TRIS RATING
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Italian-Thai Development PLC

No. 134/2017 30 October 2017

Company Rating: BBB-

Issue Rating:
Senior unsecured BBB-

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
30/09/13	BBB-	Stable
27/08/12	BB+	Negative
02/07/12	BB+	Alert Negative
08/06/12	BBB-	Negative
06/05/11	BBB	Stable
30/04/09	BBB+	Negative
13/09/07	BBB+	Stable
11/01/07	A-	Negative
23/11/05	A-	Stable

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Rating Rationale

TRIS Rating affirms the company rating of Italian-Thai Development PLC (ITD) and the rating of ITD's senior unsecured debentures at "BBB-". The ratings reflect the company's solid market presence in the domestic engineering and construction (E&C) industry on the strength of its track record of undertaking projects in a broad range of end markets. The ratings also consider ITD's large and diverse project backlogs, as well as a positive outlook for domestic E&C opportunities over the next few years. However, the ratings are weighed down by the company's precarious financial profile, with a lingering debt-heavy capital structure. The ratings are also constrained by execution risks from future long-term investment projects and the cyclicality of the E&C industry.

The ratings reflect ITD's strong business profile backed by its long-standing and well-established market presence among the top-tier and largest E&C contractors in the country. The company is the largest E&C contractor listed on the Stock Exchange of Thailand by revenue. ITD's revenue was in the Bt45-Bt50 billion per annum range over the past five years.

ITD's business profile is also underpinned by its extensive track record of undertaking both public and private projects. With its experience and resources, ITD provides a complete range of construction and engineering. ITD undertakes E&C projects across the country, servicing diverse customers. Adding to its core E&C business in the domestic market, ITD has looked to grow by expanding abroad and exploring new business opportunities. These strengths help alleviate concentration risks in terms of customers, products, and geography.

Domestic projects comprised 60%-70% of total revenue while overseas projects make up the rest. Revenue from offshore operations has been derived primarily from E&C projects undertaken by its India-based subsidiary, ITD Cementation India Limited.

ITD's financial performance during the past 12 months was in line with TRIS Rating's base-case estimate. Revenue in the first half of 2017 was Bt25.4 billion, a slight 2.2% growth year-on-year (y-o-y). Operating margin (operating profit before depreciation and amortization as a percentage of revenue) in the first half of 2017 was 10.8%, increasing from 8.5% in 2016. The improved profitability was due in large part to higher gross margin stemming from the overseas projects.

TRIS Rating maintains a broadly positive view on domestic E&C opportunities over the next few years, taking into consideration promising government outlays for a number of large-scale infrastructure projects in the years ahead. ITD is poised for substantial growth in light of its bidding capability. For the first half of 2017, ITD won Bt48 billion in new contracts. TRIS Rating highlights that ITD's competitive strengths and business opportunities combine to support the current ratings.

The ratings affirmation takes into account the company's large and diverse project backlogs. As of June 2017, ITD increased its backlog to Bt266.9 billion. The backlog included a railway and port concession in Mozambique worth Bt114 billion and a toll road concession in Bangladesh worth Bt37.6 billion. Neither of these major construction works have yet to begin and, in TRIS Rating's view, they are unlikely to do so in the near term. Excluding these two projects, ITD's revenue stream is buoyed by their largest-ever backlog of Bt115.5 billion, including the

Hongsa mining project in the Lao People's Democratic Republic (Lao PDR) worth Bt21.2 billion, which will be realized during 2015-2029. ITD's backlog should secure 80% of its annual revenue during 2017-2018, 64% in 2019, and 40% in 2020.

Conversely, the ratings are weighed down by the company's precarious financial profile. ITD remains highly leveraged, as the company is in need of working capital to fund the current E&C projects. Total debt remained elevated at Bt37.6 billion as of June 2017, up from Bt32.6 billion a year earlier. The debt to capitalization ratio was 72.2% as of June 2017, increasing from 71% at the end of 2016. ITD remains pressured from a substantial interest burden of over Bt2 billion per year, which could outpace its operating profit if ITD sustains significant losses or shrinking margins from its E&C work. Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio remained low at 2.5 times in the first half of 2017. Funds from operations (FFO) to total debt ratio stood at a weak 6.5% as of 2016 and up to 7.5% (annualized, based on the trailing 12 months) in the first half of 2017.

