

CHO THAVEE PLC

No. 230/2022
16 December 2022

CORPORATES

Company Rating: B-
Outlook: Negative

Last Review Date: 18/11/21

Company Rating History:

Date	Rating	Outlook/Alert
18/11/21	B	Negative
23/11/20	B+	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Cho Thavee PLC (CHO) to “B-” from “B”. The outlook remains “negative”. The rating action reflects CHO’s persistently depressed operating results, weak cash generation, and high leverage. The rating also reflects our concerns on CHO’s strained liquidity as most of its debts are due within the next 12-15 months. We view CHO’s refinancing ability is being constrained by its weak operating performance and financial position. The company’s debt servicing ability is tied largely to cash flow from a Special Purpose Acquisition Company (SPAC) transaction, which remains highly uncertain, and the success of new business ventures that are unrelated to the company’s core expertise.

KEY RATING CONSIDERATIONS

Persistent poor performance

CHO continued to report weak operating results, and its operating losses were deeper than previously expected as the business took time to recover. Revenue declined by a much greater extent compared to its ability to curb operating costs. The company reported revenue of THB441 million in 2021 and THB413 million for the first nine months of 2022 while earnings before interest, taxes, depreciation, and amortization (EBITDA) was in negative figures of -THB204 million and -THB203 million, respectively.

We view that CHO’s earnings capability will continue to be constrained despite improving operating conditions post pandemic. This is because CHO’s revenue sources are mainly project-based coupled with its high operating costs. With the gloomy economic outlook, we expect uncertainties in the timing and size of projects CHO aims to participate in bidding. Meanwhile, CHO’s recurring income base, estimated at around THB150-THB250 million per year during 2022-2024, remains modest relative to the amount needed to cover its fixed costs.

Operation to improve but FFOs remain negative

We expect CHO’s operations to gradually improve toward positive EBITDA but not enough to cover its financial costs. Our base-case assumption projects CHO’s revenue to be around THB560-THB710 million per annum during 2022-2024. The revenue assumption incorporates the project backlogs which are expected to translate into revenues of around THB90 million for the rest of 2022, THB290 million in 2023, and THB250 million in 2024.

EBITDA is projected at around -THB270 million in 2022 before improving to THB20-THB60 million per annum during 2023-2024. With high financial costs, we project CHO’s funds from operations (FFO) to remain negative at around -THB385 million in 2022 and -THB60 to -THB90 million per annum during 2023-2024. In our earnings forecasts, we take into consideration CHO’s efforts to transform into a more technologically advanced company and expand into new business including the production of cannabis for medical purposes through a 40% investment in Siam Medican Co., Ltd. (SIAM). However, we view the investment is still in early phases of operation with high uncertainty and execution risks.

Constrained debt servicing ability

CHO’s weak financial profile is characterized by high leverage and severely weak earnings generation which constrains its debt servicing ability. CHO’s

adjusted debt was THB1.6 billion at the end of September 2022. Its priority debt to total debt ratio was around 40%. Given our assumption of weak operating cash flows, we project CHO's EBITDA interest coverage ratio to be negative in 2022 and around 0.2-0.5 times during 2023-2024.

A key source of financing that has helped CHO continue its operation, service its financial obligations, and make investment comes from its convertible debentures issued to the Advance Opportunities Fund (AO Fund) and Advance Opportunities Fund 1 (AO Fund 1). During the period from May 2021 to June 2022, CHO issued a total amount of THB750 million convertible debentures to AO Fund and AO Fund 1, all of which were converted into equity. In August 2022, the extraordinary general meeting of shareholders approved new issuance of convertible debentures totaling THB550 million to AO Fund and AO Fund 1, of which CHO plans to issue a total of THB110 million in 2022 and the remaining THB440 million in 2023. However, we view the convertible debentures funding as only providing immediate support to help CHO continue operating. In the longer term, to sustainably improve its financial profile and credit metrics, CHO needs to successfully turn around its business and consistently generate positive operating cash flows.

Under the financial covenants on its bank loans and debentures, CHO is required to maintain a debt to equity (D/E) ratio below 3 times and a debt service coverage ratio (DSCR) over 1.2 times. At the end of September 2022, the ratios were 2.18 times and -0.23 times, respectively. The company has already obtained waivers from its lenders for breaching the DSCR covenant. The convertible debenture funding may help the company avoid breaching the D/E ratio covenants. However, in our view, CHO is unlikely to be able to comply with the DSCR covenant in the next 12-24 months and therefore will need to seek additional waivers from its lenders.

