

# CH. KARNCHANG PLC

 No. 53/2022  
 8 April 2022

## CORPORATES

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
Senior unsecured	A-
<b>Outlook:</b>	Stable

**Last Review Date:** 09/04/21

**Company Rating History:**

Date	Rating	Outlook/Alert
09/04/21	A-	Stable
04/04/19	A	Stable
30/01/15	A-	Stable
24/01/14	BBB+	Positive
26/02/13	BBB+	Stable
21/01/11	BBB	Stable
09/06/09	BBB+	Negative
23/07/07	BBB+	Stable
16/02/07	A-	Alert Negative
07/09/04	A-	Stable

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## RATIONALE

TRIS Rating affirms the company rating on CH. Karnchang PLC (CK) and the ratings on its outstanding senior unsecured debentures at “A-” with a “stable” rating outlook. At the same time, TRIS Rating assigns a rating of “A-” to CK’s proposed issue of up to THB4 billion in senior unsecured debentures and an additional greenshoe portion of up to THB2 billion due within 10 years. The company plans to use the proceeds from the debentures issuance to repay some of its existing loans and fund business expansion.

The ratings reflect CK’s position as a top-tier contractor, its strong competitive strengths in undertaking large-scale and sophisticated construction projects, and the synergy and financial flexibility the company gains from its strategic investments. However, the ratings are constrained by the company’s high leverage, the cyclical nature and intense competition in the engineering and construction (E&C) industry, and the expected rise in construction materials and labor costs.

## KEY RATING CONSIDERATIONS

### Competitive strengths as a top-tier contractor

CK is one of the three largest E&C companies listed on the Stock Exchange of Thailand (SET) based on revenue and asset size. Its large capital base helps support the company in bidding on large-scale government infrastructure projects. CK’s construction competence encompasses a broad array of construction activities, ranging from general civil work to highly sophisticated mega projects such as underground mass transit and hydropower plants.

This diverse construction background, spanning several complex projects, enhances the company’s competitive position. CK has also invested in several infrastructure businesses which help create both construction work and recurring income.

### Strategic investments provide synergy and financial flexibility

At the end of 2021, CK holds 32% in Bangkok Expressway and Metro PLC (BEM), 19% in TTW PLC (TTW), and 30% in CK Power PLC (CKP). BEM operates toll roads and electric trains under long-term concession contracts while TTW and CKP have relative stable revenues from multi-year utility purchase contracts. CK’s construction revenues also mainly derive from projects associated with these affiliates. This has helped alleviate the volatile effect inherent in cyclical construction business.

These investments provide both recurring income and financial flexibility for the company. CK earns dividends from these investments of around THB1.1-THB1.3 billion per year. The company also gains from occasionally trading these investments.

### Improving backlog

Due to prolonged delays in public infrastructure project biddings and its sole focus on bidding for medium- to large-scale projects, CK’s backlog dropped to THB29 billion at the end of 2020. CK’s backlog started to improve after the company secured the construction work for the double-track rail project of Den Chai-Chiang Rai-Chiang Khong contract 2 and 3, and the water tunnel from Bangmod to Samrong pumping station, worth around THB28 billion in 2021,

and THB19 billion of the MRT Purple line (Southern extension) contract 1 and 2 concluded in the first quarter of 2022. CK's backlog at the end of March 2022 stood at around THB65 billion.

Over the next 2-3 years, CK's backlog is likely to increase substantially supported by several large public infrastructure projects pending on bidding. Upcoming infrastructure projects include the MRT Orange Line (Western extension), double-track rails, motorways and expressways, and the Luang Prabang hydropower project in the Lao People's Democratic Republic (Lao PDR). These projects, if secured, will add around THB300 billion to CK's backlog.

### **Operating performance to recover**

Given the increased backlog and projects in the pipeline, we project CK's revenue to revive to THB19 billion in 2022 and THB30-THB33 billion per year in 2023 and 2024. Our base-case assumes that CK will secure the Luang Prabang hydropower project, which CKP is the project owner, worth THB80 billion in the second half of 2022. In addition, the company is likely to secure new construction contracts worth THB20 billion per annum over the next three years.

Despite the expected rise in construction material prices and labor costs, the company should be able to maintain its gross profit margin at around 8.5% over the forecast period. Dividends received from BEM, CKP, and TTW will likely be around THB1.1-THB1.3 billion per year over the next three years. Thus, we project CK's earnings before interest, tax, depreciation, and amortization (EBITDA) to be around THB2.7 billion in 2022, before rebounding to THB3.5-THB3.8 billion per year in 2023 and 2024.

