UNIVENTURES PLC

No. 231/2022
19 December 2022

CORPORATES

Company Rating:	BBB+
Outlook:	Stable

Last Review Date: 20/12/21

Company Rating History:

Date	Rating	Outlook/Alert
20/12/21	BBB+	Stable
24/09/19	BBB	Stable
01/03/19	BBB+	Alert Negative
08/09/16	BBB+	Stable
01/12/14	BBB	Positive
10/09/13	BBB	Stable
11/09/12	BBB	Alert Developing
17/10/08	BBB	Stable
13/06/07	BBB	Alert Developing
03/11/05	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Univentures PLC (UV) at "BBB+" with a "stable" outlook. The rating reflects UV's diversified and larger business scale following the acquisition of power and commercial refrigerator businesses in 2021. The rating also takes into consideration the improving sales and profit margins of its condominium and zinc oxide businesses, UV's rising financial leverage, and our concerns over the persistently high level of household debt and escalating inflation which could dampen demand for housing while pushing up the development and funding costs of the company.

In our view, the strong and reliable revenue and cash flow from the power business should help mitigate the high volatility of UV's property for sale and zinc oxide businesses. Despite a sharp rise in the leverage of its power business due to the mismatch between the Fuel Adjustment Charge (Ft) and the natural gas price for industrial users, we view the impact to be temporary. We expect its leverage to return to the normal range once the Ft rate is adjusted.

KEY RATING CONSIDERATIONS

Acquisitions help diversify and enlarge business scale

UV's business scale is enlarging after acquiring a 60% interest in Patana Intercool Co., Ltd. (PIC) in October 2021 and a 100% interest in Eastern Cogeneration Co., Ltd. (E-COGEN) through Univenture BGP Co., Ltd. (UVBGP) in December 2021 (UV holds a 55% interest in UVBGP while B.Grimm Power PLC (BGRIM) holds the rest). Before the acquisitions, UV's revenues and earnings were derived mainly from sales of condominiums and the zinc oxide business. Revenue and earnings before interest, taxes, depreciation, and amortization (EBITDA) in fiscal year (FY) 2021 (October 2020-September 2021) of UV were rather small at around THB3.3 billion and THB0.2 billion, respectively. After the acquisitions, revenues and EBITDA in FY2022 (October 2021-September 2022) increased to THB15.2 billion and THB1.9 billion, respectively.

Going forward, UV's revenues and EBITDA are expected to range from THB19-THB20 billion and THB2.8-THB3.0 billion, respectively. The revenue contribution from the power business is expected to account for 61%-63% of the total consolidated revenue, followed by property development with 17%-19%, zinc oxide 10%, and commercial refrigerator sales and others accounting for the rest. EBITDA from the power business should account for around 57%-60% of total earnings in the next couple of years. Although the revenue and EBITDA contribution from PIC were at around THB1.0 billion and THB0.2 billion in FY2022, a higher contribution from PIC is expected in the coming years given its growth plan and satisfactory operating margins.

Stable cash flow from power business backed by favorable PPAs with EGAT

In our view, the acquisition of power businesses will benefit UV not only in terms of business diversity but also in the stability of UV's revenues and cash flows. The more reliable and stable earnings from the power business than the property for sale and zinc oxide businesses are secured by long-term power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT).

Revenue from the power business accounts for around 60% of UV's consolidated revenue while the revenue from EGAT accounts for around 46%.

Hence, almost half of the revenue of UV is backed by 25-year PPAs with EGAT, which is a highly creditworthy counterparty. The remaining life of the PPAs is around 19 years. The PPA with EGAT helps mitigate market risk. The embedded take-or-pay obligation requires EGAT to dispatch at least 80% of the contracted capacity, based on plant operating hours. The built-in pass-through mechanism of fuel costs and exchange rates specified in the PPA also stabilizes the earnings rendered under this PPA.

