TRIS RATING
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UNIQUE ENGINEERING AND CONSTRUCTION PLC

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CORPORATES

Company Rating: BBB+

Outlook: Stable

RATIONALE

TRIS Rating assigns the company rating to Unique Engineering and Construction PLC (UNIQ) at "BBB+". The rating reflects UNIQ's hefty project backlog, solid profitability, and growing track record of undertaking large-scale infrastructure projects. These strengths are partially offset by business concentration risks, a recent rise in financial leverage, as well as the cyclicality of and stiff competition in the engineering and construction (E&C) industry.

KEY RATING CONSIDERATIONS

Growing track record with an enhanced competitive position

UNIQ has a proven track record of bidding for and completing projects. The company has consistently enhanced its competitive strengths over the past several years, as evidenced by steady rises in revenue and the project backlog. UNIQ has collaborated with leading China-based contractors to bid on large-scale transportation infrastructure projects. This strategy has increased the company's capability to undertake much larger projects and raised its bidding success rate. The collaborations have also led to transfers of construction technology.

The Red Line (Bang Sue-Taling Chan) was UNIQ's first large-scale electric train project. From this start, UNIQ has continued to win bids for rail transportation infrastructure projects. The latest electric train project it was awarded, the Orange Line, is worth Bt13.7 billion. The Orange Line is the first electric train project for which UNIQ bid without any joint venture partners. UNIQ recently won two contracts for the double-track railway (Lop Buri-Pak Nam Pho) project. The contracts are worth approximately Bt18.7 billion in total.

UNIQ is the fourth largest E&C contractor listed on the Stock Exchange of Thailand (SET), as measured by revenue and asset size.

Overreliance on the end-market served

UNIQ's rating is partially offset by its overreliance on the end markets it serves, public-sector clients. UNIQ is prone to benefit from the much-anticipated government transportation infrastructure projects forthcoming in the years ahead. However, the project implementation timelines are uncertain. The company's long-term prospects are highly reliant on the government outlays for the infrastructure projects. Delays in bidding, delays in the awarding of contracts, or project delays could have direct and negative repercussions on UNIQ's revenue stream.

UNIQ's backlog is composed of just a few large projects. The three largest projects under construction made up nearly 90% of the backlog as of March 2018. A failure to complete one or more projects or any significant interruptions in a project could undermine UNIQ's operating performance.

Cyclical industry and stiff competition

UNIQ, like other E&C contractors, must contend with the cyclicality of the industry and stiff competition. The E&C sector is, in essence, driven by projects of clients in the private sector and the public sector. Construction activities among private sector clients have been slow. As a result, the sector is now heavily reliant on government-sponsored infrastructure projects. Competition is intense, which eventually pressures the revenues and profits of all the firms

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in the industry.

Revenue stream buoyed by hefty backlog

UNIQ's backlog has risen significantly during the past five years. It stood at about Bt37 billion as of March 2018. The company has benefited from the government's efforts to push forward a number of mass transit projects. There is little downside risk on UNIQ's revenue stream. The hefty backlog helps ensure the revenue stream and enhance UNIQ's ability to ward off financial difficulties even during industry slowdowns. Under TRIS Rating's base-case forecast, revenue will rise from Bt12 billion in 2018 to Bt17 billion in 2020. Projects in the backlog make up more than 90% of the projected revenue stream.

Solid profit margin

UNIQ has robust profitability. The operating margin (operating profit before depreciation and amortization as percentage of sales) is higher than other top-tier contractors. During the past five years, the operating margin has ranged from 16%-24%. UNIQ's centralized cost center monitors changes in raw material purchases and prices, as well as increases bargaining power with its suppliers. In addition, UNIQ keeps its cost structure flexible by using a large number of sub-contractors. This strategy helps keep overhead costs low. The company can shrink or expand throughout the industry cycles by adjusting the amount of sub-contracted work. On the downside, this strategy could cause UNIQ to suffer in the event of a labor shortage, particularly if a number of public infrastructure projects are launched at the same time.

Over the next three years, TRIS Rating expects the operating margin will fall slightly. UNIQ will earn a low margin for the remaining work on the Red Line (Bang-Sue Rangsit) project. In all, TRIS Rating expects UNIQ to control the costs on most projects in the backlog, keeping the operating margin above 16%.

Leverage to hold around the current level

The rating is tempered by a recent rise in financial leverage. Debt has risen substantially since 2013 as the company acquired larger projects. UNIQ needed additional debt to fund a rise in working capital and to invest in machinery and equipment. The total debt to capitalization ratio climbed to 56.5% as of March 2018, from 34.1% as of 2012. Over the next three years, the leverage ratio will stay around 50% under TRIS Rating's base-case forecast. UNIQ's active projects will require investments upfront. Most of the company's debts are short-term project loans from banks.

Going forward, cash flow protection will stay at the current level. The ratio of funds from operations (FFO) to total debt will stay above 20% during 2018-2020. FFO is forecast to range from Bt1.4-Bt2 billion per annum. This should be sufficient to cover the Bt500-Bt900 million in the long-term debt coming due in the years ahead. UNIQ is expected to prudently manage its liquidity over the next three years.

RATING OUTLOOK

The "stable" outlook reflects the expectation that UNIQ will maintain its competitive edge in public sector projects. In addition, UNIQ's profit margin will remain robust. Leverage is expected to hold around the current level.

RATING SENSITIVITIES

The rating upgrade could emerge if UNIQ can significantly enhance its revenue base, broaden the end markets it serves, while keeping profits robust and leverage under control. In contrast, UNIQ's rating 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 total debt to capitalization ratio over 60%.

COMPANY OVERVIEW

UNIQ is founded in 1994 by Mr. Prasong Suviwattanachai, and listed on the SET in 2007. The Suviwattanachai family remains the major shareholder, holding approximately 36% of the shares as of March 2018. UNIQ is an E&C contractor, providing an extensive range of turnkey construction and related services for fundamental infrastructure such as roads, bridges, underpasses, highways, underground infrastructure, and mass transit systems and stations. It focuses on public sector projects such as electric trains, double-track railways, and roads in Thailand.

UNIQ's first large-scale infrastructure project was the Red Line (Bang Sue-Taling Chan) mass transit project. This large project was a stepping stone. As a result of the Red Line project, UNIQ boosted its capability to bid for huge infrastructure projects. The company continues to win bids for rail transportation infrastructure projects. UNIQ, in joint venture collaborations with leading China-based contractors, undertakes much larger-scale transportation infrastructure projects. The company won bids for other four electric train projects worth a total of about Bt66 billion during 2011-2017. The four projects are the Blue Line (Bang Sue-ThaPhra), the Red Line (Bang Sue-Rangsit), the Green Line (Mo Chit-Saphan Mai-KhuKhot), and the Orange Line (Thailand Cultural Centre-Min Buri). The Orange Line was the first electric train project for which UNIQ bid without any joint venture partners. UNIQ was awarded two contracts for the Orange Line, worth Bt13.7 billion in total. The company recently won bids for two contracts of the double-track railway (Lop Buri-Pak Nam Pho) project, worth approximately Bt18.7 billion in total.

KEY OPERTING PERFORMANCE

Table1: Backlog as of Mar 2018

Project	Project Owner	Backlog (Bt Bil.)	% of Total
Double Track Railway (Lop Buri - Pak Nam Pho) #1 & #2	SRT	18.7	50
Orange Line #4 & #6: Thailand Cultural Center-Min Buri	MRTA	12.2	33
Red Line #1: Bang Sue Grand Station and Depots	SRT	2.4	6
Road Construction: Nakhon Nayok 3001 crossroad highway 305 to Ban Bangnamprieo	DRR	1.2	3
Others	-	2.6	7
Total		**37.1**	**100**

SRT = State Railway of Thailand
MRTA = Mass Rapid Transit Authority of Thailand
DRR = Department of Rural Road
Source: UNIQ

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2018	-------------- Year Ended 31 December ------------ 2017	2016	2015	2014
Revenue	2,851	12,589	12,555	10,070	8,109
Gross interest expense	151	445	381	345	309
Net income from operations	172	890	883	713	509
Funds from operations (FFO)	442	2,029	1,648	1,529	1,199
Earnings before interest, tax, depreciation, and amortization (EBITDA)	681	2,805	2,389	2,035	1,679
Total assets	29,512	27,566	23,735	18,990	15,264
Total debts	9,240	7,867	6,212	5,636	4,789
Shareholders' equity	7,112	7,297	6,748	6,159	5,652
Operating income before depreciation and amortization as % of sales	23.50	21.59	18.15	19.08	19.57
Pretax return on permanent capital (%)	9.97 **	11.13	11.92	11.17	11.91
EBITDA interest coverage (times)	4.50	6.30	6.26	5.89	5.44
FFO/total debt (%)	21.88 **	25.80	26.52	27.13	25.03
Total debt/capitalization (%)	56.51	51.88	47.93	47.78	45.87

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

Unique Engineering and Construction PLC (UNIQ)

Company Rating:	BBB+
Rating Outlook:	Stable

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