

LOXLEY PLC

No. 72/2021
5 May 2021

CORPORATES

Company Rating:	BBB
Issue Ratings:	
Partially guaranteed	BBB+
Outlook:	Stable

Last Review Date: 07/05/20

Company Rating History:

Date	Rating	Outlook/Alert
07/05/20	BBB	Stable
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 “BBB+”. The rating outlook remains “stable”. The ratings on 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 “AA+/Stable” by TRIS Rating*).

The ratings reflect LOXLEY’s diverse range of businesses and long-established relationships with its customers and suppliers. The ratings also take into account the sizable dividends the company receives from two major affiliates. Conversely, the ratings are tempered by LOXLEY’s relatively low profitability and the volatility of its project-based revenue.

KEY RATING CONSIDERATIONS

Improved operating profit margin

After a significant decline in profitability due to the provision for losses from a project undertaken in 2019, the company’s earnings before interest, taxes, depreciation, and amortization (EBITDA) margin improved to 2.3% in 2020 in tandem with its efforts to reduce selling and administrative expenses.

Going forward, the company aims to bid for more high-margin projects in which it has experience or proficiency. The company also plans to continuously improve its operating efficiency and further reduce overheads. We therefore expect its EBITDA margin to improve to the range of 3%-4% in 2021-2023. However, we still consider the company’s operating profit margin to be low due mainly to its high overhead costs. In addition, most government projects yield low profit margins as they are awarded through fiercely competitive biddings.

Sustained revenue expected

At the end of December 2020, the company’s backlog stood at around THB8.6 billion, approximately 60% of which will be recognized as revenue in 2021. The company also generates recurring income from its trading business of around THB3.5 billion per annum.

TRIS Rating believes the government will launch more new projects to stimulate the domestic economy. Whereas the company’s trading business that focuses mainly on food and consumer goods, has been little affected by the Coronavirus Disease 2019 (COVID-19) pandemic. We project the company’s revenue to be in the range of THB13-THB14 billion during 2021-2023.

Diverse business mix mitigates risk

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 (IT), (2) energy, (3) network solutions, (4) trading, and (5) services. The diverse sources of revenue from multiple lines of business help alleviate fluctuations in its revenue to some extent.

LOXLEY has also invested in a number of affiliated companies and joint

* The rating assigned to KBANK is based on public information which TRIS Rating believes that it provides a sufficient basis for the assessment of the credit profile of KBANK. The rating is assigned without the participation of KBANK.

ventures which widen its scope of business into areas such as the production and distribution of lubricants, as well as industrial coated and pre-painted steel. The shared profits from these affiliates have contributed a significant portion of LOXLEY's total EBITDA. Over the next three years, we project the dividends from these affiliates to be THB400-THB600 million per annum.

Long-established client base

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 entities. The company is also a longstanding distribution agent for a number of internationally recognized suppliers.

LOXLEY has the expertise and capabilities to deliver high-quality products and services across a range of industries. The high-level technical skills possessed by LOXLEY's workforce position the company to drive innovation and create new business opportunities. These strengths enable LOXLEY to consistently win bids for both government and corporate projects.

Improved financial profile

LOXLEY's financial profile has improved over the past year. The adjusted debt to EBITDA ratio improved to 6.8 times in 2020, a sharp decline from -10.7 times in 2019. The significant improvement was due to the combination of an increase in EBITDA and a reduction in debt owing to a lower level of inventory. The adjusted debt to capitalization ratio also declined materially to 30.1% in 2020 from 41.7% in 2019.

Our base-case forecast projects the company's annual EBITDA to stay in the range of THB400-THB500 million during 2021-2023, while adjusted debt to be THB2.0-THB2.7 billion, resulting in an adjusted debt to EBITDA ratio of 5-7 times over the next few years. We expect the adjusted debt to capitalization ratio to gradually improve to 25% in 2023.

Acceptable liquidity profile

We assess the company to have an adequate liquidity position over the next 12 months. As of December 2020, LOXLEY's sources of funds comprised cash on hand of THB2.47 billion and short-term investments worth THB316 million. We project funds from operations (FFO) to be around THB250 million in the next 12 months. The company also has undrawn credit facilities of around THB2.6 billion. These sources of funds should be sufficient to cover the funding need for debt service and investments over the next 12 months. LOXLEY has long-term debt repayment obligations of around THB927 million coming due in the next 12 months. As of December 2020, the company's outstanding short-term obligations amounted to THB1.69 billion. The company's investment budget for 2021 is approximately THB150 million.

