SAHAKOL EQUIPMENT PLC

No. 61/2025
29 April 2025

CORPORATES

Company Rating: BBB-
Outlook: Negative

Last Review Date: 24/04/24

Company Rating History:

Date	Rating	Outlook/Alert
11/06/21	BBB-	Stable
22/06/20	BBB-	Negative
08/06/18	BBB-	Stable

Contacts:

Bundit Pommata
bundit@trisrating.com

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Parat Mahuttano
parat@trisrating.com

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

RATIONALE

TRIS Rating revises the rating outlook on Sahakol Equipment PLC (SQ) to "negative" from "stable". At the same time, we affirm the company rating on SQ at "BBB-".

The "negative" outlook reflects SQ's weaker-than-expected operating performance and uncertainties in securing new contracts, despite limited competition. In addition, increasing refinancing risk and the expected rise in its financial leverage may result in a weaker financial profile than initially projected.

The rating continues to reflect SQ's competitive strengths in mining services and the predictable income generated from long-term service contracts with creditworthy clients. However, these strengths are weighed down by the company's narrow scope of business, challenges in new projects amid high concentration, and high financial leverage. The rating also takes into consideration the potential adverse effects of heightened environmental concerns surrounding the coal mining industry.

KEY RATING CONSIDERATIONS

Weaker-than-expected operating performance

SQ's operating performance in 2024 fell short of expectations. The company reported total operating revenue of THB4.4 billion, achieving around 90% of our prior projection, primarily due to reduced output in key projects affected by prolonged heavy rainfall. Additionally, lower-than-expected gross profit margins on major projects, persistently high operating expenses, and rising interest costs resulted in weaker earnings. EBITDA and funds from operations (FFO) were recorded at THB1.1 billion and THB0.8 billion, respectively, representing only 70% and 65% of our prior forecasts.

Looking ahead, SQ's operating performance is likely to remain flat in 2025 and gradually recover in 2026-2027. Total operating revenue is projected to range from THB4.0-THB4.3 billion annually during 2025-2027, supported by ongoing works on the Mae Moh Phase 8 (MM8), Mae Moh Phase 8.1 (MM8.1), and Hongsa Mine Phase D (HMD) projects.

However, the gross profit margin is forecast to decline to around 10% in 2025, before recovering to 17% in 2026 and 22% in 2027. The lower revenues and higher preparation cost at the beginning of MM8.1 and the losses incurred from the North Pit Wall Waste Removal Project, will pressure profit margins during 2025-2026. Consequently, SQ's EBITDA is expected to remain at THB0.9 billion before improving to THB1.1-THB1.2 billion in 2026-2027. FFO is expected to decline to around THB0.6 billion before recovering to THB0.8-THB0.9 billion in 2026-2027.

Limited business scope and customer base

TRIS Rating views SQ's business profile as highly concentrated in both operational scope and customer base. The company remains heavily reliant on coal mining, a sector with limited growth potential, and derives most of its revenue from just two clients: the Electricity Generating Authority of Thailand (EGAT) and Hongsa Power Company Limited (HPC). Nevertheless, the credit risk associated with these counterparties is considered low.

As of December 2024, SQ's project backlog totaled THB13.9 billion. Key components included THB4.9 billion from MM8.1, THB3.3 billion from HMD, THB1.8 billion from MM8, and other Hongsa-related works such as build-lease-transfer (BLT) and operation and maintenance (O&M) contracts. Around 80% of the backlog is scheduled for delivery between 2025 and 2028. Thus, the company is expected to secure new contracts for the upcoming phases of coal mining projects from its major clients, EGAT and HPC, within the 2026-2027 timeframe, in order to secure revenues in the following years.

Maintain its strength in the mining business

Despite the limited number of coal mining projects in Thailand, SQ is one of the few companies awarded mining contracts. SQ offers extensive mining services, backed by skilled engineers and specialized equipment. The company has served as the main contractor or joint operator for several phases of the Mae Moh Mine operated by EGAT for over 40 years, demonstrating a long and reliable track record. Since 2015, SQ has also been involved in mining projects in the Lao People's Democratic Republic (Lao PDR). It currently holds a lignite mining service contract with HPC, one of the country's major power producers. This project marks the beginning of SQ's overseas expansion, with HPC continuing to assign new work related to the Hongsa Mine.

