

TTCL PLC

No. 239/2023
6 December 2023

CORPORATES

Company Rating: BBB-
Outlook: Stable

Last Review Date: 30/11/22

Company Rating History:

| Date | Rating | Outlook/Alert |
|----------|--------|---------------|
| 30/11/22 | BB+ | Positive |
| 15/03/19 | BB+ | Stable |
| 11/10/18 | BBB- | Stable |
| 29/12/17 | BBB | Stable |
| 28/03/14 | BBB+ | Stable |

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RATIONALE

TRIS Rating upgrades the company rating on TTCL PLC (TTCL) to “BBB-” from “BB+” and revises the outlook to “stable” from “positive”. The upgrade reflects TTCL’s continued improvement in operating performance, marked by revenue surpassing THB10 billion, and a decrease in financial leverage. Looking forward, we expect the company’s annual revenue will continue to surpass THB10 billion, with a debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio below 5 times.

The rating continues to reflect TTCL’s acceptable track record in engineering, procurement, and construction (EPC) for the industrial segment, coupled with steady dividend income from its investment in a power plant project. In addition, the diversification of its business into the production of biomass pellets (referred to as “black pellets”), if successful, should enhance its revenues and earnings in the long run.

The rating also takes into consideration the challenges TTCL may face, including intensified competition, fluctuations in construction material and labor costs, and the cyclical nature of the engineering and construction (E&C) industry.

KEY RATING CONSIDERATIONS

Continued operating performance improvement

TTCL’s operating performance in the first nine months of 2023 (9M23) exceeded our expectations, with revenue reaching THB12.4 billion, up 46% from the same period last year. The strong growth in revenues was driven by the resumption of domestic investment in the power and petrochemical industries, with 70% of revenue in 9M23 originating from domestic projects. The value of new signed EPC contracts increased to THB23.4 billion in 2022 and THB10.5 billion in 9M23 from THB12.6 billion in 2021. As of September 2023, TTCL’s backlog amounted to THB19.5 billion, with 78% attributed to domestic projects and the remaining 22% to overseas projects. Approximately 17% of TTCL’s backlog is expected to be recognized as revenues in the last quarter of 2023, with 65% expected to be realized in 2024, and the remainder in 2025-2026.

In our base-case forecast, we project TTCL’s annual revenue to range from THB13-THB16 billion during 2023-2025, assuming the company secures new construction contracts worth THB12-THB15 billion per annum during this period. Although construction material and labor costs remain at high levels, the company should be able to maintain its gross profit margin in the 7%-8% range over the forecast period. Its EBITDA margin is expected to hover around 5%-6% during 2023-2025.

Acceptable track record in the industrial segment

TTCL is one of the leading Stock Exchange of Thailand (SET)-listed EPC contractors. Revenues from the EPC business, except during the Coronavirus Disease 2019 (COVID-19) pandemic, have exceeded THB10 billion per annum. The company also provides feasibility study services, which render a higher gross margin as they primarily involve only design work. Although the scale of this type of work is rather small, feasibility study services have the potential to lead to higher value EPC contracts.

In our view, TTCL's proficiency in EPC works distinguishes the company from other general contractors in Thailand. Besides, the company tends to have a cost advantage over international EPC contractors in the bidding for medium-scale EPC works. Currently, TTCL's major clients are companies in the petrochemical, petroleum-related, and power industries, including PTT Group, Bangchak Group, and Siam Cement Group. In addition, the company has begun to undertake larger projects in countries such as Vietnam, Qatar, and Malaysia.

Steady dividend income from power investment

TTCL's investment in power generation helps lessen its susceptibility to the cyclical nature of the construction industry. As of September 2023, the company held a 39% stake in Toyo Thai Power Myanmar Co., Ltd. (TTPMC), a slight decrease from 43% in the previous year. TTPMC owns a 120-megawatt (MW) gas-fired power plant in Myanmar known as the "Ahlone Project". Over the past three years, TTPMC's operating performance has steadily improved, proving resilient to political unrest and recent foreign currency restrictions imposed by the Myanmar Government. Although payments for electricity are made in US dollars, the Electric Power Generation Enterprise (EPGE) has continued to pay on time. The electricity payments have been used to repay debt owed by TTPMC to the Export-Import Bank of Thailand (EXIM Bank). Furthermore, TTPMC also has an investment insurance policy with EXIM Bank, that covers losses or damages resulting from certain political events in Myanmar.

At the end of September 2023, TTPMC's outstanding debt was USD16 million. The company expects to repay all its debt by the end of 2024. Consequently, the dividend contribution from the Ahlone Project is expected to increase to approximately THB110-THB160 million per annum, from around THB70-THB120 million per annum at present. With a substantial reduction of TTPMC's debt level, TRIS Rating will no longer incorporate the proportionate financial statements of TTPMC into the adjusted financial statements of TTCL. Our base case also does not include the planned investment in the expansion phase of the Ahlone Project. We anticipate that the expansion project is unlikely to materialize in the near term due to the substantial investment cost, coupled with concerns among potential creditors and investors regarding the ongoing political unrest in Myanmar.

