CreditNews ข่าวเครดิต

AQUA CORPORATION PLC

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CORPORATES

Company Rating:	BBB-
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
02/08/17	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Aqua Corporation PLC (AQUA) at "BBB-". The rating reflects the company's track record as a provider of out-of-home media services, recurring income from long-term warehouse rental contracts, plus the dividends and additional financial flexibility gained from an investment. The rating is constrained by the slower than expected recovery in advertising spending, and the intensified competition in the out-of-home advertising media industry.

KEY RATING CONSIDERATIONS

Proven track record in out-of-home advertising media industry

We expect AQUA will remain the fourth-largest provider of out-of-home media. AQUA has an expertise in out-of-home advertising media industry over the decade. AQUA's market share was 4%-5% during 2015-2017, based on total sales. AQUA's market share is relatively small, far below the share of Plan B Media PLC (PLANB), the largest provider of out-of-home advertisement, holding around 40% market share in 2017.

Recurring income and stable margin

We estimate AQUA will receive the recurring cash flow from long- term rental contracts in the warehouse business and property for rent totaling around Bt360 million per year during 2018-2020. Rental income is expected to grow by 1%-4% per annum according to the rate hikes provision in the rental contracts. The gross margin of warehouse rental segment will remain high at 95% during 2018-2020.

AQUA will derive dividend income from the investment in Eastern Printing PLC (EPCO; rated "BBB/Stable"), a leading printing service provider in Thailand, in the range of Bt100-Bt180 million per year during 2018-2020. AQUA holds a 38.9% stake in EPCO.

Profitability slips

We forecast a fall in AQUA's operating margin (operating profit before depreciation and amortization). The operating margin ranged from 43%-58% during 2015-2017, is expected to fall to around 43%-50% during 2018-2020 as a result of intense competition among major players such as PLANB and VGI Global Media PLC (VGI).

Despite the fall, AQUA's profitability from advertising was considered moderate, compared with the 30%-40% operating margins typically reported by other listed advertisers.

The operating margin in the real estate segment is forecast to remain flat. The rental income from warehouse and property should be flat at 88% during 2018-2020.

Cash flow protection improves

We expect cash flow protection to improve gradually during 2018-2020. Dividend income from the investments in EPCO will boost profits and cash flow. The earnings before interest, tax, depreciation, and amortization (EBITDA) will continue to increase, rising to Bt520-540 million per year during 2018-2020, up from Bt430-Bt500 million during 2015-2017. The expected rise in earnings and cash flow is also driven by a drop in the selling and administrative expense.

AQUA's cash flow protection as measured by the funds from operations (FFO) to total debt ratio is expected to rise to about 17%-20%, from 9%-18% during 2015-2017. We forecast the EBITDA interest coverage ratio to improve slightly, to 5-6 times in 2018-2020.

Financial leverage to decline gradually

Leverage is forecast to fall as profits rise. Long-term sources of funds, which are long-term loan and debenture, comprise nearly 90% of AQUA's outstanding debt. AQUA had Bt1,972 million in debt outstanding as of March 2018. Debt repayments are estimated from Bt300-Bt570 million per year during 2018-2020, with Bt574 million due in the next 12 months.

We expect AQUA to be able to make these repayments as scheduled, based on EBITDA forecast of Bt500-Bt550 million during 2018-2020. Cash on hand and marketable securities, worth Bt110 million as of March 2018, give AQUA additional financial flexibility.

We forecast the total debt to decline to Bt1,700-Bt2,000 million during 2018-2020. Capital expenditures are expected to drop to Bt60 million per annum, from Bt250-270 million per year during 2016-2017. AQUA will continue building its network of outdoor Light-Emitting Diode (LED), but the amount of cash needed will be much less. As a result, the total debt to capitalization ratio is expected to drop to 29%-35% during 2018-2020.

RATING OUTLOOK

The "stable" outlook reflects the expectation that AQUA will maintain its market position in the out-of-home advertising media industry. Liquidity will remain sufficient, and the total debt to capitalization ratio will stay below at below 40%.

RATING SENSITIVITIES

AQUA's credit upside case may happen if cash flow improves and cash flow protection holds steady or improves. However, there is downside risk from intensifying competition in the outdoor advertising media industry. Any debt funded expansion, which will deteriorate the balance sheet and weaken cash flow protection, would also lead to a downgrade scenario.

COMPANY OVERVIEW

AQUA was established in 1994 as a provider of hire-purchase loans for electrical home appliances. The company was listed on the Stock Exchange of Thailand (SET) in September 2004. In 2007, Mida Asset PLC, led by the Eiwsivikul family, became the company's major shareholder. The family decided to terminate the hire purchase business.

As of March 2018, AQUA's major shareholders comprised Mr. Kumpol Virathepsuporn holding 11.3% of the company's shares, UOB Kay Hian Private Ltd. (holding 4.88%), Mrs. Sumalee Ongcharit (holding 3.68%), and the Eiwsivikul family (holding 3.06%).

AQUA has operated as an investment management company since 2007. In that year, AQUA bought 50% of AQUA Ad PLC (AQUA Ad), a provider of out-of-home media services. AQUA bought all of AQUA Ad in 2011. In 2010, AQUA acquired a 43.8% stake in EPCO. Note that EPCO plans to transition itself to be renewable power producer.

In 2014, AQUA expanded its investment portfolio to include businesses that provide recurring income. In 2014 and 2015, it acquired Thai Consumer Distribution Center Co., Ltd. (TCDC) and Accomplish Way Holding Co., Ltd., which operate built-to-suit warehouses for rent. In 2016, AQUA developed a rehabilitation resort, and then leased the property to the Cabin Chiangmai in order to earn rental income.

By 2017, the revenue stream was diversified, the advertising segment made up 65% of total revenue while the commercial property segment provided 35%.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		------------- Year Ended 31 December -------------			
	Jan-Mar 2018	**2017**	**2016**	**2015**	**2014**
Revenue	228	906	593	562	405
Gross interest expense	23	116	81	64	43
Net income from operations	116	153	240	238	41
Earnings before interest, tax, depreciation, and amortization (EBITDA)	177	512	438	437	302
Funds from operations (FFO)	96	316	299	314	127
Total assets	6,674	6,686	5,432	5,621	4,069
Total debts	2,399	2,508	1,785	1,886	270
Shareholders' equity	3,833	3,763	3,269	3,387	3,470
Operating income before depreciation and amortization as % of sales	58.44	43.30	63.45	57.64	50.95
Pretax return on permanent capital (%)	7.40 **	7.13	7.36	8.44	9.28
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	6.33	4.01	5.16	6.45	6.37
FFO/total debt (%)	14.75 **	13.39	18.26	18.05	56.96
Total debt/capitalization (%)	39.95	41.55	35.53	35.91	7.26

Note: All ratios have been adjusted by operating leases
** Consolidated financial statements*
*** Annualized with trailing 12 months*

Aqua Corporation PLC (AQUA)

Company Rating:	BBB-
Rating Outlook:	Stable

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