Strained liquidity

We remain highly concerned over CHO's strained liquidity. In July 2022, CHO had to request debenture holders for a maturity extension on debentures CHO212A, CHO228A, and CHO229A for another 12 months. Over the next 15 months, from October 2022 to 31 December 2023, CHO had around THB1.2 billion in debt coming due, including debentures worth THB838 million. Meanwhile, we expect CHO's FFO to be negative of around -THB175 million. We also estimate CHO's capital spending needs at around THB250-THB300 million during the period, mainly related to the cannabis business. CHO's main sources of fund will come from its cash on hand of THB35 million as of 30 September 2022 and the remaining convertible debentures to be issued of THB505 million. There remains a large funding gap amid constrained refinancing ability.

One potential catalyst that may help CHO address part of its liquidity problem and improve its financial position is a successful investment in a SPAC, namely AROGO Capital Acquisition Corporation (AROGO). Currently, AROGO is in the process of business combination with EON Reality, Inc. However, we view there to be considerable risks involving the De-SPAC process. Even if the De-SPAC does succeed as planned, there remains the risk of share price movement which will affect the return on CHO's investment.

BASE-CASE ASSUMPTIONS

- Revenue to be THB560-THB710 million per annum during 2022-2024.
- EBITDA to be around -THB270 million in 2022, improving to THB20-THB60 million per year during 2023-2024.
- FFO to be around -THB385 million in 2022 and in the range of around -THB60 to -THB90 million per year during 2023-2024.
- Total capital spending of THB400-THB500 million during 2023-2024.

RATING OUTLOOK

The "negative" outlook reflects our concern over CHO's strained liquidity over the next 15 months with unclear funding plans to meet its obligations.

RATING SENSITIVITIES

The rating could be downgraded if there are signs of further escalating liquidity risk. The rating and/or outlook could be revised upward if CHO's business and financial profile improves with more reliable cash generation and lower leverage, and the liquidity concerns have been clearly addressed.

COMPANY OVERVIEW

CHO was founded in 1994 and listed on the Market for Alternative Investment (MAI) in 2013. The Taweesaengsakulthai family is the major shareholder of CHO with a stake of around 35% as of September 2022. CHO specializes in the design and manufacture of various types of large logistics trucks and special purpose vehicles. The company also provides project management and other engineering services. Its products and services can be categorized into three segments. The "standard product segment" comprises bodies for trucks, trailers, and semi-trailers which have standardized production

processes. The “special product segment” covers products that meet specific designs and special engineering requirements. CHO’s special products include ground support equipment such as catering high-loaders, passenger stairways, rescue stair vehicles, and other products such as firefighting trucks and military vehicles. For “project management and other services”, the company leverages its expertise to manage special projects, for example, the construction of offshore patrol vessels for the Thai navy.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Sep 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	413	441	648	1,569	2,288
Earnings before interest and taxes (EBIT)	(257)	(269)	(94)	186	193
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	(203)	(204)	(24)	245	252
Funds from operations (FFO)	(299)	(330)	(169)	85	99
Adjusted interest expense	96	126	145	151	143
Capital expenditures	57	68	45	76	170
Total assets	2,891	3,222	3,138	3,252	3,641
Adjusted debt	1,601	1,992	1,885	2,136	2,256
Adjusted equity	909	881	937	958	889
Adjusted Ratios					
EBITDA margin (%)	(49.19)	(46.25)	(3.70)	15.61	11.02
Pretax return on permanent capital (%)	(14.90)	(9.33)	(3.11)	5.84	7.46
EBITDA interest coverage (times)	(2.12)	(1.62)	(0.17)	1.62	1.77
Debt to EBITDA (times)	(4.78)	(9.77)	(78.52)	8.72	8.94
FFO to debt (%)	(29.00)	(16.55)	(8.98)	4.00	4.41
Debt to capitalization (%)	63.78	69.33	66.78	69.04	71.74

RELATED CRITERIA

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

Cho Thavee PLC (CHO)

Company Rating:

B-

Rating Outlook:

Negative

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