

AQUA CORPORATION PLC

No. 92/2017

2 August 2017

Company Rating: BBB-
Outlook: Stable

Rating Rationale

TRIS Rating assigns the company rating of Aqua Corporation PLC (AQUA) at “BBB-”. The rating reflects the company’s track record as a provider of out-of-home media services, the recurring income the company earns from long-term rental contracts for warehouses, plus dividend income and a financial flexibility it earns from the investment in Eastern Printing PLC (EPCO). The rating is also incorporated the slow growth rate of the Thai economy, which may affect advertising spending; the competitive market conditions in the out-of-home media segment; and a rising level of debt which AQUA plans to fund its expansion plans.

AQUA was established in 1994 as a provider of hire-purchase loans for electrical home appliances. The company was listed on the Stock Exchange of Thailand (SET) in September 2004. In 2007, Mida Asset PLC, led by the Eiwsivikul family, became the company’s major shareholder and decided to terminate the hire purchase business. New major shareholders joined the company in 2014. As of March 2017, AQUA’s major shareholders comprised Mr. Kumpol Virathepsuporn holding 11.1% of the company’s shares, UOB Kay Hian Private Ltd. (holding 4.94%), the Eiwsivikul family (holding 4.23%), and Mrs. Sumalee Ongcharit (holding 4.05%).

AQUA has actively carried out investment activities since 2007 and had created a mission to be an investment management company in 2014. In 2007, AQUA bought 50% of AQUA Ad PLC (AQUA Ad), a provider of out-of-home media services and increased stake to 100% in 2011. In 2010, AQUA acquired a 43.8% stake in EPCO as EPCO plans to transition itself to be a renewable power producer. In 2014, AQUA expanded its investment portfolio to include businesses that provide recurring income. In 2014 and 2015, it acquired Thai Consumer Distribution Center Co., Ltd. (TCDC), and Accomplish Way Holding Co., Ltd. (AWH), which operate built-to-suit warehouses for rent. In 2016, AQUA developed a rehabilitation resort, and then leased the resort to The Cabin Chiangmai Co., Ltd. to earn rental income. During 2015 and 2016, AQUA’s total consolidated revenues comprised advertising revenues (52%-56%) and warehouse for rent and services (44%-48%).

AQUA’s credit rating is supported by recurring cash flow it receives from long-term rental contracts. AQUA’s subsidiaries, TCDC and AWH, own warehouses for rent with rentable space of 122,747 square meters (sq.m.). All of the warehouse spaces are leased to creditworthy lessees under long-term contracts. Some rental contracts were 10 years expiring in 2022 and 2024 and some contracts were three years but can be extended to 2023. AQUA earned rental income of Bt283 million in 2016 for the first full year operation of the four warehouses. Rental income will grow by 1%-4% per annum according to rate hikes written in the rental contracts. The gross margin of warehouse rental segment was very high at 95% in 2016. Rental income will increase further once AQUA starts to receive rental fee from the rehabilitation resort. Rental income is forecast to rise by about Bt60 million per year after the resort starts commercial operation in mid-2017

In addition to predictable rental income, AQUA also received Bt35 million in dividend income in 2016 from its investment in EPCO. Dividend income is expected to rise to about Bt70 million per year once all the power projects of EPCO are fully operational. Rental income and dividend income will make up 50%-55% of AQUA’s funds from operations (FFO).

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The current economic slowdown and aggressive competition have negatively affected AQUA's revenue during the past few years. AQUA's advertising revenues declined from Bt357 million in 2013 to Bt307-Bt313 million annually during 2014-2016. The fall came even though advertising spending in the out-of-home media segment grew by 11% annually during the same period, according to a report by the Advertising Association of Thailand (AAT). The utilization rate of AQUA's 275 billboards declined to moderate levels during 2014-2016, after touching a high of more than 70% previously. However, AQUA's profitability in the media segment is considered satisfactory. AQUA's gross margin was held up well, coming in at 42%-44% during 2014-2016.

AQUA's financial leverage is rising. Despite the capital increase in 2014, the total debt to capitalization ratio increased from approximately 7% in 2012 to 36% in 2015 and 2016, owing to series of acquisitions. AQUA spent Bt1,115 million to acquire TCDC, AWH, and increase its stake in Aqua Ad during 2014-2016. AQUA continues to enlarge its advertising portfolio by acquiring Boardway Media Co., Ltd. (BW) in March 2017. BW provides advertising services on Light-Emitting Diode (LED) networks and static billboards. AQUA spent Bt762 million on the acquisition. As a result, the debt to capitalization ratio rose to 40.9% as of March 2017. In May 2017, AQUA announced it would acquire another billboard advertising provider for Bt85 million. These investments should strengthen AQUA's competitive position in the out-of-home media by adding the LED media network on top of the static billboards AQUA currently owns. The acquisitions also help expand AQUA's coverage area. The newly acquired companies generated revenues of Bt260 million and net profit of Bt54 million in 2016.

