

CH. KARNCHANG PLC

No. 44/2023
30 March 2023

CORPORATES

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Stable

Last Review Date: 27/04/22

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

Contacts:

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Bundit Pommata
bundit@trisrating.com

Parat Mahuttano
parat@trisrating.com

Suchada Pantu, Ph.D.
suchada@trisrating.com



WWW.TRISRATING.COM

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 THB5 billion 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 debts and fund business expansion and working capital.

The ratings reflect CK’s leading position in Thailand’s engineering and construction (E&C) industry, its strong competitive strengths in undertaking large-scale and sophisticated construction projects, as well as the synergy and financial flexibility the company gains from its strategic investments. However, these strengths are partially offset by the company’s high leverage and the cyclical and intense competition in the E&C industry.

KEY RATING CONSIDERATIONS

Competitive strengths as 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.

Robust backlog from new large-scale projects

CK’s backlog recovered to THB55.9 billion at the end of 2022, after dropping below THB30 billion in 2020. CK signed around THB28 billion yearly in new contracts in 2021 and 2022. The major project signed in 2021 was the double-track rail project of Den Chai-Chiang Rai-Chiang Khong contracts 2 and 3 worth THB22.8 billion, and the key project signed in 2022 was MRT Purple Line (Southern extension) contracts 1 and 2 worth THB18.1 billion.

This year, CK expects to sign construction contracts for the Luang Prabang Hydropower Project in the Lao People’s Democratic Republic (Lao PDR) worth THB98 billion. This will increase the company’s backlog to above THB150 billion. Such a strong backlog will support CK’s revenue growth over the next three years.

Looking forward, CK’s backlog is expected to stay above THB100 billion in the short to medium term, given the several large public infrastructure projects pending signing and bidding over the next 1-2 years. Upcoming infrastructure projects include the MRT Orange Line (Western extension), double-deck expressway, double-track rails, and motorways.

Operating performance expected to improve steadily

CK’s operating performance in 2022 recovered from its trough in 2021. Revenue in 2022 increased to THB18.5 billion, up 42% from the previous year.

However, its gross margin was pressured by sharply rising construction material and labor costs amid the supply disruption and labor shortage. CK's gross margin in 2022 declined to 8.6% from 9.3% in 2021.

Given the current backlog and projects in the pipeline, we estimate CK's revenue to increase to THB22 billion in 2023, THB27 billion in 2024, and THB30 billion in 2025. Our base-case assumes that CK will secure the construction work of Luang Prabang Hydropower Project since CK and CK Power PLC (CKP) are major shareholders of this project. In addition, the company is likely to secure new construction contracts worth THB10-THB15 billion per annum over the next three years. We also expect the company's gross profit margin to stay in the 8.0%-9.0% range, given that prices of construction materials and labour costs become more stabilize.

Rating supported by strategic investments in BEM, CKP, and TTW

At the end of 2022, CK holds 34% in Bangkok Expressway and Metro PLC (BEM), 30% in CKP, and 19% in TTW PLC (TTW). BEM operates toll roads and electric trains under long-term concession contracts while TTW and CKP derive relatively stable revenues from multi-year utility purchase contracts. The fair market value of CK's investments in these companies was around THB69 billion. CK's construction revenues also mainly derive from projects associated with these affiliates. This has helped alleviate the volatile effect inherent in the cyclical construction business. In addition, these investments also provide both recurring income and financial flexibility for the company. Dividends from these investments are expected to be around THB1.1-THB1.4 billion per annum, given the sharp recovery in BEM's operating performance following the negative impact of the pandemic subsidies.

In TRIS Rating's base-case forecast, we expect CK's earnings before interest, tax, depreciation, and amortization (EBITDA) margin to stay in the 11%-12% range over the next three years. Therefore, CK's EBITDA is expected to be around THB2.7 billion in 2023 and increase to THB3.3-THB3.5 billion per annum in 2024 and 2025.

Leverage remains high

CK's leverage is higher than general E&C companies given its business model as a contractor and an investment company. The weak performance during the Coronavirus Disease 2019 (COVID-19) pandemic and the impact of the Ukraine-Russia war drove its leverage to rise further. CK's debt to EBITDA ratio jumped to 17-19 times during 2020-2022, significantly higher than its historical level of 8-10 times. The debt to capitalization ratio was 62% at the end of 2022, up from 59% in 2021. However, we expect the ratio to gradually improve to around 14-15 times in 2023 and around 10-13 times in following years given the improving operating performance and higher dividends received from its affiliates.

We expect CK's debt level to decline gradually from the current level as the company should receive the sponsor loan repayment of around THB10.8 billion from the Xayaburi Hydropower Project during 2023-2025 while the equity investment in the Luang Prabang Hydropower Project is estimated to be THB2.5-THB3.0 billion over the next three years. Thus, its debt to capitalization ratio is expected to gradually decline to around 57%-58% over the forecast period. The key financial covenant on its debenture obligations requires the net interest-bearing debt to equity ratio to be kept below 3 times. The ratio stood at 1.6 times as of December 2022. Given the large covenant headroom, we believe 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 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 31 December 2022, CK's debts coming due over the next 12 months amounted to THB8.2 billion, comprising THB4.2 billion debentures and THB4.0 billion bank loans. The company is likely to spend THB1.8-THB2.0 billion in capital expenditures, distribute dividends, and equity investments in its affiliates. The company's source of funds included THB7 billion in cash and short-term investments, plus undrawn committed loans from banks of THB10 billion. We forecast CK's funds from operations (FFO) over the next 12 months to be THB1.1-THB1.2 billion. In addition, the company has the flexibility to divest some of its shares in BEM, CKP, and TTW, if needed. However, it is likely that CK will maintain significant shareholding in these companies.

