TTCL PLC

No. 3/2017 6 January 2017

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
28/03/14	BBB+	Stable

Rating Rationale

TRIS Rating affirms the company rating of TTCL PLC (TTCL) and the rating of the outstanding senior unsecured debentures at "BBB+". The ratings reflect TTCL's strong market position in the EPC (engineering, procurement, and construction) sector, its capability of undertaking larger projects in Thailand and abroad, as well as its strategic diversification into the power business. However, these strengths are partially offset by heightened leverage, the operating risks of projects abroad, the cyclicality of the EPC business, and severe competition.

TTCL was established in 1985 as a joint venture between Italian-Thai Development PLC (ITD) and Toyo Engineering Corporation (TEC), a Japanese EPC firm. TTCL is an EPC contractor based in Thailand. TTCL went public in 2008 and was listed on the Stock Exchange of Thailand (SET) a year after. As of 29 August 2016, TEC held 15% of the company's shares outstanding, while ITD owned 3.3%. TTCL is positioned as an integrated EPC contractor. The company is best known for the construction of industrial plants including refineries and plants which produce petrochemicals, chemicals, fertilizer, oil and gas, and electrical power. TTCL has moved to undertake larger projects and grow its footprint abroad. As a result, revenue soared from Bt5 billion in 2010 to around Bt20 billion in 2014. In 2010, TTCL expanded and became a producer of electrical power, a move aimed at offsetting the cyclicality and stiff competition in the EPC industry. As a result, the move has led to a more debt-heavy financial structure.

The ratings reflect TTCL's strong position in the EPC industry, particularly in the industrial plant segment. The company is among top four SET-listed contractors, in terms of revenue base and asset size. As TTCL forged ahead with its growth plans, assets grew more than threefold in the past four years, sharply increasing from Bt7.6 billion as of 2012 to Bt25.3 billion as of September 2016. Notwithstanding the concentration risk stemming from large projects, the company's track record of project execution and quality performance is substantiated by a list of well-respected and creditworthy customers, including large refining and petrochemical companies. A proven track record, together with know-how and experience, should help the company retain its market position over the medium term.

The ratings also recognize TTCL's ability to undertake large EPC projects and expand geographically. TTCL, along with its subsidiaries and overseas branches, has undertaken EPC projects in neighbouring countries, as well as Qatar, Malaysia, and Vietnam. Geographical diversity supports the ratings. TTCL achieved record-high revenue of Bt21.5 billion in 2015, half of which was generated abroad.

The ratings also take into account TTCL's strategy to expand and become a power producer. TTCL has invested in power projects in order to have steady sources of income from multi-year power purchase agreements. Moreover, TTCL undertook all the EPC work for the power projects. The company has invested in natural gas-fired, biogas, and solar power plants. TTCL entered the power business in 2010 when it invested in Nava Nakorn Electricity Co., Ltd. (NNE). NNE operates a 110-megawatt (MW) combined cycle gas turbine power plant. TTCL currently holds 44% of the preferred shares of NNE. The company invested in and built a 120-MW gas-fired power plant in Ahlone, Myanmar, the "Ahlone Project". TTCL, through its Myanmar-based subsidiary, owns around 72% of the Ahlone project, which carries a total investment cost of about Bt5.5 billion. TTCL is making good progress with its

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diversification strategy. The power segment has generated a sizable amount of EBITDA (earnings before interest, taxes, depreciation, and amortization) as the Ahlone power plant comes to fruition. For the first nine months of 2016, the power segment accounted for around 64% of TTCL's EBITDA, or Bt724 million. Looking ahead, the power segment should earn fruitful returns and help sustain TTCL's profitability.

Conversely, the ratings are constrained by TTCL's weakened capital structure. TTCL borrowed more to fund its working capital needs and the large investments for the power projects, particularly the project in Myanmar. The company plans to invest in and build a 1,280-MW coal-fired power plant in Myanmar. This project will cost Bt100-Bt103 billion. However, TRIS Rating is of the view that there is a remote likelihood that the project will take wing in the near term due to the slow-moving government bureaucracy of Myanmar. However, TTCL's leverage will increase should the deal be completed.