### **High leverage**

At the end of 2021, CK's total debt stood at THB43.4 billion. Most of the debt was used to finance its strategic investments, as well as the sponsor loan to the Xayaburi hydropower project. CK's debt to EBITDA ratio was 17 times during 2020-2021, significantly higher than its historical level of 8-10 times. We project the ratio to decline to 14 times in 2022, before dropping to around 11-12 times during 2023-2024. The debt to capitalization ratio was 59% at the end of 2021, up from 57.7% in 2020. Assuming that CK no longer needs to provide financial support to its affiliates, its debt to capitalization ratio should range around 55%-60% over the forecast period.

The key financial covenant on its debenture obligations requires maintenance of a net interest-bearing debt to equity ratio below 3 times. The ratio stood at 1.4 times as of December 2021. Given the large covenant headroom, we believe that the company will have no problem complying with the financial covenant over the next 12-18 months. Most of CK's debts are unsecured debts at the company level, with a very low level of priority debt.

### **Adequate liquidity**

We assess CK's liquidity as adequate over the next 12 months. As of December 2021, the company had THB7 billion in cash and short-term investments, plus undrawn committed loans from banks of THB11 billion. We forecast CK's funds from operations (FFO) over the next 12 months to be THB1.2-THB1.4 billion. Debts coming due over the next 12 months will amount to THB6.7 billion, comprising THB5.5 billion debentures and THB1.2 billion bank loans. The company is likely to spend THB1.5-THB1.8 billion in capital expenditures, distribute dividends, and equity investments in its affiliates.

Investments in the three affiliated listed companies have also enhanced CK's liquidity. At the end of 2021, the fair market value of CK's investments in these companies was THB62.8 billion, or about 1.4 times the company's total debt. The company has the flexibility to divest some of its shares in these companies, if needed. However, it is likely that CK will maintain significant shareholding in these companies.

### **BASE-CASE ASSUMPTIONS**

- Revenue is projected to be around THB19 billion in 2022, THB30 billion in 2023, and THB33 billion in 2024.
- Gross profit margin for construction to be maintained at around 8.5%.
- On average, CK to secure new construction contracts worth a total of THB20 billion per year, adding with the Luang Prabang hydropower project worth THB80 billion in 2022.
- The Xayaburi sponsor loan to hold in several years ahead.
- No extensive investments or financial supports will be granted to related companies.

### **RATING OUTLOOK**

The "stable" outlook reflects our expectation that CK will remain highly competitive in the E&C industry, with the ability to secure new contracts for prospective infrastructure projects and attain operating performance in line with our forecast. We expect CK to keep its EBITDA margin at around 10%-12% and the debt to EBITDA ratio at around 10 times in the long term.

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**RATING SENSITIVITIES**

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A rating upgrade will depend on CK's ability to generate stronger-than-expected earnings and lower its debts, resulting in a debt to EBITDA ratio below 8 times for a sustained period.

Downward pressures on the ratings could emerge from significant cost overruns in major projects or unanticipated, extensive financial support provided to its affiliates, resulting in the debt to EBITDA ratio remaining above 13 times for a sustained period.

**COMPANY OVERVIEW**

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CK was established in 1972 by the Trivisvavet family. CK initially focused on public work projects for government agencies. The company later greatly expanded its business scope and became a listed company on the SET in 1995. As of March 2022, the Trivisvavet family held approximately 30% of CK's shares outstanding. The family plays an important role in formulating and executing the company's strategies and overall business directions.

CK's business is divided into two segments: construction and investment. In the construction segment, CK has a long-established presence in the E&C sector, with experience and expertise in all kinds of construction ranging from general civil works to highly sophisticated projects. This diverse construction background, spanning several complex projects, enhances the company's competitive position. Furthermore, CK's large capital base helps support the company in bidding on large-scale government infrastructure projects.

The investment segment includes significant holdings in the three SET-listed companies (BEM, TTW, and CKP). These strategic investments help strengthen CK's business profile and provide the company with financial flexibility. The market values of these investments have risen.

CK, as a project sponsor, needs to finance additional construction in the form of a sponsor loan to the project. CK has provided sponsor loans to the project's operating company, Xayaburi Power Co., Ltd. (XPCL), in the amount of THB13.5 billion. XPCL will repay the loan and interest from earnings after the commercial operation date. The loan repayment risk, thus, is tied to XPCL's performance.

