

Press Release

No. 78/2017
27 April 2017

TRIS Rating Assigns "BBB-/Stable" Rating to Senior Unsecured Debt Worth Up to Bt6,000 Million of "ITD"

TRIS Rating has assigned a rating of "BBB-" to the proposed issue of up to Bt6,000 million in senior unsecured debentures due within 2022 of Italian-Thai Development PLC (ITD). At the same time, TRIS Rating has affirmed the company rating and the current senior unsecured debenture ratings of ITD at "BBB-". The outlook remains "stable". The company will use the proceeds from the new debentures to repay some of its existing debentures. ITD's ratings reflect the company's solid market presence in the domestic engineering and construction (E&C) industry on the back 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 an upbeat outlook for domestic E&C opportunities over the next few years. However, the ratings are partially offset by weakening profitability, a lingering debt-heavy capital structure, execution risks in future long-term investment projects, and the cyclical nature 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 (SET) by revenue. ITD's business profile is also supported 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 works, undertaking E&C projects across the country and servicing diverse customers. These strengths help alleviate concentration risks involving customers, products, and geography.

The ratings also consider the company's large and diverse project backlogs. The business opportunities, arising to a great extent from promising government outlays for a number of large-scale infrastructure projects in the years ahead, also support the ratings. As the government-sponsored E&C works are promising, ITD is poised for a succulent growth in light of its bidding capability. Adding to its core E&C business in the domestic market, ITD has looked for growth by expanding abroad and exploring new business opportunities. The revenue from offshore operations has been derived for the most part from E&C projects in India through a majority-owned subsidiary.

The "stable" outlook embeds our expectation that ITD will continue to secure sizable projects and maintain its solid market position while managing to enhance its profitability and liquidity. Moreover, ITD is expected to be capable of further strengthening its capital structure, allowing the company to carry out long-term projects while sustaining debt to capitalization ratio well below 70%, or interest-bearing debt to equity lower than 2.3 times during 2017-2019.

Given ITD's relatively weak financial profile, the rating upgrade is unlikely over the next 12-18 months. The downward rating pressure could develop in the wake of a further significant decline in profitability, or excessive debt-financed investments which will cause its debt to capitalization ratio to exceed 70% for a sustained period.

As of December 2016, ITD's backlog stood at Bt269 billion. The backlog included a railway and port concession in Mozambique worth Bt114 billion and a toll road concession in Bangladesh worth Bt37.7 billion. The major construction works at both concessions have not yet begun. The backlog also includes the Hongsa mining in the Lao People's Democratic Republic (Lao PDR), worth Bt22.2 billion, which will be realized during 2015-2029. Excluding the Mozambique concession and the Bangladesh toll road project, ITD's backlog should secure about 70% of the base-case revenue in 2017, 60% in 2018, and 40% in 2019. In addition, ITD won bids for the construction of the Mass Rapid Transit (MRT) Orange Line project, contract 3, worth about Bt17.4 billion. ITD's large backlog will help secure its revenue over the next three years.

ITD's financial performance in 2016 fell short of TRIS Rating's base-case estimate. The revenue was Bt47.4 billion, down 7.7% from a record-high in 2015. The operating margin (operating profit before depreciation and amortization as a percentage of revenue) in 2016 was 8.5%, increasing from 6.9% in 2015. The debt to capitalization ratio was 71% as of December 2016, increasing from 69.7% at the end of 2015. The total debt has yet to wane due to the working capital needs and a weakened performance.

Despite an improvement in profit margin, ITD continued to incur loss in 2016 as the company shouldered a hefty interest burden of around Bt2.4 billion. ITD reported a net loss of Bt109 million, compared with the Bt362 million loss in 2015. ITD's performance is also compounded by its unproductive assets, which preclude the company from generating a meaningful cash flow. In hopes of a broadened

(Continue on page 2)

revenue base, ITD has carried out five investment projects: a potash mining in Thailand, the Dawei industrial estate in Myanmar, a toll road in Bangladesh, a bauxite mine and alumina plant in the 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 and Dawei projects, which both to date have cost ITD nearly Bt10 billion in investments.

The ratings are also constrained by the company's highly-leveraged capital structure. ITD has incurred an extensive amount of debt to fund its investment projects and its working capital requirements, leading to a huge interest burden and a weak financial structure. Given the company's tendency to raise additional debt to supplement the upcoming E&C works, ITD is expected to remain saddled with debt loads over the medium run. The headwinds from burdensome indebtedness continue to put a lid on the ratings. The ratings are also undermined by ITD's exposure to execution risks of its long-awaited projects, primarily the country risks and the regulatory risks, which appear to outweigh the benefits. Like other E&C companies, ITD is at risk of the cyclicity of the E&C industry, the downturn of which could have an impact on the sustainability of ITD's revenue streams.

During 2017-2019, TRIS Rating's base-case forecast expects ITD's revenue (excluding the revenue from the five investment projects) in a range of Bt50-Bt55 billion per annum. ITD's operating margin is expected to be quite stable and should stay above 8% on average. The debt to capitalization ratio is expected to stay in a range of 65%-70%, or the interest-bearing debt to equity ratio at 2-2.3 times. ITD is expected to generate funds from operations (FFO) of at least Bt2.5 billion per annum. The capital expenditures are expected at Bt2-Bt2.5 billion per annum. ITD's liquidity profile is weak. The company had Bt2.6 billion in cash at the end of 2016, while the debts due over the next 12 months are around Bt5.4 billion. During 2017-2019, the FFO to total debt ratio is expected to stay higher than 7%. The EBITDA (earnings before interest, taxes, depreciation, and amortization) interest coverage ratio is expected to stay above 2 times.

Italian-Thai Development PLC (ITD)

Company Rating:

BBB-

Issue Ratings:

ITD196A: Bt6,000 million senior unsecured debentures due 2019

BBB-

Up to Bt6,000 million senior unsecured debentures due within 2022

BBB-

Rating Outlook:

Stable

TRIS Rating Co., Ltd./www.trisrating.com

Contact: santaya@trisrating.com, Tel: 0-2231-3011 ext 500/Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand

© Copyright 2017, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at <http://www.trisrating.com/en/rating-information/rating-criteria.html>.