

# LOXLEY PLC

No. 150/2018  
10 October 2018

## CORPORATES

**Company Rating:** BBB+

**Issue Ratings:**  
Partially guaranteed A-

**Outlook:** Stable

### Company Rating History:

Date	Rating	Outlook/Alert
02/10/15	BBB+	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Loxley PLC (LOXLEY) at “BBB+” and affirms the ratings on LOXLEY’s partially guaranteed debentures at “A-”. The ratings of the partially guaranteed debentures are based on the credit profiles of both the guarantor and the issuer (LOXLEY). Forty-five percent (45%) of the sum of the outstanding principal plus interest is guaranteed by KASIKORNBANK PLC (KBANK), rated “BBB+” by S&P Global Ratings, with “stable” outlook (international scale).

The ratings reflect LOXLEY’s diverse range of businesses and long-established relationships with its customers and suppliers. The ratings also incorporate the sizable dividends received from two major associated companies. Conversely, the ratings are tempered by LOXLEY’s relatively low profitability and the volatility of its revenue stream, which is mainly project-based income.

## KEY RATING CONSIDERATIONS

### Diverse range of businesses

LOXLEY offers a variety of products and services through its wholly-owned and majority-owned subsidiaries. The company’s businesses can be categorized into five strategic business groups: (1) information technology, (2) energy, (3) network solution, (4) food services & distribution, and (5) services. LOXLEY has also invested in a number of associated companies and joint ventures which enable the company to widen its scope of business into areas such as the production and distribution of lubricants, industrial coated and pre-painted steel, and more. The diverse sources of revenue from multiple lines of business help alleviate the fluctuations in the revenue stream.

### Projected-based revenue stream

LOXLEY’s performance predominantly derives from project-based revenue which comprises more than 50% of its annual revenue. The company relies on projects originated by the government and state-owned enterprises. LOXLEY’s revenue stream thus hinges on government budgets and the initiation of new projects. The projects carry a minimal amount of payment risk, but have relatively low profit margins. The bidding projects sometimes face delays or cancellation, which increases the volatility of LOXLEY’s revenue stream. In addition, LOXLEY, as with its rivals in the information and communication technology (ICT) industry, must contend with fast-moving technological changes, with products or services becoming outdated over time.

TRIS Rating believes the government will spend more of its budget on ICT as it tries to promote its digital economy policy. In addition, the company aims to increase recurring income from its food services & distribution and services businesses. Therefore, we project the company revenue will be in the range between Bt14,000-Bt16,000 million during 2018-2020.

### Long-established relationships with clients and suppliers with highly skilled employees

LOXLEY has built long-term relationships with its clients and suppliers. The company has a well-established market presence, particularly in the government sector, backed by its track record of completed projects for several government departments. The company is a long time key agent or distributor for a number of internationally recognized suppliers.

LOXLEY has an expert and experienced management team and personnel. The company's employees are well-trained and capable of delivering high-quality products and services across a range of industries. In addition, the high level of technical skills possessed by LOXLEY's staff creates innovations and new business opportunities. These strengths enable LOXLEY to repeatedly win the bidding on both government and private projects.

#### **Low profit margin remains**

From the past record, the company has posted narrow operating profit margins of around 1% to 2%. The low profitability was because the company carries high selling and administrative expenses, especially high overhead costs. In addition, most government projects provide low profit margins as those projects are awarded through competitive bidding with stiff competition. The company is in the process of business transforming its organization in order to improve its efficiency. The company has terminated some unprofitable business units. However, the success of the transforming attempt remains to be seen.

#### **Major cash flow from dividends from associated companies**

During the past five years, share profit from its associated companies contributed the major part of total earnings before interest, taxes, depreciation, and amortization (EBITDA). The key associated companies stem from LOXLEY's partnership with BP PLC, one of the world's largest oil and gas companies, and BlueScope Steel Ltd., a leading steel manufacturer headquartered in Australia. The dividends are a stable, sustainable source of cash flow for LOXLEY since the associated companies have strong market presences and healthy financial performances. During the next three years, TRIS Rating projects the dividends from its associated companies will range from Bt400 million to Bt600 million.

#### **Financial leverage will drop slightly**

LOXLEY's leverage is considered moderate. As most of the company's debts are project financed debts, leverage is generally elevated in the wake of acquiring project contracts. At the end of June 2018, adjusted debt was Bt3,936 million and the debt to capitalization ratio stood at 39.3%. We project the debt to capitalization ratio will gradually improve to 34% in 2020.