ITD has also incurred an extensive amount of debt to fund its investment projects, which remain unproductive and preclude the company from generating a meaningful cash flow. In hopes of a broadening its revenue base, ITD has carried out five investment projects: a potash mine in Thailand, the Dawei industrial estate in Myanmar, a toll road in Bangladesh, a bauxite mine and alumina plant in Lao PDR, and a railway and port concession in Mozambique. However, these much-anticipated projects have not made any significant contributions to the company, particularly the long-delayed potash mine and Dawei projects, which combined have cost ITD nearly Bt10 billion in investments to date.

TRIS Rating is of the view that ITD will remain saddled with heavy debt loads, given the company's tendency to raise additional debt to supplement upcoming E&C work and the remote likelihood that the huge investments will come to fruition in the near term. The headwinds from burdensome indebtedness continue to put a lid on ratings. The ratings are also undermined by ITD's exposure to execution risks from its long-awaited projects, primarily country risks and regulatory risks, which appear to outweigh the benefits. Like other E&C companies, ITD is at risk of the cyclicality of the E&C industry, whose downturn could impact the sustainability of ITD's revenue streams.

TRIS Rating's base-case forecast expects ITD's revenue (excluding revenue from the five investment projects) to range from Bt50-Bt60 billion per annum during 2017-2020. The sizable backlog secures a notable portion of revenue in 2017 and 2018. ITD's operating margin is expected to be quite stable and should stay above 8.5%, on average. The ratio of debt to capitalization will hover around 70%, or the interest-bearing debt to equity ratio will stay around 2.3 times, which is compliant with the financial covenant of debentures. ITD is expected to generate FFO of at least Bt3 billion per annum. Capital expenditures are expected at Bt2.5-Bt3 billion per annum.

ITD's liquidity position is deemed adequate. The company had Bt6.4 billion in cash and marketable securities, plus short-term credit lines of Bt6.8 billion as of June 2017. Debts due over the next 12 months are around Bt8 billion. Most of the debts are project finance that relies on the cash flow of work in progress for repayment. During 2017-2020, the FFO to total debt ratio is expected to stay above 8%. The EBITDA interest coverage ratio is expected to stay above 2 times.

Rating Outlook

The "stable" outlook embeds our expectation that ITD will continue to secure sizable projects, and maintain its solid market position while it manages to enhance its profitability and liquidity. Moreover, ITD is capable of further strengthening its capital structure, allowing the company to carry out long-term projects while sustaining its operating margin at above 8.5% and remaining compliant with the financial covenant over the next three years.

Given ITD's relatively weak financial profile, the rating upgrade is unlikely over the next 12-18 months. The total debt is expected to remain elevated. Downward rating pressure could develop in the wake of a further diminishing profitability which will cause its operating margin below 7% or FFO to total debt below 5% over the next two to three years.

Italian-Thai Development PLC (ITD)

Company Rating:	BBB-
Issue Rating:	
ITD226A: Bt6,000 million senior unsecured debentures due 2022	BBB-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Jun 2017	2016	2015	2014	2013	2012
		---------------------- Year Ended 31 December ------------------				
Revenue	25,431	47,369	51,297	48,082	43,913	46,291
Finance cost	1,226	2,410	2,589	2,501	2,204	2,286
Net income from operations	312	(457)	(504)	234	963	330
Funds from operations (FFO)	1,559	2,285	2,258	2,475	2,800	2,353
Capital expenditures	1,193	2,792	2,134	3,324	2,996	2,478
Total assets	83,511	78,120	78,095	73,190	64,551	58,983
Total debt	37,621	35,151	33,472	30,932	28,427	29,328
Total liabilities	69,035	63,786	63,519	57,842	52,299	49,562
Shareholders' equity	14,476	14,333	14,577	15,348	12,252	9,420
Depreciation & amortization	1,261	2,429	2,200	2,013	1,978	1,786
Dividends	90	24	39	41	33	17
Operating income before depreciation and amortization as % of sales	10.77	8.50	6.93	8.42	10.74	8.43
Pretax return on permanent capital (%)	5.74**	4.53	4.13	6.60	9.04	7.81
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	2.52	1.93	1.60	1.95	2.52	2.01
FFO/total debt (%)	7.50**	6.50	6.74	8.00	9.85	8.02
Total debt to capitalization	72.21	71.03	69.66	66.84	69.88	75.69

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

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