KIATTANA TRANSPORT PLC

No. 135/2022
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CORPORATES

Company Rating:	BB+
Outlook:	Stable

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RATIONALE

TRIS Rating assigns a company rating to Kiattana Transport PLC (KIAT) at "BB+" with a "stable" rating outlook. The rating reflects the company's established presence as a logistics service provider for energy and dangerous goods (DG), promising revenues from the existing contracts, and expected low financial leverage over the next few years. However, the rating is largely offset by the company's relatively small business scale, heavy customer concentration, and lingering pressure from elevated diesel prices.

KEY RATING CONSIDERATIONS

Well-established presence in a niche market

KIAT is best known for its logistics services for petroleum products and dangerous goods, such as chemicals and industrial gases. The company's competitive strengths are essentially underpinned by its expertise in transporting dangerous goods that needs to meet stringent safety standards. KIAT owns sizable logistics assets comprising a fleet of over 600 tractors and trailers and 11 logistics hubs.

With these strengths, KIAT has built a longstanding track record in operation and safety compliance, and earned creditability and close relationships with its customers. The company has engaged in the DG transport business since 2004 and repeatedly secured contracts with large and reputable clients in specific sectors, including petroleum, chemicals, industrial gases, and waste. In 2021, revenue from energy and DG transportation accounted for 70% of its total revenue, followed by chemical trading for 24% and other logistics-related services for 6%.

In our view, KIAT benefits from its niche market, characterized by a small number of operators and high barriers to entry due to stringent regulations.

Promising revenue from existing contracts

KIAT's credit strength reflects the contract-based nature of its business which helps ascertain some base levels of future revenues. Almost all its transportation revenues are based on medium-term contracts, spread over 2-5 years. That said, the main contracts generally do not stipulate minimum off-take arrangements, which to some extent exposes KIAT to uncertain streams of revenues. However, we view such risks are partly mitigated by steady orders and frequent contract renewals by major customers.

Small business scale

KIAT's small scale of business is a rating constraint. Compared across all companies rated by TRIS Rating, KIAT has relatively smaller earnings and assets. During 2017-2021, the company's assets stayed at around THB1.2 billion. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) continuously improved from THB221 million in 2017 to a peak of THB317 million approximately in 2020 before dropping to THB194 million in 2021.

The small scale of business comes with limited financing capabilities, as well as less resilience to withstand unforeseen difficulties. KIAT's revenue has been heavily affected by consumers turning away from natural gas for vehicles (NGV) over the past years. Its revenue was also hit by the Coronavirus Disease 2019 (COVID-19) pandemic lockdown measures.

Heavy customer concentration

We view the company's significant reliance on revenues from PTT PLC (PTT) group of companies as a constraint to its business profile. KIAT has experienced contracting revenue over the past four years when a series of transportation contracts with PTT Group for NGV transportation expired. The revenue from the PTT Group accounted for around 40%-60% of its total revenue during 2017-2020. The revenue contribution from PTT Group fell to 33% in 2021 when the NGV contracts expired.

Looking ahead, we still expect the PTT Group to remain the dominant revenue source accounting for at least 35% of KIAT's total revenue. As such, we consider that KIAT's performance is still vulnerable to PTT's operational disruptions and a negative change in PTT's transport volumes, particularly for crude oil or liquefied natural gas (LNG).

Earnings impacted by diesel price

KIAT's profit margin moves in the opposite direction to the diesel price. KIAT's contracts with customers generally contain cost pass-through provisions which materially reduce the impact from changes in fuel prices. However, the contracted price adjustment is conditionally made within a boundary and has a time lag of about 3-6 months from the actual fuel price.

We assess that diesel price changes could impact KIAT's earnings considerably. Diesel cost accounted for about 30%-35% of the company's total transport costs. During 2017-2021, its EBITDA margin swung between 23.8% and 39.1%. The trough and peak of margin occurred when the diesel oil price was THB28.4 per liter and THB22.6 per liter, respectively. In the short term, we expect KIAT's earnings to remain under pressure from the current uptrend of fuel prices.

