority debt to total debt ratio was 57%, exceeding the 50% threshold according to TRIS Rating’s “Issue Rating Criteria”.

KEY RATING CONSIDERATIONS

Material deterioration in financial profile

UNIQ’s financial profile has materially deteriorated over the past three years. Lengthy collection periods with large amounts of outstanding unbilled receivables and account receivables elevated its total debt to THB21.8 billion in 2022 from below THB10 billion in 2018. Its debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio reached a peak of 12.9 times in 2022, up from the historical levels of 2-4 times.

Looking forward, UNIQ’s financial profile will depend largely on its capability to bring down the outstanding unbilled receivables and account receivables. Given a certain degree of uncertainty, UNIQ’s debt to EBITDA may stay above 8 times for a longer period. In this scenario, we may consider revising its ratings downwards.

Compressed margins

As a pure contractor, the company is highly exposed to the cyclicity and competitive environment of the E&C business. Also, increasing raw material and labor costs coupled with construction delays during the COVID-19 pandemic have caused UNIQ’s gross profit margin to fall during the past 2 years. Gross profit margin shrank to the 10%-15% range during 2021-2022, compared with around 17%-20% in the past. Its EBITDA margin also narrowed, declining to 12% in 2022, compared with 19%-22% in the past.

Looking ahead, TRIS Rating expects construction material and labor costs to become more stabilized while the company also revises its costs to reflect rising costs. The company has also managed to fix the steel price at a relatively reasonable price. Also, we expect lesser revenue recognition from the low-or-negative margin projects during the forecast period given these

projects are near completion. These factors should help improve UNIQ's gross profit margin to around 15% during 2023 - 2025, from 10% in 2022.

We expect the company's EBITDA margin to stay above 16% throughout the forecast period due mainly to expected margin improvement. Also, UNIQ effectively manages its overhead costs well via its centralized cost management and flexible cost structure by using several sub-contractors. The company also invests in new machines to enhance its efficiency and reduce the need of workforce.

Competitive strengths in public infrastructure construction

TRIS Rating expects UNIQ to maintain its position as 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 2022 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 approximately THB72 billion in total over the past 2 years, causing its backlog to hit a new record of around THB62 billion. These new projects include the Thai-Chinese High Speed Rail (Bangkok-Nong Khai), the Rama 3-Dao Khanong-Western Outer Ring Road Expressway, the Double-Track Railway (Ban Phai-Nakhon Phanom), and the MRT Southern Purple Line.

The current backlog, together with our expectation that the company will sign new construction contracts of not less than THB5 billion per annum, should help secure a revenue stream of THB13-THB15 billion per annum during 2023-2025.

High concentration on few large construction projects

UNIQ's backlog is moderately concentrated on key large construction projects because the company mainly focuses on the bidding of large public infrastructure projects. As of 31 December 2022, the company's top five projects represented 88% 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 have occasionally been impacted by delayed handovers of construction sites, revisions of project master plans, or remedial work given the nature of large-scale public infrastructure projects. Besides the delays in project completion, delayed payments from project owners are also contributing factors greatly pressuring UNIQ's financial position and financing expenses.

Manageable liquidity

UNIQ's liquidity is tight but should be manageable. The company has a significant amount of debt due over the next 12 months, comprising short-term loans, mainly on promissory notes (P/N), worth THB12 billion, long-term loans of THB61 million, and debentures of THB3.0 billion. The repayment of short-term loans is rather flexible as the banks normally extend or rollover the loan tenor to match the project timeline. The repayment of short-term loans will come from the proceeds received from project owners. The maturing long-term loans should be covered by its funds from operations (FFO) while the debentures have already been replaced by UNIQ's new debentures of THB2,281 million issued in January 2023. Moreover, the company had cash on hand of THB4.0 billion and undrawn credit facilities of around THB17 billion to further 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 times at the end of 2022. We believe the company will stay compliant with the financial covenant over the forecast period.

BASE-CASE ASSUMPTIONS

- UNIQ to report revenue of THB13-THB15 billion per annum during 2023-2025.
- UNIQ to secure new construction contracts of around THB5 billion per annum during 2023-2025.
- Gross margin to stay around 15.5% during 2023-2025
- Total capital spending to range around THB600-THB720 million per year.

RATING OUTLOOK

The "negative" outlook reflects the weaker-than-expected operating performance of UNIQ. The outlook also incorporates our concerns that UNIQ's financial profile may further deteriorate from the current level given its slimmer margins and the heightened level of debts and financial expenses to finance its working capital requirement.

RATING SENSITIVITIES

The ratings on UNIQ could be revised downward should its operating performance and/or financial profile turn out to be worse than our expectations, and its debt to EBITDA persistently stays above 8 times with no signs of recovery. Conversely, the company's outlook could be revised to "stable" if it delivers operating results as targeted and successfully improves its financial position such that its debt to EBITDA falls well below 8 times.

COMPANY OVERVIEW

UNIQ was founded in 1994 by Mr. Prasong Suwittanachai and listed on the SET in 2007. The Suwittanachai family remains the major shareholder, holding approximately 36% of the company's shares as of December 2022. 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, 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.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	10,388	10,993	10,891	12,075	12,983
Earnings before interest and taxes (EBIT)	290	846	1,113	1,657	1,621
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,274	2,118	2,286	2,652	2,854
Funds from operations (FFO)	147	1,246	1,387	1,656	1,933
Adjusted interest expense	993	824	792	725	617
Capital expenditures	331	77	3,334	1,783	409
Total assets	45,043	41,362	33,563	32,821	29,340
Adjusted debt	16,428	15,190	14,827	10,685	8,340
Adjusted equity	8,120	8,059	8,045	8,146	7,740
Adjusted Ratios					
EBITDA margin (%)	12.26	19.27	20.99	21.96	21.98
Pretax return on permanent capital (%)	1.00	3.28	5.13	9.03	10.01
EBITDA interest coverage (times)	1.28	2.57	2.89	3.66	4.63
Debt to EBITDA (times)	12.90	7.17	6.49	4.03	2.92
FFO to debt (%)	0.90	8.21	9.36	15.49	23.18
Debt to capitalization (%)	66.92	65.34	64.83	56.74	51.87

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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