#### **Acceptable liquidity profile**

The company's liquidity position is acceptable. As of June 2018, LOXLEY's source of funds comprised cash on hand of Bt971 million and short-term investments worth Bt110 million. We project the funds from operations (FFO) will be around Bt400 million in the next 12 months. The company has undrawn credit facilities of around Bt2,977 million. These sources of funds should be sufficient to cover the cash needed for debt service and investments over the next 12 months. LOXLEY has long-term debt repayment obligations of around Bt66 million due during the next 12 months. As of June 2018, the company's outstanding short-term obligations were Bt1,921 million. The company has investment budget of approximately Bt200 million in 2018.

TRIS Rating believes LOXLEY will comply with its debenture covenants over the next 12 to 18 months. The debt to equity ratio at the end of December 2017 was 0.8 times, below the debenture covenant of 2.5 times.

#### **RATING OUTLOOK**

The "stable" outlook reflects the expectation that LOXLEY could sustain its competitive position as it bids for projects and continues to show a sustainable level of project-based revenue. In addition, the company should continue to benefit from its diverse range of businesses and obtain considerable returns from its profitable associated companies. Our base case scenario assumes LOXLEY's revenues will range between Bt14,000-Bt16,000 million during 2018-2020. We project that LOXLEY's FFO to total debt ratio will range between 12%-16% and the EBITDA interest coverage ratio will be around 4 times.

#### **RATING SENSITIVITIES**

LOXLEY's ratings could be upgraded if the company significantly improves its operating profit margin on a sustainable basis and if its recent investments show notable payoffs. In contrast, downward rating pressure would emerge should LOXLEY experience a steep downturn in revenue, a further drop in profitability, or a material decline in the amount of dividends it receives.

#### **COMPANY OVERVIEW**

LOXLEY was established in 1939 by the two co-founders, Mr. Ng Yuk Long Lamsam and Mr. Andrew Beattie of W.R. Loxley Company of Hong Kong. Its original business was the export of primary products, such as rice and lumber. In the late 1950s, LOXLEY moved to the trading of industrial and advanced technology products. The company went public in 1993 and was listed on the Stock Exchange of Thailand in 1994. In the past several years, LOXLEY has enlarged and diversified its

scopes of businesses through its own operations and a number of subsidiaries, associated companies, and joint ventures. LOXLEY currently has 28 subsidiaries, 15 associated companies, and six joint ventures.

## KEY OPERATING PERFORMANCE

**Table 1: LOXLEY's Revenue Breakdown**

Unit: %

Strategic Business Group	2013	2014	2015	2016	2017	Jan-Jun 2018
1. Information Technology	26	22	22	22	21	28
2. Food Services & Distribution	21	22	29	28	23	23
3. Energy	6	10	11	11	11	13
4. Network Solution	6	14	14	19	27	15
5. Services	8	11	13	12	13	18
6. Others	27	19	10	8	7	7
<b>Total</b>	<b>95</b>	<b>98</b>	<b>98</b>	<b>100</b>	<b>102</b>	<b>104</b>
Less related transaction	5	2	2	0	-2	-4
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: LOXLEY

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Bt million

	Jan-Jun 2018	-----Year Ended 31 December -----			
		2017	2016	2015	2014
Total operating revenues	6,509	15,767	13,780	11,543	14,539
Operating income	129	(76)	27	118	216
Earnings before interest and taxes (EBIT)	203	182	422	475	631
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	411	622	766	769	970
Funds from operations (FFO)	270	342	503	547	659
Adjusted interest expense	102	223	220	181	185
Capital expenditures	43	150	546	109	140
Total assets	15,277	16,210	15,710	14,283	13,765
Adjusted debt	3,936	3,258	2,667	3,138	1,149
Adjusted equity	6,085	6,294	6,625	6,593	6,411
<b>Adjusted Ratios</b>					
Operating income as % of total operating revenues (%)	1.98	(0.48)	0.20	1.03	1.49
Pretax return on permanent capital (%)	0.12 **	1.62	3.82	4.58	6.62
EBITDA interest coverage (times)	4.03	2.79	3.49	4.25	5.23
Debt to EBITDA (times)	8.40 **	5.24	3.48	4.08	1.19
FFO to debt (%)	4.57 **	10.51	18.87	17.43	57.37
Debt to capitalization (%)	39.28	34.10	28.70	32.24	15.20

\* Consolidated financial statements

\*\* Annualized with the trailing 12 months

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**Loxley PLC (LOXLEY)**

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<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
LOXLEY20DA: Bt300 million partially guaranteed debentures due 2020	A-
LOXLEY22DA: Bt700 million partially guaranteed debentures due 2022	A-
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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