

LOXLEY PLC

No. 144/2019
12 September 2019

CORPORATES

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

Last Review Date: 10/10/18

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 a “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

Revenue is expected to rebound

For the first half of 2019, the company’s revenue declined by 6% year-on-year (y-o-y) to Bt5.95 billion mainly due to delays in some government-sponsored projects. However, revenue from those projects will be recognized by the end of this year. At the end of June 2019, the backlog was over Bt12 billion which will turn into revenue over the next one to three years. TRIS Rating expects more new projects will be launched in the next few years after the new cabinet is appointed. We also believe the government will set aside more of its budget on ICT 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 to rebound in a range of Bt14-Bt16 billion during 2019-2021.

Operating profit margin will improve

During the past few years, LOXLEY posted operating loss of 1% to 2% due to declining revenue while the company carries high selling and administrative expenses, especially overhead costs. In addition, most government projects provide low profit margins as those projects are awarded through bidding with fierce competition. The company has initiated a business transformation plan to improve operating efficiency and increase profitability. Under the transformation plan, the company has terminated some unprofitable business units and reduced overhead costs. In addition, the company will approach more customers and focus more on service businesses which generate higher profit margins. We expect the success of the transformation plan to help recover its operating profit margin in 2020 and 2021.

Diverse business mix mitigates business 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, (2) energy, (3) network solutions, (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 fluctuations in the revenue stream.

Business strength is long-established relationships clients 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 a long time key agent and distributor for a number of internationally recognized suppliers.

LOXLEY has an expert team and capability 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.

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 provide a stable source of cash flow for LOXLEY since the associated companies have strong market presences and solid 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 to improve

TRIS Rating expects LOXLEY's financial leverage to improve in the next few years. As most of the company's debts are project financed debts, leverage level is generally high following projects acquisitions. As of June 2019, adjusted debt increased to Bt4.35 billion, from Bt3.35 billion in 2018. Hence, the adjusted debt to capitalization ratio increased to 42.4% as of June 2019, compared with 35.8% in 2018. The adjusted debt to EBITDA ratio also increased to 9.8 times in the first six months of 2019 (annualized from the trailing 12 months), from 5.3 times in 2018. Based on its improvement from the transformation plan, we forecast the adjusted debt to capitalization ratio will gradually improve to 33% and the adjusted debt to EBITDA ratio will decline to 5 times in 2021.

Acceptable liquidity profile

The company's liquidity position is acceptable. As of June 2019, LOXLEY's source of funds comprised cash on hand of Bt832 million and short-term investments worth Bt393 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 Bt3.40 billion. 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 Bt953 million due during the next 12 months. As of June 2019, the company's outstanding short-term obligations were Bt2.29 billion. The company has an investment budget of approximately Bt150 million for 2019.

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 2018 was 0.6 times, below the debenture covenant of 2.5 times.

BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions during 2019 to 2021 are as follows:

- Revenues to range between Bt14-Bt16 billion.
- Operating profit margin to turn from loss in 2019 to 1% in 2020 and 2021.
- Capital expenditures to total around Bt450 million over the forecast period.
- Adjusted debt to capitalization ratio to gradually drop to 33% in 2021.
- Adjusted FFO to total debt ratio to gradually improve from 8% in 2019 to 15% in 2021.
- Adjusted debt to EBITDA to gradually decline to around 5 times in 2021.

RATING OUTLOOK

The "stable" outlook reflects the expectation that LOXLEY will 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 successfully implement the transformation plan to improve its operating performance.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term based on LOXLEY's current financial profile. In contrast, a rating downgrade is possible should LOXLEY's financial performance deteriorate from our projection, which may be caused by 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 business through its own operations and a number of 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	2014	2015	2016	2017	2018	Jan-Jun 2019
1. Information Technology	22	22	22	21	27	25
2. Food Services & Distribution	22	29	28	23	25	27
3. Energy	10	11	11	11	11	8
4. Network Solution	14	14	19	27	16	20
5. Services	11	13	12	13	19	20
6. Others	19	10	8	7	6	5
Total	98	98	100	102	104	105
Less related transaction	2	2	0	-2	-4	-5
Total	100	100	100	100	100	100

Source: LOXLEY

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Bt million

	Jan-Jun 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	5,948	13,188	15,639	13,710	11,472
Operating income	(169)	(87)	(204)	(43)	47
Earnings before interest and taxes (EBIT)	68	263	181	422	475
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	216	636	593	766	769
Funds from operations (FFO)	47	333	313	503	547
Adjusted interest expense	103	221	223	220	181
Capital expenditures	71	105	150	546	109
Total assets	15,722	15,097	16,210	15,710	14,283
Adjusted debt	4,345	3,346	3,285	2,667	3,138
Adjusted equity	5,908	6,000	6,294	6,625	6,593
Adjusted Ratios					
Operating income as % of total operating revenues (%)	(2.85)	(0.66)	(1.30)	(0.31)	0.41
Pretax return on permanent capital (%)	1.14	2.36	1.62	3.82	4.58
EBITDA interest coverage (times)	2.11	2.89	2.66	3.49	4.25
Debt to EBITDA (times)	9.83	5.26	5.54	3.48	4.08
FFO to debt (%)	2.54	9.96	9.53	18.87	17.43
Debt to capitalization (%)	42.38	35.80	34.29	28.70	32.24

* Consolidated financial statements

** Annualized from the trailing 12 months

RELATED CRITERIA

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

Loxley PLC (LOXLEY)

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

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