

AQUA CORPORATION PLC

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CORPORATES

Company Rating: BBB-
Outlook: Stable

Last Review Date: 06/08/19

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 a “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 the share of profit it receives from an affiliated company. However, AQUA’s strengths are offset by a number of factors including the impacts of the Coronavirus Disease 2019 (COVID-19) on the Thai economy and advertising spending.

KEY RATING CONSIDERATIONS

Out-of-home advertising revenue unlikely to recover to 2019 levels until late 2021

According to a survey by The Nielsen Company (Thailand) Ltd., together with online advertising spending data from the Digital Advertising Association (Thailand) (DAAT), total advertising expenditure for out-of-home media in Thailand grew by 1.3% to THB6.9 billion in 2019, while the total advertising expenditure rose by 2.3% to THB123.7 billion.

However, the total advertising expenditure for out-of-home media in Thailand during the first six months of 2020 plunged 11.5% year-on-year (y-o-y) to THB3 billion following the decrease in advertising budgets during the COVID-19 lockdown. Total advertising expenditure dropped by 13.2% to THB51.2 billion during the same period.

TRIS Rating forecasts that total advertising spending will drop by 15%-17% in 2020. The pandemic continues to dampen overall economic activities and advertising demand causing event cancellations and advertising budget cuts. Advertising spending on out-of-home media is expected to drop by 25% in 2020 but will likely start recovering on pent-up demand by year-end 2021.

Medium-size out-of-home media service provider

AQUA’s market share, in terms of total revenue, ranged 8%-12% during 2015-2019. AQUA is the third-largest provider of out-of-home media in Thailand. Despite holding 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 a market share of around 34% in 2019. TRIS Rating expects AQUA will maintain its current market position in the years ahead.

Recurring income helps stabilize margin and cash flow

AQUA generates recurring income from rental of warehouse spaces and commercial properties, and receives a share of profit from its 40% equity stake in Eastern Power Group PLC (EP; rated “BBB-/Stable” by TRIS Rating), which operates integrated printing and packaging services, and energy business.

The recurring income helps stabilize AQUA’s margin and cash flow. We estimate AQUA’s cash flow from long-term rental contracts in the warehouse and commercial property businesses will amount to THB300-THB360 million per year during 2020-2022. Rental income is expected to grow by 1%-3% per annum based on the rate hike provisions in the rental contracts. The gross margin of the warehouse rental business should remain high at 85%-92% during 2020-2022. Based on the secured long-term power purchase

agreements (PPAs) with state-owned utilities and private power buyers, TRIS Rating estimates the company's share of profit from its investment in EP to amount to THB155-THB200 million per year during 2020-2022.

Acceptable performance

AQUA's earnings before interest, tax, depreciation, and amortization (EBITDA) margin declined to 57.8% in 2019, from 61.9% in 2018. TRIS Rating expects an EBITDA margin in the range of 52%-68% during 2020-2022 assuming a gradual recovery in the economy. The EBITDA margin in the advertising business is forecast at 43%-66%, while the EBITDA margin in the commercial property business should hold around 73% during 2020-2022.

Moderate financial leverage

AQUA's financial leverage is considered moderate. AQUA's total debt to capitalization ratio declined slightly to 36% in 2019, from 36.5% in 2018, but returned to 38.3% at the end of June 2020. This was due to increased capital expenditure and investment. However, capital expenditure and investment are forecast to decline to THB300 million per annum in 2020-2022, from THB599 million in 2019. Most of the spending is earmarked for establishing new Light-emitting Diode (LED) and static billboards, expanding the new warehouse, and converting conventional outdoor billboards to LED. As a result, the company's debt to capitalization ratio is expected to decline to 34%-36% during 2020-2022.

Acceptable cash flow protection

We expect AQUA to have acceptable liquidity over the next 12 months. The company has outstanding debts of THB960 million due over the next 12 months. Our base-case forecast projects funds from operations (FFO) of around THB350 million over the same period. As of June 2020, the company had cash on hand of THB132 million and unused credit facilities of THB27 million.

AQUA plans to redeem bonds of THB422 million due in 2021 with long-term loans from commercial banks. Looking forward, AQUA's FFO to total debt ratio is projected to decline to 13.2%-18.3% in 2020-2022 while the EBITDA interest coverage ratio is forecast to be 4-8 times over the same period.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case forecasts for AQUA's operations during 2020-2022 are as follows:

- Revenues to drop by 34% in 2020, and grow by 10%-48% per annum during 2021-2022.
- EBITDA margin to be in the 52%-68% per annum range.
- Total capital spending of THB300 million per annum.

RATING OUTLOOK

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

RATING SENSITIVITIES

A rating upgrade could happen under a scenario of a substantial increase in cash generation. However, there is a downside risk of continued weak demand for advertising in a scenario of slower-than-expected economic recovery. Any debt-funded expansion which would significantly deteriorate its 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 Assets PLC (MIDA), led by the leosivikul family, became the company's major shareholder. The family decided to terminate the hire purchase business.

As of March 2020, AQUA's major shareholders comprised Mr. Pakorn Mongkoltada (holding 24.9% of the company's shares), Mr. Kumpol Virathepsuporn (holding 18.4%), and Ms. Kanchanarat Wonghan (holding 13.3%).

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. In 2010, AQUA acquired a 43.8% stake in (EP). In 2011, AQUA bought all of the remaining shares in AQUA Ad. In 2014, AQUA expanded its investment portfolio to include businesses that generate recurring income. In 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.

As of July 2019, AQUA had acquired a 100% stake in S. Thana Media Co., Ltd., which operates out-of-home media services in Thailand. The total acquisition cost was THB380 million.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	464	1,170	1,068	953	617
Earnings before interest and taxes (EBIT)	162	670	541	404	380
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	390	676	661	474	456
Funds from operations (FFO)	316	481	503	230	322
Adjusted interest expense	66	120	112	128	85
Capital expenditures and investment	153	599	420	1,195	315
Total assets	8,083	7,788	6,862	6,686	5,432
Adjusted debt	2,776	2,576	2,338	2,239	1,007
Adjusted equity	4,475	4,588	4,059	3,763	3,269
Adjusted Ratios					
EBITDA margin (%)	84.02	57.81	61.90	49.72	73.87
Pretax return on permanent capital (%)**	7.88	9.72	8.50	7.13	7.35
EBITDA interest coverage (times)	5.87	5.61	5.91	3.71	5.35
Debt to EBITDA (times)	3.91	3.81	3.54	4.73	2.21
FFO to debt (%)**	19.09	18.67	21.51	10.28	32.00
Debt to capitalization (%)	38.29	35.95	36.54	37.30	23.55

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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