The ratings are also partly offset by the operating risks associated with projects abroad, despite the benefits TTCL receives from geographical diversification. Failures in project execution could cause significant negative repercussions for TTCL's performance. In addition, the ratings are tempered by the cyclicality of the EPC segment, which may be a drag on revenue and profits. TTCL's revenue is largely tied to investment activity in the private sector. During the first nine months of 2016, TTCL barely secured any new contracts, due for the most part to delays in bidding and contract awards by project owners, particularly refining and petrochemical companies. However, the nascent recovery in oil prices should be a positive factor in the years ahead. As of September 2016, TTCL's backlog stood at Bt19.9 billion. The total value of the current projects in the backlog will be realized 20% of TTCL's revenues during 2016, 63% in 2017, and 25% in 2018, according to TRIS Rating's base case. Moreover, the ratings are constrained by severe competition among contractors, particularly for overseas projects. The competition slashed TTCL's overall gross margin to mid single-digits levels.

TTCL's financial profile for the first nine months of 2016 was in line with TRIS Rating's expectation. The operating margin (operating profit before depreciation and amortization as a percentage of revenue) was 5.93%. TRIS Rating's base-case scenario, excluding the investment in the 1,280-MW coal-fired power plant project in Myanmar, assumes TTCL's revenue will range from Bt19-Bt22 billion per annum during 2016-2019, with the exception of 2017. Revenue in 2017 is expected to hover around Bt16-Bt17 billion, due to fewer new projects to replenish the projects completed from the backlog. The operating margin is expected to improve gradually to 6%-7% during 2016-2019. Operating income is expected to rise because the company will receive recurring income from the Ahlone project on top of construction revenue. Funds from operations (FFO), which include income received from the leased assets (Ahlone power plant), are expected to range from Bt1-Bt1.2 billion per annum.

During 2016-2019, TRIS Rating's base-case scenario expects TTCL's debt to equity ratio will stay below 1.2 times. Cash flow protection, as measured by the FFO to total debt ratio and the EBITDA interest coverage ratio, is expected to improve. TTCL will receive recurring income from the Ahlone project, pushing the cash flow protection measures higher. During 2016-2019, the FFO to total debt ratio is expected to average around 18%, while the EBITDA interest coverage ratio will stay at 6 times or more.

Rating Outlook

The "stable" outlook reflects the expectation that TTCL will maintain its strong market position in the EPC sector. The operating margin is expected to stay between 6%-7% and the total debt to capitalization ratio will stay below 55%, or the total debt to equity ratio will be lower than 1.2 times during 2016-2019. In addition, TTCL is expected to prudently manage its liquidity in order to repay the debts coming due.

A rating upgrade is unlikely in the near term but could occur if TTCL could deliver operating performance which is much-improved and leverage falls significantly. However, the chances for a rating upgrade may be outweighed by TTCL's planned investments in large projects, which are likely to put pressure on its financial profile. The chances for a downgrade could rise if profitability deteriorates or the total debt to capitalization ratio exceeds 60% for a sustained period. Should TTCL make any large-scale investments, the ratings will take into consideration the execution risk, the quality of the projects, and the funding structure.

TTCL PLC (TTCL)

Company Rating:	BBB+
Issue Rating:	
TTCL175A: Bt1,000 million senior unsecured debentures due 2017	BBB+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios *

Unit: Bt million

	Jan-Sep 2016	------------------------ Year Ended 31 December -------------------- 2015	2014	2013	2012	2011
Revenue	15,464	21,524	19,575	17,865	11,358	8,896
Finance cost	322	355	106	27	0	0
Net income from operations	320	137	506	775	482	363
Funds from operations (FFO)	784	1,200	414	825	520	362
Capital expenditures	67	97	56	81	802	78
Total assets	25,256	25,897	22,652	14,979	7,659	6,904
Total debts	9,015	9,684	7,391	934	0	0
Total liabilities	19,133	19,608	16,237	9,042	5,338	5,221
Shareholders' equity	6,123	6,289	6,415	5,937	2,321	1,682
Depreciation & Amortization	38	49	49	30	24	22
Dividends	280	297	392	355	216	192
Operating income before depreciation and amortization as a % of sales	5.93	3.66	2.38	5.57	5.48	5.48
Pretax return on permanent capital (%)	6.76 **	5.32	6.33	22.96	33.50	32.81
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.50	2.37	6.64	39.65	> 40	> 40
FFO/total debt (%)	9.95 **	12.39	5.61	88.32	> 250	> 250
Total debt to capitalization (%)	59.55	60.63	53.54	13.59	0	0

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

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