TRIS RATING
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UNIVENTURES PLC

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CORPORATES

Company Rating:	BBB+
Outlook:	Stable

Last Review Date: 30/09/20

Company Rating History:

Date	Rating	Outlook/Alert
24/09/19	BBB	Stable
01/03/19	BBB+	Alert Negative
08/09/16	BBB+	Stable
01/12/14	BBB	Positive
10/09/13	BBB	Stable
11/09/12	BBB	Alert Developing
17/10/08	BBB	Stable
13/06/07	BBB	Alert Developing
03/11/05	BBB	Stable

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RATIONALE

TRIS Rating upgrades the company rating on Univentures PLC (UV) to "BBB+" from "BBB" with a "stable" outlook. The upgrade reflects the expected significant growth in the company's revenues and earnings resulting from the acquisition of a 100% stake in Eastern Cogeneration Co., Ltd. (E-COGEN). E-COGEN is a holding company which owns three gas-fired power plants with total production capacity of 360 megawatts (MW). In our view, the significant cash flow streams from the power business should help enlarge UV's business scale and mitigate the volatility of UV's investments in the zinc oxide and property for sale businesses.

The rating also reflects UV's rising financial leverage resulting from the acquisition of E-COGEN and concerns over the lingering Coronavirus Disease 2019 (COVID-19) pandemic, which could hinder the recovery of its zinc oxide and property development businesses in the short to medium term.

KEY RATING CONSIDERATIONS

Sizable and reliable cash flow streams from the power business

On 16 December 2021, the shareholders of UV approved the purchase of 100% shares of E-COGEN by Univenture BGP Co., Ltd. (UVBGP), a subsidiary of UV. UV holds a 55% interest in UVBGP while B.Grimm Power PLC (BGRIM) holds the rest. The total purchase price will be THB12.4 billion. After the transaction, UVBGP will incur additional debts of THB9.3 billion and additional assets of THB17.5 billion. E-COGEN holds a 74.5% share in PPTC Co., Ltd. (PPTC) and a 100% stake in SSUT Co., Ltd. (SSUT). PPTC and SSUT own and operate gas-fired cogeneration power plants with an aggregate production capacity of 360 MW of electricity and 90 tonnes of steam per hour under the Small Power Producer (SPP) scheme. The combined revenues and earnings before interest, taxes, depreciation, and amortization (EBITDA) of PPTC and SSUT are expected to be around THB6.6-THB7.2 billion per annum and THB1.9-THB2.2 billion per annum, respectively.

In our view, cash flows from the power business are relatively stable since these power plants have a combined contracted capacity of 270 MW under 25-year power purchase agreements (PPAs) with the Electricity Generating Authority of Thailand (EGAT). As of December 2021, the remaining terms of the PPAs were around 19-20 years. We view that the PPAs with EGAT substantially mitigate market risk since EGAT agrees to dispatch not less than 80% of the contracted capacity based on operating hours. The PPAs also contain a gas price pass-through mechanism in the tariff formula to mitigate fuel price risk. PPTC and SSUT also have PPAs and Steam Purchase Agreements (SPAs) with industrial users (IU) in various industries. However, the electricity and steam sales to IU accounted for only 30%-50% of the available capacity. In our view, BGRIM should help improve the operating efficiency and marketing of PPTC and SSUT in the long run.

New investments help enlarge business scale and stabilize earnings

After the divestment of Golden Land Property PLC (GOLD) in fiscal year (FY) 2019, UV's business size dropped sharply. Its EBITDA shrank from THB3.7 billion in FY2019 to only THB0.5 billion in FY2020 and THB0.2 billion in FY2021 since its earnings derived mainly from sales of condominium units and zinc oxide. The size of both businesses was rather small and had relatively volatile profit margins. UV has been looking for new investments over the past two years. In addition to its investment in E-COGEN, UV invested in a 60% interest in Patana Intercool Co., Ltd. (PIC), a manufacturer of commercial refrigerators, in October 2021. The investment cost was around THB560 million. However, revenue and EBITDA of PIC were rather small at around THB630 million and THB120 million in 2020, respectively.

