

# AQUA CORPORATION PLC

No. 144/2023  
4 August 2023

## CORPORATES

Company Rating:	BB+
Issue Rating:	
Secured	BB
Outlook:	Stable

Last Review Date: 05/01/23

### Company Rating History:

Date	Rating	Outlook/Alert
02/08/17	BBB-	Stable

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## RATIONALE

TRIS Rating downgrades the company rating on Aqua Corporation PLC (AQUA) to “BB+” from “BBB-” and downgrades the rating on its senior secured debentures to “BB” from “BB+”. The rating outlook is “stable”. As most of AQUA’s debts are secured, the rating on AQUA’s senior secured debenture is rated one notch lower than the company rating.

The downgrade reflects a weakening financial profile, caused by the negative balance-sheet impacts from various investments. Leverage is likely to remain high in the next few years due to the several invested businesses having not yet generated profit. The ratings also consider AQUA’s small business scale and concentration of rental revenue from one client.

## KEY RATING CONSIDERATIONS

### Substantially higher-than-expected investments

The 2022-2023 investment amount of THB2.2 billion is double from the level we previously forecast (THB1.1 billion). Since AQUA divested the out-of-home media business in early 2022, the proceeds were mainly used to invest in the following businesses: THB111 million for 100% equity interest in Nomimashou Company Limited (ramen restaurant), THB495 for 80% interest in Chalernmpat Corporation Co., Ltd (bus services), THB360 million for 60% interest in Nestify (peer-to-peer lending), THB214 million for 26.7% interest in Parcels PLC (logistic), and THB185 million for 40% interest in At Ease Property Co., Ltd. (hotel in Chiang Mai). Additionally, AQUA lent THB215 million to Ethical Gourmet Company limited (food operator).

### Recent investments not yet generating profit

AQUA’s peer-to-peer (P2P) lending business is a very challenging venture in our view as the borrower is required to pledge publicly listed companies’ shares as security against loan obligations. Although the business remains in early stages and has the potential to grow, we expect its revenue in 2023-2025 to not be enough to cover its fixed costs. Thus, the P2P lending will be likely to generate negative earnings before interest, taxes, depreciation, and amortization (EBITDA).

We expect no dividends from the hotel business in coming years. The hotel still made a loss in 2022 due to the COVID-19 pandemic. However, the business should be better in 2023 thanks to the reviving tourism industry.

### Recurring income helps stabilize cash flow

AQUA generates recurring income from the rental of warehouse spaces and commercial properties. Also, the company receives a share of profit from its 40.6% equity stake in Eastern Power Group PLC (EP), which operates integrated printing and packaging services, as well as energy business. However, we expect a shared loss of THB116 million from EP in 2023 due to the prolonged delays in the commencement of operations of its wind power projects in Vietnam.

In 2022, rental revenue went up 5.7% from the previous year to THB297.5 million as AQUA recognized the new rental contract from Thonburi Rehab Center, a clinical addiction treatment center. We expect the rental revenue to stay around THB336 million per year in 2023-2024.

However, AQUA's rental revenue in 2025 is forecasted to decrease to around THB315 million and gross margin to fall slightly as the new rental rates are expected to be lower in 2025. AQUA's rental business is small and more than 80% of rental revenue is concentrated on one client who has leased the area for more than 20 years. The rental contracts with that particular client will expire in late 2024 but are expected to be renewed as the warehouses were specifically built for them. The tenor of new contracts should be at least seven years.

### High financial leverage

We forecast AQUA's EBITDA to be around THB260-280 million per year in 2023-2025 with funds from operations (FFO) at THB140-THB160 million over the same period. AQUA's net debt to EBITDA ratio is expected to rise to around 7 times in 2023 and to stay close to 6 times in 2024-2025. The ratio of FFO to net debt will likely remain below 9% in 2023-2025 while the EBITDA interest coverage ratio will likely stay below 2.5 times over the same period.

### Tightening liquidity

We assess AQUA's liquidity to be tighter than the previous year. As of March 2023, AQUA had cash and cash equivalents of THB687 million. THB556.8 million debentures were issued in May 2023. We forecast the FFO over the next 12 months to be around THB150 million. During the same period, the company will have maturing debt, comprising THB404.5 million loans and THB500 million debentures.

At the end of March 2023, AQUA had consolidated debts (excluding lease liabilities) of THB1.9 billion which were all secured debt.

### BASE-CASE ASSUMPTIONS

- Revenue to increase by around 113% in 2023 and 27% in 2024 and stay almost flat in 2025.
- EBITDA margin to be above 40% in 2023 and around 35% in 2024-2025.
- Total capital expenditure of THB720 million in 2023, and to be limited during 2024-2025.

### RATING OUTLOOK

The "stable" outlook reflects our expectation that AQUA will continue to earn recurring income from long-term warehouse and estate rental contracts.

### RATING SENSITIVITIES

Downward pressure on the rating and/or outlook would emerge if the company's financial performance deteriorates further, and its balance sheet continues to weaken, which could be caused by additional heavily debt-funded investments.

A rating upgrade is unlikely in the near term. However, an upgrade could occur if there are significant improvements in the financial profile which could come from significantly better-than-expected performance from the investments in new businesses.

### COMPANY OVERVIEW

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 Assets PLC (MIDA), led by the Leosivikul family, became the company's major shareholder. The family decided to terminate the hire purchase business. As of March 2022, AQUA's major shareholders comprised Mr. Pakorn Mongkoltada (17.4% of the company's shares), Ms. Kanchanarat Wonghan (10.1%), and the remaining shareholders with 72.5%.

AQUA has operated as an investment management company since 2007. AQUA bought AQUA Ad PLC (AQUA Ad), a provider of out-of-home media services and invested a 43.8% stake in EP.

In 2015, it acquired Thai Consumer Distribution Center Co., Ltd. (TCDC) and Accomplish Way Holding Co., Ltd., which operate built-to-suit warehouses for rent. In 2016, AQUA developed a rehabilitation resort, and then leased the property to "The Cabin Chiang Mai" in order to earn rental income.

In 2022, AQUA divested all shares in the out-of-home media business, comprising Aqua Ad Co., Ltd. (AA) and M.I.S. Media Co., Ltd. (MIS), together with ordinary shares of Boardway Media Co., Ltd. (BWM) and S. Thana Media Co., Ltd. (STN) to PLANB.

In April 2022, AQUA invested 60% in the peer-to-peer lending business, Nestify Co., Ltd. (Nestify), with total investment of THB360 million.

In July 2022, AQUA invested 35% in Thai Parcels PLC (TPL), engaging in the delivery business and offering parcel delivery services in Thailand, as well as providing cash on delivery services, with total investment of THB214 million. TPL got capital increase through public offering June 2023, and thus AQUA holding on TPL was reduced to 26.7%

In March 2023, AQUA invested 80% in Chalermapat Corporation Co., Ltd. whose wholly own subsidiaries provide non-fixed route bus services mostly to industrial clients, with total investment of THB495 million.

In June 2023, AQUA invested 40% in At Ease Property Co., Ltd. which operates a hotel in Chiang Mai, with total investment of THB185 million.

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	Jan-Mar 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	86	321	283	912	1,170
Earnings before interest and taxes (EBIT)	19	91	584	550	667
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	70	405	711	505	676
Funds from operations (FFO)	35	277	573	356	516
Adjusted interest expense	27	119	95	121	120
Capital expenditures	5	38	781	220	194
Total assets	8,558	8,528	9,415	8,283	7,804
Adjusted debt	1,277	1,170	1,946	2,873	2,626
Adjusted equity	6,032	5,959	5,408	4,477	4,586
<b>Adjusted Ratios</b>					
EBITDA margin (%)	82.28	126.43	251.28	55.41	57.83
Pretax return on permanent capital (%)**	1.31	1.15	7.53	7.30	9.61
EBITDA interest coverage (times)	2.57	3.40	7.46	4.17	5.62
Debt to EBITDA (times)	4.02	2.89	2.74	5.69	3.88
FFO to debt (%)**	14.68	23.68	29.46	12.38	19.65
Debt to capitalization (%)	17.47	16.41	26.46	39.09	36.41

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

## RELATED CRITERIA

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

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**Aqua Corporation PLC (AQUA)**

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<b>Company Rating:</b>	BB+
<b>Issue Rating:</b>	
AQUA25NA: THB556.8 million senior secured debentures due 2025	BB
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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