AAPICO HITECH PLC

No. 108/2024
28 June 2024

CORPORATES

Company Rating: A-
Outlook: Stable

Last Review Date: 23/06/23

Company Rating History:

Date	Rating	Outlook/Alert
23/06/23	A-	Stable
30/06/21	BBB+	Stable
07/07/20	BBB+	Negative
22/07/19	BBB+	Stable
24/08/18	BBB+	Positive
12/11/14	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on AAPICO Hitech PLC (AH) at "A-", with a "stable" outlook. The rating continues to reflect AH's strong competitive position as a Tier-1 automotive parts manufacturer in Thailand, the benefits it gains from geographical diversification, and its strong balance sheet. These strengths are held back by the company's customer concentration risk and the cyclical nature of the automotive industry, relying on economic cycles.

KEY RATING CONSIDERATIONS

Solid competitiveness in auto parts production

We expect AH to retain a strong competitive edge in auto parts manufacturing. The company's large business scale, with annual original equipment manufacturer (OEM) auto parts sales exceeding THB20 billion, enables it to handle large orders from numerous customers, creating a significant barrier to competitors. Furthermore, AH's car dealership business has strengthened relationships with automakers, thereby increasing OEM customer orders.

AH's long-established record of delivering high-quality products on time with well-controlled costs has reinforced its relationships with key customers, including major automakers and Tier-1 parts makers such as Isuzu, Ford, Mazda, Nissan, DANA, and Continental. Recently, AH secured orders from several Chinese electric vehicle (EV) manufacturers including BYD, Great Wall Motor, and Changan. Sales to these EV makers currently represent less than 5% of the total.

Benefits from geographical diversification

AH has continued its international expansion to grow and diversify its revenue base. Currently, about 30% of the company's total revenue comes from overseas markets including Malaysia, Europe, and China.

The market diversification allows AH to capture global demand and provides a cushion against unforeseen headwinds domestically. In the first quarter of 2024, despite an approximate 18% year-on-year (y-o-y) decrease in Thailand automotive production, AH's total operating revenue declined by a milder 8% y-o-y. A 16% y-o-y increase in its overseas sales mitigated the impact of a 20% y-o-y drop in its domestic sales.

Recently, AH acquired a 60% stake in Advanced Vehicle Engineering Global Sdn.Bhd. (AVEE Global), a parts supplier for Proton vehicles based in Malaysia. The strategic partnership with one of the leading car brands is expected to bring in annual revenue of THB300-THB500 million over the next three years.

Performance expected to remain satisfactory

Looking ahead, we anticipate that AH will maintain satisfactory operating performance despite a challenging business environment. Strong automotive demand in its overseas markets is expected to mitigate the effects of the domestic slowdown.

In our base-case estimate, AH's total operating revenue should range from THB28-THB29 billion per annum during 2024-2026. EBITDA is projected to stay in the range of THB2.6-THB2.9 billon per annum, with an EBITDA margin of 9%-10%. The company's ability to pass through increases in raw material costs to automakers, coupled with its efficient production management, should help maintain the margin within this target range.

Customer concentration risk

AH's strengths are tempered by reliance on a certain number of customers. The company is the sole pickup chassis frame supplier for Isuzu and Mazda BT-50 in Thailand. Sales to Isuzu have accounted for 20%-30% of its total revenue, while sales to Ford and Auto Alliance (AAT; a Ford and Mazda joint venture) have made up 7% over the past three years. Isuzu and AAT are among the top five largest automakers in Thailand based on total car production volume.

The concentration risk is mitigated by AH's longstanding relationships with and continued orders it has received from the key customers. Generally, automakers and Tier-1 parts makers are reluctant to change their major suppliers due to high switching costs and concerns over product quality. AH's strategy to expand globally also helps relieve concerns over the concentration risk. We expect the company to benefit from the relocation of several Chinese EV makers to Thailand, considering its competitiveness. About 95% of the auto parts the company produces can be used for EVs.

Lower financial leverage following dispute resolution

After a lengthy dispute, AH reached a resolution with the previous shareholders of Sakthi Global Auto Holdings Ltd. (SGAH) in October 2023. AH agreed to sell its entire 77% stake in Sakthi Auto Component Ltd. (SACL) for THB2.8 billion, with THB2.5 billion paid in cash and the remaining amount to be paid in installments from 2024 to 2027. Additionally, both parties agreed to drop their dispute.

The proceeds from the SACL divestment helped improve AH's financial leverage. The company's cash and cash equivalents increased to THB2.7 billion as of March 2024, lowering its debt to capitalization ratio to 23.7%, from 40%-50% in previous years. Cash generation against debt also improved, with a debt to EBITDA ratio of 1.1 times and a funds from operations (FFO) to debt ratio of 76.1% in the first quarter of 2024.

Looking forward, we expect AH to keep financial leverage low. Our base-case forecast estimates the company's debt to capitalization ratio will stay in the 20%-30% range during 2024-2026. The debt to EBITDA ratio will likely remain below 2 times and the FFO to debt ratio should stay above 50%. An annual FFO of THB2.2-THB2.4 billion should be sufficient to support annual capital expenditures and investments of THB1-THB2 billion over the forecast period.

A financial covenant on its debentures requires AH to maintain the net total liabilities to equity ratio below 2 times. As of March 2024, the ratio stood at 0.9 times. TRIS Rating expects AH to remain compliant with the covenant for the next 12 to 18 months.

Priority debt

At the end of March 2024, AH's consolidated debt (excluding lease obligations) amounted to THB5.8 billion, of which THB3.5 billion was priority debt, comprising all borrowings incurred by its operating subsidiaries. The priority debt to total debt ratio was 59%, suggesting that AH's unsecured creditors could significantly be subordinate to its priority debt holders with respect to claims against the company's assets.