We view that UV's business scale and earnings should improve significantly after the investment in E-COGEN. Looking forward, UV's revenue base is expected to grow to around THB11-THB13 billion per annum, from less than THB5 billion per annum in the past two years. UV's EBITDA is expected to soar to THB2.4-THB2.7 billion per annum during FY2022-FY2024 from only THB205 million in FY2021. Its EBITDA margin is expected to jump to around 20% from around 6%-12% per annum. The revenue contribution from the power business is expected to be around 50%-55% of the total, followed by property development of 20%-25%, zinc oxide of 10%-15%, and commercial refrigerator sales and others accounting for the rest. However, EBITDA from the power business should account for more than 70% of total earnings in the next couple of years.

Resurgence of COVID-19 continues to dampen demand for condominiums

The resurgence of the COVID-19 pandemic in FY2021 has continued to pressure demand for condominiums. The weakening purchasing power of domestic homebuyers and stringent bank lending policies affected UV's condominium sales significantly in FY2021. The company's condominium presales in FY2021 slumped to THB2 billion, from around THB3-THB4.5 billion per annum during FY2018-FY2020. Revenue recognition in FY2021 was only THB1.5 billion, compared with THB2.7-THB3.5 billion per annum during FY2018-FY2020. The company didn't launch any new projects in FY2021, so future revenues will depend largely on the sales of its existing projects. As of September 2021, UV had nine existing condominium projects, with an unsold project value (including built and un-built units) of THB9.4 billion.

Looking forward, the lingering pandemic could continue to pressure demand for condominiums in the next 1-2 years. UV's presales could remain subdued in FY2022 and gradually improve in FY2023-FY2024. However, revenue from residential sales could improve to around THB3.5 billion in FY2022 since most of the company's backlog, worth around THB3.3 billion as of September 2021, is expected to be delivered in FY2022.

Surge in financial leverage

After the acquisition of E-COGEN, UV's debt to capitalization ratio is expected to rise to around 60% in FY2022 and then gradually decline to around 58% and 54% in FY2023 and FY2024. The share acquisition cost of THB12.4 billion will be funded by THB6.4 billion in equity from UV and BGRIM, and THB6 billion in bank loans. In addition, UVBGP will have to assume THB9.3 billion of debts of E-COGEN's subsidiaries. Thus, after the transaction, UV's net consolidated debt will increase to around THB19 billion, from around THB3 billion at the end of FY2021. Its adjusted debt to EBITDA ratio is expected to peak at around 8 times in FY2022 and then gradually decline to around 5-7 times in FY2023-FY2024.

Our base-case projection assumes UV will spend THB400-THB700 million yearly in FY2022 and FY2023 to complete the office building for rent at Thonglor and expand the production capacity of PIC. The budget for land will be around THB0.5-THB1 billion per annum. Despite its expansion plans, we expect UV to keep its debt to capitalization ratio below 60% over the next three years. UV has to keep its total liability to total equity ratio (excluding deferred income) below 2 times in order to comply with the financial covenants on its bank loans and debentures. As of September 2021, this ratio was 0.6 times. We expect the company to be able to comply with this covenant in the next 12-18 months.

UV's total debt at the end of September 2021 stood at THB4.8 billion, of which THB3.8 billion was priority debt according to TRIS Rating's "Issue Rating Criteria". UV's priority debt, which included debt at its subsidiaries and secured debt at the company, translated into a priority debt to total debt ratio of 79%. As the ratio is more than the threshold of 50%, we consider the company's unsecured creditors to be significantly disadvantaged with respect to claims against the company's assets.

Manageable liquidity

We assess UV's liquidity to be manageable over the next 12 months. As of September 2021, UV's sources of funds consisted of THB2.3 billion in cash on hand. We forecast UV's funds from operations (FFO) over the next 12 months to be around THB1.5 billion. Aside from its investment in E-COGEN and other capital expenditures, UV's debts due over the next 12 months will amount to THB2.1 billion, comprising THB0.1 billion in short-term loans and THB2 billion in project loans. We expect project loans to be repaid with cash from the transfers of condominium units, and its investments to be funded by internal cash and additional bank loans.

