EAST COAST FURNITECH PLC

No. 17/2025
14 March 2025

CORPORATES

Company Rating:	B-
Outlook:	Negative

Last Review Date: 31/05/24

Company Rating History:

Date	Rating	Outlook/Alert
31/05/24	B	Negative
09/04/24	B+	Alert Negative
19/07/23	BB-	Stable
27/07/22	BB	Stable
30/07/21	BB+	Stable
23/07/20	BB+	Negative
25/07/18	BB+	Stable
19/06/17	BB	Stable

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RATIONALE

TRIS Rating downgrades the company rating on East Coast Furnitech PLC (ECF) to “B-” from “B”. The rating outlook remains “negative”. The downgrade reflects ECF’s significantly weaker-than-expected performance in the furniture business, and the growing difficulties in its profitability recovery plan. The “B-” rating reflects the company’s very weak profitability, vulnerable business profile, very tight liquidity, and elevated debt level.

The “negative” outlook reflects a trend of a further rise in debt as the company is unlikely to generate enough cash flow to cover interest expenses, as well as heightened repayment risk from upcoming bond maturities. Without sufficient monetization of its investment in the Minbu Project and reinvestment of proceeds into the furniture business for an operational turnaround, the growing financial pressure will make debt repayment increasingly difficult.

KEY RATING CONSIDERATIONS

Significant sales contraction in the last quarter signals weak outlook

ECF’s sales suffered a sharp 32% year-on-year (y-o-y) drop in the fourth quarter of 2024 (4Q24), with significant declines in both export and domestic markets, and further weakness expected for 2025. Export sales to India, previously the highest growth market, declined sharply due to new certification requirement that effectively barred the company’s products from the Indian market in the near term. Domestically, the company’s price escalations and stock keeping unit (SKU) reductions aimed at cost recovery and turnover improvement triggered a sharp sales decline in modern trade channels, exacerbated by sluggish market demand.

We project ECF’s sales to drop substantially to THB0.8 billion in 2025, reflecting the company’s downsizing efforts in response to weakened sales. Additionally, the company has implemented a new management policy aimed at restoring profit margins by concentrating on profitable products, rather than the previous strategy of mass production. The price increases in the domestic market pose a risk of prompting key customers to seek new product sources, while achieving compliance with India’s new furniture standards or securing alternative export markets could take time. Despite these obstacles, we project sales to rebound to THB1.0-THB1.1 billion annually during 2026-2027, about 20% below the 2024 level.

Profitability projected to remain weak

ECF’s EBITDA margin fell to a negative 5% in 2024, far below its pre-fire accident levels of 12%-15%. The replacement of damaged machinery has been delayed for the near future due to difficulties in sourcing bank funding. Additionally, production costs increased markedly in 4Q24, as the company attempted to accelerate the sale of slow-moving products to generate cash inflow, leading to deep discounting and losses from repackaging. Shrinking sales, rising raw material cost and labor expenses, inventory write-down, and emerging problems in the collection of receivables further squeezed margins.

ECF plans to implement a major restructuring plan, including downsizing its production scale, streamlining production processes, and significantly reducing workforce. The company is also reviewing all product offerings for modern trade customers to reduce the number of SKUs, focusing on eliminating slow-moving items. Despite the potential for margin recovery in the long-term, we expect ECF to continue operating at a deep loss at the EBITDA level in 2025. We project the company to start breaking even at the EBITDA level in 2026.

Continued delay in the Minbu Project

ECF's sizeable investment in the Minbu Project, a 220-megawatt (MW) solar farm, continues to weigh on the company's risk profile due to elevated country risk in Myanmar and ongoing financing delays for subsequent phases. The project is stalled, with only phase 1 completed. Further delays in phase 2-3 developments are caused by additional government requirements for solar panel upgrades and battery storage installation, necessitating a reassessment of budget and loan.

ECF holds a 20% interest in the Minbu Project with total exposure of THB960 million as of December 2024, including a THB65 million shareholder loan. The project contributed shared profit of THB19 million in 2024, with no dividend paid. In our view, the funds allocated to this delayed project could have been more effectively utilized within the furniture business.

Elevated financial leverage with significant refinancing risk

We expect ECF's financial leverage to remain extremely high over the next three years. Funds from operations (FFO) will likely stay in a deep negative territory as we project EBITDA to be lower relative to interest expenses. Potential for significant deleveraging will depend on a successful divestment of a significant or full portion of its stake in the Minbu Project.

ECF faces significant near-term refinancing risk, with THB883.3 million debentures maturing during May and June 2025. The company is expected to seek debenture holders' approval for another extension of these maturities. In addition, the company has approximately THB200 million in short-term borrowings from some investors that will also need to be rolled over. Even if ECF is successful in obtaining debenture holders' agreement for maturity extension, we expect the pressure on the company's finance to persist. ECF's cash flow remains inadequate to cover its interest obligations. The company's ability to service its debt relies heavily on securing new debt funding, which may lead to a further increase in interest payments and outstanding debt.

