TRIS RATING

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SEAFCO PLC

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CORPORATES

Company Rating:	BBB-
Outlook:	Stable

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RATIONALE

TRIS Rating assigns the company rating on Seafco PLC (SEAFCO) at "BBB-". The rating reflects the company's competitive strength in deep foundation engineering, supported by its recognized capabilities, a well-built track record, as well as financial flexibility with a low-debt structure. However, the rating is constrained by its small scale, narrow range of products, and high susceptibility to the engineering and construction (E&C) cyclicality which can hurt the company's revenue and profit margin.

KEY RATING CONSIDERATIONS

Strong position in foundation construction

The company is a leading contractor for deep foundation works in Thailand. SEAFCO has an experienced management team, specialized engineers, and a wealth of machinery and equipment. As a result, SEAFCO can undertake large projects such as large-scale foundation work. The company provides large bored piling, predominantly for high-rise buildings, built by private sector clients, and government infrastructure projects. SEAFCO is one of a few contractors providing diaphragm wall (D-wall) construction, a crucial part of underground engineering.

SEAFCO's competitive advantages are built on its lengthy record of completed projects and financial flexibility. These two strengths help the company acquire repeat orders and win new projects. The company's experience and skills mean it is better positioned than most other contractors to execute larger and more sophisticated projects. SEAFCO has a little debt and thus greater financial flexibility. Customers can be assured that their projects will not be disrupted over the course of construction due to financial constraints at the E&C contractor.

The market segment for foundation contractors is fragmented. SEAFCO is the largest in terms of revenue and asset size. By revenue, its market share averaged about 30% over the past three years.

Satisfactory operating performance

SEAFCO performed well in the first nine months of 2018. Revenue was Bt1.9 billion in the first nine months of the year, a hefty 45.8% increase from the same period last year. The operating margin (operating income before depreciation and amortization as a percentage of revenue) in the first nine months of 2018 was 22.4%, up from an average of 17% over the past three years. The operating performance improved in large part due to the higher profit margins of large-scale projects such as the MRT Orange Line project and the One Bangkok project.

Given the current backlog, TRIS Rating's base case scenario assumes SEAFCO's revenue at about Bt2.2-Bt2.7 million per annum during 2018-2021. The operating margin is forecast at 19% on average. Funds from operations (FFO) should range between Bt300-Bt400 million per annum.

In our base case, we also assume SEAFCO's capital expenditures of around Bt600-Bt700 million in 2018 for the purchase of a new set of machines to support the projects on hand. Capital expenditures will be then forecast to decline to around Bt200-Bt300 million per annum during 2019-2021.

Small business size and narrow range of products

Despite the strengths in its field of expertise, we are of the view that SEAFCO's business profile is moderate. The rating is heavily constrained by SEAFCO's small business size as a subcontractor and narrow scope of product offerings. Foundation work is a small part of a construction project, generally taking 3-6 months at the beginning of a project. On the positive side, SEAFCO should be able to manage the risks of project delays and cost overruns.

On the downside, the backlogs, which generally cover 3-6 months, affect the visibility of future revenue. The short life of the backlog puts pressure on the company to find new contracts and even force the company to engage in intense bidding competition amid a dismal construction demand. SEAFCO is striving to grow by expanding to neighboring countries. However, we do not expect a significant contribution from overseas operations in the near term.

We maintain a broadly positive view on the domestic E&C industry over the next few years. A number of large-scale public sector infrastructure projects are moving ahead, as are a large number of high-rise buildings for private sector clients. SEAFCO is well positioned to undertake foundation work for both segments. The company recently won a massive amount of new contracts, including the One Bangkok project. This brought about a record backlog. As of September 2018, the company's backlog totaled Bt2.88 billion, which should secure its revenue in 2018 and 2019.

Susceptibility to inherent risks of construction business

SEAFCO is exposed to the risks inherent in the volatile E&C industry. The company's performance tracks industry cycles as SEAFCO has no ability to originate construction work on its own. The demand for bore piling and D-wall construction hinges on the construction of new buildings.

The rating takes into consideration other risks in the E&C industry such as the risk from fixed-price contracts, competitive bidding, labor availability, etc. These risk factors weigh down the strengths of SEAFCO's credit profile.

SEAFCO's business relies exclusively on one segment in the domestic construction industry. The ties to the E&C industry leave the company highly susceptible to the industry cycles. As a result, SEAFCO's financial performance can be volatile and revenue may not grow steadily over long periods.

Strong financial flexibility

SEAFCO's financial profile is moderately strong, supported by satisfactory profitability and a low level of debt. After considerable losses on civil works projects during 2010-2011, the company placed a greater emphasis on bored pilings and D-wall construction. Revenue has since recovered. Over the past few years, SEAFCO's revenue was derived almost entirely from bored pile and D-wall construction.

SEAFCO's low debt burden enhances its financial flexibility. The debt to capitalization ratio rose to 18.61% as of September 2018, from 9.88% as of 2017, following some sizable capital expenditures. Despite the recent rise, gearing remains low. SEAFCO's low leverage is a positive rating factor because the company has some cushion against losses. However, a failure in project execution or a long slump in construction activities would make the company less resilient to a downturn.

Despite the large capital expenditures in 2018, we expect the company's ratio of debt to capitalization will hover around 20%-23% over the next three years. The earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio is expected to range from 12-19 times. The FFO to debt ratio will remain high, with the lowest level of about 70%.