"Black-pellet" diversification, if success, should enhance revenues and earnings

This year, TTCL has ventured into the production of biomass pellets, specifically focusing on "black pellets" intended for use by coal-fired power plants and industrial plants in Japan. The company has established a manufacturing facility in Lampang Province, with an annual production capacity of 75,000 metric tons (MT) and an investment budget of THB1.2 billion. The company will use agriculture residue, primarily corn husks, as raw material.

In our view, this business has the potential to enhance TTCL's revenues and earnings in the long run. The commencement of commercial production and revenue recognition for this project is slated for 2024. The black-pellet business, assuming full capacity utilization, could generate an estimated annual income of around THB800 million, with an anticipated gross profit ranging from 18% to 20%.

Improving financial leverage

TTCL's debt level has declined significantly over the past five years, marked by divestments in its power asset portfolio from 2018 to 2021. As of September 2023, the company's debt decreased to THB1.9 billion, down from a peak of THB10.1 billion at the end of 2017. Its debt to capitalization ratio was 35.6%, a sharp decline from 53.3% in 2021 and above 70% in 2017-2018.

Looking forward, TTCL's debt is expected to rise amid higher working capital needs for new contracts signed during 2022-2023 and its investment in the black-pellet business. The company has also set annual capital expenditures of THB200-THB250 million over the next three years. Nonetheless, we expect the company's debt to capitalization ratio to hover around 50% over the next three years. Despite the expected rise in its debt level, improved cash flow from operations should help the company maintain its ratio of funds from operations (FFO) to debt at around 13%-15% while its debt to EBITDA ratio should remain in the range of 4.0-4.5 times.

A key financial covenant on its debentures requires the company to maintain its interest-bearing debt to equity ratio below 3 times. As of September 2023, the ratio was 1.1 times. We believe the company will remain in compliance with the covenant during the forecast period. Its priority debt to total debt ratio at the end of September 2023 was 6%.

Manageable liquidity

TTCL's short-term liquidity should be manageable over the next 12 months. The company had THB1.9 billion in cash on hand as of September 2023. FFO over the next 12 months are forecast at THB500-THB550 million. TTCL's debt coming due in the next 12 months is THB2.7 billion, comprising THB1.5 billion for debentures and THB1.2 billion for short-term bank loans and financial leases. The company's cash on hand and projected FFO should be sufficient to repay its debentures and fund its

planned capital expenditures. The company typically rolls over short-term debts to maintain liquidity for working capital. It also plans to refinance maturing debentures with new debenture issuances.

BASE-CASE ASSUMPTIONS

- TTCL to secure new EPC contracts worth THB13.5 billion in 2023, and THB12-THB15 billion yearly during 2024-2025.
- Gross margin of construction to be 7%.
- EBITDA margin to be in the 5%-6% range.
- Capital expenditure of THB1.3 billion in 2023 and THB200-THB250 million annually in 2024-2025.

RATING OUTLOOK

The “stable” outlook reflects our expectation that TTCL’s operating performance will continue to improve while its leverage will not significantly deviate from our target. Based on the sizable backlog, TTCL should be able to maintain annual revenues of THB13-THB16 billion over the next three years. Its debt to EBITDA ratio is expected to remain below 5 times while its FFO to debt ratio should stay above 10%.

RATING SENSITIVITIES

The rating and/or outlook could be revised upward should TTCL generate stronger-than-expected earnings and lower its debt, resulting in an FFO to debt ratio of above 20% or a debt to EBITDA ratio below 3.5 times for a sustained period. Conversely, the rating and/or outlook could be revised downward if TTCL fails to secure enough contracts to maintain operating cash flow, or its performance deteriorates, causing its debt to EBITDA ratio to rise above 5 times.

COMPANY OVERVIEW

TTCL is an EPC contractor based in Thailand. The company was established in 1985 as a joint venture between Italian-Thai Development PLC (ITD) and Toyo Engineering Corporation (TEC), a Japanese EPC firm. TTCL was listed on the SET in 2009. The company is positioned as an integrated EPC contractor for industrial plants, including refineries and plants which produce petrochemicals, chemicals, fertilizer, oil and gas, and electrical power.

TEC gradually reduced its stake in TTCL from 22% to 10% during 2015-2017. In February 2018, TEC sold off its remaining shares in the company. As of March 2023, TTCL’s major shareholder was Global Business Management Co., Ltd., a common shareholding vehicle of TTCL’s management, holding 6.3% of the total shares outstanding.

