

AQUA CORPORATION PLC

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CORPORATES

Company Rating: BBB-
Outlook: Stable

Last Review Date: 25/07/18

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-” with “stable” outlook. The rating reflects the company’s track record as a provider of out-of-home media services. The rating also reflects the high level of recurring income AQUA earns from long-term warehouse rental contracts, and share of profit from an affiliated company. However, the rating is constrained by several factors. The Thai economy is growing at a slow rate, which may affect advertising spending, and market conditions in the out-of-home media segment. Lastly, we expect a decline in AQUA’s cash flow protection over the next few years.

KEY RATING CONSIDERATIONS

Proven track record

AQUA has more than a decade of experience in out-of-home advertising media segment. AQUA is the third-largest provider of out-of-home media in Thailand. Its market share hovered between 5%-6% during 2016-2018, based on total sales. Despite holding the third position, AQUA’s market share is relatively small, far below the share of Plan B Media PLC (PLANB). PLANB is the largest provider of out-of-home advertising with around 40% market share in 2018. We expect AQUA will maintain its current market position in the years ahead.

Shift of focus to LED billboards

AQUA has been converting more conventional outdoor billboards to Light-emitting Diode (LED) billboards. The revenue mix has changed as a result. Revenue from LED billboards made up 53%-55% during 2018 through the first quarter of 2019, up from 27%-33% during 2015-2017. Revenue from conventional billboards accounted for the balance.

AQUA plans to keep expanding its network of LED billboards, adding more displays in prime areas in Bangkok and provincial areas.

Recurring income helps stabilize margins and cash flow

AQUA has recurring income from renting warehouse space and a commercial property, and share of profit from its 40.1% equity stake in Eastern Printing PLC (EPCO; rated “BBB-/Stable” by TRIS Rating), a leading provider of printing services in Thailand.

Recurring income helps stabilize AQUA’s margin and cash flow. We estimate AQUA’s cash flow from long-term rental contracts in the warehouse business and the commercial property business will amount to Bt350-Bt360 million per year during 2019-2021. Rental income is expected to grow by 1%-3% per annum according to rate hike provision in the rental contracts. The gross margin of warehouse rental segment should remain high at 92% during 2019-2021. We estimate the share of profit from the investment in EPCO will amount to Bt260-Bt340 million per year during 2019-2021.

Profitability to remain high despite a slight decrease

Overall operating margin of AQUA ranged between 46%-65% during 2016-2018. However, we expect it to drop to around 47%-54% during 2019-2021, due to the termination of a warehouse rental contract.

The operating margin in the advertising business is forecast at 35%-40%, which is comparable with operating margins of 40%-45% typically reported

by other listed advertisers. We expect the operating margin in the commercial property business to hold steady at 88% during 2019-2021.

Declining cash flow protection

We expect AQUA's cash flow protection to decline during 2019-2021 as the company will likely not receive dividend income from EPCO during that period. As EPCO has to keep cash for reserve purposes, it most likely will not be able to pay dividend over the next few years. We forecast AQUA's earnings before interest, tax, depreciation, and amortization (EBITDA) to fall slightly, ranging around Bt600-Bt630 million per year during 2019-2021, down slightly from Bt661 million in 2018.

Cash flow protection, as measured by the ratio of funds from operations (FFO) to total debt, is expected to drop significantly to 14%-16% during 2019-2021, from 22% in 2018. We also forecast the EBITDA interest coverage ratio to stay flat at 6 times in 2019-2021.

Slight increase in leverage to fund expansion

We forecast AQUA's total debt will rise to Bt2,400-Bt2,600 million during 2019-2021 from Bt2,005 million as of March 2019 to fund its new investments. Capital expenditures and other investments are expected to rise to Bt580 million in 2019, from Bt229 million in 2018. AQUA will make an acquisition in out-of-home media, worth approximately Bt380 million in the second half of 2019. In addition, LED billboard conversions will require additional spending in 2019. As a result, the total debt to capitalization ratio is expected to rise to 38% during 2019, then gradually decline to 32%-35% during 2020-2021. We forecast the net debt to EBITDA ratio to peak at 4.3 times in 2019-2020.

Adequate liquidity

Long-term sources of funds, which are long-term loans and debentures, make up more than 90% of AQUA's outstanding debt. Debt repayments are estimated to range around Bt200-Bt360 million per year during 2019-2021, with Bt674 million due in the next 12 months. We expect AQUA to have adequate liquidity to meet scheduled repayment obligations, based on our EBITDA forecast of Bt600-Bt630 million yearly during 2019-2021.

BASE-CASE ASSUMPTIONS

- Revenues to grow around 2%-8% per annum during 2019-2021.
- Operating margin before depreciation and amortization to range around 47%-54% per annum during 2019-2021.
- Total capital spending and investment to be at Bt580 million in 2019, then decline to Bt25 million yearly during 2020-2021.

RATING OUTLOOK

The "stable" outlook reflects our 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 40%.

RATING SENSITIVITIES

A rating upgrade could happen in a scenario of substantial increase in cash flow generation. 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 rating 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 Eiwsvikul family, became the company's major shareholder. The family decided to terminate the hire purchase business.

As of April 2019, AQUA's major shareholders comprised Mr. Kumpol Virathepsuporn holding 11.3% of the company's shares, Mr. Pakorn Mongkoltada (holding 10.4%), the Eiwsvikul family (holding 3.25%), and Miss Kanchanarat Wonghan (holding 3.21%).

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. EPCO plans to transition itself to be a 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 2018, the revenue stream was diversified, the advertising segment made up 67% of its total revenue while the commercial property segment provided 33%.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	277	1,085	953	617	583
Operating income	160	614	440	401	346
Earnings before interest and taxes (EBIT)	123	541	404	380	381
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	161	661	474	456	459
Funds from operations (FFO)	116	503	230	322	336
Adjusted interest expense	28	112	128	85	68
Capital expenditures	24	229	577	321	425
Total assets	6,916	6,862	6,686	5,432	5,621
Adjusted debt	2,257	2,338	2,239	1,700	524
Adjusted equity	4,199	4,059	3,763	3,269	3,387
Adjusted Ratios					
Operating income as % of total operating revenues (%)	57.85	56.57	46.13	64.93	59.23
Pretax return on permanent capital (%) **	8.11	8.50	7.13	7.35	8.44
EBITDA interest coverage (times)	5.73	5.91	3.71	5.35	6.77
Debt to EBITDA (times)	3.31	3.54	4.73	2.21	1.14
FFO to debt (%) **	22.55	21.51	10.28	32.00	64.11
Debt to capitalization (%)	34.96	36.54	37.30	23.55	13.40

Note: All ratios have been adjusted by operating leases.

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

Aqua Corporation PLC (AQUA)

Company Rating:	BBB-
Rating Outlook:	Stable

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