Looking forward, two major upcoming mining contracts are slated to open for bidding: Mae Moh Phase 10 (MM10) and Hongsa Mine Phase G (HMG), valued at around THB40 billion and THB9 billion, respectively. With a strong track record and relatively few qualified competitors, SQ is well positioned to secure these contracts. However, failure to obtain either project would materially undermine the company's long-term business outlook. Moreover, the significant capital investment required for new developments, coupled with challenges in securing financing for coal-related projects, means that winning contracts under unfavorable terms—such as low advance payments and insufficient margins—could negatively impact SQ's financial leverage and its rating.

High financial leverage

SQ's financial leverage is closely tied to its capital investment needs, particularly during the initiation phase of new projects. Without investment in new projects, SQ's financial leverage is projected to remain high in 2025 before gradually improving in 2026-2027. Capital expenditures are estimated at THB150-THB300 million per year during this period. The debt to capitalization ratio is expected to improve slightly from 64% in 2024 to 62%-63% in 2025 and decline further to below 60% in 2026-2027. The debt to EBITDA ratio is forecast to remain flat at around 4.5-5.0 times in 2025 before improving to approximately 2.5-3.5 times in 2026-2027. Meanwhile, the FFO to debt ratio is expected to remain below 20% in 2025 but rise above 20% in 2026-2027. If the company is awarded new contracts for MM10 and HMG, it is expected to manage its capital structure to prevent significant deterioration from the base-case leverage.

SQ's loan agreements require the company to maintain a debt service coverage ratio above 1.2 times, an interest-bearing debt (IBD) to equity ratio below 2 times, and an IBD to EBITDA ratio below 4 times. For its outstanding debentures, the IBD to equity ratio must not exceed 3.5 times. As of the end of 2024, SQ had breached two loan covenants: the debt service coverage ratio stood at 0.4 times, below the required minimum of 1.2 times, while the IBD to EBITDA ratio was 4.5 times, exceeding the limit of 4.0 times. The company has since obtained a covenant waiver from its creditors. The bank loan financial covenants are tested at the end of every quarter, while those on the debentures are tested at the end of each year.

Tight liquidity and rising refinancing risk

SQ's liquidity position remains tight. As of December 2024, available liquidity comprised cash of THB152 million and undrawn credit facilities of around THB280 million. The company is expected to generate FFO of around THB600 million over the next 12 months. On the other hand, SQ faces significant funding needs, including debt maturities totaling THB2.7 billion and projected capital expenditures of around THB300 million. The maturing debts consist of THB1.2 billion debentures, THB800 million short-term loans, and THB700 million long-term project loans and lease liabilities.

Project loans are typically repaid using proceeds from project progress payments, while short-term loans are expected to be rolled over. SQ plans to refinance its maturing debentures through new debt issuances. However, the company faces an increasing refinancing risk due to challenging bond market conditions, the substantial size of its refinancing needs, and heightened concerns over coal-related businesses among both environmental and financial institutions.

Debt structure

As of December 2024, SQ's consolidated debt, excluding lease liabilities, amounted to around THB5.0 billion, with THB2.9 billion of secured debt. The priority debt to total debt ratio was around 59%, exceeding our 50% threshold. Thus, we consider SQ's unsecured creditors to be significantly disadvantaged to its priority debt holders with respect to the priority of claims against the company's assets.

BASE-CASE ASSUMPTIONS

- Revenues of THB4.0-THB4.3 billion per annum during 2025-2027.
- EBITDA margin to stay in the 23%-29% range.
- Capital expenditure of around THB150-THB300 million per year during 2025-2027.

RATING OUTLOOK

The "negative" outlook reflects SQ's weaker-than-expected operating performance and uncertainties in securing new contracts, despite limited competition. In addition, increasing refinancing risk and the expected rise in its financial leverage may result in a weaker financial profile than initially projected.

RATING SENSITIVITIES

SQ's outlook could be revised to "stable" if the company improves its operating performance to the extent that its FFO to debt ratio recovers to around 20%. Conversely, a downgrade could occur if operating results fall materially short of expectations, resulting in the FFO to debt ratio remaining below 20% for an extended period. The rating could also come under pressure if the company fails to secure new projects with sufficient margins and favourable terms, particularly those involving adequate advance payments from project owners. In addition, heightened refinancing risks or deteriorating liquidity could further weigh on the rating.

COMPANY OVERVIEW

SQ was established in May 2001 by the Sirison and Areekul families, with its origins tracing back to 1983 when Sahakol Engineer Co., Ltd., the company's predecessor, began operations at the Mae Moh Phase 1 Project. Today, SQ is the largest mining contractor in Thailand, offering a full range of mining engineering services. These include mine planning, open-pit mining operations, mining consultancy, as well as the rental and maintenance of heavy-duty mining equipment.

The company primarily engages in overburden and lignite removal services at the Mae Moh mine in Lampang Province. This mine supplies lignite to coal-fired power plants operated by EGAT. Over the past 35 years, SQ has played a leading role in several phases of the Mae Moh mining operations. In 2024, around 50% of the company's revenue came from the Mae Moh Mine, with the remainder generated from the Hongsa mine in the Lao PDR.

SQ became a publicly listed company in 2016, following its initial public offering in 2015. The Sirison family, which has been a key shareholder since the company's founding, held a 24% stake as of March 2025. The company's revenue has shown consistent growth in recent years, driven by major project awards such as the Hongsa Mine, Mae Moh Phase 8, and Mae Moh Phase 8.1. The latter represents the largest project in the company's current backlog.

KEY OPERATING PERFORMANCE

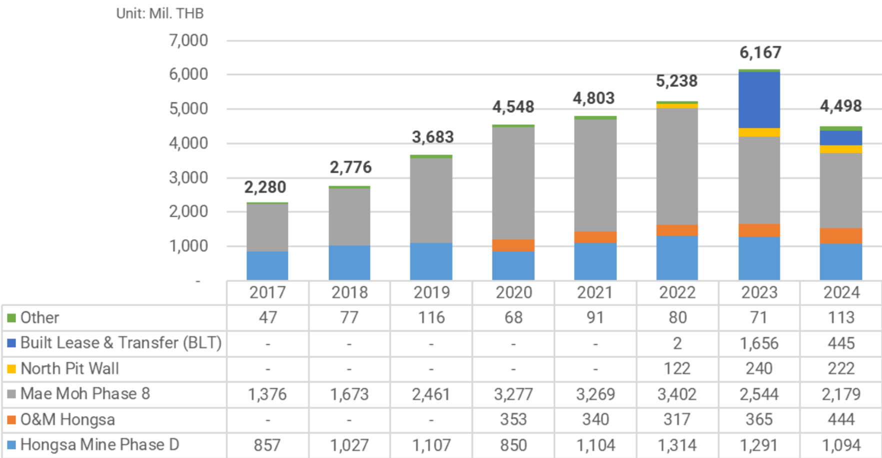
Table 1: SQ's Projects in the Backlog as of Dec 2024

Unit: Mil. THB

Projects	Duration	Project Value (Mil. THB)	Backlog Value (Mil. THB)	Total Backlog (%)
Hongsa Mine Phase D	2015-2027	12,779	3,269	23
Mae Moh Phase 8	2016-2026	22,871	1,785	13
O&M Hongsa	2020-2026	2,265	903	6
North pit wall expansion	2022-2027	837	303	2
Built Lease & Transfer (BLT)	2021-2024	2,661	513	4
O&M Hongsa expansion	2027-2033	2,275	2,275	16
Mae Moh Phase 8.1	2025-2028	4,877	4,877	35
Total		48,565	13,925	**100**

Source: SQ

Chart 1: Revenue Breakdown



Source: SQ

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-------------------Year Ended 31 December ----------------				
	2024	**2023**	**2022**	**2021**	**2020**
Total operating revenues	4,427	6,166	5,238	4,803	4,771
Earnings before interest and taxes (EBIT)	276	435	554	595	547
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,088	1,287	1,495	1,605	1,650
Funds from operations (FFO)	781	1,019	1,257	1,343	1,333
Adjusted interest expense	307	268	238	265	317
Capital expenditures	299	299	511	152	310
Total assets	8,795	9,556	8,870	9,210	10,009
Adjusted debt	4,872	4,804	4,652	5,676	6,669
Adjusted equity	2,765	2,879	2,874	2,658	2,412
Adjusted Ratios					
EBITDA margin (%)	24.6	20.9	28.5	33.4	34.6
Pretax return on permanent capital (%)	3.5	5.5	6.8	6.7	5.7
EBITDA interest coverage (times)	3.5	4.8	6.3	6.1	5.2
Debt to EBITDA (times)	4.5	3.7	3.1	3.5	4.0
FFO to debt (%)	16.0	21.2	27.0	23.7	20.0
Debt to capitalization (%)	63.8	62.5	61.8	68.1	73.4

* *Consolidated financial statements*

RELATED CRITERIA

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

Sahakol Equipment PLC (SQ)

Company Rating:	BBB-
Rating Outlook:	Negative

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000