Adequate liquidity

SEAFCO's liquidity profile remains adequate. At the end of September 2018, SEAFCO had Bt223 million in debts coming due over the next 12 months, comprising Bt24 million in short-term loans and Bt199 million in project loans. SEAFCO's liquidity source was Bt326 million in cash and short-term investments. We also forecast SEAFCO's FFO over the next 12 months will be around Bt400 million. The company should have enough cash to meet its near-term obligations.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SEAFCO can maintain its solid market position in the foundation construction sector and the company will be able to secure new projects. The operating margin should stay around 19% on average. The debt to capitalization ratio is expected to remain low.

RATING SENSITIVITIES

The credit upside for SEAFCO is likely to be limited in the near term due to its small business size and narrow product line. However, the rating may be upgraded if the company could markedly enlarge its cash flow generation.

On the contrary, the credit downside would emerge if the operating margin falls significantly short of our expectation. This could happen from a prolonged stagnation in construction activities, material cost overruns from project delays, or a failure to expand abroad or expand into other segments in the E&C industry.

COMPANY OVERVIEW

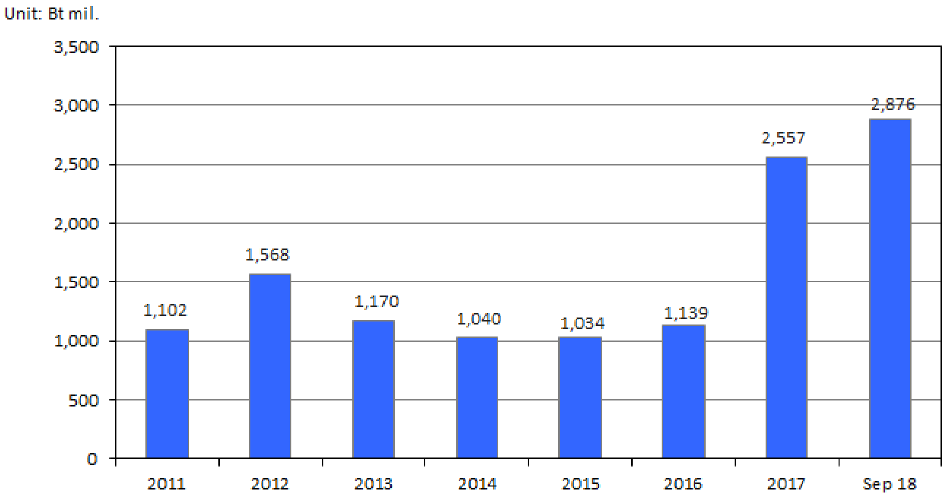
SEAFCO is the top foundation construction specialist in Thailand, and is considered a pioneer in the foundation construction segment. The company was incorporated in 1974 by the Thasnaniphan family and was listed on the Stock Exchange of Thailand (SET) in 2004. The Thasnaniphan family held approximately 26% of the shares outstanding as of August 2018. The family is actively involved in the firm, holding seats on the board of directors and serving on the management team. The family plays a crucial role in determining the strategic policies and business direction.

The company’s core competence is medium- to large-diameter bored pilings and D-wall construction in private sector and public sector construction projects. The experience of more than 40 years, covering a broad range of projects, such as residential buildings, commercial buildings, and large-scale infrastructure projects, gives the company a significant competitive advantage.

SEAFCO provides services through contracts made directly with the project owners or through sub-contractor agreements with well-known E&C contractors. Besides bore piling work and D-wall construction, SEAFCO’s services include civil works, plus soil improvement and testing services. Examples of civil works are low-rise buildings, underground construction, basements, roads, bridges, and underpasses.

KEY OPERTING PERFORMANCE

Chart 1: Backlog at Year End



Source: SEAFCO

Table 1: Revenue Breakdown by Sectors

Unit: %

Sector	2012	2013	2014	2015	2016	2017	Jan-Sep 2018
Government	41.9	57.7	35.5	21.3	16.7	60.9	53.7
Private	58.1	42.3	63.3	78.6	82.7	37.6	40.1
Overseas	-	-	1.2	0.0	0.6	1.5	6.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Revenue (Bt mil.)	**1,523**	**1,307**	**1,887**	**1,856**	**1,863**	**1,818**	**1,915**

Source: SEAFCO

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Sep 2018		--------------Year Ended 31 December -----------		
		2017	2016	2015	2014
Total operating revenues	1,933	1,851	1,875	1,873	1,899
Operating income	433	342	308	301	376
Earnings before interest and taxes (EBIT)	322	226	200	208	283
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	433	342	308	301	376
Funds from operations (FFO)	365	276	260	244	302
Adjusted interest expense	20	18	16	15	16
Capital expenditures	644	229	248	162	98
Total assets	3,027	2,466	1,884	1,807	1,725
Adjusted debt	308	131	227	62	83
Adjusted equity	1,346	1,196	1,068	993	917
Adjusted Ratios					
Operating income as % of total operating revenues (%)	22.41	18.48	16.40	16.05	19.79
Pretax return on permanent capital (%)	20.89 **	14.39	14.97	16.97	24.64
EBITDA interest coverage (times)	21.24	19.30	18.84	19.80	23.31
Debt to EBITDA (times)	0.61 **	0.38	0.74	0.21	0.22
FFO to debt (%)	133.53 **	210.19	114.41	396.16	363.82
Debt to capitalization (%)	18.61	9.88	17.53	5.85	8.30

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Seafco PLC (SEAFCO)

Company Rating:	BBB-
Rating Outlook:	Stable

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