

LOXLEY PLC

No. 72/2022
10 May 2022

CORPORATES

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

Last Review Date: 05/05/21

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 the diversified sources of income, the sustained dividends received from its associate companies, and the company’s long-term relationships with customers and suppliers. However, the ratings are partially offset by LOXLEY’s weak profitability and the nature of project-based businesses.

KEY RATING CONSIDERATIONS

Diversified business mitigates revenue risk

LOXLEY’s business strength is derived from its diversified revenue mix. The company offers a variety of products and services which can be categorized into five strategic business groups: 1) information technology, 2) energy, 3) network solutions, 4) trading, and 5) services. The diverse sources of revenue from multiple lines of business help alleviate fluctuations in the revenue stream.

In 2021, increased revenue from the trading business partly offset the revenue shortfalls of other businesses. Revenue from the trading business increased by 26% as people stayed at home due to the Coronavirus Disease 2019 (COVID-19) lockdown measures and bought more household products. However, other core businesses were hard hit by the pandemic as projects could not be completed during the lockdowns and the government delayed the bidding for some projects. Total operating revenue in 2021 consequently decreased to THB11.7 billion, from THB14.3 billion in the previous year.

We expect revenues of THB12-THB13 billion per annum in 2022-2024. Revenue in 2022 will mainly be realized from 70% of backlog, worth THB7.0 billion as of 31 December 2021, together with around THB4.5 billion from the trading business. The relaxation of government restrictions along with economic stimulus measures should drive LOXLEY’s project-based revenue throughout the forecast period. In addition, revenue from the trading business will likely continue to grow due to the rising prices of products and improved distribution channels.

Significant earnings from dividend income

We expect dividend income from LOXLEY’s associate companies, BP-Castrol (Thailand) Limited (BP Castrol) and NS BlueScope (Thailand) Limited (NS BlueScope), to contribute significantly to LOXLEY’s earnings before interest, taxes, depreciation, and amortization (EBITDA) throughout the forecast period. The company expects to receive dividends of THB500-THB600 million per year in 2022-2024.

BP Castrol is a manufacturer of lubricant oils, while NS BlueScope is a producer of industrial coated and pre-painted steel. We expect both businesses will generate satisfactory operating results in the next three years and distribute substantial amounts of dividends to their shareholders.

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

Higher profitability anticipated

During the past three years, the company's profitability has been significantly affected by the provision for losses from project cost overruns. However, we project the company's EBITDA margin should sustain at the level of 5% throughout the forecast period since the provision is assumed to be sufficient and no further cost overruns are anticipated. In addition, the company intends to bid for more high-margin projects in which it has experience or proficiency and aims to continuously improve its operating efficiency.

In 2021, EBITDA and EBITDA margin reached THB800 million and 6.9%, respectively, mainly due to the reversal of an impairment loss of Loxley GTECH Technology Co., Ltd. (LGT), an associate company of LOXLEY. LGT won a lawsuit against the Government Lottery Office (GLO) and paid part of the proceeds from the settlement, THB771 million, to LOXLEY. The revenue from this transaction offset the extra provision for project cost overruns. Excluding the extraordinary item, EBITDA and EBITDA margin were THB600 million and 5%, respectively.

Long-established relationships with business partners

LOXLEY has built up long-term relationships with its customers including both government agencies and private companies. 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 long-standing distributor for a number of internationally recognized suppliers.

The technical skill of LOXLEY's team is another strength. The company has the capability to deliver projects with high-quality products and services across several industries. As a result, LOXLEY has been able to consistently win bids for both government and private projects. We expect LOXLEY's capabilities in this regard will continue in the coming years.

Improving financial profile

LOXLEY's financial profile is gaining strength. The company's adjusted debt to EBITDA ratio improved to 2.6 times in 2021, from 6.8 times in 2020 and -10.7 times in 2019. The significant improvement was due to a substantial decline in the company's debt level coupled with improved profitability. The adjusted debt to capitalization ratio also declined materially to 26.2% in 2021 from 30.1% in 2020 and 41.7% in 2019.