Temporary impact from slow adjustment of Ft for electricity sold to industrial users

Electricity sales to the industrial customers were negatively affected by the sharp rise in natural gas prices and the slow adjustment of the Fuel Adjustment Charge (Ft). The electricity pricing structures for industrial customers are based on the tariff structure of the Provincial Electricity Authority (PEA), which includes the Ft. Although the Ft is intended to reflect changes in fuel prices, Ft adjustments usually carry a time lag and are subject to the authority's discretion on the timing and magnitude of adjustment. As a result, UV's earnings from electricity sales to industrial customers, which constitute around 13% of the company's consolidated revenue, are adversely affected during periods of surging gas prices and delays in Ft adjustments.

The gas prices charged by PTT PLC (PTT) have been elevated by the ongoing Russia-Ukraine conflict. The average gas cost charged by PTT during FY2022 hit a record high of around 480 per metric million British thermal unit (MMBTU) while the average Ft rates increased only marginally from -15.32 satang per kilowatt hour (kWh) during FY2021 to 22.01 satang per kWh during FY2022. A surge in natural gas price coupled with the lag in Ft adjustments caused UV's EBITDA from the power business to drop to THB1 billion in FY2022, from THB1.8-THB2.0 billion during FY2018-FY2021. In our base-case projection, we assume gas prices will remain high in FY2023–FY2025 while we expect the Ft to remain at around THB0.93 per kWh. Thus, the EBITDA of its power business is expected to improve to THB1.6-THB1.7 billion. An upward adjustment of the Ft beyond THB 0.93 per kWh during FY2023-FY2025 will materially improve UV's EBITDA.

Improving performance of condominium and zinc oxide businesses

UV's revenues from condominium sales significantly improved in FY2022 to THB3.7 billion, from THB1.5 billion in previous year, mainly due to the transfers of two new projects: Anil Sathorn 12 and Denim Jatujak. With relatively high profit margins and positive customer feedback, the two projects helped increase the overall gross profit margins of the company's property business to 30%, from only 21% in FY2021. Demand for condominiums in the next 1-2 years is expected to improve slightly with an easing of the COVID-19 situation, the return of foreign buyers, and the recovery of the Thai economy. Revenue from residential sales is expected to reach around THB3.3–THB3.5 billion during FY2023-FY2025 partly underpinned by existing backlog of THB1.9 billion and the remaining completed units worth around THB7.0 billion. Despite the improvement in overall demand for condominiums, the market is still restrained by the high level of household debt and rising inflation which could dampen demand for housing and condominium in the short to medium term.

The operating performance of UV's zinc oxide business also improved in the last two years. The gross profit margins improved to the 5%-6% range, from only 1% during FY2019-FY2020, amid the sharp rise in commodity prices and a higher proportion of export sales. However, the operating performance of the zinc oxide business was rather volatile depending on the demand-supply balance in the industry, which significantly impacted the company's selling price. The gross profit margin of the company's zinc oxide business fluctuated strongly, ranging from 1.4%-10.0% in the last five years. Looking forward, TRIS Rating forecasts revenue from zinc oxide sales of around THB2 billion per annum during FY2023-2024, or around 10% of total operating revenues. The gross profit margins should stay in the 5%-6% range, given the increasing demand from aircraft tire manufacturers.

High financial leverage but improvement expected in coming years

After the acquisition of E-COGEN, UV's financial leverage increased significantly in FY2022. The share acquisition cost of THB12.4 billion was funded by THB6.4 billion in equity from UV and BGRIM, and THB6 billion in bank loans. In addition, UVBGP had to assume THB9.0 billion of debts of E-COGEN's subsidiaries. UV's net consolidated debt increased to more than THB19 billion in FY2022 compared with THB3 billion in FY2021. The lower EBITDA contribution from its power business coupled with the rising debt level drove its adjusted debt to EBITDA ratio up to 10.22 times, higher than our prior forecast of 7.95 times. Its funds from operations to adjusted debt (FFOs to debt) in FY2022 was 5.43%, lower than our prior forecast of 7.93%.

Looking forward, we expect UV's adjusted debt to EBITDA ratio to improve to around 5-7 times in FY2023-FY2025 from around 10 times in FY2022, given the expected recovery in its power and other businesses and no major capital expenditure (CAPEX) planed in the next 2-3 years. Our base-case projection assumes UV will spend THB300–THB600 million yearly during FY2023–FY025 to complete the office building for rent at Thonglor, expand the production capacity of its PIC and zinc oxide businesses, maintenance CAPEX for the power business, and new investments in the solar business. The budget for land will be around THB0.5-THB1 billion per annum.

