

ITALIAN-THAI DEVELOPMENT PLC

No. 28/2021
8 April 2021

CORPORATES

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

Last Review Date: 19/01/21

Company Rating History:

| Date | Rating | Outlook/Alert |
|----------|--------|----------------|
| 19/01/21 | BBB- | Alert Negative |
| 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 removes the “CreditAlert” with a “negative” implication placed on the company rating assigned to Italian-Thai Development PLC (ITD) and the rating on its senior unsecured debentures. At the same time, TRIS Rating affirms the company and issue ratings at “BBB-”, with a “stable” outlook.

The CreditAlert was placed to reflect our concerns over the potential impairment of ITD’s investment in the Dawei Special Economic Zone project (the DSEZ project). This was triggered by a notice of termination of the DSEZ concession agreements sent by the DSEZ management committee of Myanmar to ITD on 30 December 2020. If materialized, the termination could potentially cause significant deterioration in ITD’s equity and non-compliance of the financial covenant with respect to ITD’s outstanding debentures.

Based on ITD’s latest audited financial statements, the independent auditor has expressed the limitations and uncertainties impeding assessment of the potential impact from the notice of termination for all concession agreements made by the DSEZ management.

We remove the “CreditAlert” as we view the risk of the potential impairment of ITD’s investment in the DSEZ project as not being an imminent threat for the following reasons: (i) it remains unclear whether the dispute between ITD and the DSEZ management committee of Myanmar will lead to the eventual termination of concession agreements, while ITD and the Thai government are working to resolve the dispute; (ii) the determination of the impairment amount depends on the availability of supporting information in the due diligence report this is currently inaccessible; and (iii) the amount of impairment, if materialized, is likely to be the difference between the development costs recorded ITD and the valuation according to the due diligence report. Given the ongoing political turmoil in Myanmar, these issues are unlikely to be resolved soon.

The assigned ratings have already incorporated the impact of the long-delayed DSEZ project. This project is an ailing investment impeding ITD’s efforts to improve its financial profile. We have consistently left out the DSEZ project in ITD’s backlog and our financial forecast when assessing ITD’s financial profile. Therefore, the termination of contracts would not impact our forecast of ITD’s funds from operations (FFO), and the ratio of FFO to debt.

The ratings continue to reflect ITD’s solid market position in the domestic engineering and construction (E&C) industry and its sizable project backlog. The ratings are constrained by ITD’s debt-heavy financial profile, intense competition, and potential delays in public construction projects. The ratings are also held back by ITD’s ailing investments which have been a huge burden on the company’s balance sheet and cash flows for years.

RATING OUTLOOK

The “stable” outlook embeds our expectation that ITD will continue to secure sizable projects, maintain its strong market position, and improve profitability and liquidity. Moreover, we expect ITD to keep the earnings before interest, tax, depreciation, and amortization (EBITDA) margin at or above 9%. We also

expect the company's financial leverage to be in the range of our forecast level. On that basis, we hold the view that ITD should gradually increase the amount of cash available for debt service.

RATING SENSITIVITIES

Given ITD's weak financial profile, a rating upgrade is unlikely over the next 12-18 months as we expect the company's leverage to remain elevated. A rating upgrade would depend primarily on the company's ability to significantly reduce its debt load. In contrast, downward pressure on the ratings could arise if profitability weakens materially. This could occur as a result of aggressive bidding, delays in construction, or cost overruns. A downgrade scenario could occur if the EBITDA margin declines to 7% or if the FFO to debt ratio falls below 5% for a sustained period. A downward revision to the ratings could also develop if substantial impairments with respect to the DSEZ project occur.

COMPANY OVERVIEW

ITD was established in 1958 by Dr. Chaijudh Karnasuta and Mr. Giorgio Berlingieri, an Italian naval architect. The company was listed on the SET in 1994. ITD's business is divided into three segments: domestic construction, overseas construction, and long-term investments. The Karnasuta family owned 22% as of March 2021. Mr. Premchai Karnasuta, the founder's son, has served as president since 1985.

The company is engaged in a broad range of civil construction work, ranging from constructing buildings, industrial plants, pipelines, railways, expressways, airports, seaports, power plants, hydro-electric dams, and mines. In all, domestic projects comprise 60%-70% of total revenue annually while overseas projects make up the rest. E&C projects undertaken by its India-based subsidiary, ITD Cementation India Limited, make up most of the revenue from overseas projects.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

| | -----Year Ended 31 December ----- | | | | |
|--|-----------------------------------|---------|--------|--------|--------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| Total operating revenues | 54,627 | 62,780 | 61,245 | 55,571 | 47,669 |
| Earnings before interest and taxes (EBIT) | 1,737 | 3,326 | 3,564 | 3,079 | 2,230 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 5,825 | 6,474 | 6,443 | 5,440 | 4,811 |
| Funds from operations (FFO) | 2,860 | 3,191 | 3,328 | 2,618 | 2,277 |
| Adjusted interest expense | 2,573 | 2,743 | 2,435 | 2,386 | 2,439 |
| Capital expenditures | 2,823 | 4,293 | 6,511 | 3,611 | 4,224 |
| Total assets | 107,873 | 103,790 | 98,015 | 87,829 | 78,120 |
| Adjusted debt | 45,659 | 46,549 | 44,224 | 37,647 | 32,788 |
| Adjusted equity | 15,444 | 15,682 | 16,470 | 14,773 | 14,333 |
| Adjusted Ratios | | | | | |
| EBITDA margin (%) | 10.66 | 10.31 | 10.52 | 9.79 | 10.09 |
| Pretax return on permanent capital (%) | 2.60 | 5.11 | 5.89 | 5.76 | 4.48 |
| EBITDA interest coverage (times) | 2.26 | 2.36 | 2.65 | 2.28 | 1.97 |
| Debt to EBITDA (times) | 7.84 | 7.19 | 6.86 | 6.92 | 6.81 |
| FFO to debt (%) | 6.26 | 6.85 | 7.53 | 6.95 | 6.94 |
| Debt to capitalization (%) | 74.72 | 74.80 | 72.86 | 71.82 | 69.58 |

* Consolidated financial statements

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- |
| Rating Outlook: | Stable |

TRIS Rating Co., Ltd.

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