BASE-CASE ASSUMPTIONS

- UV to launch new condominium projects worth THB1.8 billion in FY2022, THB10 billion in FY2023, and THB5 billion in FY2024.
- Total operating revenue to be THB11-THB13 billion per annum during FY2022-FY2024.
- EBITDA margin to stay above 20%.
- Budget for land acquisition forecast to be THB0.5-THB1 billion per annum during FY2023-FY2024.
- Capital expenditures to be around THB400-THB700 million during FY2022-FY2023.

RATING OUTLOOK

The "stable" outlook reflects our expectation that UV will be able to improve its operating performance as targeted. UV's debt to EBITDA ratio should peak at around 8 times in FY2022 and then decline and stay in a range 5-7 times during FY2023-FY2024. The significant and reliable cash flow streams from its power business should help mitigate the volatile operating performance of its property development and zinc oxide businesses. In addition, the higher profit margins of its power business should help uplift its EBITDA margin to around 20%-22% during FY2022-FY2024.

RATING SENSITIVITIES

UV's rating and/or outlook could be revised downward should its operating performance and/or financial profile significantly deteriorate from the target levels, causing its debt to EBITDA ratio to stay above 8 times on a sustained basis. Conversely, UV's rating and/or outlook could be revised upward if the company can significantly enlarge its revenues and earnings, and its debt to EBITDA ratio drops below 4 times on a sustained basis.

COMPANY OVERVIEW

UV was founded in August 1980 to manufacture and distribute zinc oxide products. The company was listed on the Stock Exchange of Thailand (SET), in the petrochemical and chemical sector, in December 1988. UV shifted its business focus to property development and moved to the SET property development sector in September 2006. In mid-2007, Adelfos Co., Ltd. acquired 51.6% of UV's shares and became the controlling shareholder. Adelfos is owned by members of the Sirivadhanabhakdi family, which owns the TCC Group, a leading Thai conglomerate. As of November 2021, Adelfos held a 54% stake in UV while Siribhakditham Co., Ltd. held a further 12%. In total, the Sirivadhanabhakdi family held a 66% stake in UV.

After the change of its major shareholder, UV increased its stake in Grand Unity Co., Ltd., UV's investment arm in the condominium segment. UV continued to expand its residential property portfolio to the landed property segment by acquiring a 50.64% stake in Golden Land Property Development PLC (GOLD) in late 2012 and buying a 100% stake in Krungthep Land PLC (KLAND) in 2014. In 2016, GOLD increased its capital via a private placement to Frasers Property Holdings (Thailand) Co., Ltd. (FPHT) in the amount of THB5 billion, diluting UV's stake in GOLD to 39.2%. At the beginning of August 2019, UV divested its stake in GOLD to Frasers Property (Thailand) PLC (FPT).

In January 2021, UV and BGRIM set up a joint venture, UVBGP, to invest in the power business. UV and BGRIM hold shares in UVBGP in the proportion of 55% and 45%, respectively. On 16 December 2021, the shareholders of UV approved the purchase of 100% of the shares of E-COGEN by UVBGP. The maximum investment cost was around THB12.4 billion, including the assumption of THB17.1 billion of E-COGEN's debts. E-COGEN is a holding company, holding a 74.5% share of PPTC and a 100% stake in SSUT. Both companies produce cogeneration power under the SPP scheme and have 25-year PPAs with EGAT and long-term contracts with IUs.

