

UNIQUE ENGINEERING AND CONSTRUCTION PLC

No. 28/2022
16 March 2022

CORPORATES

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

Last Review Date: 03/02/22

Company Rating History:

Date	Rating	Outlook/Alert
01/04/21	BBB+	Negative
25/06/18	BBB+	Stable

Contacts:

Rapeepol Mahapant
rapeepol@trisrating.com

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Parat Mahuttano
parat@trisrating.com

Suchada Pantu, Ph.D.
suchada@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating downgrades the company rating on Unique Engineering and Construction PLC (UNIQ) to “BBB” from “BBB+” and downgrades the ratings on UNIQ’s senior unsecured debentures to “BBB-” from “BBB”. At the same time, we revise the rating outlook on UNIQ to “stable” from “negative”.

The rating downgrades mirror a material deterioration in UNIQ’s financial profile, following a steady increase in its debt loads and compressing profit margins. The issue ratings being one notch below the company rating reflects the subordination of UNIQ’s senior unsecured debentures to its priority debt as its priority debt to total debt ratio was 53%, exceeding the 50% threshold according to TRIS Rating’s “Issue Rating Criteria”.

The ratings also reflect UNIQ’s competitive strengths in undertaking large public infrastructure projects and its hefty backlog helping secure revenue over the next few years. However, these strengths are weighed down by the company’s heavy reliance on a few large construction projects, as well as highly cyclical and intense competition in the engineering and construction (E&C) industry.

KEY RATING CONSIDERATIONS

Weakened financial profile

UNIQ’s financial profile has deteriorated materially over recent years. Lengthy collection periods with large sums of outstanding unbilled receivables and account receivables substantially pushed up its total debt to THB19.7 billion in 2021 from below THB10 billion in 2018. UNIQ’s debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio reached a peak of 7.1 times in 2021, up from the historical levels of 2-4 times.

Looking forward, we expect UNIQ’s financial profile to remain under pressure amid concerns over the company’s lingering high debt loads and expected rises in operating costs and financing burden. Our base-case forecast projects its debt to EBITDA ratio to stay higher than our recently set downgrade trigger of 5 times. UNIQ’s ratio of funds from operations (FFO) to debt will likely range between 11%-12%, compared with the historical levels of above 20%.

Compressing margins, but still higher than rated peers

We forecast UNIQ’s margins will likely decline over the next three years. Severe competition and sharp rises in raw material prices and labor costs could significantly pressure the company’s gross margin. Difficulties in construction management during the Coronavirus Disease 2019 (COVID-19) pandemic may also result in additional costs. However, we expect UNIQ’s selling, general & administrative expenses (SG&A), as a percentage of revenue, to be lower as its revenue will increase. Economies of scale will help lessen any adverse impacts on its EBITDA margin.

UNIQ’s gross margin is expected to range between 14%-16% during 2022-2024, down from 18%-20% in the past. Incorporating the effect of the economies of scale, the company’s EBITDA margin should range between 17%-18%, lower than 19%-22% in the recent past. Despite the decrease, UNIQ’s EBITDA margin remains higher than its rated peers’, which ranged between 10%-14% during the past three years. UNIQ’s superior profitability is largely attributed to its centralized cost management and increased bargaining power with suppliers. The company also keeps cost structure flexible by using a large

number of sub-contractors. This strategy keeps overhead costs low as it can wind down or expand throughout industry cycles by adjusting the amount of sub-contracted work. On the downside, this strategy could cause a shortage of workers. UNIQ recently increased its capital spending on new machines to improve its efficiency and lower the need of workforce.

Maintaining competitive strengths in public infrastructure construction

TRIS Rating expects UNIQ to maintain its position as one of the major contractors for public infrastructure projects. The company has ascended to become the fourth-largest E&C contractor listed on the Stock Exchange of Thailand (SET), as measured by revenue and asset size, while its market share has improved over time. UNIQ's strengths are underpinned by its track record of undertaking large-scale public infrastructure projects, including the Bang Sue-Rangsit section of the Red Line Railway System, the extension of the Green Line, and the Orange Line (Thailand Cultural Center-Min Buri).

With its strong track record, the company has recently secured four large construction projects worth approximately THB59 billion in total, causing its backlog to hit a new record of about THB63 billion. These new projects include the Thai-Chinese High-Speed Rail (Bangkok-Nong Khai), the Rama 3-Dao Khanong-Western Outer Ring Road Expressway, the Double-Track Railway (Ban Phai-Nakhon Phanom), and the MRT Southern Purple Line. The increase in UNIQ's backlog, together with our expectation that the company should be able to secure new construction contracts of THB5-THB20 billion per annum, should drive its total operating revenue to THB12-THB18 billion per annum over the next three years.