Adequate liquidity

We view AH as having an adequate liquidity profile. As of March 2024, the company had about THB4 billion in debt coming due in the next 12 months, comprising THB2.2 billion in short-term loans for working capital, THB1 billion in long-term bank loans, and THB0.8 billion in debentures. AH's sources of cash included cash and deposits of THB2.7 billion and expected FFO of THB2.2 billion. Additionally, the company had undrawn uncommitted credit facilities worth THB3.8 billion.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating's base-case forecast during 2024-2026 are as follows:

- Total operating revenue to be THB28-THB29 billion per annum.
- EBITDA margin to range from 9%-10%.
- Capital expenditures and investments to stay in the THB1-THB2 billion per annum range.

RATING OUTLOOK

The "stable" outlook reflects our expectation that AH will retain its competitiveness in its core lines of business. Despite the challenging business environment, the company should be able to maintain satisfactory operating performance with low financial leverage. Its ability to pass through increases in raw material prices will continue to ensure efficient cost control.

RATING SENSITIVITIES

The rating upside is limited in the near term. However, it could arise if AH can significantly enhance its earnings bases and keep financial leverage low. On the contrary, the rating and/or outlook could be revised downward if AH's operating performance falls significantly below estimates, resulting in its EBITDA staying below THB2.5 billion per annum and/or the debt to EBITDA ratio rising above 3 times for an extended period.

COMPANY OVERVIEW

Established in 1996, AH is a large Tier-1 manufacturer of automotive parts in Thailand. The company started as a Ford distributor, before expanding to the manufacture of auto parts. It was listed on the Stock Exchange of Thailand (SET) in 2002. As of March 2024, the major shareholder of AH remained the Yeap family, holding about 39% of the outstanding shares.

AH has two core lines of business: OEM auto parts and car dealerships. The company's OEM products are stamped or pressed parts, forged, cast and machined parts, plastic parts, and jigs and dies. The key OEM products are stamped or pressed parts including chassis frames. The car dealership business sells Ford, Mitsubishi, and MG vehicles in Thailand and Honda and Proton vehicles in Malaysia.

In 2017, AH invested almost THB7 billion in SGAH, through equity and loan financing. Later in 2019, SGAH failed to repay its loans to AH, causing AH to appropriate the remaining shares of SGAH. Consequently, AH became embroiled in a long-running dispute with the previous shareholders of SGAH. Additionally, AH was unable to access the financial information of an Indian auto parts supplier, SACL, in which AH indirectly owned a 77% stake. The limitation caused the auditor to leave a qualified opinion on AH's financial statements. Both parties recently reached a resolution, dismissing proceedings of the past dispute. AH agreed to sell its entire stake in SACL, amounting to THB2.8 billion, in October 2023. AH already received THB2.5 billion in cash. The rest is to be received during 2024-2027.

Currently, the OEM auto parts business accounts for about 70% of the company's total revenue annually, while the car dealership business constitutes the rest. In the first quarter of 2024, AH's operations in Thailand contributed 62% of total revenue, followed by operations in Malaysia (18%), Portugal (15%), and China (4%).

KEY OPERATING PERFORMANCE

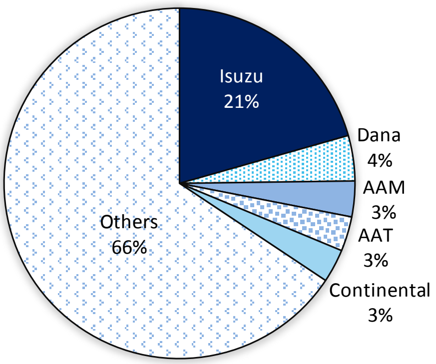
Table 1: Revenue Breakdown

Unit: %

Sources of Revenue	2020	2021	2022	2023	Jan-Mar 2024
OEM auto parts	70	74	73	72	69
Car dealerships	30	26	27	28	31
Total	**100**	**100**	**100**	**100**	**100**
Total revenue (mil. THB)	**17,419**	**20,433**	**27,967**	**30,034**	**7,452**

Source: AH

Chart 1: Major Customers in 1Q24 (as a % of total revenue)



Source: AH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2024		------------Year Ended 31 December ----------- 2023	2022	2021	2020
Total operating revenues	7,561		30,389	28,285	20,746	17,798
Earnings before interest and taxes (EBIT)	432		2,411	2,312	1,279	565
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	709		3,738	3,252	2,138	1,757
Funds from operations (FFO)	579		3,154	2,746	1,696	1,340
Adjusted interest expense	107		470	346	350	376
Capital expenditures	307		882	1,005	1,469	638
Total assets	25,477		25,293	25,469	22,722	22,346
Adjusted debt	3,698		3,480	7,288	7,726	9,351
Adjusted equity	11,936		11,317	9,929	8,815	7,741
Adjusted Ratios						
EBITDA margin (%)	9.4		12.3	11.5	10.3	9.9
Pretax return on permanent capital (%)	11.3	**	13.3	13.1	7.3	3.3
EBITDA interest coverage (times)	6.6		7.9	9.4	6.1	4.7
Debt to EBITDA (times)	1.1	**	0.9	2.2	3.6	5.3
FFO to debt (%)	76.1	**	90.6	37.7	22.0	14.3
Debt to capitalization (%)	23.7		23.5	42.3	46.7	54.7

* *Consolidated financial statements*
** *Adjusted 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

AAPICO Hitech PLC (AH)

Company Rating:	A-
Rating Outlook:	Stable

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