AQUA's operating performance was driven by ongoing string of acquisitions. Total revenues grew from Bt391 million in 2012 to Bt593 million in 2016, a compound annual growth rate (CAGR) of 11%. In the first quarter of 2017, revenues continued to grow, rising by 10% over the same period of the prior year to Bt167 million. AQUA's operating profit before depreciation improved from 27.8% in 2012 to 63.38% in 2016. The improvement was due largely to more mix of high margin from the warehouse segment during 2014-2016. AQUA also received equity income from the investment in EPCO. The amount of equity income was growing, rising from around Bt30 million to Bt100 million per year during 2012-2016. Earnings before interest, tax, depreciation, and amortization (EBITDA) rose from Bt95 million in 2012 to Bt433 million in 2015 after it acquired AWH in 2015. EBITDA was flat at Bt435 million in 2016 and declined slightly to Bt120 million in the first quarter of 2017. However, the rising leverage from various investments lowered the FFO to total debt ratio to about 18% in 2015-2016 and 15.3% in the first quarter of 2017, compared with a range of 55%-82% during 2012-2014. The EBITDA interest coverage ratio weakened, but remained fair at 5.2 times in 2016 and 5.7 times in the first quarter of 2017.

Looking forward, AQUA's capital expenditures and investment are budgeted at Bt1,900 million in 2017, largely earmarked to buy stakes in other outdoor media companies, add more LED billboards, and convert existing static billboards to LED billboards. TRIS Rating's base-case forecast assumes revenues will be at least Bt1,000 million per year and FFO will be Bt350 million per year during 2017-2019. TRIS Rating expects that the company's financial leverage, as measured by the total debt to capitalization ratio, will stay around 50% in 2017 and fall below 45% in 2018-2019 if AQUA has no sizeable investments. The FFO to total debt ratio is forecast to range from 11%-15% and the EBITDA interest coverage ratio will hover around 4-5 times in 2017-2019. AQUA's liquidity profile is acceptable. As of March 2017, total debt stood at Bt2,284 million. About 70% of AQUA's outstanding debt, or Bt1,604 million, were long-term loan and financial leases. Scheduled debt repayments ranged between Bt200-Bt300 million per year during 2017-2019. AQUA will be able to repay this amount, since FFO is forecast at Bt350 million. Other debts due over the next 12 months include bills of exchange (B/Es) worth Bt680 million. AQUA has cash on hand and marketable securities of Bt407 million as of 31 March 2017. AQUA has additional financial flexibility because it owns 294 million shares of EPCO. As of March 2017, about 18% of total shares were collateralized for borrowing. The market value of EPCO's shares was Bt2,117 million as of 12 July 2017. AQUA also has treasury stock of 86 million shares, which can be used to enhance liquidity.

Rating Outlook

The "stable" outlook reflects the expectation that AQUA will maintain its market position in the advertising media. TRIS Rating expects that AQUA will maintain sufficient liquidity and keep the total debt to capitalization ratio at around 50% as it expands.

AQUA's credit upsides may happen if the company improves cash flow generation noticeably on an ongoing basis while maintaining cash flow protection. The downside risk could occur if the liquidity profile deteriorates or if the performance weakens for an extended period. Any debt funded expansion, which will deteriorate the balance sheet and weaken cash flow protection, is also a negative factor for AQUA's credit rating.

Aqua Corporation PLC (AQUA)

Company Rating:

BBB-

Rating Outlook:

Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	-----Year Ended 31 December-----					
	Jan-Mar 2017	2016	2015	2014	2013	2012
Sales and service revenues	167	593	562	405	397	391
Gross interest expense	20	81	64	43	12	9
Net income from operations	60	240	238	41	117	31
Earnings before interest, tax, depreciation, and amortization (EBITDA)	120	435	433	298	207	95
Funds from operations (FFO)	93	299	314	127	81	107
Total capital expenditures and investments	731	248	328	256	173	132
Total assets	6,140	5,432	5,621	4,069	1,547	1,125
Total debt	2,284	1,723	1,835	213	147	125
Shareholders' equity	3,383	3,269	3,387	3,470	1,334	926
Operating income before depreciation and amortization as % of sales	55.61	63.38	57.66	51.93	45.05	27.80
Pretax return on permanent capital (%)	6.88 **	7.36	9.50	18.50	24.71	5.05
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	5.70	5.16	7.15	11.49	23.74	7.40
FFO/total debt (%)	15.30 **	18.23	18.06	58.42	53.87	82.38
Total debt/capitalization (%)	40.85	35.55	35.91	7.26	13.71	17.65

* Consolidated financial statements

** Annualized with trailing 12 months

Note: All are operating leased adjusted ratios.

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