

LOXLEY PLC

No. 77/2023
2 May 2023

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 10/05/22

Company Rating History:

Date	Rating	Outlook/Alert
07/05/20	BBB	Stable
02/10/15	BBB+	Stable

Contacts:

Suchana Chantadisai
suchana@trisrating.com

Chanaporn Pinphithak
chanaporn@trisrating.com

Wajee Pitakpaibulkij
wajee@trisrating.com

Pramuansap Phonprasert
pramuansap@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Loxley PLC (LOXLEY) at “BBB”. The rating outlook remains “stable”. The rating reflects the company’s diversified sources of income, the sustained dividends received from its associated companies, and the company’s long-term relationships with customers and suppliers. However, these strengths are partially offset by LOXLEY’s weak profitability and the nature of project-based businesses.

KEY RATING CONSIDERATIONS

Sustained earnings from diverse business mix

The diverse sources of revenue from multiple lines of business should help smooth out fluctuations in the revenue stream. Currently, LOXLEY has five strategic business groups: (1) information technology (IT), (2) energy, (3) network solutions, (4) trading, and (5) services. The company’s customer base is diverse across business groups, ranging from private companies to financial institutions and government agencies.

Revenues in 2020-2022 were around THB12-THB14 billion annually, despite delays of some projects related to network solutions and postponement of spending. A higher revenue contribution from the trading business mitigated the drop in revenue from network solutions business.

Under our base case, we assume revenue in 2023 will be similar to the 2022 level, with around THB6 billion derived from backlog (around 74% of backlog projects as of 31 December 2022), THB4 billion from the trading business, and revenues from the expected recognition of new bidding projects in 2023. We expect government spending to slow down in the first half of 2023 with a resumption in spending after the election. During 2024-2025, we expect the company’s revenue to be around THB13-THB14 billion per year. TRIS Rating expects that more new projects will be launched in the next few years after the appointment of the new cabinet. We believe that the IT needs of both the government and private sectors will help support revenues of companies in the IT sector. The trading business should also see double-digit growth in 2024-2025 as a result of new product listings, expanded distribution channels, and higher product prices.

Reliable dividend receipts from investment companies

We expect LOXLEY to receive dividends from its associated companies totaling around THB450-THB500 million per year during 2023-2025. The majority of the dividends will be received from BP-Castrol (Thailand) Limited (BP Castrol) and NS BlueScope (Thailand) Limited (NS BlueScope). BP Castrol is a manufacturer of lubricant oils, while NS BlueScope is a producer of industrial coated and pre-painted steel.

Over the past five years, LOXLEY has received dividends of around THB350-THB500 million annually from its associates, contributing significantly to total earnings before interest, taxes, depreciation and amortization (EBITDA). We expect both BP Castrol and NS BlueScope will generate satisfactory operating results in the next three years amidst uncertain commodity prices. We assume a 100% dividend payout from both companies.

Sustained profitability level

During 2019-2022, the company's EBITDA margin was affected by cost overruns from one project. However, in 2021 and 2022, the company's EBITDA margin showed improvement, ranging between 6%-7%, due to the recognition of other income resulting from the reversal of an impairment loss of an associated company, as well as improvements in the operating profit margins of the trading and network solutions segments.

We expect LOXLEY's EBITDA margin to remain around 6% during the forecast period, as the company focuses on bidding for projects that it is keen to undertake with a certain margin. Additionally, we do not anticipate any significant additional costs during the forecast years. Therefore, LOXLEY's EBITDA is likely to range between THB650 million and THB750 million per annum during 2023-2025.

Long-established client base

LOXLEY has long-term relationships and a proven track record of project delivery 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 long-standing key agent and distributor for several 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 staff also drive innovation and create new business opportunities. These strengths enable LOXLEY to consistently win bids for both government and corporate projects.

Strong financial profile

LOXLEY's financial profile remains strong. Financial leverage is forecast to decline from the 2022 level, which was already significantly improved from 2019-2020. The company's adjusted debt to EBITDA ratio improved to 1.9 times in 2022, from 2.6 times in 2021 and 6.8 times in 2020. 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 18.5% in 2022 from 26.2% in 2021 and 30.1% in 2020.

Under our base case, the adjusted net debt to EBITDA ratio is projected to be around 1.5-2.0 times, and the adjusted net debt to capitalization ratio to stay below 20%, in 2023-2025.

Acceptable liquidity profile

We assess LOXLEY's liquidity as adequate. Its sources of funds comprised cash on hand of THB2.3 billion, short-term investments of THB500 million, and undrawn committed credit facilities of THB2.0 billion at the end of 2022. Its funds from operations (FFO) over the next 12 months are expected to be around THB500 million. These sources of fund should be sufficient to cover debt service and investment needs over the next 12 months. LOXLEY has long-term debt repayment obligations of around THB560 million coming due in the next 12 months. As of December 2022, the company's outstanding short-term obligations amounted to THB1.4 billion. The investment budget for 2023 is anticipated to be around THB200 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 2022 was 0.96 times, below the debenture covenant of 2.5 times.

As of 31 December 2022, the priority debt to total debt ratio was 67%, which included debts at the subsidiary level and secured project financing loans. As its priority debt ratio is more than the threshold of 50%, we view that LOXLEY's unsecured creditors could be disadvantaged with respect to the priority of claims against the company's assets. However, the priority debt to total assets was 15%.

BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions for LOXLEY's operations for the period 2023-2025 are as follows:

- Revenues of THB12-THB14 billion per annum.
- EBITDA margin at around 6%.
- Investment budget to total around THB300-THB500 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

The rating on LOXLEY could be upgraded if operating performance and cash flow from the company's core businesses improve and attain modest financial leverage on a sustainable basis. A rating downgrade would 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 35 subsidiaries, 17 associated companies, and two joint ventures.

KEY OPERATING PERFORMANCE

Table 1: LOXLEY's Revenue Breakdown

Unit: %

Strategic Business Group	2016	2017	2018	2019	2020	2021	2022
1. Information Technology	22	21	27	26	22	23	21
2. Services	12	13	19	17	13	11	12
3. Energy	11	11	11	14	11	9	7
4. Network Solution	19	26	15	19	32	22	19
5. Trading	28	23	25	23	24	37	38
6. Others	8	7	6	4	4	4	7
Total	99	101	103	104	106	104	104
Less related transaction	1	(1)	(3)	(4)	(6)	(4)	(4)
Total	100	100	100	100	100	100	100

Source: LOXLEY

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	12,446	11,696	14,311	12,645	13,188
Earnings before interest and taxes (EBIT)	354	785	227	(609)	377
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	730	801	332	(336)	750
Funds from operations (FFO)	495	545	92	(624)	469
Adjusted interest expense	154	168	199	220	221
Capital expenditures	71	60	53	110	105
Total assets	14,350	15,072	15,559	16,197	15,097
Adjusted debt	1,365	2,116	2,244	3,594	3,370
Adjusted equity	6,008	5,965	5,224	5,015	6,000
Adjusted Ratios					
EBITDA margin (%)	5.87	6.85	2.32	(2.66)	5.69
Pretax return on permanent capital (%)	3.45	7.60	2.14	(5.55)	3.39
EBITDA interest coverage (times)	4.74	4.78	1.67	(1.53)	3.40
Debt to EBITDA (times)	1.87	2.64	6.77	(10.70)	4.49
FFO to debt (%)	36.24	25.77	4.11	(17.37)	13.93
Debt to capitalization (%)	18.52	26.19	30.05	41.74	35.96

* Consolidated financial statements

RELATED CRITERIA

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

Loxley PLC (LOXLEY)

Company Rating:	BBB
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2023, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria