

ITALIAN-THAI DEVELOPMENT PLC

No. 242/2024
27 December 2024

CORPORATES

Company Rating:	BB-
Issue Ratings:	
Senior unsecured	B+
CreditAlert:	Developing

Last Review Date: 15/03/24

Company Rating History:

Date	Rating	Outlook/Alert
15/03/24	BB-	Alert Negative
12/01/24	BB+	Alert Negative
15/12/23	BB+	Negative
10/04/23	BBB-	Negative
08/04/21	BBB-	Stable
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 revises the CreditAlert for the ratings on Italian-Thai Development PLC (ITD) to “developing” from “negative”, and affirms the company rating and issue ratings on its existing senior unsecured debentures at “BB-” and “B+”, respectively.

The “developing” CreditAlert reflects significant progress on the sale of its stake in ITD Cementation India Ltd. (ITD Cem) and the search for a new partner for its potash mining project. However, ITD’s weaker-than-expected operating performance and the auditor’s inability to express an opinion on the company’s financial statements continue to pose downside risks to the ratings.

The ratings continue to reflect ITD’s leading position in the domestic engineering and construction (E&C) industry as well as its large backlogs. However, the ratings are weighed down by its high financial leverage and tight liquidity, as well as its susceptibility to the intense competition and cyclicity of the E&C business.

KEY RATING CONSIDERATIONS

Sale of ITD Cem to improve leverage and liquidity may weaken ITD’s business profile

TRIS Rating views that the successful sale of ITD’s 46.64% stake in ITD Cem to Renew Exim Dmcc (RED), a subsidiary of the Adani Group based in the United Arab Emirates (UAE), will improve the company’s liquidity and capital structure, which has been weakened by significant losses in recent years. However, the sale of ITD Cem will impact ITD’s business profile as the revenue contribution from ITD Cem accounts for almost 20%-30% and 15%-20% of ITD’s revenue and EBITDA, respectively.

This sale agreement received approval from ITD’s minority shareholders on 17 December 2024. The next steps involve obtaining acquisition approvals from the Indian authorities for both ITD Cem and RED. The transaction is expected to be completed by the first quarter of 2025. Proceeds from the sale are expected to be around THB11.9 billion, with the anticipated gain from the sale of around THB7.8 billion. Proceeds will be primarily used for debt repayments and to support working capital. This sale meets the conditions of its THB7.6 billion syndicate loan provided by four bank creditors to support its working capital.

New partner to support potash mining development

We view the successful search for a new partner for ITD’s potash mining project as a significant development to expedite the project development after an extended waiting period. Additionally, the expertise of its partner could potentially lower development risk and reduce the capital required for the project’s development. However, it will take 3-4 years for this project to be developed and start generating income.

On 4 October 2024, ITD announced the sale of newly issued shares in its wholly-owned subsidiary, APPC Holding Co., Ltd. (APPCH), to Long Jia Industrial Development Ltd. (SDIC SPV), a subsidiary of SDIC Mining Investment Co., Ltd. (SDIC), for around THB8.4 billion. SDIC is a leading company in potash mining investment and operations from China. Within 10 days of the share

subscription agreement, SDIC SPV has made a deposit for share subscription of USD20 million. SDIC SPV is expected to make the full payments by early 2025. Following completion of APPCH's capital increase, the shareholder structure of the potash mining project will comprise ITD, via APPCH (45%), SDIC SPV (45%), and the Ministry of Finance (MOF) (10%).

Operating performance below expectations; expected to improve

ITD's operating performance in the past few years has been adversely impacted by rising raw material costs due to global supply chain disruptions, delays in government budget disbursement, and the inherently low margins of the E&C business. In the first nine months of 2024 (9M24), the company incurred significant losses from cost overruns on several projects, including the Mae Moh Mining Project. The gross profit margin from construction projects was only 5% in 9M24, falling short of our previous forecast of 7%. Also, the company had to set aside a THB1.74 billion allowance for impairment losses on large industrial construction works and recorded a share of loss of THB0.3 billion from its joint control company (JC), which owns a toll road concession of the First Dhaka Elevated Expressway (FDEE) in Bangladesh.

Looking ahead, we expect ITD's operating performance to improve gradually, supported by a significant backlog and more stable construction material costs. As of September 2024, ITD's construction backlog stood at THB199 billion, including the backlog of ITD Cem of around THB70 billion. We forecast ITD to generate revenue of THB65-THB68 billion annually, with around 25%-30% of revenue come from ITD Cem, during 2024-2026. ITD's backlog will be recognized as revenue at around THB40-THB52 billion annually during this period. The EBITDA margins are expected to remain around 5% in 2024 and recover to the 9%-10% range during 2025-2026. Without ITD Cem, ITD's revenue and EBITDA could decline to around THB38-THB40 billion and THB5.0-THB5.2 billion, respectively, in 2025-2026.