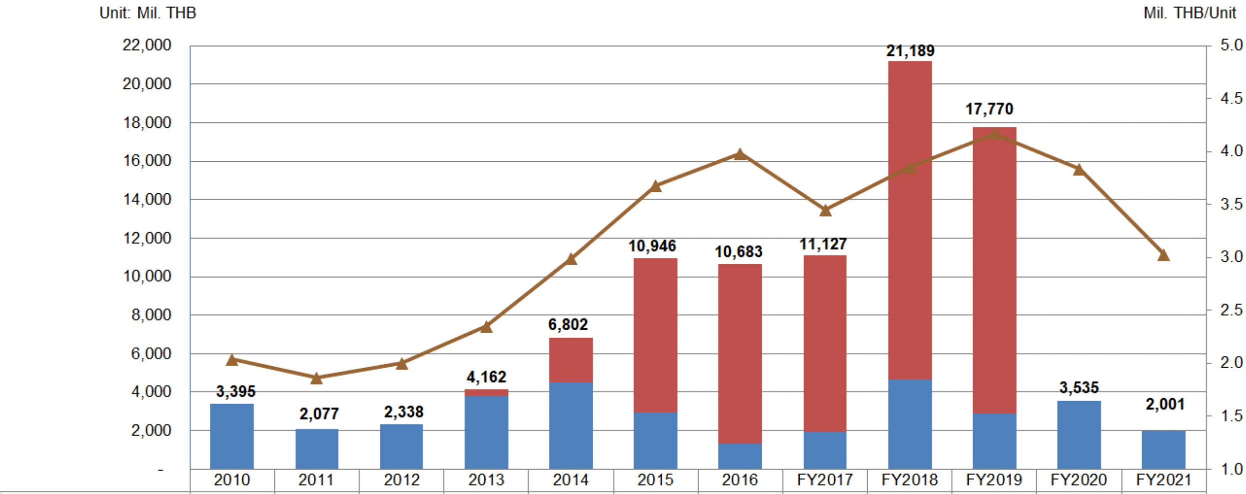
PPTC's cogeneration power plant is located in Latkrabang Industrial Estate, Bangkok. Its power plant commenced operations in March 2016. The plant can produce up to 120 MW of electricity and 30 tonnes of steam per hour. PPTC has, to date, secured 90-MW PPAs with EGAT and purchase agreements with IUs for 37 MW of electricity and 12 tonnes of processed steam. Meanwhile, SSUT owns two plants, with an aggregate capacity of 240 MW of electricity and 60 tonnes of steam per hour, located in Bang-Pu Industrial Estate, Samutprakarn province. SSUT achieved full operation of its two plants in December 2016. SSUT has secured 180-MW PPAs with EGAT and purchase agreements with IUs for 53 MW of electricity and 36 tonnes of processed steam. The acquisitions will boost UV's earnings as the cogeneration power plants combined add 181.2 MWe of capacity.

UV also purchased a 60% shareholding in PIC in September 2021. PIC is a manufacturer of commercial refrigerators for various businesses and industries. The investment cost was around THB560 million. PIC's revenue and EBITDA in 2020 were rather small at around THB630 million and THB100 million, respectively.

Currently, UV is a holding company. Its existing portfolio comprises condominiums for sale, sales of goods (zinc oxide and commercial refrigerators), power business, and other businesses. Based on our assumptions, UV's revenue contribution from the power business will account for around 55% of total operating revenue over the next three years. The revenue contribution from the condominium projects will be 25% and the sales of goods business (including zinc oxide and commercial refrigerators) will be 20%.

