

UNIQUE ENGINEERING AND CONSTRUCTION PLC

No. 56/2023
12 May 2023

CORPORATES

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

Last Review Date: 12/04/23

Company Rating History:

Date	Rating	Outlook/Alert
12/04/23	BBB	Negative
16/03/22	BBB	Stable
01/04/21	BBB+	Negative
25/06/18	BBB+	Stable

Contacts:
 Bundit Pommata
 bundit@trisrating.com
 Auyporn Vachirakanjanaporn
 auyporn@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 Unique Engineering and Construction PLC (UNIQ) at “BBB” and also affirms the ratings on UNIQ’s existing senior unsecured debentures at “BBB-”, with a “negative” rating outlook. At the same time, we assign the rating of “BBB-” to UNIQ’s proposed issue of up to THB1 billion senior unsecured debentures. Proceeds from the new debentures will be used for UNIQ’s debt repayment, working capital, and business expansion.

The issue ratings being one notch below the company rating reflects the subordination of UNIQ’s senior unsecured debentures since more than half of its debts is secured. As of December 2022, UNIQ’s priority debt to total debt ratio was 57%, exceeding the 50% threshold.

The ratings continue to reflect UNIQ’s competitive strengths in undertaking large public infrastructure projects and its sizeable backlog. The ratings are weighed down by the company’s lower profit margins amid intense competition and rising construction material and labor costs, heightened financial leverage, the cyclical nature of the engineering and construction (E&C) industry, and material reliance on a few large construction projects.

UNIQ’s financial profile has materially deteriorated over the past three years. Lengthy collection periods with large amounts of outstanding unbilled receivables and account receivables elevated its total debt to THB21.8 billion in 2022 from below THB10 billion in 2018. Its debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio reached a peak of 12.9 times in 2022, up from the historical levels of 2-4 times.

Gross profit margin also shrank to the 10%-15% range during 2021-2022, compared with around 17%-20% in the past. Its EBITDA margin also narrowed, declining to 12% in 2022, compared with 19%-22% in the past. The compressed margins were due to competitive bidding prices and rising raw material and labor costs.

Looking forward, UNIQ’s financial leverage will depend largely on its capability of bringing down the outstanding unbilled receivables and account receivables and its ability to retain its profitability. Given a certain degree of uncertainty, UNIQ’s debt to EBITDA may stay above 8 times for a longer period. In this scenario, we may consider revising the ratings downwards.

Its liquidity is tight but should be manageable. The company has a significant amount of debt due over the next 12 months, comprising short-term loans, mainly on promissory notes (P/N), worth THB12 billion, long-term loans of THB61 million, and debentures of THB3.0 billion. The repayment of short-term loans is rather flexible as the banks normally extend or rollover the loan tenor to match the project timeline. Repayment of short-term loans will come from the proceeds received from project owners. The maturing long-term loans should be covered by its funds from operations (FFO). All debentures due in 2023 have already been replaced by UNIQ’s new debentures of THB2,281 million issued in January 2023. Moreover, the company had cash on hand of THB4.0 billion and undrawn credit facilities of around THB17 billion to further support its construction works and refinancing requirements.

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company’s current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been “upgraded,” “downgraded,” “affirmed” or “cancelled.” The update includes information to supplement the previously published ratings. Credit Updates are part of TRIS Rating’s monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

RATING OUTLOOK

The “negative” outlook reflects the weaker-than-expected operating performance of UNIQ. The outlook also incorporates our concerns that UNIQ’s financial profile may further deteriorate from the current level given its slimmer margins and the heightened level of debt and financial expenses to finance its working capital requirement.

RATING SENSITIVITIES

The ratings on UNIQ could be revised downward should its operating performance and/or financial profile be worse than our expectations, and its debt to EBITDA persistently stays above 8 times with no signs of recovery. Conversely, the company’s outlook could be revised to “stable” if it delivers operating results as targeted and successfully improves its financial position such that its debt to EBITDA falls well below 8 times.

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

Unique Engineering and Construction PLC (UNIQ)

Company Rating:	BBB
Issue Ratings:	
UNIQ248A: THB839.3 million senior unsecured debentures due 2024	BBB-
UNIQ257A: THB2,440.1 million senior unsecured debentures due 2025	BBB-
UNIQ262A: THB3,000 million senior unsecured debentures due 2026	BBB-
UNIQ267A: THB1,441.5 million senior unsecured debentures due 2026	BBB-
Up to THB1,000 million senior unsecured debentures due within 4 years	BBB-
Rating Outlook:	Negative

TRIS Rating Co., Ltd.

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

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