

ITALIAN-THAI DEVELOPMENT PLC

No. 2/2021
19 January 2021

CORPORATES

Company Rating:	BBB-
Issue Ratings:	
Senior unsecured	BBB-
CreditAlert:	Negative

Last Review Date: 08/09/20

Company Rating History:

Date	Rating	Outlook/Alert
30/09/13	BBB-	Stable
27/08/12	BB+	Negative
02/07/12	BB+	Alert Negative
08/06/12	BBB-	Negative
06/05/11	BBB	Stable
30/04/09	BBB+	Negative
13/09/07	BBB+	Stable
11/01/07	A-	Negative
23/11/05	A-	Stable

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RATIONALE

TRIS Rating places CreditAlert with a “negative” implication on the company rating assigned to Italian-Thai Development PLC (ITD) and the rating on its senior unsecured debentures. The CreditAlert follows ITD’s announcement of the termination of concession contracts with respect to the development of the first phase of Dawei Special Economic Zone (the DSEZ project) by the DSEZ management committee of Myanmar. This raises our concerns over a potential breach of financial covenant due to a consequential reduction in ITD equity from sizable impairments of ITD’s investment in the project.

ITD entered into concession contracts with the DSEZ management committee of Myanmar to develop the initial phase of the DSEZ project in 2015. The concession, which is granted to ITD’s project companies, has a period of 50 years, plus an extension period of 25 years. The initial phase of development includes a small port, an industrial estate covering an area of 27 square kilometers, and related infrastructure such as a power plant and liquefied natural gas terminal.

On 30 December 2020, ITD was informed by the DSEZ management committee of the termination of the concession contracts due to the project companies’ failure to meet certain conditions precedent. ITD has denied the breach of contracts as claimed by the DSEZ management committee and is working to resolve the dispute. Since the project is a bilateral cooperation between the Thailand and Myanmar governments, ITD may also seek the Thai government’s intervention to help resolve the issues.

The assigned ratings have incorporated the impact of the long-delayed DSEZ project, which is one of ITD’s ailing investments impeding the company’s efforts to improve its financial profile. Based on the remote likelihood of the project to progress in the near term, we have left out the DSEZ project in ITD’s backlog and our forecast. Therefore, the termination of contracts would not impact our forecast of ITD’s funds from operations (FFO), and the ratio of FFO to debt.

That said, the termination of contracts could result in sizable impairments of the investments in the project. To date, ITD has already invested a substantial amount in the project on land clearing and infrastructure construction in the project, including roads, a small water reservoir, a township, small port berth, etc. As of September 2020, ITD reported THB7.8 billion of total investments in the project. If ITD needs to record impairments for the project, it will likely cause a material erosion to the company’s equity, and a potential breach of the financial covenant on its outstanding debentures. The financial covenant requires ITD to maintain its net interest-bearing debt to equity ratio below 3.0 times. As of September 2020, the ratio stood at 2.59 times. In case of a breach, we view the obtaining of a waiver would be critical for ITD to keep up with its liquidity needs.

While the events are still developing and the potential amount of impairments is yet determined, we place the CreditAlert with a “negative” implication to reflect the downside risk. The “negative” implication means the event could result in a negative action on the ratings and/or outlook. We expect to resolve the CreditAlert when there is sufficient information on the

CreditAlert, as part of TRIS Rating's monitoring process as a public warning when there is insufficient information to fully assess and reconsider a debt instrument's current rating or when significant events have occurred that may affect the company's rating already assigned by TRIS Rating. Credit Alert designations may be "positive" or "negative" or "developing", depending on the likely impact of a particular situation. The existing rating continues unchanged for the present. Monitoring is done until the debt instrument matures or the company's rating contract expires.

potential impairments.

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Italian-Thai Development PLC (ITD)

Company Rating:	BBB-
Issue Rating:	
ITD226A: THB6,000 million senior unsecured debentures due 2022	BBB-
CreditAlert:	Negative

TRIS Rating Co., Ltd.

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