Diversifying into used truck leasing

KIAT has diversified into the leasing business for used trucks since September 2021, by leveraging its expertise in appraisal and maintenance of trucks. In June 2022, the size of the company's hire purchase portfolio was approximately THB170 million. The company targets to expand its portfolio to THB240 million by the end of 2022.

Our rating assessment takes into consideration KIAT's execution risk of this financing business, given the company's very short track record in operating and managing credit quality. We view revenue and earnings from this business will likely still not be meaningful over the next few years, given KIAT's conservative policy.

Expected performance recovery from new contracts

After all the NGV contracts expired, we view KIAT has a limited downside risk from revenue contraction. For the first six months of 2022, KIAT staged a reviving performance. Its revenue rose by 19.6% year-on-year (y-o-y) to THB419 million, aided by new contracts. We expect KIAT's revenue will continue to grow moderately, driven by new contracts with PTT to transport LNG. The largest contract will start delivery in the fourth quarter of 2022. In our base-case forecast, we project KIAT's revenue to grow to about THB1,100-THB1,200 million in 2024 from about THB800-THB1,000 billion in 2022.

We expect the company's profitability will likely continue to come under pressure in 2022 due to the high diesel cost. We assume the diesel price to be about THB33-THB35 per liter in 2022-2023 before gradually declining in the years after. However, we view KIAT has some flexibility to manage its cost structure to protect its earnings, by sharply reducing the number of non-used tractors and drivers. The company has also focused on maintenance programs which should help lengthen the useful lives of vehicles and support its cost competitiveness. In our base-case, we expect the company's EBITDA margin will be around 18%-22% in 2022 before reverting to 25%-28% in 2023-2024.

Financial leverage to remain low

We view KIAT's low financial leverage, together with its cash generation and low capital needs, helps support its credit strength and liquidity. The cash flow from the core business should be adequate to support the growth in the leasing business. We expect KIAT to keep its financial leverage at the current low level in the next few years since the company has no sizable investment in a foreseeable future.

Our base-case forecast projects KIAT's debt to EBITDA ratio to stay below 1 time over 2022-2024, and the debt to capitalization ratio to increase to about 10%-15% by 2024.

BASE-CASE ASSUMPTIONS

- Revenue to grow to THB800-THB1,000 million in 2022 and THB1,100-THB1,200 million per year in 2023-2024.
- EBITDA margin around 18%-22% in 2022 and 25%-28% in 2023-2024.
- Capital spending to total THB163 million in 2022 and around THB100 million each year during 2023-2024.
- Dividend payout ratio at 100% of net profit.

RATING OUTLOOK

The "stable" outlook embeds our expectation that KIAT will be able to renew contracts from key customers consistently. The impact from high fuel prices should be transitory and well managed. At the same time, we do not expect KIAT to aggressively grow its used truck leasing business. As such, the company should be able to maintain its strong capital structure.

RATING SENSITIVITIES

A rating upgrade is unlikely, given the current scale of business. However, the prospect of a rating upgrade may develop if KIAT could materially enlarge its earnings while maintaining the strong capital structure.

Conversely, a rating downgrade could occur if the company's revenue base weakens considerably, or its financial leverage rises significantly from the current level for a sustained period. These could occur if the company fails to renew contracts with key customers or it incurs significant losses from the leasing business.

COMPANY OVERVIEW

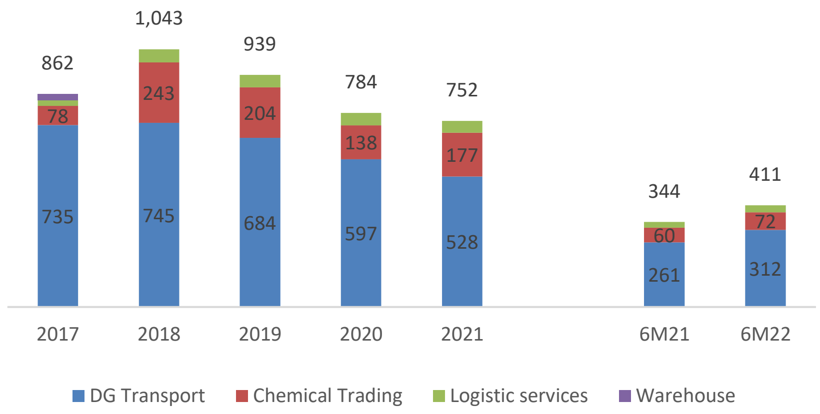
KIAT is a medium-sized transportation company with expertise in the transport of petroleum and DG. The company was established in 1994 to provide warehousing and distributing services for a zinc business of Padaeng Industry PLC. The company entered into the DG transport business in 2003 after the acquisition of Chemtrans Co., Ltd., an Australian-owned transport company.

The company's business consists of DG transportation, chemical trading, and logistics-related services. In the DG transportation, KIAT provides logistics services by both road and rail, with a focus on crude oil, NGV, LNG, and hazardous chemicals such as sulfuric acid, sulfur, sodium hydroxide, hydrochloric acid, liquid oxygen, and industrial wastes. The company also sources and delivers chemicals and non-chemical goods for customers in the Lao People's Democratic Republic (Lao PRD). The company also distributes and rents smart cameras, under the "Guardian" brand, to identify fatigue and distraction of drivers.

In 2021, revenue from DG transportation accounted for 70%, followed by chemical trading for 24% and logistics-related services for 6%.

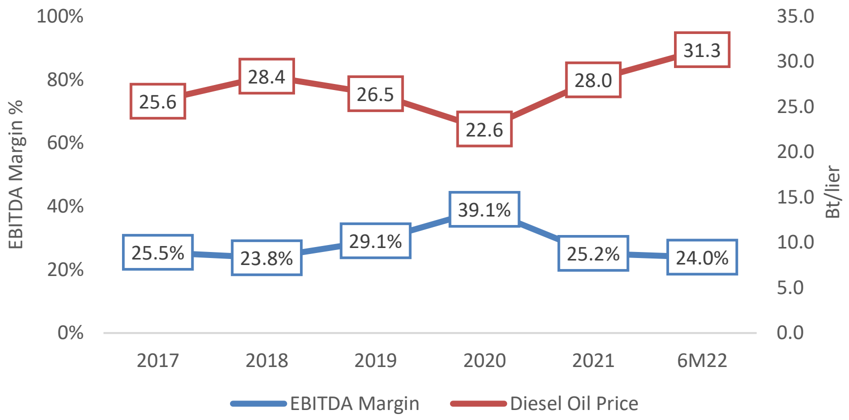
KEY OPERATING PERFORMANCE

Chart 1: Revenue Breakdown by Business (Mil THB)



Source: KIAT

Chart 2: EBITDA Margin and Diesel Oil Price



Source: KIAT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2022		--------------Year Ended 31 December ------------ 2021	2020	2019	2018
Total operating revenues	419		771	811	955	1,069
Earnings before interest and taxes (EBIT)	57		102	196	139	112
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	100		194	317	278	254
Funds from operations (FFO)	84		167	274	244	223
Adjusted interest expense	0		2	3	2	2
Capital expenditures	51		106	34	59	39
Total assets	1,256		1,223	1,247	1,229	1,197
Adjusted debt	0		0	0	0	0
Adjusted equity	1,141		1,120	1,131	1,122	1,068
Adjusted Ratios						
EBITDA margin (%)	24.0		25.2	39.1	29.1	23.8
Pretax return on permanent capital (%)	8.9	*	8.7	16.7	12.2	10.0
EBITDA interest coverage (times)	325.0		105.6	124.7	151.8	162.9
Debt to EBITDA (times)	0.00	*	0.0	0.0	0.0	0.0
FFO to debt (%)	n.m.	**	n.m.	n.m.	n.m.	n.m.
Debt to capitalization (%)	0.00		0.0	0.0	0.0	0.0

* *Consolidated financial statements*
** *Annualized with 12 months trailing*
n.m. = not meaningful

RELATED CRITERIA

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022

Company Rating:	BB+
Rating Outlook:	Stable

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