We expect LOXLEY will be able to comply with its debenture covenants over the next 12 to 18 months. The debt to equity ratio at the end of December 2020 was 1.31 times, below the debenture covenant of 2.5 times.

Most of LOXLEY's debt was at the subsidiary level and consisted mainly of project loans. As of December 2020, the ratio of priority debt to total debt exceeded 50%. Thus, the rating on LOXLEY's senior unsecured debt could potentially be one notch below the company rating, reflecting the structural subordination risk.

Guarantor's credit profile

The company rating on KBANK reflects the bank's strong competitive position supported by its solid franchise as the second-largest commercial bank in Thailand by assets as well as its diversified loan portfolio, strong capital position, and above-average profitability. The rating also takes into consideration the bank's superior funding and liquidity profile. However, the rating is constrained by KBANK's relatively high exposure to the SME segment, which remains vulnerable amid the economic downturn.

BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions for LOXLEY's operations for the period during 2021-2023 are as follows:

- Revenues to be THB13-THB14 billion per annum.
- EBITDA margin to improve to the 3%-4% range.
- Investment budget to total around THB150 million.

RATING OUTLOOK

The "stable" outlook reflects our expectation that LOXLEY will maintain its competitive position in bidding for projects and continue to show a sustainable level of project-based revenue and profit margin.

RATING SENSITIVITIES

LOXLEY's ratings could be upgraded if the company's operating performance significantly improves and its cash flow substantially enlarges, couple with the company's ability to improve its adjusted debt to EBITDA ratio to fall below 5 times on a sustainable basis. A rating downgrade is possible should LOXLEY's financial performance weaken significantly, which could be caused by its weakening competitive edge to win project bids or a material decline in dividends from its major affiliates.

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 into the trading of industrial and advanced technology products. The company went public in 1993 and was listed on the Stock Exchange of Thailand (SET) in 1994. Over the past several years, LOXLEY has enlarged and diversified its scope of business through its own operations and through a number of subsidiaries, associated companies, and joint ventures. LOXLEY currently has 24 subsidiaries, 17 associated companies, and four joint ventures.

KEY OPERATING PERFORMANCE

Table 1: LOXLEY's Revenue Breakdown

Unit: %

Strategic Business Group	2015	2016	2017	2018	2019	2020
1. Information Technology	22	22	21	27	26	22
2. Services	13	12	13	19	17	13
3. Energy	11	11	11	11	14	11
4. Network Solution	12	19	26	15	19	32
5. Trading	29	28	23	25	23	24
6. Others	10	8	7	6	4	4
Total	96	99	101	103	104	106
Less related transaction	4	1	-1	-3	-4	-6
Total	100	100	100	100	100	100

Source: LOXLEY

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

	-----Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total operating revenues	14,311	12,645	13,188	15,639	13,710
Earnings before interest and taxes (EBIT)	227	(609)	377	181	422
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	331	(336)	750	593	766
Funds from operations (FFO)	100	(629)	447	313	503
Adjusted interest expense	199	220	221	223	220
Capital expenditures	53	110	105	150	546
Total assets	15,559	16,197	15,097	16,210	15,710
Adjusted debt	2,244	3,594	3,370	3,285	2,667
Adjusted equity	5,224	5,015	6,000	6,294	6,625
Adjusted Ratios					
EBITDA margin (%)	2.31	(2.66)	5.69	3.79	5.59
Pretax return on permanent capital (%)	2.14	(5.55)	3.39	1.62	3.82
EBITDA interest coverage (times)	1.67	(1.53)	3.40	2.66	3.49
Debt to EBITDA (times)	6.77	(10.70)	4.49	5.54	3.48
FFO to debt (%)	4.45	(17.51)	13.27	9.53	18.87
Debt to capitalization (%)	30.05	41.74	35.96	34.29	28.70

* Consolidated financial statements

RELATED CRITERIA

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

Loxley PLC (LOXLEY)

Company Rating:	BBB
Issue Rating:	
LOXLEY22DA: THB700 million partially guaranteed debentures due 2022	BBB+
Rating Outlook:	Stable

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