Debt structure

At the end of 2024, ECF's total outstanding debt (excluding financial lease) was THB2.3 billion including priority debt of THB1.3 billion. The priority debt ratio was 58%, surpassing our notch-down threshold at 50%. As a result, we view the unsecured debenture holders are significantly disadvantaged to the company's priority debt holders.

BASE-CASE ASSUMPTIONS

- Revenue to fall to THB0.8 billion in 2025 before rebounding to THB1.0-THB1.1 billion during 2026-2027.
- Share of profits from phase 1 of the Minbu Project, amounting to THB20 million per annum during 2025-2027 with no dividend payments.
- EBITDA margin will be negative in 2025 and rebound to 1%-2% during 2026-2027.
- Capital expenditure of THB20 million per annum during 2025-2027
- No dividend payment.

RATING OUTLOOK

The negative outlook reflects our expectation of the company's continued weak performance, with insufficient cash generation to cover interest expenses, and the needs to seek maturity extensions of debt obligations.

RATING SENSITIVITIES

A rating downgrade could occur if ECF fails to obtain approvals from creditors for the extension of debenture maturities or is unable to roll over its short-term loans. An upward revision could occur if we see a considerable improvement in ECF's debt servicing ability, which could result from a successful divestment of the Minbu Project and restoration of profitability closer to pre-fire-accident levels.

COMPANY OVERVIEW

ECF engages in the manufacture and distribution of home furniture in Thailand. The company owns two factories in Rayong Province, focusing on producing knockdown furniture and rubber wood furniture. Revenue from selling furniture contributes over 90% of its total revenue; the remainder is derived from selling decorative foil paper and dried rubber wood. ECF has been listed on the Market for Alternative Investment (MAI) since 2013.

ECF distributes its furniture products through two main channels, including made-to-order for export and Thai modern trade. Almost all made-to-order furniture is exported to leading furnishing distributors and large modern trade retailers in Japan. In Thailand, the company distributes furniture through well-known modern trade retailers, such as Home Pro, Big C, Mega Home, Thai Wasadu, Lotus's, and Global House.

The company, through ECF Power Co., Ltd., has invested in power business in the Minbu Project, a 220-MW solar power plant in Myanmar. The project consists of four phases. The first phase with 50 MW has already achieved the commercial operating date since September 2019.

KEY OPERATING PERFORMANCE

Table 1: ECF's Revenue Breakdown by Distribution Channel

Revenue (Mil. THB)	2020	2021	2022	2023	2024
Made to order (export)	869	950	706	554	524
Modern trade	386	472	586	591	575
Showroom	48	25	12	-	71
Warehouse and dealer	28	49	68	193	127
Total revenue	**1,331**	**1,495**	**1,372**	**1,338**	**1,297**
% change	*11.3%*	*12.4%*	*(8.2%)*	*(2.5%)*	*(3.1%)*

Source: ECF

Table 2: ECF's Power Project Portfolio as of 31 December 2024

Project/Country	Type	Held by ECF (%)	Installed Capacity (MW)	Contracted Capacity (MW)	COD
Myanmar					
Minbu Project					
- Phase 1	Solar	20	50	40	Sep 2019
- Phase 2	Solar	20	50	40	Delay
- Phase 3	Solar	20	50	40	Delay
- Phase 4	Solar	20	70	50	Delay
Total			**220**	**170**	

Source: ECF

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	------------------ Year Ended 31 December ---------------				
	2024	2023	2022	2021	2020
Total operating revenues	1,362	1,389	1,450	1,585	1,401
Earnings before interest and taxes (EBIT)	(93)	15	197	188	172
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	(69)	42	217	200	192
Funds from operations (FFO)	(251)	(142)	54	61	49
Adjusted interest expense	181	182	159	135	133
Capital expenditures	122	92	189	150	100
Total assets	3,880	4,034	3,988	3,756	3,545
Account receivables	359	568	596	454	331
Inventory	1,165	1,230	1,277	1,314	1,370
Adjusted debt	2,307	2,184	2,219	1,996	1,684
Adjusted equity	944	1,180	1,367	1,327	1,240
Adjusted Ratios					
EBITDA margin (%)	(5.0)	3.0	14.9	12.6	13.7
Pretax return on permanent capital (%)	(2.8)	0.4	5.6	5.7	5.5
EBITDA interest coverage (times)	(0.4)	0.2	1.4	1.5	1.4
Debt to EBITDA (times)	(33.6)	51.8	10.2	10.0	8.8
FFO to debt (%)	(10.9)	(6.5)	2.4	3.0	2.9
Debt to capitalization (%)	71.0	64.9	61.9	60.1	57.6

* *Consolidated financial statements*

RELATED CRITERIA

- Issue Rating Criteria, 26 December 2024
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

East Coast Furnitech PLC (ECF)

Company Rating:	B-
Rating Outlook:	Negative

TRIS Rating Co., Ltd.
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