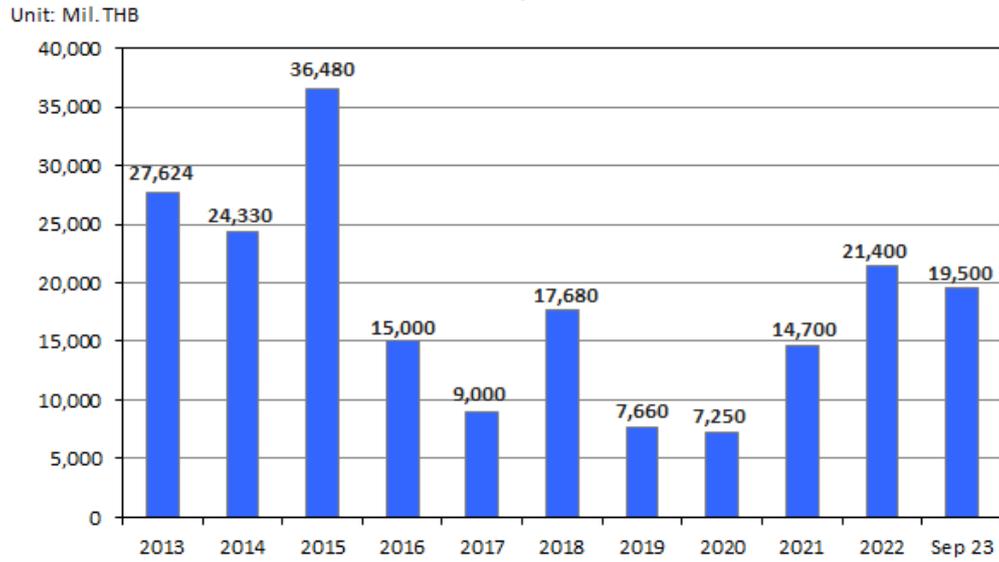
TTCL has a strategy to expand into the power business, a move that has helped the company secure EPC contracts and earn steady revenue streams. The company’s investments in power projects enable it to generate steady sources of income from multi-year power purchase agreements. Since 2010, TTCL has invested in several power projects and has undertaken all the EPC work for these investments, which include natural gas-fired, biogas, and solar-powered plants. TTCL’s major power asset is the Ahlone Project, a 120-MW gas-fired power plant in Myanmar.

TTCL has recorded substantial overdue payments and cost overruns in several projects. As a result, the company set aside hefty allowances for doubtful accounts in 2018 and 2019, which caused a serious deterioration in its capital structure. To prevent any further deterioration, TTCL decided to divest its power-generating assets, including a significant portion of its shareholding in TTPMC, the owner of a 120-MW gas-fired power plant in Myanmar (the Ahlone Project). The proceeds from the divestiture were used to pay down debt and maintain liquidity. Currently, the company’s stake in TTPMC is 39%, down slightly from 43% in 2022.

In 2023, the company started construction of a black-pellet plant in Lampang Province. The production capacity of the plant is 75,000 MT per year and the investment cost is around THB1.2 billion. Commercial production and revenue recognition for this project are scheduled to begin in 2024.

KEY OPERATING PERFORMANCE

Table 1: Backlog at Year End



Source: TTCL

Table 2: Construction Revenue Breakdown by Location

Unit: %

| Location | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Jan-Sep 2023 |
|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Domestic | 34.0 | 38.5 | 48.5 | 62.9 | 47.9 | 45.2 | 46.5 | 70.1 |
| Overseas | 66.0 | 61.5 | 51.5 | 37.1 | 52.1 | 54.8 | 53.5 | 29.9 |
| Total | 100.0 |
| Revenue (mil. THB) | 20,024 | 10,447 | 8,328 | 10,497 | 6,869 | 6,347 | 11,273 | 12,309 |

Source: TTCL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

| | Jan-Sep 2023 | -----Year Ended 31 December ----- | | | |
|---|-----------------|-----------------------------------|--------|--------|---------|
| | | 2022 | 2021 | 2020 | 2019 |
| Total operating revenues | 12,386 | 11,370 | 6,410 | 6,917 | 10,539 |
| Earnings before interest and taxes (EBIT) | 599 | 834 | 126 | 447 | (714) |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 654 | 838 | 69 | 450 | (442) |
| Funds from operations (FFO) | 466 | 575 | (92) | 158 | (815) |
| Adjusted interest expense | 158 | 199 | 143 | 230 | 341 |
| Capital expenditures | 805 | 181 | 61 | 336 | 108 |
| Total assets | 19,568 | 17,903 | 13,645 | 13,856 | 16,268 |
| Adjusted debt | 1,911 | 20 | 2,760 | 2,490 | 1,498 |
| Adjusted equity | 3,453 | 2,961 | 2,686 | 2,253 | 2,078 |
| Adjusted Ratios | | | | | |
| EBITDA margin (%) | 5.28 | 7.37 | 1.07 | 6.50 | (4.19) |
| Pretax return on permanent capital (%) | 11.01 ** | 13.48 | 1.96 | 5.93 | (7.03) |
| EBITDA interest coverage (times) | 4.14 | 4.22 | 0.48 | 1.96 | (1.29) |
| Debt to EBITDA (times) | 2.35 ** | 0.02 | 40.13 | 5.54 | (3.39) |
| FFO to debt (%) | 27.45 ** | 2,933.62 | (3.33) | 6.36 | (54.41) |
| Debt to capitalization (%) | 35.62 | 0.66 | 50.68 | 52.50 | 41.90 |

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

TTCL PLC (TTCL)

| | |
|------------------------|--------|
| Company Rating: | BBB- |
| Rating Outlook: | Stable |

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