Under our base case, projected EBITDA of THB500-THB600 million during 2022-2024 will translate into an adjusted net debt to EBITDA ratio of 3 times, while the adjusted net debt to capitalization ratio is expected to gradually improve to 22% in 2024.

Adequate liquidity

We assess LOXLEY's liquidity as acceptable. Its sources of funds comprised cash on hand of THB2.5 billion and undrawn committed credit facilities of THB2.1 billion at the end of 2021. Its funds from operations over the next 12 months are expected to be around THB400 million. These sources of funds should be sufficient to cover debt service and investment needs over the next 12 months. LOXLEY has long-term debt repayment obligations of around THB1.0 billion coming due in the next 12 months. As of December 2021, the company's outstanding short-term obligations amounted to THB1.6 billion. The company's investment budget for 2022 is around THB300 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 (in accordance with terms in debenture's prospectus) at the end of December 2021 was 1.01 times, below the debenture covenant of 2.5 times.

Guarantor's credit profile

The company rating on Kasikorn Bank PLC (KBANK) stands at "AA+" with a "stable" outlook. The rating reflects the bank's solid market position as the second-largest Thai commercial banks in terms of asset size. The rating also factors in its well-diversified portfolio, strong capitalization, and superior funding and liquidity profile. However, the rating is constrained by its relatively high exposure to the SME sector, which is more vulnerable compared to borrowers in other sectors during economic downturns, in our view.

BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions for LOXLEY's operations for the period 2022-2024 are as follows:

- Revenues to be THB12-THB13 billion per annum.
- EBITDA margin to improve to 5%.
- Investment budget to total around THB300 million per annum.

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 an improving profit margin.

RATING SENSITIVITIES

LOXLEY’s ratings could be upgraded if the company’s operating performance and cash flow from its core businesses improve significantly, and it is able to maintain its adjusted debt to EBITDA ratio at a level well below 5 times on a sustainable basis. A rating downgrade will happen if LOXLEY’s financial performance deteriorates materially, which could be caused by weakening competitiveness in project bidding or by 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 subsidiaries, associated companies, and joint ventures. LOXLEY currently has 36 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	2021
1. Information Technology	22	22	21	27	26	22	23
2. Services	13	12	13	19	17	13	11
3. Energy	11	11	11	11	14	11	9
4. Network Solution	12	19	26	15	19	32	22
5. Trading	29	28	23	25	23	24	37
6. Others	10	8	7	6	4	4	4
Total	96	99	101	103	104	106	104
Less related transaction	4	1	-1	-3	-4	-6	-4
Total	100	100	100	100	100	100	100

Source: LOXLEY

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	11,696	14,311	12,645	13,188	15,639
Earnings before interest and taxes (EBIT)	785	227	(609)	377	181
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	801	332	(336)	750	593
Funds from operations (FFO)	545	92	(624)	469	313
Adjusted interest expense	168	199	220	221	223
Capital expenditures	60	53	110	105	150
Total assets	15,072	15,559	16,197	15,097	16,210
Adjusted debt	2,122	2,244	3,594	3,370	3,285
Adjusted equity	5,965	5,224	5,015	6,000	6,294
Adjusted Ratios					
EBITDA margin (%)	6.85	2.32	(2.66)	5.69	3.79
Pretax return on permanent capital (%)	7.60	2.14	(5.55)	3.39	1.62
EBITDA interest coverage (times)	4.78	1.67	(1.53)	3.40	2.66
Debt to EBITDA (times)	2.65	6.77	(10.70)	4.49	5.54
FFO to debt (%)	25.69	4.11	(17.37)	13.93	9.53
Debt to capitalization (%)	26.24	30.05	41.74	35.96	34.29

* Consolidated financial statements

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

Loxley PLC (LOXLEY)

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

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