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CHONBURI CONCRETE PRODUCT PLC

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CORPORATES

Company Rating:	BB+
Outlook:	Stable

Last Review Date: 01/02/23

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 reflects the company's modest business scale compared to its rated peers and the geographical concentration of its operations, as well as its susceptibility to the cyclical nature and intense competition in the building material industry. However, CCP's rating is supported by its comparatively low financial leverage and the recovery of its operating performance.

KEY RATING CONSIDERATIONS

Rating constrained by modest scale, geographic concentration

CCP's rating is constrained by its small business size. The company's revenues and earnings are well below those of higher-rated companies. Over the past five years, its annual revenue and earnings before interest, taxes, depreciation, and amortization (EBITDA) ranged around THB2.4-THB2.6 billion and THB158-THB304 million, respectively. Also, the company's key production and distribution facilities for precast concrete (Precast), lightweight concrete (LWC) and ready-mixed concrete (RMC) are situated in Chonburi Province, resulting in a concentrated customer base in Chonburi and its surrounding provinces.

However, this constraint is somewhat mitigated by the robust economic development in Chonburi Province and the increasing number of infrastructure projects in the Eastern Economic Corridor (EEC). Anticipated construction near Laem Chabang Sea Port and growing demand for land development in the industrial estate sector are expected to support its revenues and earnings over the next two-three years.

Improving operating performance

CCP's operating revenue in the first nine months of 2023 (9M23) rose 22% year-on-year (y-o-y) and its EBITDA also rose substantially by 65% y-o-y, driven mainly by growth in demand for Precast and LWC. Its EBITDA margin in 9M23 increased to 13.1% from 9.7% in 9M22, amid the sharp rise in LWC prices as demand for LWC in the residential property development outpaced supply.

Looking ahead, CCP profitability is expected to soften, as LWC prices may not be sustainable at current levels once the LWC supply catches up with demand. Nevertheless, the company's EBITDA margin is expected to remain above 10%. In our base-case projection, we forecast CCP's revenues to range around THB2.9-THB3 billion over the next two-three years, with the EBITDA margin peaking at around 12%-13% in 2023 and gradually softening to around 10%-11% during 2024-2026.

Highly susceptible to cyclical industry, intense competition

CCP's operating performance is significantly affected by the cyclical nature of its end markets. The company's product demand heavily relies on both private and public investments in infrastructure projects. Also, the company contends with intense competition in the market, characterized by price wars amid little product differentiation and a large number of producers. The company must compete with many players in the market including large companies like Siam Cement PLC, Siam City Cement PLC, and TPI Polene PLC. Given the thin and volatile nature of its earnings, the company's performance is highly susceptible to the consequences of market downturns.

Low financial leverage with moderate capex

The rating on CCP is supported by its relatively modest financial leverage. In 9M2023, CCP's funds from operations (FFO) to adjusted debt ratio (annualized with trailing 12 months) was 62% and its adjusted debt to EBITDA ratio (annualized with trailing 12 months) was only 1.3 times. CCP's debt to capitalization ratio at the end of September 2023 stood at 23.1%. Despite its intentions to venture into new business initiatives, CCP is expected to maintain the FFO to adjusted debt ratio above 40% and its net debt to EBITDA ratio should remain below 2.5 times throughout the forecast period. Also, CCP's debt to capitalization ratio is expected to hover between 20%-30%.

Under TRIS Rating's base case, we assume that CCP's maintenance capital expenditure (capex) will range between THB50-THB100 million per annum, while the investment budget for additional capacity and efficiency improvement is estimated at around THB100 million per annum. Also, we anticipate increased investment by CCP in its warehouse for rent business. CCP has recently entered the free trade zone warehousing management services near Laem Chabang Port. Construction for the first phase, involving an investment of around THB50 million, was completed in late 2023, with an expected annual rental income of around THB8 million. Should the initial phase prove successful, CCP intends to invest in a larger second phase in 2025, with a budget set at around THB150 million. We view the diversification into the logistics business, if successful, as being a credit positive for CCP, given the comparatively lower volatility and superior profit margins of the property for rent business compared to CCP's existing businesses.

Adequate liquidity

We assess CCP's liquidity for the next 12 months as sufficient. CCP's sources of funds included cash on hand and cash equivalents of THB256 million at the end of 9M23, coupled with an estimated FFO of THB250 million for the following 12 months. Its uses of funds are mainly long-term loan repayments of THB84 million and capital expenditures of around THB120 million.

Despite maintaining a low financial leverage, CCP was unable to comply with the current ratio covenant (based on the separated financial statements) on one of its bank loans. At the end of 2022, this ratio was 0.7 times, lower than the minimum requirement of 1.0 times. However, CCP secured a covenant waiver from the lender. Due to higher working capital usage, CCP may continue to breach its current ratio covenant as assessed on the financials at the end of 2023. However, we expect the company to obtain a waiver from its lender, given its modest leverage and satisfactory liquidity position.

Debt structure

At the end of September 2023, CCP's consolidated debt, excluding financial lease, was THB601 million, all of which was secured debt. Thus, CCP's priority debt to total debt ratio was 100%.

BASE-CASE ASSUMPTIONS

- Revenue in the THB2.9-THB3.0 billion per annum range during 2024-2025.
- EBITDA margin of 10.3%-10.5% during 2024-2025.
- Capex, including investment in both phases of its warehouse business, of around THB420 million over 2024-2025.

RATING OUTLOOK

The "stable" outlook reflects our expectation that CCP will deliver operating performance as targeted. CCP's financial leverage should not significantly deteriorate from the current level despite investments in new businesses. We also expect the company to remain competitive in its stronghold market areas and benefit from investments in the EEC.

RATING SENSITIVITIES

CCP's rating and/or outlook could be revised upward should the company successfully enlarge its business scale while maintaining relatively low financial leverage such that its FFO to net debt ratio remains over 40% on a sustained basis.

Downward pressure on the rating and/or outlook could emerge if CCP's operating performance is weakening or the company aggressively pursues debt-funded investments causing its FFO to debt ratio to fall below 20% on a sustained basis.

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) RMC and precast concrete business, 2) modern-trade retail business, 3) LWC business, and 4) warehousing management services.

CCP's concrete segment primarily produces RMC and precast concrete. The company's precast concrete segment focuses on the 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 LWC 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 RMC trading and outsourcing instead.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

		-------------Year Ended 31 December --------			
	Jan-Sep 2023	2022	2021	2020	2019
Total operating revenues	2,303	2,529	2,378	2,457	2,641
Earnings before interest and taxes (EBIT)	176	83	81	134	114
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	302	255	260	304	279
Funds from operations (FFO)	249	212	225	266	231
Adjusted interest expense	23	25	28	32	42
Capital expenditures	161	73	169	157	139
Total assets	3,122	2,881	2,833	2,856	2,895
Adjusted debt	497	490	494	646	800
Adjusted equity	1,657	1,566	1,572	1,491	1,426
Adjusted Ratios					
EBITDA margin (%)	13.10	10.06	10.92	12.38	10.56
Pretax return on permanent capital (%)	8.85 **	3.66	3.54	5.90	5.00
EBITDA interest coverage (times)	12.94	10.22	9.29	9.52	6.68
Debt to EBITDA (times)	1.33 **	1.92	1.90	2.12	2.87
FFO to debt (%)	61.76 **	43.27	45.58	41.15	28.86
Debt to capitalization (%)	23.07	23.83	23.90	30.24	35.93

* *Consolidated financial statements*
** *Adjusted with trailing 12 months*

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Chonburi Concrete Product PLC (CCP)

Company Rating:	BB+
Rating Outlook:	Stable

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