TRIS RATING
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CHONBURI CONCRETE PRODUCT PLC

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CORPORATES

Company Rating:	BB+
Outlook:	Stable

Last Review Date: 22/03/18

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 on Chonburi Concrete Product PLC (CCP) at "BB+". The rating continues to reflect CCP's established operations and good locations of its core producing assets in Chonburi province. However, the rating is partially constrained by its small market share and business size, geographical concentration, as well as high susceptibility to cyclicality and intense competition in the building material industry. The rating also incorporates CCP's waning performance over the past years.

KEY RATING CONSIDERATIONS

Adequate competitiveness in its territory

The rating also reflects CCP's longstanding operation with its established customer base in Chonburi province. Currently, CCP's core assets include precast concrete plants, a lightweight concrete factory, and a modern trade retailer shop. The good business location in Chonburi province benefits the company in terms of higher-than-average construction demands along with good business prospects from the government's flagship Eastern Economic Corridor (EEC) projects.

Negative impact from selling RMC plants

The company's performance in the ready-mixed concrete (RMC) segment has continued to deteriorate over several years. There are an increasing number of new RMC producers challenging CCP in several areas. Sales have declined steadily as a result, falling to around Bt0.5 billion in 2018 from Bt1.0 billion in 2013. Given highly competitive market, the profit in the RMC segment also fell sharply as well.

CCP decided to sell all of its RMC plants to a cement producer in August 2018 and reduced a number of workers to cut overhead costs. The company remains active in the RMC segment as a trader for other RMC producers. Given a large fleet of owned vehicles, CCP can offer logistic services for other RMC producers.

TRIS Rating holds the view that the divestiture will weaken CCP's business profile, despite the cost-saving benefits. In our view, a lower number of producing assets implies a lessened ability in securing sizeable and long-term contracts. The divestiture portends a drop in CCP's ability to generate revenue in the long run. CCP's market share and size is likely to shrink after the divestiture. The RMC plants were core assets, typically generating about 25%-30% of total revenue.

Small scale and revenue concentration

The company's market position is weak, holding about 2%-3% of total market share. Its revenue size is small compared with other listed peers and its product offering is limited. CCP's competitive edge is confined in Chonburi and nearby provinces. Given its small business scale, CCP is highly susceptible to repercussions from a market downturn. CCP's business profile also reflects a regional concentration risk as the majority of its sales relies on the construction activities in Chonburi and Rayong provinces.

Cyclical industry with intense competition

CCP's profit margin is thin and volatile as its product demand is linked to new construction and government infrastructure outlays which are sensitive 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.

Continuously weakened financial performance

In 2018, CCP's financial profile continued to diminish, dragged down by the ailing RMC segment and squeezed profit margin in the precast product segment. The operating margin (operating income before depreciation and amortization as a percentage of sales) dropped to 6.5% in 2018 from 8.3% in 2017. CCP's earnings before interest, taxes, depreciation and amortization (EBITDA) plunged by 19.4%, dropping to its lowest level of Bt158 million in 2018, from Bt196 million in 2017. CCP's cash flow protection weakened as the ratio of funds from operations (FFO) to debt fell to 11.6% in 2018 from 20.4% in 2017.

In the forecast for 2019-2021, TRIS Rating expects CCP's revenue will fall further due to a large drop in sales volume of the RMC segment after the divestment of its RMC plants. However, the operating margin and EBITDA are likely to enhance gradually, supported by the reduction of fixed costs associated in the RMC production and expected restoration in building material demands from the government's projects from 2019 onwards. In our base case, revenue will stay at around Bt2.2 billion per year while EBITDA will gradually restore to Bt180 million from Bt160 million. FFO will range between Bt120-Bt150 million per year.

Expected deleveraging

In 2018, CCP refinanced most of its bonds by long-term loans in order to mitigate risks from bond bullet payment. As of December 2018, its total debt was Bt854 million. Loans from banks comprised 77% of total debt, up from 48% a year earlier.

TRIS Rating expects its deleveraging from 2019 onwards. Capital expenditures are forecast to fall during the stressful period and the scheduled loan repayments will reduce the amount of debt outstanding. We forecast the debt to capitalization ratio will reduce to 36% in 2019 and to 32% in 2021, down from 38.6% at the end of 2018.

Tight liquidity

TRIS Rating assesses CCP's liquidity is still inadequate due to its financial obligations coming due. Over the next 12 months, CCP is obliged for debt repayments, comprising the remaining bond outstanding (Bt160 million) and long-term loan repayments (Bt112 million). CCP will pay Bt28 million in dividend while it is expected to spend Bt70 million for capital expenditures. Over the same period, the sources of funds will comprise estimated FFO of Bt120 million, cash-on-hand of Bt34 million, the final proceeds from selling RMC plants of Bt30 million, and undrawn bank loans of Bt160 million. Since uses of funds exceed the funding sources, CCP needs to manage its liquidity prudently.

BASE-CASE ASSUMPTION

- CCP's revenue will fall by around 10% to Bt2.2 billion in 2019 and maintain at such level in 2020 and 2021.
- The operating margin will slightly improve to 7.0%-8.0%.
- The company's capital expenditure is expected to reduce to Bt70 million per annum.
- FFO to debt ratio should improve and rise to the range of 15%-20% over the next three years.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's view that the severe competition will continue to weigh down CCP's revenue and profitability. CCP's debt level is likely to decrease in order to balance the cash flow to debt ratio and maintain its debt serviceability.

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. This could be seen when the FFO to debt ratio falls below 10% for a sustained period.

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 produces 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.

The 2018, revenue in the CCP Group was Bt2.4 billion. The concrete segment, including the ready-mixed concrete (23%) and precast concrete (32%), contributed about 55% of total revenue. The retail business and lightweight concrete segment generated 27% and 14% of the total revenue, respectively.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	-----------------------Year Ended 31 December -------------------				
	2018	**2017**	**2016**	**2015**	**2014**
Total operating revenues	2,421	2,357	2,326	2,414	2,645
Operating income	158	196	216	252	337
Earnings before interest and taxes (EBIT)	(6)	24	47	100	219
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	158	196	216	255	341
Funds from operations (FFO)	101	148	168	201	269
Adjusted interest expense	48	41	36	31	27
Capital expenditures	100	158	327	318	366
Total assets	2,935	2,976	2,936	2,770	2,617
Adjusted debt	875	898	823	609	397
Adjusted equity	1,389	1,461	1,549	1,570	1,513
Adjusted Ratios					
Operating income as % of total operating revenues (%)	6.5	8.3	9.3	10.5	12.7
Pretax return on permanent capital (%)	(0.3)	1.0	2.0	4.7	11.8
EBITDA interest coverage (times)	3.3	4.8	6.0	8.3	12.8
Debt to EBITDA (times)	5.5	4.6	3.8	2.4	1.2
FFO to debt (%)	11.6	16.4	20.4	33.1	67.7
Debt to capitalization (%)	38.6	38.1	34.7	28.0	20.8

* *Consolidated financial statements*

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Company Rating:	BB+
Rating Outlook:	Stable

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