

# CHONBURI CONCRETE PRODUCT PLC

No. 28/2018

22 March 2018

## CORPORATES

**Company Rating:** BB+  
**Outlook:** Stable

### Company Rating History:

Date	Rating	Outlook/Alert
14/09/17	BB+	Stable
05/04/17	BBB-	Negative
22/03/16	BBB-	Stable

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## RATIONALE

TRIS Rating affirms the company rating of Chonburi Concrete Product PLC (CCP) at “BB+”. The rating reflects CCP’s established operation and adequate competitive strength in Chonburi province. However, the rating is constrained by its small scale compared with listed peers, regional concentration in Chonburi, as well as cyclicity and intense competition in the building material industry. The rating also considers CCP’s lingering weak performance and tight liquidity with a substantial amount of bonds coming due.

### KEY RATING CONSIDERATIONS

#### Adequate competitive advantages in the Eastern region of Thailand

CCP’s business strength lies in its long-standing operation with established customer base and adequate competitiveness in its market. CCP’s core assets include a large number of ready-mixed concrete plants, precast concrete plants, a lightweight concrete factory, and transportation facilities, all located in Chonburi. These assets provide the company with competitive advantages in serviceability and delivery costs over peers in the same region or elsewhere. A higher-than-average economic development in the Eastern region of Thailand is also an important factor supporting the company’s revenue and earnings growth.

#### Small scale and revenue concentration

The rating considers CCP’s business scale, which is relatively smaller than other listed peers. The company’s market position is weak as the cement and concrete industry is dominated by three large cement producers. CCP’s competitiveness is limited in Chonburi and nearby provinces. Given its small business scale, CCP is highly susceptible to repercussions from a market downturn. CCP’s business also involves a regional concentration risk, as over 75% of its sales occur in Chonburi.

#### Cyclical industry with intense competition

CCP’s product demand is linked to new construction and government infrastructure outlays which are highly discretionary and subject to the up and down cycle of the economy. The competition in the building material industry is very intense, characterized by price wars, little product differentiation, and a large number of competitors.

TRIS Rating maintains a broadly positive view on construction in Chonburi province in the years ahead, in particular from the government’s Eastern Economic Corridor (EEC) development projects. That said, TRIS Rating does not expect a sudden resurgence in demand for building materials, considering the current supply surplus. Moreover, the competition in Chonburi would be more severe as such business opportunities will attract suppliers from other areas to this region.

#### Weak performance continued

CCP’s credit profile remains mired in the wake of waning demand and a supply glut in the building material industry. The long-awaited infrastructure projects continue to drag out, worsening the construction environment and obscuring a market revival.

The company's revenue maintained at Bt2.34 billion in 2017, thanks to the government project contracts surrounding Chonburi province. However, profit margin was squeezed as a result of price-cutting and hefty losses from the lightweight concrete segment. An increase in the price of cement in the second half of 2017 also weighed on CCP's raw material cost and profitability. The operating margin (operating income before depreciation and amortization as a percentage of sales) continued to drop from 8.5% in 2016 to 7.3% in 2017, the lowest seen over the past five years. Funds from operations (FFO) fell to Bt143 million in 2017, an amount that has been declining for five consecutive years. Liquidity profile also deteriorated as the FFO to total debt ratio plummeted from 19.1% in 2016 to 16.5% in 2017.

### **Tight liquidity**

CCP's short-term liquidity tightened in consideration of declining cash flow and large bonds coming due. The company has Bt250 million in bonds coming due in May and July 2018, whereas the company's sources of funds, including FFO and cash-on-hand, are inadequate to cover this debt. The company's short-term bank credit lines are almost fully used. TRIS Rating views that, given its diminishing performance, CCP's refinancing risks will rise. The failure to seek sufficient funds to refinance the bond payments will trigger negative rating actions.

TRIS Rating highlights that CCP currently has no bills of exchange (B/E) left since the company already replaced them with bank loans last year.

### **RATING OUTLOOK**

The "stable" outlook reflects TRIS Rating's view that the severe competition and poor performance in the lightweight concrete segment will continue to weigh down CCP's profitability. TRIS Rating's base-case scenario expects that the company's weak performance will continue in 2018. Once the government's investments, particularly the much-hyped EEC development projects, are materialized, CCP's performance should gradually improve, given its geographical advantages in Chonburi province. However, the lightweight concrete segment tends to suffer losses persistently. The FFO is estimated at Bt140-Bt160 million in 2018-2020. The operating margin would stay between 7.5%-8.5%. The FFO to total debt ratio is expected to stay above 15%.

### **RATING SENSITIVITIES**

The rating and/or outlook could be revised upward if CCP can enhance its cash flow against its financial obligations, which could be achieved by improved profitability over a sustained period and significant falloff in its debt load. TRIS Rating views that CCP would need to manage its liquidity more prudently, in a bid to fend off adverse effects of the dismal market.

The rating and/or outlook could be downgraded if CCP's operating performance weakens further and/or its outstanding debt is significantly higher than the current level.

### **COMPANY OVERVIEW**

CCP is a producer of concrete products in Chonburi province. The company was established in 1983 and was listed on the Stock Exchange of Thailand (SET) in 2003. CCP's business covers three primary segments, (1) ready-mixed concrete and precast concrete, (2) modern-trade retail business, and (3) lightweight concrete.

CCP's concrete segment is primarily to produce ready-mixed concrete and precast concrete. The company's precast concrete segment focuses on production of large drainpipe systems and paving stones. The products are sold under the "CCP" brand and distributed in Chonburi and nearby provinces. The modern-trade retail segment is operated by Chonburi Kanyong Co., Ltd. (CKY), a wholly-owned company established in 1983. CKY's trading store is named "Kanyong Home Store", mainly distributing basic building materials and home improvement products in Chonburi. The lightweight concrete segment is operated under Smart Concrete PLC (SMART), which was established in 2004 and listed on the Market for Alternative Investment (MAI) in September 2014. As of December 2017, CCP owned about 73% of SMART's total shares. SMART offers only lightweight concrete blocks.

The 2017 revenue in CCP's group was Bt2.34 billion. The concrete segment contributed about 56% of total revenue. The retail business and lightweight concrete segment generated 29.5% and 11.5% of the total revenue, respectively.

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Bt million

	----- Year Ended 31 December -----				
	2017	2016	2015	2014	2013
Revenue	2,340	2,315	2,400	2,631	2,593
Finance cost	39	34	28	25	55
Net income from operations	(1)	12	54	135	106
Funds from operations (FFO)	143	157	171	228	294
Capital expenditures	156	318	265	357	170
Total assets	2,976	2,936	2,770	2,617	2,370
Total debts	871	821	651	456	556
Total liabilities	1,515	1,387	1,200	1,104	1,266
Shareholders' equity	1,461	1,549	1,570	1,513	1,104
Depreciation & amortization	167	157	145	119	110
Dividends	61	60	0	38	6
Operating income before depreciation and amortization as % of sales	7.3	8.5	9.6	12.0	13.9
Pretax return on permanent capital (%)	1.3	2.2	4.7	11.5	16.1
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	5.0	6.0	8.6	13.1	7.0
FFO/total debt (%)	16.5	19.1	26.3	50.1	52.8
Total debt/capitalization (%)	37.4	34.7	29.3	23.1	33.5

\* Consolidated financial statements

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**Chonburi Concrete Product PLC (CCP)**

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<b>Company Rating:</b>	BB+
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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