UV also has to keep its total liabilities to total equity ratio (excluding deferred income) below 2 times to comply with the financial covenants on its bank loans and debentures. As of September 2022, this ratio was 1.9 times. We expect the company to remain in compliance with this covenant in the next 12-18 months. However, UV's total debt at the end of September 2022 stood at THB22 billion, of which nearly THB20 billion was priority debt, which included secured debt and debts at its subsidiaries. This translated into a priority debt to total debt ratio of 95%. As the ratio is above the threshold of 50% in TRIS Rating's "Issue Rating" criteria, we consider the company's unsecured creditors to be significantly disadvantaged with respect to claims against the company's assets.

Manageable liquidity

We assess UV's liquidity to be manageable over the next 12 months. Its source of liquidity as of September 2022 consisted of THB3 billion cash on hand and THB4.5 billion undrawn committed and uncommitted credit facilities. Its funds from operations (FFOs) over the next 12 months are expected to be around THB1.7 billion. UV's debt repayment over the next 12 months will amount to THB6.5 billion comprising repayments of THB1.0 billion debentures, THB2.0 billion equity financing loans, THB1.7 billion property project loans, and the rest in power plant project loans. Aside from its sources of liquidity, UV plans to refinance some of its debt by issuing new debentures worth THB5.0 billion. The company will also repay some debt using cash from the transfers of unencumbered condominium units with a value of more than THB4 billion.

BASE-CASE ASSUMPTIONS

- UV to launch new condominium projects worth THB2.0 billion in FY2023 and THB3.5 billion in FY2024-FY2025.
- Total operating revenue to grow to THB18-THB20 billion per annum during FY2023-FY2025.
- Ft rate to be not less than THB0.93 per kWh
- EBITDA margin to remain around 15%.
- Budget for land acquisition at THB 0.5-THB1.0 billion per annum during FY2023-FY2025.
- CAPEX at THB300–THB600 million per annum during FY2023-FY2025.

RATING OUTLOOK

The "stable" outlook reflects the expectation that UV will be able to improve its operating performance as targeted. UV's debt to EBITDA ratio should gradually decline and stay in a range of 5-7 times during FY2023-FY2025 while its EBITDA margin should stay in the range of 14%-16% in the same period as the Ft rate adjusts to changes in natural gas prices.

RATING SENSITIVITIES

The rating and/or outlook on UV could be revised downward should its operating performance and/or financial profile significantly deteriorate from the target levels, causing its debt to EBITDA ratio to stay above 8 times in an extended period. Conversely, the rating and/or outlook could be revised upward if the company can significantly enlarge its revenues and earnings, and its debt to EBITDA ratio drops below 4 times on a sustained basis.

COMPANY OVERVIEW

UV was founded in August 1980 to manufacture and distribute zinc oxide products. The company was listed on the Stock Exchange of Thailand (SET), in the petrochemical and chemical sector, in December 1988. UV shifted its business focus to property development and moved to the SET property development sector in September 2006. In mid-2007, Adelfos Co., Ltd. (Adelfos) acquired 51.6% of UV's shares and became the controlling shareholder. Adelfos is owned by members of the Sirivadhanabhakdi family, which owns the TCC Group, a leading Thai conglomerate. As of November 2022, Adelfos held a 54% stake in UV while Siribhakditham Co., Ltd. held a further 12%. In total, the Sirivadhanabhakdi family held a 66% stake in UV.

After the change of its major shareholder, UV increased its stake in Grand Unity Co., Ltd., UV's investment arm in the condominium segment. UV continued to expand its residential property portfolio to the landed property segment by acquiring a 50.64% stake in Golden Land Property Development PLC (GOLD) in late 2012 and buying a 100% stake in Krungthep Land PLC (KLAND) in 2014. In 2016, GOLD increased its capital via a private placement to Frasers Property Holdings (Thailand) Co., Ltd. (FPHT) in the amount of THB5 billion, diluting UV's stake in GOLD to 39.2%. At the beginning of August 2019, UV divested its stake in GOLD to Frasers Property (Thailand) PLC (FPT).

In January 2021, UV and BGRIM set up a joint venture, UVBGP, to invest in the power business. UV and BGRIM hold shares in UVBGP in the proportion of 55% and 45%, respectively. On 16 December 2021, the shareholders of UV approved the purchase of 100% of the shares of E-COGEN by UVBGP. The investment cost was around THB12.4 billion, included the assumption of THB17.1 billion of E-COGEN's debts. E-COGEN is a holding company, holding a 74.5% share of PPTC and a

100% stake in SSUT. Both companies produce cogeneration power under the SPP scheme and have 25-year PPAs with EGAT and long-term contracts with industrial users.

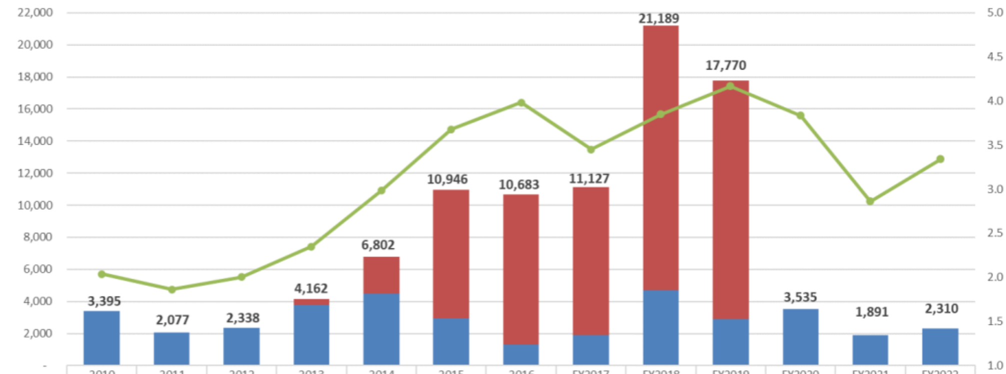
PPTC's cogeneration power plant is located in Latkrabang Industrial Estate, Bangkok. Its power plant commenced operations in March 2016. The plant can produce up to 120 MW of electricity and 30 tonnes of steam per hour. PPTC has, to date, secured 90-MW PPAs with EGAT and purchase agreements with industrial users for 37 MW of electricity and 12 tonnes of processed steam. SSUT owns two plants, with an aggregate capacity of 240 MW of electricity and 60 tonnes of steam per hour, located in Bang-Pu Industrial Estate, Samutprakarn province. SSUT achieved full operation of its two plants in December 2016. SSUT has secured 180-MW PPAs with EGAT and purchase agreements with industrial users for 52 MW of electricity and 36 tonnes of processed steam.

UV also purchased a 60% shareholding in PIC in September 2021. PIC is a manufacturer of commercial refrigerators for various businesses and industries. The investment cost was around THB 560 million.

Currently, UV is a holding company. Its existing portfolio comprises condominiums for sale, sales of goods (zinc oxide and commercial refrigerators), power business, and other businesses. Based on our assumptions, UV's revenue contribution from the power business will account for around 61%-63% of the total consolidated revenue over the next three years. The revenue contribution from the condominium projects will be 17%-19% and the sales of goods businesses (including zinc oxide and commercial refrigerators) will be 16-17%.

KEY OPERATING PERFORMANCE

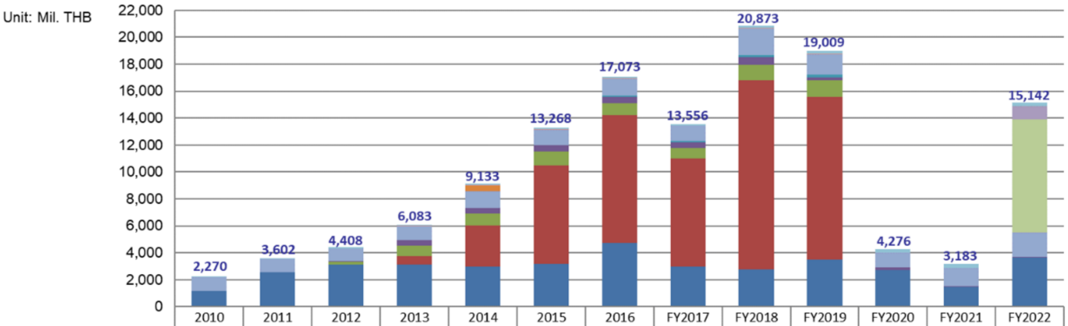
Chart 1: Presales



	2010	2011	2012	2013	2014	2015	2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Housing (LHS)				382	2,301	8,003	9,369	9,210	16,513	14,865	-	-	
Condominium (LHS)	3,395	2,077	2,338	3,779	4,501	2,944	1,313	1,916	4,676	2,906	3,535	1,891	2,310
Avg. Price (RHS)	2.0	1.9	2.0	2.3	3.0	3.7	4.0	3.4	3.9	4.2	3.8	2.9	3.3

Source: UV

Chart 2: Revenue Breakdown



	2010	2011	2012	2013	2014	2015	2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Others	72	58	63	59	105	102	116	97	182	253	283	290	243
Commercial Refridge													1,009
Energy													8,398
Golf Course Operation			2	22	19	17	21	17	27	27			
Land Plot Sale					443								
Zinc Oxide	1,059	986	961	1,057	1,242	1,142	1,291	1,161	2,004	1,493	1,060	1,380	1,799
Management Fee Income							91	92	161	209	26	9	3
Serviced Apt. & Hotel			40	420	408	479	449	394	551	217	175	16	21
Office		13	200	781	873	1,067	868	767	1,136	1,266			
Housing			29	622	3,072	7,305	9,479	8,070	14,053	12,042			
Condominium	1,139	2,545	3,113	3,123	2,971	3,157	4,757	2,957	2,759	3,502	2,733	1,489	3,669

Source: UV

Table 1: Power Plant Performance Statistics

	Unit	Jan-Sep 2022	Dec 2021	Dec 2020	Dec 2019	Dec 2018
			------------- Year Ended 30 December -----------			
Combined Contract Capacity						
- EGAT	MW	270	270	270	270	270
- IU (Power)	MW	90	90	71	66	65
- IU (Steam)	Ton/Hour	49	49	48	20	14
Availability Factors						
- PPTC	%	88%	98%	98%	88%	91%
- SSUT	%	91%	96%	93%	99%	98%
Combined Volume Sold						
- Electricity Sold (EGAT)	GWh	1,312	1,828	1,760	1,850	1,871
- Electricity Sold (IU)	GWh	421	549	404	369	342
- Steam Sold (IU)	GWhe	52	72	60	44	30
Heat Rate						
- PPTC	BTU/KWh	7,664	7,657	7,597	7,836	7,646
- SSUT	BTU/KWh	7,614	7,655	7,808	7,789	7,826

* *Financial year end was changed from 31 December to 30 September. 2022 data comprises only nine months.*

Source: UV

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	FY2022	FY2021	FY2020	FY2019	FY2018
	----------------------- Year Ended 30 September -------------------				
Total operating revenues	15,245	3,280	4,317	19,207	20,929
Earnings before interest and taxes (EBIT)	1,142	63	340	2,778	2,812
Earnings before interest, tax, depreciation, and amortization (EBITDA)	1,894	242	502	3,741	3,563
Funds from operations (FFO)	1,052	61	255	2,026	2,402
Adjusted interest expense	762	175	197	682	478
Real estate development investments	9,671	10,814	9,909	10,230	30,375
Total assets	39,632	16,950	19,764	19,529	51,794
Adjusted debt	19,362	3,089	2,166	129	17,685
Adjusted equity	13,500	10,496	10,883	11,152	19,889
Adjusted Ratios					
EBITDA margin (%)	12.43	7.37	11.62	19.48	17.03
Pretax return on permanent capital (%)	4.41	0.40	2.16	10.19	8.24
EBITDA interest coverage (times)	2.49	1.38	2.55	5.48	7.45
Debt to EBITDA (times)	10.22	12.77	4.32	0.03	4.96
FFO to debt (%)	5.43	1.99	11.79	1,574.26	13.58
Debt to capitalization (%)	58.92	22.74	16.60	1.14	47.07

* *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

Univentures PLC (UV)

Company Rating:	BBB+
Rating Outlook:	Stable

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