

UNIQUE ENGINEERING AND CONSTRUCTION PLC

No. 13/2022

3 February 2022

CORPORATES

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

Last Review Date: 02/12/21

Company Rating History:

Date	Rating	Outlook/Alert
01/04/21	BBB+	Negative
25/06/18	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Unique Engineering and Construction PLC (UNIQ) at “BBB+” and the ratings on UNIQ’s existing senior unsecured debentures at “BBB”. At the same time, we assign the rating of “BBB” to UNIQ’s newly proposed issue of up to THB3 billion senior unsecured debentures. The newly assigned issue rating replaces the rating on the proposed issue of up to THB2 billion announced on 2 December 2021 as the company has increased the debenture issue size. This increase has no effect on the ratings as the proceeds from the new debentures will be used for debt repayment and/or funding working capital that have already been taken into the rating consideration. We maintain the “negative” outlook to reflect our concern over the significant deterioration in UNIQ’s performance and financial profile.

The ratings continue to reflect UNIQ’s competitive strengths and sound profitability. However, these strengths are weighed down by the company’s high business concentration of construction projects in backlog. The ratings also consider the fierce competition in the engineering and construction (E&C) industry and potential delays in biddings for public construction projects, which impede the revival of UNIQ’s operating performance.

The issue ratings being one notch below the company rating reflects the subordination of the company’s senior unsecured debentures to its priority debt. As of September 2021, UNIQ’s total debt, excluding financial leases, was THB17.6 billion. Of the total, about THB11 billion was secured debt, or priority debt. In effect, the priority debt to total debt ratio was 63%, exceeding the 50% threshold, according to TRIS Rating’s “Issue Rating Criteria”. Based on this, we view the unsecured creditors as being significantly disadvantaged to the priority debt holders with respect to claims against the company’s assets.

UNIQ’s operating performance has been hurt by fiercely competitive biddings and difficulties in construction management during the height of the Coronavirus Disease 2019 (COVID-19) outbreak. For the first nine months of 2021, its total operating revenue was nearly THB8 billion, an increase of 3.9% year-on-year (y-o-y). In contrast, the company’s earnings before interest, taxes, depreciation, and amortization (EBITDA) totaled THB1.6 billion, a 7.6% y-o-y decrease. UNIQ’s debt surged to THB18.2 billion as of September 2021 due to a sharp rise in working capital needs. The company was saddled with large sums of unbilled receivables and account receivables related to the double-track railways, the fourth contract of the Orange Line electric rail route, and the Red Line electric railway. We maintain our forecast that UNIQ’s debt to EBITDA ratio will likely remain above 6 times in 2021 and decline to about 5 times in 2022-2023 as earnings recover.

RATING OUTLOOK

The “negative” outlook reflects our expectation of a significant deterioration in UNIQ’s earnings and financial profile in 2021, before gradually improving in the following years. However, uncertainties from the prolonged pandemic, delays in public project biddings, and intense competition remain key risks.

RATING SENSITIVITIES

A rating downgrade could occur if UNIQ's financial profile materially deteriorates from our expectations. This could be due to project delays, cost overruns, or inefficient working capital management, such that the company's debt to EBITDA ratio remains above 5 times with no clear sign of improvement. Lower-than-expected amounts of new contracts could also weigh significantly on the ratings. In contrast, the rating outlook could be revised to "stable" if working capital management and profitability are in line with our expectations and UNIQ can secure new construction contracts as targeted.

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

Unique Engineering and Construction PLC (UNIQ)

Company Rating:	BBB+
Issue Ratings:	
UNIQ222A: THB2,000 million senior unsecured debentures due 2022	BBB
UNIQ232A: THB3,000 million senior unsecured debentures due 2023	BBB
UNIQ257A: THB2,440.1 million senior unsecured debentures due 2025	BBB
Up to THB3,000 million senior unsecured debentures due within 4 years	BBB
Rating Outlook:	Negative

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