Financial leverage should improve if divestments and capital increment completed

ITD's financial profile has been constrained by its non-performing investments. In addition to the potash mine in Thailand, ITD has made significant investments in the Dawei Special Economic Zone Project (DSEZ Project) in Myanmar, a bauxite mine in Laos, as well as a railway and port concession in Mozambique. Collectively, these projects have cost ITD about THB17 billion but have not progressed as planned. The resulting interest expenses from debts to support these projects have been a primary factor eroding ITD's profits annually.

In addition, ITD's leverage has increased due to significant working capital requirements of its ongoing projects. As of September 2024, the company had considerable overdue receivables from several state enterprise projects, causing its debt to capitalization ratio to rise to 89%, up from 81% in 2023. Annual interest expenses have exceeded THB2.5 billion, severely straining free cash flow. The company's EBITDA interest coverage ratio stood at a modest 1.7 times, while its fund from operation (FFO) to debt ratio remained negative at about -0.5% on a trailing 12-month basis.

Given that the company's asset sale transactions are still pending completion, we anticipate the interest burden to continue weighing on ITD's cash flow and debt servicing capacity. Our base case projects ITD to generate FFO of only THB0.3 billion in 2024, with a gradual recovery to THB3.5-THB4.0 billion annually during 2025-2026. As a result, the FFO to debt ratio is expected to improve to around 8% by 2025-2026 from a projected level of 0.6% in 2024, while the EBITDA interest coverage ratio is forecast to increase to above 2.3 times over the forecast period from 1.1 times in 2024. However, should the sale of ITD Cem and the capital increase for its potash mining project be finalized as planned, ITD's debt to capitalization ratio is likely to decline to around 65%, down from around 90% at the end of September 2024. In addition, the FFO to debt ratio could improve to around 10% in 2025, while its EBITDA interest coverage ratio could rise above 2.5 times.

Tight liquidity

ITD's liquidity profile remains tight. As of September 2024, its sources of liquidity included cash on hand of THB4.3 billion and unused uncommitted bank facilities of THB10 billion. We forecast ITD to generate FFO of around THB2.3 billion over the next 12 months. The company had a total of THB29.3 billion in debt coming due over the next 12 months, including THB25 billion in bank loans, and THB4.3 billion in trust receipts and other financial liabilities. Its annual capital expenditures are expected to total around THB2.6-THB2.9 billion. We assess that ITD will need to refinance most of its maturing debts to maintain adequate liquidity and to fund construction projects in the pipeline.

Debt structure

Since most of its bank loans are secured by assignments of payments from construction contracts, ITD's consolidated debt, excluding lease liabilities, amounted to THB48.6 billion as of September 2024. The company's priority debt, including secured debts at the company and total debts of its subsidiaries, was THB34.2 billion. This has resulted in a priority debt to total debt ratio of 70%, exceeding our 50% threshold in determining a significant level of subordination risk to unsecured creditors. Consequently, there is a one-notch notch-down on its senior unsecured debt obligations, as we consider ITD's unsecured creditors to be significantly disadvantaged compared with its priority debt holders regarding the priority of claims against the company's assets.

BASE-CASE ASSUMPTIONS

- ITD to secure new contracts worth THB35 billion in 2024, and THB12 billion per annum in 2025-2026.
- Overall gross profit margin will be 5.6% in 2024 and improving to 7.5%-8.5% during 2025-2026.
- Capital expenditures for the construction segment are set at THB2.6-THB2.9 billion per year during 2024-2026.

CREDIT ALERT

The CreditAlert with “developing” implication indicates that we could affirm, lower, or raise the ratings as circumstances evolve. There remains uncertainty until the completion of the sale of ITD Cem and the capital increase for the potash mining project. Also, the weaker-than-expected performance and the auditor’s inability to express an opinion on the company’s financial statements pose downside risks to the ratings. We will resolve the CreditAlert once the pending transactions are completed, and we have thoroughly assessed ITD’s business and financial positions.

RATING SENSITIVITIES

The ratings could be revised upward if ITD’s operating performance and/or capital structure improve significantly. Conversely, the ratings could be lowered if the sale of ITD Cem and the capital increase for the potash mining project do not materialize as planned and/or its operating performance deteriorates further.

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 Stock Exchange of Thailand (SET) in 1994. ITD’s business comprises three main areas: domestic construction, overseas construction, and long-term investments. ITD faced difficulties during the 1997 financial crisis. Subsequent restructuring completed in 2002 diluted the ownership stake of the Karnasuta Family to 48% from 64%. The family owned a 22% stake as of April 2024.

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 the company’s total revenue annually while overseas projects make up the rest. E&C projects undertaken by its India-based subsidiary, ITD Cem, make up most of the revenue from overseas projects.

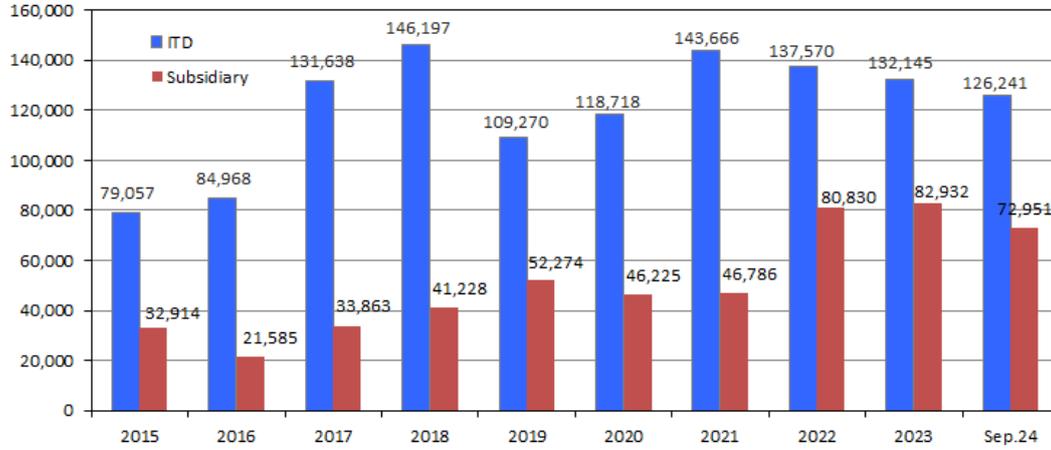
In October 2024, ITD announced that it had entered into a share purchase agreement for its entire 46.64% stake in ITD Cem with Renew Exim Dmcc, a subsidiary of the Adani Group, valued at THB11.9 billion. This agreement received approval from ITD’s minority shareholders on 17 December, 2024. The next steps involve obtaining acquisition approvals from Indian authorities for both ITD Cem and Renew Exim Dmcc. The company anticipates to finalize these approvals by January 2025, with the transaction expected to complete by the first quarter of 2025.

Also, ITD announced the signing of a share subscription agreement for the potash mining project in October 2024 with SDIC SPV, a subsidiary of SDIC, valued at around THB8.4 billion. SDIC is a leading company in potash mining investment and operations from China. If the capital increase is successful, the shareholder structure of the potash mining project will comprise ITD (45%), SDIC SPV (45%), and the MOF (10%). The company expects to complete this transaction by early 2025.

KEY OPERATING PERFORMANCE

Table 1: Construction Backlog at Year End

Unit: Mil. THB



Source: ITD

Table 2: Revenue Breakdown by Location

Unit: %

Location	2015	2016	2017	2018	2019	2020	2021	2022	2023	Sep24
Domestic	61.8	61.1	71.2	64.1	66.2	69.9	61.2	59.2	43.0	41.7
Overseas	38.2	38.9	28.8	35.9	33.8	30.1	38.8	40.8	57.0	58.3
Total	100.0									
Revenue (Mil. THB)	51,297	47,320	55,096	60,644	62,221	53,968	58,742	67,447	63,742	52,215

Source: ITD

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	53,261	64,172	67,882	59,272	54,627
Earnings before interest and taxes (EBIT)	(1,007)	1,046	(1,368)	3,153	1,737
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,917	6,229	5,455	7,748	5,825
Funds from operations (FFO)	697	2,345	2,241	4,631	2,901
Adjusted interest expense	2,319	3,046	2,548	2,598	2,573
Capital expenditures	1,447	4,296	2,996	3,772	2,823
Total assets	111,803	117,115	116,098	113,238	107,873
Adjusted debt	45,887	44,689	43,147	45,409	45,659
Adjusted equity	5,670	10,367	11,011	16,223	15,444
Adjusted Ratios					
EBITDA margin (%)	7.4	9.7	8.0	13.1	10.7
Pretax return on permanent capital (%)	(3.4) **	1.7	(2.2)	4.7	2.6
EBITDA interest coverage (times)	1.7	2.0	2.1	3.0	2.3
Debt to EBITDA (times)	11.1 **	7.2	7.9	5.9	7.8
FFO to debt (%)	(0.5) **	5.2	5.2	10.2	6.4
Debt to capitalization (%)	89.0	81.2	79.7	73.7	74.7

* Consolidated financial statements

** Annualized with trailing 12 months

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

Italian-Thai Development PLC (ITD)

Company Rating:	BB-
Issue Ratings:	
ITD24DB _{RS} : THB1,215 million senior unsecured debentures due 2026	B+
ITD254A _{RS} : THB6,000 million senior unsecured debentures due 2027	B+
ITD266A _{RS} : THB2,785 million senior unsecured debentures due 2028	B+
CreditAlert:	Developing

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