KEY OPERATING PERFORMANCE

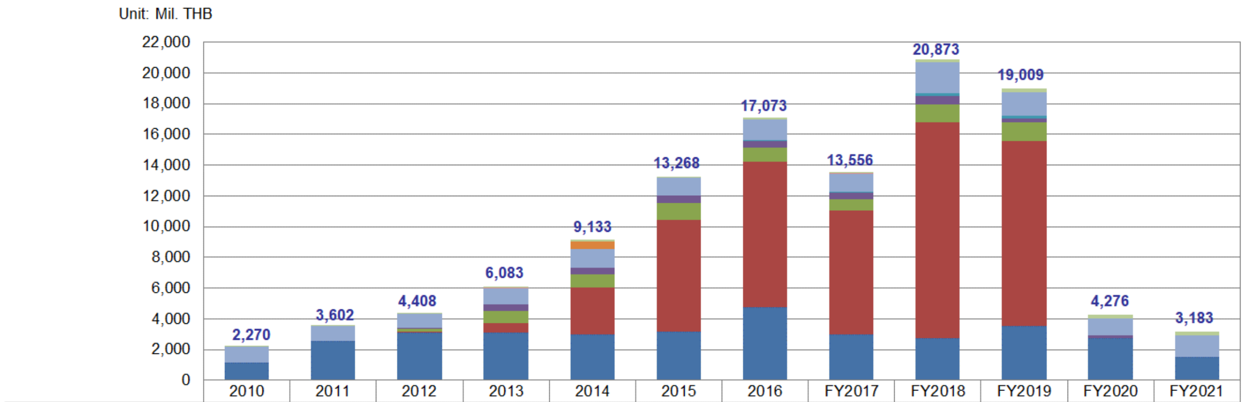
Chart 1: Presales Performance



	2010	2011	2012	2013	2014	2015	2016	FY2017	FY2018	FY2019	FY2020	FY2021
Housing (LHS)				382	2,301	8,003	9,369	9,210	16,513	14,865	-	-
Condominium (LHS)	3,395	2,077	2,338	3,779	4,501	2,944	1,313	1,916	4,676	2,906	3,535	2,001
Avg. Price (RHS)	2.0	1.9	2.0	2.3	3.0	3.7	4.0	3.4	3.9	4.2	3.8	3.0

Source: UV

Chart 2: Revenue Breakdown



	2010	2011	2012	2013	2014	2015	2016	FY2017	FY2018	FY2019	FY2020	FY2021
Others	72	58	63	59	105	102	116	97	182	253	283	290
Golf Course Operation			2	22	19	17	21	17	27	27		
Land Plot Sale					443							
Zinc Oxide	1,059	986	961	1,057	1,242	1,142	1,291	1,161	2,004	1,493	1,060	1,380
Management Fee Income							91	92	161	209	26	9
Serviced Apt. & Hotel			40	420	408	479	449	394	551	217	175	16
Office		13	200	781	873	1,067	868	767	1,136	1,266		
Housing			29	622	3,072	7,305	9,479	8,070	14,053	12,042		
Condominium	1,139	2,545	3,113	3,123	2,971	3,157	4,757	2,957	2,759	3,502	2,733	1,489

Source: UV

Table 1: Power Project Portfolio

Project	Plant Type	Held by UV (%)	Installed (MW)	Equity (MWe)	SCOD/COD
PPTC	Combined cycle gas turbine	41	120	49.2	Mar. 2016
SSUT	Combined cycle gas turbine	55	240	132.0	Dec. 2016
Total portfolio			**360**	**181.2**	

Source: UV

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	------------------------ Year Ended 30 September				--------------------
	FY2021	**FY2020**	**FY2019**	**FY2018**	**2017**
Total operating revenues	3,280	4,317	19,207	20,929	13,637
Earnings before interest and taxes (EBIT)	27	340	2,778	2,812	1,846
Earnings before interest, tax, depreciation, and amortization (EBITDA)	205	502	3,741	3,563	2,497
Funds from operations (FFO)	32	261	2,090	2,491	1,949
Adjusted interest expense	175	197	682	478	218
Real estate development investments	10,814	9,909	10,230	30,375	20,964
Total assets	16,950	19,764	19,515	51,794	41,650
Adjusted debt	3,089	2,166	129	17,685	9,316
Adjusted equity	10,496	10,883	11,152	19,889	18,278
Adjusted Ratios					
EBITDA margin (%)	6.26	11.62	19.48	17.03	18.31
Pretax return on permanent capital (%)	0.17	2.16	10.19	8.24	6.64
EBITDA interest coverage (times)	1.17	2.55	5.48	7.45	11.47
Debt to EBITDA (times)	15.04	4.32	0.03	4.96	3.73
FFO to debt (%)	1.05	12.03	1,623.95	14.08	20.93
Debt to capitalization (%)	22.74	16.60	1.14	47.07	33.76

* *Consolidated financial statements*

RELATED CRITERIA

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

Univentures PLC (UV)

Company Rating:	BBB+
Rating Outlook:	Stable

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