BASE-CASE ASSUMPTIONS

- Revenue is projected to be around THB22 billion in 2023, THB27 billion in 2024, and THB30 billion in 2025.
- Gross profit margin for construction to be maintained at around 8.0%-8.5%.
- The Xayaburi sponsor loan will be repaid during 2023-2025.
- CK will gradually increase capital in the Luang Prabang Hydroelectric Power Project throughout the construction period, in order to comply with the bank's loan conditions.
- No extensive investments or financial supports will be granted to related companies.

RATING OUTLOOK

The “stable” outlook reflects our expectation that CK will maintain its competitive position in the E&C business and achieve operating performance in line with our target. We expect CK to keep its EBITDA margin at around 11%-12% and the debt to EBITDA ratio to decline and be maintained at around 10 times over the next couple of years.

RATING SENSITIVITIES

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

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

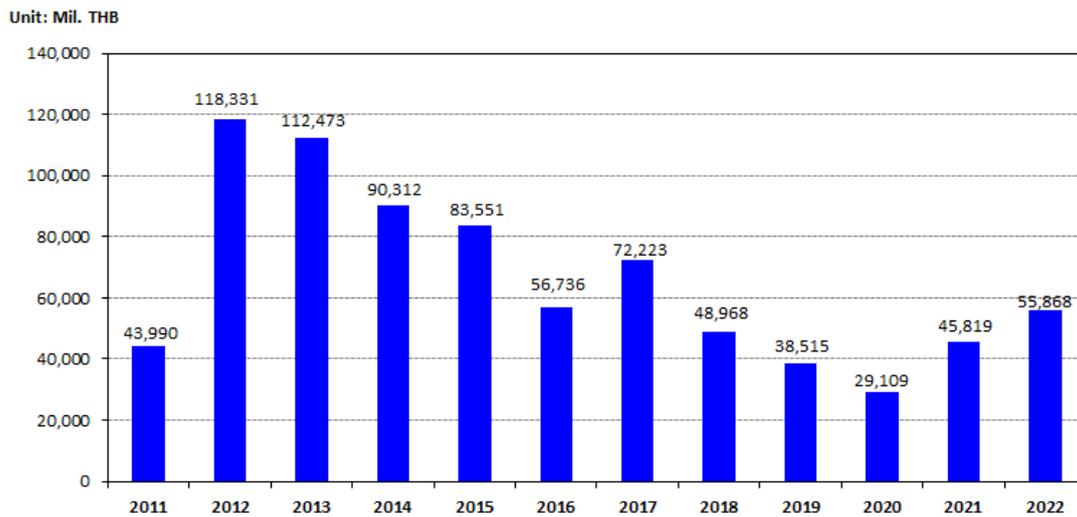
Table 1: CK's Investments (As of Dec 2022)

Company Name	CK Holding (%)	Consolidate Investment Cost (Mil. THB)	Fair Value (Mil. THB)	Type of Investment	Customer(s)
BEM	34.15	23,708	50,904	BTO concession AOT concession PPP gross cost	Public Public Public
TTW	19.40	5,810	6,967	BOO water purchase agreement	PWA
CKP	30.00	7,582	11,122	Holding company of power plants	EGAT, PEA, EDL-Gen
Total Investment		37,100	68,993		

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



Source: CK

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	18,447	12,938	17,060	23,408	29,634
Earnings before interest and taxes (EBIT)	2,337	1,942	1,670	3,123	3,632
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,039	2,129	2,060	2,685	3,362
Funds from operations (FFO)	599	695	710	1,317	1,938
Adjusted interest expense	1,418	1,394	1,290	1,251	1,267
Capital expenditures	388	814	592	2,245	2,555
Total assets	85,151	83,421	82,774	82,586	83,501
Adjusted debt	40,323	37,502	35,890	29,117	28,999
Adjusted equity	24,466	26,108	26,271	27,813	25,829
Adjusted Ratios					
EBITDA margin (%)	11.05	16.45	12.08	11.47	11.34
Pretax return on permanent capital (%)	3.28	2.77	2.46	4.82	5.68
EBITDA interest coverage (times)	1.44	1.53	1.60	2.15	2.65
Debt to EBITDA (times)	19.78	17.62	17.42	10.84	8.63
FFO to debt (%)	1.49	1.85	1.98	4.52	6.68
Debt to capitalization (%)	62.24	58.96	57.74	51.15	52.89

* 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

CH. Karnchang PLC (CK)

Company Rating:	A-
Issue Ratings:	
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-
CK255A: THB3,200 million senior unsecured debentures due 2025	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-
CK275B: THB500 million senior unsecured debentures due 2027	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-
CK295B: THB900 million senior unsecured debentures due 2029	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-
CK325A: THB1,500 million senior unsecured debentures due 2032	A-
Up to THB5,000 million senior unsecured debentures and additional greenshoe portion of up to THB2,000 million due within 10 years	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2023, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria