CHONBURI CONCRETE PRODUCT PLC

No. 44/2021
31 March 2021

CORPORATES

Company Rating:	BB+
Outlook:	Stable

Last Review Date: 05/03/20

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+" with a "stable" outlook. The rating continues to reflect CCP's fair competitiveness and the advantage gained from its business location in Chonburi province. The rating also embeds our expectation that CCP's debt will decline in the absence of large investments in the foreseeable future. Conversely, the rating is partially held back by the small size of the company's business and its geographical concentration. The rating also recognizes CCP's high susceptibility to the cyclicality and intense price competition in the building material industry.

KEY RATING CONSIDERATIONS

Fair competitiveness and location benefit in Chonburi province

CCP's business strength lies in its entrenched operations and competitiveness in the Chonburi and vicinity markets. The company has been operating for over 30 years and has established a strong customer base in Chonburi and Rayong provinces. Its core production facilities, including precast concrete plants, a lightweight concrete factory, and a modern trade retail shop, are also located in Chonburi province, giving the company competitive advantages in terms of service and delivery cost over competitors in other regions.

CCP's business benefits from the advanced degree of economic development in Chonburi province, as seen from the higher-than-average economic growth over several years. In addition, we expect a range of potential construction projects in the Eastern Economic Corridor (EEC), which will give rise to strong demand for building materials over the long term.

However, the company's business strengths are hampered by its narrow product offerings and limited market coverage, as its logistics competitiveness is confined to customers in Chonburi and nearby provinces.

Small business scale and geographical concentration

The rating is constrained by CCP's small business scale. The company's share of the building materials market was about 2%-3%. The size of its assets and revenues are also relatively small, compared with rated peers.

As 70%-80% of CCP's revenues are derived from customers in Chonburi, the company's business is highly reliant on the economy in the Eastern region of Thailand.

High susceptibility to industry cyclicality and intense competition

CCP's end markets are highly cyclical, which explains its high degree of earnings volatility over time. The demand for the company's products corresponds closely to up-down cycles of the economy, construction activities, and the government's infrastructure outlays.

The company's strengths are also tempered by a highly competitive marketplace, characterized by price wars in commodity products, little product differentiation, and a large number of competitors. Given the thin and volatile nature of its earnings, CCP is highly susceptible to a sharp drop in market demand.

Move toward precast concrete

In our view, CCP's shift in focus to precast concrete products is an appropriate strategy to protect its market position. Precast concrete products generate a higher and more stable profit margin than ready-mixed concrete (RMC) due in large part to the skills required in production and a lower number of competitors. CCP's precast concrete products are mainly large drainpipes and a range of concrete products related to drainage systems. The company's product development plan focuses on widening product variety and introducing new products to tap the higher-margin market, such as electricity and gas projects.

The precast concrete segment has shown consistent revenue growth over the past five years, accounting for about 33% of the company's total revenue in 2020, compared with 27% in 2016. The gross profit margin of the precast concrete segment was in the range of 10%-15%, far above the gross profit margin of RMC of about 5%. Considering the company's expansion plan, we expect revenue from the precast concrete segment to rise, contributing 35%-40% of total revenue in the next few years.

Sound performance despite COVID-19

In 2020, construction activities were somewhat affected by the Coronavirus Disease 2019 (COVID-19) lockdowns. In effect, CCP's total revenue dropped by 7% year-over-year (y-o-y) to THB2.4 billion in 2020, from THB2.6 billion in 2019. However, earnings before interest, taxes, depreciation, and amortization (EBITDA) grew by 9.1% to THB300 million, from THB279 million over the same period in the previous year. The improving performance was driven by a growing slice of high-margin precast concrete sales. The light-weight concrete segment also continued to deliver satisfactory results, thanks to the demand for residential properties in the EEC areas.

In contrast, the operation of its retail shop weakened further, due to softening demand in the retail segment. Meanwhile, CCP was able to maintain its sales volume of RMC after the company sold its RMC plants and shifted to RCM trading and outsourcing. Looking ahead, we expect the profit margin of RMC will remain thin, and the earnings contribution of RMC will be small. That said, we view the change of CCP's RMC business model will reduce the company's exposure to the fiercely competitive market and give rise to a significant reduction in fixed costs.

A sustained level of EBITDA

We view that CCP's revenue is likely to move in tandem with public investment in the Chonburi area. We expect public investment, including EEC projects, will pick up speed in the second half of 2021 to help boost the economy. CCP's precast concrete segment should benefit as its products mainly serve public works. We expect the light-weight concrete segment will remain profitable.

Given the prospects for precast concrete, we expect CCP's profitability and earnings will be less volatile in contrast to the recent past. In our base-case forecast, we expect CCP's revenue will arrive at THB2.4-THB2.5 billion per annum during 2021-2023. The EBITDA margin (EBITDA as a percentage of total operating revenues) is expected to stay in the 10%-12% range. We expect CCP will generate a sustained level of EBITDA of THB250-THB300 million a year over the forecast period. However, key downside risks may include the prolonged disbursement of government budget and delays in bidding for public projects.

Stronger financial profile expected

CCP's strengthening financial profile is a positive factor to the rating. CCP's financial risk profile continues to improve with the decline in debt. CCP's net debt decreased to THB646 million in 2020, from THB800 million in 2019. The ratio of funds from operations (FFO) to net debt rose to 41.2% in 2020, from 28.9% in 2019, while the net debt to EBITDA ratio decreased to 2.1 times in 2020, from 2.9 times in 2019.

We project CCP's debt burden to decline further, with no major capital investments in the forecast period. Capital expenditures are expected to drop below THB130 million per year, while we project CCP will generate THB200-THB250 million in FFO per year during 2021-2023. In addition, the company carries cash on hand and short-term investments of about THB180 million to support capital needs or investments. In our base-case for 2021-2023, we forecast the FFO to net debt ratio to exceed 40% and the net debt to EBITDA ratio to fall below 2 times.

Adequate liquidity

We assess CCP to have adequate liquidity over the next 12 months. At the end of 2020, CCP had cash on hand and short-term investments of THB180 million. Over the next 12 months, FFO is estimated to be THB200-THB250 million. CCP's uses of funds will include long-term loan repayments of THB134 million, capital expenditures of THB130 million, and an estimated dividend payment of THB58 million.

BASE-CASE ASSUMPTION

- Revenue to remain in the range of THB2.4-THB2.5 billion per annum during 2021-2023.
- EBITDA margin to stay between 10% and 12%.
- Capital expenditures of THB130 million per annum.
- Dividend payout at 50%-60%.

RATING OUTLOOK

The “stable” outlook reflects TRIS Rating’s expectation of CCP’s strengthening financial profile with a continued decline in its outstanding debt. We expect the company to maintain competitiveness in its stronghold market areas and benefit from accelerating investment in EEC areas.

RATING SENSITIVITIES

The rating and/or outlook could be revised upward if CCP is able to sustain its profit margin and financial performance in line with our forecasts, with its FFO to net debt ratio above 40% or its net debt to EBITDA ratio staying below 2 times for a sustained period. At the same time, we expect CCP to manage its liquidity more prudently to withstand the impacts of adverse market conditions.

Downward pressure on the rating would build if CCP’s operating performance and/or its level of cash flow against debt obligations weaken significantly, which could be the case if its 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 produce RMC 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”, distributing basic building materials and home improvement products in Chonburi. The light-weight concrete segment is operated under Smart Concrete PLC, which was established in 2004 and listed on the Market for Alternative Investment (MAI) in September 2014. In August 2018, the company sold almost all of its RMC plants to a cement producer and changed its business to be RMC trading and outsourcing instead.

In 2020, CCP’s revenue totaled THB2.4 billion. The concrete segment, including RMC (20%) and precast concrete (33%), contributed about 56% of total revenue. The retail business and lightweight concrete segment generated 25% and 16% of total revenue, respectively.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----------------------Year Ended 31 December -----------------				
	2020	**2019**	**2018**	**2017**	**2016**
Total operating revenues	2,457	2,641	2,421	2,357	2,326
Earnings before interest and taxes (EBIT)	134	114	(6)	24	47
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	304	279	158	196	216
Funds from operations (FFO)	266	231	101	148	168
Adjusted interest expense	32	42	48	41	36
Capital expenditures	157	139	100	158	327
Total assets	2,856	2,895	2,935	2,976	2,936
Adjusted debt	646	800	875	898	823
Adjusted equity	1,491	1,426	1,389	1,461	1,549
Adjusted Ratios					
EBITDA margin (%)	12.4	10.6	6.5	8.3	9.3
Pretax return on permanent capital (%)	5.9	5.0	(0.3)	1.0	2.0
EBITDA interest coverage (times)	9.5	6.7	3.3	4.8	6.0
Debt to EBITDA (times)	2.1	2.9	5.5	4.6	3.8
FFO to debt (%)	41.2	28.9	11.6	16.4	20.4
Debt to capitalization (%)	30.2	35.9	38.6	38.1	34.7

* *Consolidated financial statements*

RELATED CRITERIA

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

Chonburi Concrete Product PLC (CCP)

Company Rating:	BB+
Rating Outlook:	Stable

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