

CH. KARNCHANG PLC

No. 47/2022
27 April 2022

CORPORATES

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Stable

Last Review Date: 08/04/22

Company Rating History:

Date	Rating	Outlook/Alert
09/04/21	A-	Stable
04/04/19	A	Stable
30/01/15	A-	Stable
24/01/14	BBB+	Positive
26/02/13	BBB+	Stable
21/01/11	BBB	Stable
09/06/09	BBB+	Negative
23/07/07	BBB+	Stable
16/02/07	A-	Alert Negative
07/09/04	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on CH. Karnchang PLC (CK) and the ratings on its outstanding senior unsecured debentures at "A-" with a "stable" rating outlook. At the same time, TRIS Rating assigns a rating of "A-" to CK's proposed issue of up to THB6.1 billion in senior unsecured debentures due within 10 years. The new issue rating replaces the issue rating previously assigned on 8 April 2022, following CK's request to increase the issue size to up to THB6.1 billion, from THB6 billion. The company plans to use the proceeds from the debentures issuance to repay some of its existing loans and fund business expansion.

The ratings reflect CK's position as a top-tier contractor, its strong competitive strengths in undertaking large-scale and sophisticated construction projects, and the synergy and financial flexibility the company gains from its strategic investments. However, the ratings are constrained by the company's high leverage, the cyclical nature and intense competition in the engineering and construction (E&C) industry, and the expected rise in construction materials and labor costs.

CK's operating performance in 2021 was in line with TRIS Rating's expectation. CK's backlog at the end of March 2022 stood at around THB65 billion, up from its lowest point at THB29 billion in 2020. We project CK's revenue to revive to THB19 billion in 2022 and THB30-THB33 billion per year in 2023 and 2024. Despite the expected rise in construction material prices and labor costs, the company should be able to maintain its gross profit margin at around 8.5% over the forecast period. CK's earnings before interest, tax, depreciation, and amortization (EBITDA) is set to be around THB2.7 billion in 2022, before rebounding to THB3.5-THB3.8 billion per year in 2023 and 2024.

CK's debt to EBITDA ratio was 17 times during 2020-2021, significantly higher than its historical level of 8-10 times. We project the ratio to decline to 14 times in 2022, before dropping to around 11-12 times during 2023-2024. The debt to capitalization ratio was 59% at the end of 2021, up from 57.7% in 2020. Assuming that CK no longer needs to provide financial support to its affiliates, its debt to capitalization ratio should range around 55%-60% over the forecast period. The key financial covenant on its debenture obligations requires maintenance of a net interest-bearing debt to equity ratio below 3 times. The ratio stood at 1.4 times as of December 2021. Most of CK's debts are unsecured debts at the company level, with a very low level of priority debt.

We assess CK's liquidity as adequate over the next 12 months. As of December 2021, the company had THB7 billion in cash and short-term investments, plus undrawn committed loans from banks of THB11 billion. We forecast CK's funds from operations (FFO) over the next 12 months to be THB1.2-THB1.4 billion. Debts coming due over the next 12 months will amount to THB6.7 billion, comprising THB5.5 billion debentures and THB1.2 billion bank loans. The company is likely to spend THB1.5-THB1.8 billion in capital expenditures, distribute dividends, and equity investments in its affiliates.

In addition, CK's sizable investment portfolio of marketable securities also enhanced CK's liquidity. At the end of 2021, the fair market value of CK's investments in these companies was THB62.8 billion, or about 1.4 times the

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company's total debt. The company has the flexibility to divest some of its shares in these companies, if needed. However, it is likely that CK will maintain significant shareholding in these companies.

RATING OUTLOOK

The “stable” outlook reflects our expectation that CK will remain highly competitive in the E&C industry, with the ability to secure new contracts for prospective infrastructure projects and attain operating performance in line with our forecast. We expect CK to keep its EBITDA margin at around 10%-12% and the debt to EBITDA ratio at around 10 times in the long term.

RATING SENSITIVITIES

A rating upgrade will depend on CK's ability to generate stronger-than-expected earnings and lower its debts, resulting in a debt to EBITDA ratio below 8 times for a sustained period.

Downward pressures on the ratings could emerge from significant cost overruns in major projects or unanticipated, extensive financial support provided to its affiliates, resulting in the debt to EBITDA ratio remaining above 13 times for a sustained period.

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

CH. Karnchang PLC (CK)

Company Rating:	A-
Issue Ratings:	
CK225A: THB1,600 million senior unsecured debentures due 2022	A-
CK226A: THB3,000 million senior unsecured debentures due 2022	A-
CK227A: THB910 million senior unsecured debentures due 2022	A-
CK235B: THB2,700 million senior unsecured debentures due 2023	A-
CK238A: THB500 million senior unsecured debentures due 2023	A-
CK245B: THB1,200 million senior unsecured debentures due 2024	A-
CK246B: THB3,500 million senior unsecured debentures due 2024	A-
CK247A: THB1,500 million senior unsecured debentures due 2024	A-
CK258A: THB3,000 million senior unsecured debentures due 2025	A-
CK25NA: THB1,000 million senior unsecured debentures due 2025	A-
CK265A: THB800 million senior unsecured debentures due 2026	A-
CK267A: THB2,700 million senior unsecured debentures due 2026	A-
CK283A: THB800 million senior unsecured debentures due 2028	A-
CK285A: THB1,700 million senior unsecured debentures due 2028	A-
CK287A: THB1,020 million senior unsecured debentures due 2028	A-
CK296A: THB3,500 million senior unsecured debentures due 2029	A-
CK308A: THB1,500 million senior unsecured debentures due 2030	A-
CK315A: THB2,500 million senior unsecured debentures due 2031	A-
Up to THB4,000 million senior unsecured debentures and additional greenshoe portion of up to THB2,100 million due within 10 years	A-
Rating Outlook:	Stable

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