Heavy reliance on few large construction projects

UNIQ's business is highly concentrated on a few large projects as it focuses mainly on the bidding of medium to large public infrastructure projects. At the end of December 2021, the company's top three largest projects made up 87% of its backlog. Therefore, failure to complete one or two projects or any significant interruption in a project could significantly affect its operating performance. Generally, large-scale public infrastructure projects often face circumstances that lead to delays in project completion, such as delayed handovers of construction sites, revisions of project master plans, or remedial work. Furthermore, delayed payments by project owners could raise working capital requirements, escalating the debt burden and interest expenses of the E&C contractors.

Manageable liquidity

We expect UNIQ to manage its liquidity properly. As of December 2021, UNIQ's total debt was THB19.7 billion. About half of the total debt comprised short-term project financing from banks providing flexible debt repayment terms. The company should continue to rollover its promissory notes (P/N), used to finance working capital, considering its record of delivering construction projects. UNIQ has nearly THB3.3 billion long-term debt obligations maturing in 2022, which includes THB0.4 billion long-term bank loans and THB2.9 billion debentures. The maturing long-term bank loans should be covered by its FFO, projected to be about THB1.5 billion in 2022, while the maturing debentures will be replaced by UNIQ's new debentures worth THB3 billion, issued in February 2022. As of December 2021, UNIQ had cash and undrawn credit facilities of approximately THB6.8 billion in total as other sources of liquidity.

A key financial covenant on UNIQ's debentures requires the net interest-bearing debt to equity ratio to stay below 3.5 times. The company met this key financial covenant, with the ratio of about 2 times at the end of 2021. We believe the company will stay compliant with the financial covenant over the forecast period.

BASE-CASE ASSUMPTIONS

- UNIQ to secure new construction contracts of THB5-THB20 billion per year during 2022-2024.
- Gross margin to range between 14%-16%.
- Capital spending to hover around THB1 billion per annum.

RATING OUTLOOK

The "stable" outlook includes our expectation that UNIQ will maintain its competitive edge in public work construction. Its profitability and leverage should be in line with our forecast.

RATING SENSITIVITIES

A rating downgrade could occur should there be a material deterioration in UNIQ's financial profile. This could be caused by project delays, cost overruns, or inefficient working capital management, such that its debt to EBITDA ratio stays above 8 times on a sustained basis. In contrast, a rating upgrade could arise if its profitability and working capital management improves materially, resulting in significant reduction in financial leverage.

COMPANY OVERVIEW

UNIQ was founded in 1994 by Mr. Prasong Suwiwattanachai and listed on the SET in 2007. The Suwiwattanachai family remains the major shareholder, holding approximately 36% of the company's shares as of December 2021. The company 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, as well as mass transit systems and stations. It focuses on public sector projects in Thailand such as electric trains, double-track railways, and roads.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	11,000	10,891	12,075	12,983	12,675
Earnings before interest and taxes (EBIT)	853	1,113	1,657	1,621	1,569
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,126	2,286	2,652	2,854	2,755
Funds from operations (FFO)	1,254	1,387	1,656	1,933	2,060
Adjusted interest expense	824	792	725	617	452
Capital expenditures	77	3,334	1,783	409	428
Total assets	41,362	33,563	32,821	29,340	27,561
Adjusted debt	15,190	14,827	10,685	8,340	7,245
Adjusted equity	8,059	8,045	8,146	7,740	7,297
Adjusted Ratios					
EBITDA margin (%)	19.32	20.99	21.96	21.98	21.73
Pretax return on permanent capital (%)	3.30	5.13	9.03	10.01	11.08
EBITDA interest coverage (times)	2.58	2.89	3.66	4.63	6.10
Debt to EBITDA (times)	7.15	6.49	4.03	2.92	2.63
FFO to debt (%)	8.25	9.36	15.49	23.18	28.44
Debt to capitalization (%)	65.34	64.83	56.74	51.87	49.82

* Consolidated financial statements

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

Unique Engineering and Construction PLC (UNIQ)

Company Rating:	BBB
Issue Ratings:	
UNIQ232A: THB3,000 million senior unsecured debentures due 2023	BBB-
UNIQ257A: THB2,440.1 million senior unsecured debentures due 2025	BBB-
UNIQ262A: THB3,000 million senior unsecured debentures due 2026	BBB-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2022, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria