UNIQUE ENGINEERING AND CONSTRUCTION PLC

No. 83/2019
11 December 2019

CORPORATES

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

Last Review Date: 22/04/19

Company Rating History:

Date	Rating	Outlook/Alert
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 rating on UNIQ's outstanding senior unsecured debentures at "BBB". At the same time, we assign the rating on UNIQ's proposed issue of up to Bt6 billion in senior unsecured debentures at "BBB". The issue rating is assigned one notch below the company rating to reflect the inferior position of senior unsecured debentures in comparison with secured debts, based on the ratio of the company's secured debt to total assets that exceeds TRIS Rating's threshold level of 20%. The proceeds from the new debentures will be used as working capital and for debt repayment.

The ratings reflect UNIQ's enhanced competitiveness, hefty backlog, and solid profitability. However, these strengths are offset by the company's heavy business concentration, a rise in financial leverage, as well as the cyclicality of and stiff competition in the engineering and construction (E&C) industry.

UNIQ's operating performance in the first nine months of 2019 was in line with TRIS Rating's forecast. Total operating revenues dropped slightly year-on-year (y-o-y) to about Bt8.8 billion. The EBITDA margin (earnings before interest, taxes, depreciation, and amortization as percentage of revenues) remained robust, staying at 21.8%. Over the next three years, TRIS Rating expects UNIQ's total operating revenues to range between Bt11-Bt18 billion per annum, while the operating margin to stay about 20%.

Nevertheless, total debt increased more than expected, due mainly to a rise in working capital. The debt to capitalization ratio climbed to 58.1% as of September 2019, up from 40%-50% during the past three years. UNIQ's expansion could raise the leverage ratio to 60% this year, higher than our previous expectations. However, the delivery of some large projects in the coming years should lower leverage. We maintain our medium-term target on the company's debt to capitalization ratio at about 50%. Over the next three years, funds from operations (FFO) should range between Bt1.4-Bt2.4 billion per annum.

A key financial covenant in UNIQ's debentures requires the net debt to equity ratio to stay below 3.5 times. The ratio, as of September 2019, was 1.4 times. Thus, the company was in compliance with this key financial covenant.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that UNIQ will maintain its competitive edge in public works construction. In addition, UNIQ's profitability will remain robust. Leverage is expected to rise during construction, and decline after project completion.

RATING SENSITIVITIES

A rating upgrade scenario could emerge if UNIQ can significantly enhance its revenue base, reduce reliance on a few projects, while keeping profitability robust and leverage under control. In contrast, UNIQ's ratings and/or outlook could be revised downward if the financial profile deteriorates substantially, possibly due to project delays or cost overruns or inefficient working capital management, slashing the operating margin below 12% or pushing the debt to capitalization ratio over 60% for a sustained period.

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Unique Engineering and Construction PLC (UNIQ)

Company Rating:	BBB+
Issue Ratings:	
UNIQ222A: Bt2,000 million senior unsecured debentures due 2022	BBB
Up to Bt6,000 million senior unsecured debentures due within 5 years	BBB
Rating Outlook:	Stable

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