

CH. KARNCHANG PLC

No. 22/2024
8 March 2024

CORPORATES

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

Last Review Date: 11/05/23

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 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/or fund business expansion and working capital.

The ratings reflect CK’s leading position in Thailand’s engineering and construction (E&C) industry, supported by its strong competitive advantages in managing large-scale and complex construction projects, as well as a substantial amount of backlog. Additionally, the ratings acknowledge 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 relatively thin profit margins of its E&C business amid the cyclical and intense competition in the E&C industry.

KEY RATING CONSIDERATIONS

Leading position in domestic E&C industry

CK is one of the top three E&C companies listed on the Stock Exchange of Thailand (SET) in terms of revenue and asset size. CK’s construction competencies encompass a broad array of construction activities, ranging from general civil work to highly sophisticated mega-projects such as underground mass transit and hydropower plants.

The company strategically focuses on the construction of significant infrastructure projects with the potential for long-term investments as an equity holder or concessionaire in the project. Its track record of past successes and its substantial capital base enable the company to undertake several large-scale infrastructure projects in Thailand and neighboring countries. Recently, CK secured a construction contract for the Luang Prabang Hydropower Project in the Lao People’s Democratic Republic (Lao PDR) worth THB100 billion. The company also holds a 20% stake in the project company.

Robust backlog to help secure revenue in the medium term

CK’s backlog at the end of 2023 surged to THB130 billion, a significant increase from THB56 billion in 2022. Major projects in the backlog include the Luang Prabang Hydropower project worth THB78 billion, the double-track rail project of Den Chai-Chiang Rai-Chiang Khong contract 2 and 3 worth THB20 billion, and the MRT Purple Line (Southern extension) contract 1 and 2 worth THB15 billion. These three major projects comprise 87% of the total backlog.

Looking ahead, CK’s backlog is projected to stay above THB200 billion in the short to medium term. This projection is based on the expectation that the bidding and signing of several large public infrastructure projects will be expedited once government budget disbursement begins to stimulate the economy in the second half of 2024. This follows a 4.6% contraction in public construction in 2023 due to delays in the formation of the new government.

Potential projects in the pipeline include the THB109 billion MRT Orange Line (Western extension), a THB35 billion double-deck expressway, and the THB27 billion MRT Purple Line (Southern extension) for M&E Systems. These

upcoming projects are poised to elevate the company's backlog to over THB300 billion. Such a robust backlog will support CK's revenue growth in the medium term.

Narrow profit margins amid higher contribution from large scale projects

CK's revenues surged to THB36 billion in 2023, almost doubling from 2022. The surge was driven by the Luang Prabang Hydropower project revenue, which accounted for 49% of total revenues in 2023. However, CK's gross profit margin in 2023 declined to 7.6% from 8.7% in 2022, since the profit margin of this project is set at only 7%. Given that this project will continue to generate a significant portion of CK's revenues in the next four to five years, CK's gross profit margin may not change much from its current level. In addition, the expected gross profit margins for large scale infrastructure projects are expected to range around 8%-9%. However, given the expected growth in its revenues and its relative stable selling and administrative expenses, CK's earnings before interest, tax, depreciation, and amortization (EBITDA) and EBITDA margin should improve gradually over the following years.

Under TRIS Rating's base case, we project CK's revenue to be approximately THB36 billion in 2024 and increase to THB40 billion in 2025 and THB47 billion in 2026, respectively. CK's strong backlog will secure about 70% of the base-case revenue in 2024, and 45%-50% during 2025-2026. Our base-case scenario assumes that CK will continually secure the construction work for the large public infrastructure projects from its subsidiaries. Also, the company is likely to secure new construction contracts worth THB10-THB15 billion per annum over the next three years.

We further expect the company's gross profit margin to stay in the 7.5%-8.0% range, considering the stabilization of construction material prices and labour costs at elevated levels. Its EBITDA margin is expected to stay in the 9%-10% range over the next three years. Therefore, CK's EBITDA is forecast to be around THB3.3 billion in 2024, then increasing to THB3.7 billion in 2025 and THB4.7 billion in 2026.

Strategic investments in several infrastructure businesses help mitigate E&C business cyclicity

CK's strategic investments in several infrastructure businesses help create opportunities for both construction work and recurring income streams. At the end of 2023, CK holds 36% in Bangkok Expressway and Metro PLC (BEM), 30% in CK Power PLC (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.

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. Furthermore, these investments also provide both recurring income and financial flexibility for the company. Dividends from these investments are expected to be around THB1.3-THB1.4 billion per annum over the next three years. Also, these investments provide CK with financial flexibility since the shares of the three affiliated companies are traded on the SET. CK also realizes significant capital gains from occasional divestments. As of the end of 2023, the fair market value of these investments totaled THB58 billion.

Leverage remains high

CK's financial leverage tends to be higher than most general E&C companies given its business model as a contractor and an investment company. At the end of 2023, CK's total debt amounted to THB55.6 billion. Most of this debt was utilized to finance its strategic investments, including significant working capital requirements for its active projects and a sponsor loan for the Xayaburi hydropower project. The debt to capitalization ratio was 65% at the end of 2023, up from 62% in 2022. CK's debt to EBITDA ratio at the end of 2023 was 12.5 times, an improvement from 17-20 times during 2020-2022. We project this ratio to remain at 13-14 times in 2024 and improve to around 10-11 times over the 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 THB5 billion from the Xayaburi Hydropower Project during 2024-2025. Also, the equity investment in the Luang Prabang Hydropower Project is estimated to be THB3.0-THB3.2 billion over the next three years. Thus, its debt to capitalization ratio is expected to stay around 60% 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 1.8 times as of December 2023. 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 2023, CK's debts coming due over the next 12 months amounted to THB14.8 billion, comprising THB6.7 billion debentures and THB8.1 billion bank loans. The company is likely to spend THB2.5-THB3.0 billion in capital expenditures, dividend payment, and equity investments in its affiliates. The company's source of funds included THB7.8 billion in cash on hand, plus undrawn committed credit facilities

from banks of THB8.8 billion. We forecast CK's funds from operations (FFO) over the next 12 months to be THB1.4-THB1.5 billion. CK usually refinances most of its maturing debentures with new debentures issuance. Also, 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 THB36 billion in 2024, THB40 billion in 2025, and THB47 billion in 2026.
- Gross profit margin for construction to be maintained at around 7.5%-8%.
- Approximately THB5 billion of the Xayaburi sponsor loan will be repaid during 2024-2025.
- 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 an operating performance in line with our target. We expect CK to keep its EBITDA margin at around 9%-10% 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 reduce 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 August 2023, the Trivisvavet family held around 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, is therefore tied to XPCL's performance.

The same applies to the development of the Xayaburi project, the company acts as a project sponsor and undertakes construction. It holds 20% of shares in the Luang Prabang project. Construction for the project is scheduled to commence in 2022, with a nine-year construction period and scheduled commercial operation date (SCOD) expected in early 2030.

KEY OPERATING PERFORMANCE

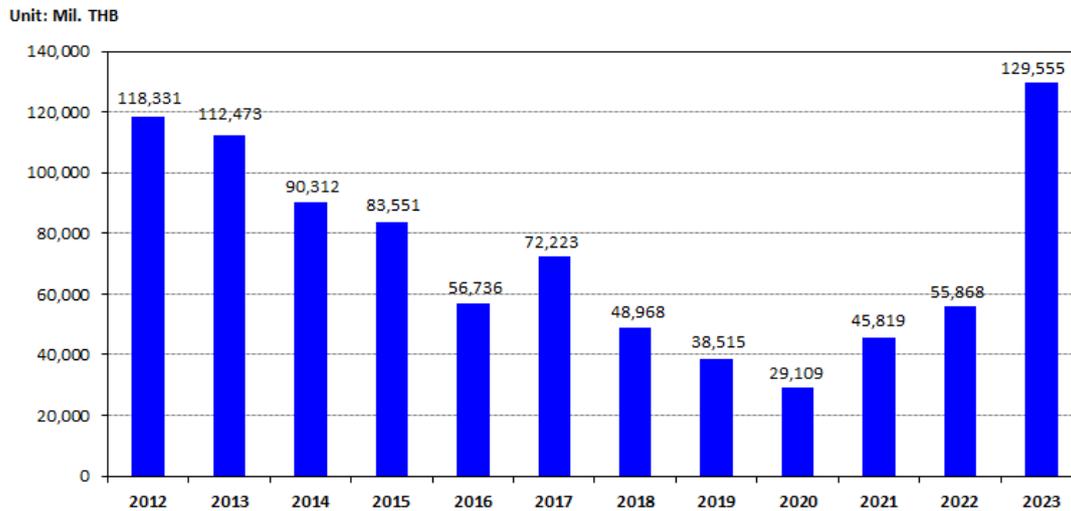
Table 1: CK's Investments (As of Dec 2023)

Company Name	CK Holding (%)	Consolidate Investment Cost (Mil. THB)	Fair Value (Mil. THB)	Type of Investment	Customer(s)
BEM	35.96	26,290	43,428	BTO concession AOT concession PPP gross cost	Public Public Public
TTW	19.40	5,810	7,044	BOO water purchase agreement	PWA
CKP	30.00	7,582	7,951	Holding company of power plants	EGAT, PEA, EDL-Gen
LPCL	20.00	1,588	1,588	Run-of-river power plant	EGAT
Total Investment		41,270	60,011		

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

Source: CK

Chart 1: Backlog at Year End



Source: CK

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Total operating revenues	36,883	18,447	12,938	17,060	23,408
Earnings before interest and taxes (EBIT)	3,475	2,337	1,942	1,670	3,123
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,925	2,039	2,129	2,060	2,685
Funds from operations (FFO)	1,995	599	695	710	1,317
Adjusted interest expense	1,846	1,418	1,394	1,290	1,251
Capital expenditures	897	388	814	592	2,245
Total assets	96,745	85,151	83,421	82,774	82,586
Adjusted debt	49,056	40,323	37,502	35,890	29,117
Adjusted equity	26,008	24,466	26,108	26,271	27,813
Adjusted Ratios					
EBITDA margin (%)	10.6	11.1	16.5	12.1	11.5
Pretax return on permanent capital (%)	4.5	3.3	2.8	2.5	4.8
EBITDA interest coverage (times)	2.1	1.4	1.5	1.6	2.1
Debt to EBITDA (times)	12.5	19.8	17.6	17.4	10.8
FFO to debt (%)	4.1	1.5	1.9	2.0	4.5
Debt to capitalization (%)	65.4	62.2	59.0	57.7	51.1

* 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:	
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-
CK265B: THB3,800 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-
CK285B: THB1,000 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-
CK305A: THB1,000 million senior unsecured debentures due 2030	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-
CK335A: THB3,200 million senior unsecured debentures due 2033	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

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