**KEY OPERATING PERFORMANCE**

**Table 1: CK's Investments (As of Dec 2021)**

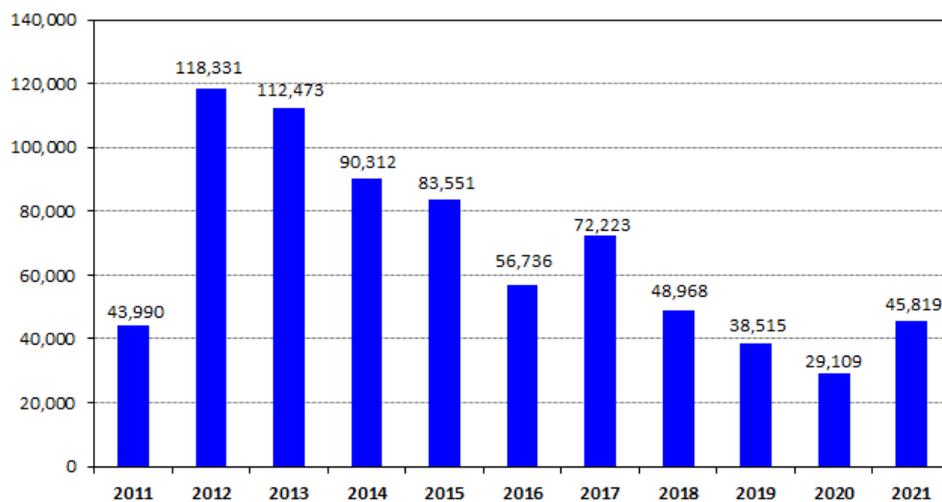
Company Name	CK Holding (%)	Consolidate Investment Cost (Mil. THB)	Fair Value (Mil. THB)	Type of Investment	Customer(s)
BEM	32.57	21,283	41,822	BTO concession AOT concession PPP gross cost	Public Public Public
TTW	19.40	5,810	8,747	BOO water purchase agreement	PWA
CKP	30.00	7,582	12,195	Holding company of power plants	EGAT, PEA, EDL-Gen
<b>Total Investment</b>		<b>34,675</b>	<b>62,764</b>		

Notes: PWA = Provincial Water Works Authority of Thailand  
 EGAT = Electricity Generating Authority of Thailand  
 PEA = Provincial Electricity Authority  
 EDL-Gen = EDL-Generation Public Company

Source: CK

**Chart 1: Backlog at Year End**

Unit: Mil. THB



Source: CK

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	12,938	17,060	23,408	29,634	36,225
Earnings before interest and taxes (EBIT)	1,942	1,670	3,123	3,632	3,049
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,129	2,060	2,685	3,362	3,920
Funds from operations (FFO)	695	710	1,317	1,938	2,413
Adjusted interest expense	1,394	1,290	1,251	1,267	1,410
Capital expenditures	814	592	2,245	2,555	913
Total assets	83,421	82,774	82,586	83,501	79,274
Adjusted debt	37,502	35,890	29,117	28,999	31,882
Adjusted equity	26,108	26,271	27,813	25,829	23,873
<b>Adjusted Ratios</b>					
EBITDA margin (%)	16.45	12.08	11.47	11.34	10.82
Pretax return on permanent capital (%)	2.77	2.46	4.82	5.68	4.23
EBITDA interest coverage (times)	1.53	1.60	2.15	2.65	2.78
Debt to EBITDA (times)	17.62	17.42	10.84	8.63	8.13
FFO to debt (%)	1.85	1.98	4.52	6.68	7.57
Debt to capitalization (%)	58.96	57.74	51.15	52.89	57.18

\* Consolidated financial statements

**RELATED CRITERIA**

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

**CH. Karnchang PLC (CK)**

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
CK225A: THB1,600 million senior unsecured debentures due 2022	A-
CK226A: THB3,000 million senior unsecured debentures due 2022	A-
CK227A: THB910 million senior unsecured debentures due 2022	A-
CK235B: THB2,700 million senior unsecured debentures due 2023	A-
CK238A: THB500 million senior unsecured debentures due 2023	A-
CK245B: THB1,200 million senior unsecured debentures due 2024	A-
CK246B: THB3,500 million senior unsecured debentures due 2024	A-
CK247A: THB1,500 million senior unsecured debentures due 2024	A-
CK258A: THB3,000 million senior unsecured debentures due 2025	A-
CK25NA: THB1,000 million senior unsecured debentures due 2025	A-
CK265A: THB800 million senior unsecured debentures due 2026	A-
CK267A: THB2,700 million senior unsecured debentures due 2026	A-
CK283A: THB800 million senior unsecured debentures due 2028	A-
CK285A: THB1,700 million senior unsecured debentures due 2028	A-
CK287A: THB1,020 million senior unsecured debentures due 2028	A-
CK296A: THB3,500 million senior unsecured debentures due 2029	A-
CK308A: THB1,500 million senior unsecured debentures due 2030	A-
CK315A: THB2,500 million senior unsecured debentures due 2031	A-
Up to THB4,000 million senior unsecured debentures and additional greenshoe portion of up to THB2,000 million due within 10 years	A-
<b>Rating Outlook:</b>	Stable

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