

NAWARAT PATANAKARN PLC

No. 46/2018

29 June 2018

CORPORATES

Company Rating:	BBB-
Issue Ratings:	
Senior unsecured	BBB-
Outlook:	Negative

Company Rating History:

Date	Rating	Outlook/Alert
28/02/18	BBB-	Negative
01/04/14	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating of Nawarat Patanakarn PLC (NWR) and the ratings of NWR's outstanding senior unsecured debentures at "BBB-" with the "negative" outlook. The "negative" outlook reflects concerns over the lingering high level of leverage. In addition, the size of the project backlog and the recent operating performance of NWR are both below expectations.

At the same time, TRIS Rating assigns a rating of "BBB-" to NWR's proposed issue of up to Bt1,500 million in senior unsecured debentures due within three years. The company will use the proceeds from the new debentures to repay some of its existing loans and fund business expansion.

The ratings continue to reflect the company's acceptable track record of undertaking a broad range of construction projects for the public and private sectors. Conversely, the ratings are tempered by high financial leverage, the cyclical nature of the engineering and construction (E&C) industry, competitive threats, and the execution risks associated with residential property projects.

NWR's operating performance in the first quarter of 2018 was in line with TRIS Rating's expectation. Revenue was Bt2.5 billion, up 21% from the same period last year. The operating margin (operating profit before depreciation and amortization as a percentage of revenue) in the first quarter of 2018 was 9.83%, up from 7.63% in 2017.

NWR's backlog at the end of March 2018 stood at Bt12.6 billion. The projects in the backlog are expected to generate revenue of around Bt6.1 billion in the remainder of 2018, Bt4.4 billion in 2019, and Bt2.1 billion during 2020-2021.

At the end of March 2018, NWR's debt to capitalization ratio was 58.14%, up from 57.96% in 2017. NWR has shouldered a much higher debt load over the past three years. The "negative" outlook is also built on the level of financial leverage, which lingers at high levels.

In TRIS Rating's view, it is important for NWR to strengthen profitability by improving operation efficiency. Looking ahead, the debt level will stay elevated unless working capital is managed more efficiently and sales at the residential property projects accelerate. Any drop in revenue or weaker profitability would further weaken the financial profile.

RATING OUTLOOK

The "negative" outlook reflects NWR's weak operating performance and persistently high level of leverage. Over the next three years, NWR's financial profile is likely to weaken as the size of the project backlog shrinks and property sales remain modest. TRIS Rating's base-case assumes revenue will average Bt8.5 billion per year. The operating margin is expected to range between 6%-9%. The debt to capitalization ratio is expected to stay at around 55%.

The ratings could be downgraded if operating performance falls below expectations or the debt to capitalization ratio exceeds 60%, or the earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio remains below 3 times.

The outlook could be revised to "stable" if the operating performance and leverage improve to sustainable levels. Examples of improved, sustainable levels are a debt to capitalization ratio of around 50%, or an EBITDA interest

coverage ratio above 4 times.

RATING SENSITIVITIES

The ratings are unlikely to be upgraded over the next 12-18 months as leverage is expected to remain high while the revenue contribution from the property development business remains small. NWR's success in the property development business, coupled with a significant reduction in its debt load, would be positive factors for the ratings and/or outlook.

In addition to weaker operating performance, downward pressure on the ratings could also develop if the company makes any large investment in its property development business.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2018	Year Ended 31 December			
		2017	2016	2015	2014
Revenue	2,505	9,275	8,312	7,586	6,826
Gross interest expense	58	249	228	186	101
Net income from operations	41	(154)	52	(174)	8
Funds from operations (FFO)	28	281	445	69	186
Capital expenditures	67	306	715	671	445
Total assets	12,654	12,251	12,577	11,435	9,445
Total debts	4,965	4,867	4,550	4,349	2,658
Total adjusted debts	4,965	4,867	4,871	5,031	3,860
Shareholders' equities	3,575	3,531	3,746	3,683	3,874
Operating income before depreciation and amortization as % of sales	9.83	7.63	9.75	5.93	7.98
Pretax return on permanent capital (%)	1.98 **	1.10	3.54	0.69	2.49
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.85	3.39	3.86	2.73	4.07
FFO/total debt (%)	14.20 **	14.10	16.56	8.51	13.04
Total debt/capitalization (%)	58.14	57.96	56.53	57.74	49.91

* Consolidated financial statements

** Annualized with trailing 12 months

Note: All ratios have been adjusted by including JV's financial performance (NWR-SBCC) on pro-rata basis since 2014. A new accounting standard has taken effect since 2015. The standard covers recognition of the performance of the JV companies. The new standard meant NWR has had to change the accounting method to recognize the performance of its JV from the proportionate consolidation method to the equity method. As a result, some financial figures in 2014 and beyond may not be directly comparable to the values prior to 2014.

Nawarat Patanakarn PLC (NWR)

Company Rating:	BBB-
Issue Ratings:	
NWR188A: Bt1,500 million senior unsecured debentures due 2018	BBB-
NWR208A: Bt1,720.1 million senior unsecured debentures due 2020	BBB-
Up to Bt1,500 million senior unsecured debentures due within 3 years	BBB-
Rating Outlook:	Negative

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