

RIGHT TUNNELLING PLC

No. 160/2024
16 September 2024

CORPORATES

Company Rating: BB+
Outlook: Stable

Last Review Date: 21/09/23

Company Rating History:

Date	Rating	Outlook/Alert
21/09/23	BB+	Stable
20/12/22	BBB-	Negative
01/02/22	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Right Tunnelling PLC (RT) at “BB+”, with a “stable” rating outlook. The rating reflects RT’s proven track record in tunnel and shaft works, as well as its improving operating performance as targeted. However, the rating is constrained by RT’s modest business scale, significant reliance on a few large construction projects, intense competition, and the cyclical nature of the engineering and construction (E&C) industry.

KEY RATING CONSIDERATIONS

Established expertise in tunnel and shaft works

RT’s projects primarily focus on tunnel and shaft works, slope protection, pipe jacking, and horizontal directional drilling (HDD). These capabilities are supported by an experienced management team, skilled engineers and geologists, as well as the availability of necessary machinery and equipment. TRIS Rating expects RT to sustain its strong competitive position in this field.

Additionally, RT’s strong track record and long-standing relationships with project owners and major contractors should enhance its chances of winning future construction contracts. The company’s key projects currently include the Dual-Track Rail Route Project for the Northeastern Line (Map Kabao-Thanon Chira Junction), the Mae Taeng-Mae Ngat Project, the Sri Song Rak Floodgate Project, the Double-Track Denchai-Chiang Rai-Chiang Khong Railway, and the Luang Prabang Hydropower Project.

Improving operating performance as targeted

RT’s operating performance in 2023 and the first six months of 2024 (6M24) aligned with our prior projections. The company’s revenue increased by 53% year-on-year (y-o-y) in 2023 to THB3.2 billion and by 27% y-o-y in 6M24 to THB1.8 billion, driven by significant progress in key projects. EBITDA grew in line with revenue, reaching approximately THB400 million in 2023 and THB250 million in 6M24, supported by an improved gross profit margin, effective control of operating expenses, and more stable raw material costs.

Looking ahead, TRIS Rating expects RT’s revenue to remain around THB3.5-THB3.8 billion per annum, supported by its existing backlog of THB7.3 billion as of June 2024. The company is also expected to secure new projects worth around THB1.5-THB3.5 billion annually during the forecast period. We project the gross profit margin to stay around 13%-14% during 2024-2026, as key raw material prices, such as steel and cement, have stabilized, and most of RT’s current projects have already factored in the updated raw material costs. The EBITDA margin is expected to remain at around 12%-15% over the forecast period.

Modest business scale with high concentration on large projects

RT’s business scale is relatively modest compared with its rated peers. Generally, tunnel and shaft works represent a small proportion of large infrastructure projects, making it difficult for the company to significantly grow its revenue base. Despite its specialization, the company is still exposed to intense competition and volatile raw material prices. Over the past three years, its EBITDA margin has fluctuated from -7% to 12%.

Additionally, RT’s performance is highly dependent on a few large projects. In 6M24, revenue from the five largest projects accounted for around 68% of

total revenue, and these projects made up about 76% of the company's backlog as of June 2024. As a result, any failure to complete a major project or a significant disruption could materially impact the company's overall financial results.

High financial leverage due to rising working capital investment

Despite improved operating performance, prolonged collection periods and a continued rise in outstanding unbilled receivables and accounts receivable over the past 3-4 years have kept working capital requirements elevated, driving up the company's debt and financial expenses. RT's cash conversion cycle steadily increased to around 220 days in 2023 and 6M24 from 79 days in 2020, leading to negative net cash flow from operations since 2021. The company's adjusted debt rose to approximately THB2.3 billion in 2023 from THB990 million in 2021, pushing its interest-bearing-debt (IBD) to equity ratio to 2.46 times, nearing the bond covenant threshold of 2.5 times. In the second quarter of 2024, RT completed a rights offering, raising around THB152 million in new capital. As a result, its financial leverage showed moderate improvement, but remained relatively high. Its IBD to equity ratio decreased to 2.19 times, while the net debt to EBITDA ratio fell to 4.7 times in 6M24 from 5.8 times in 2023.

Looking ahead, RT's financial leverage will largely depend on its ability to reduce outstanding unbilled receivables and accounts receivable. The company's debt could decline significantly once payments from project owners are received, though the timing remains uncertain. Under TRIS Rating's base case, we project RT's cash conversion cycle will stay within 200-230 days over the forecast period. Consequently, the net debt to EBITDA ratio is expected to remain around 4-5 times over the next 2-3 years, while the IBD to equity ratio should range from around 1.8-2.2 times.

Liquidity is tight but should be manageable

We expect RT's liquidity to be manageable over the next 12 months. As of June 2024, the company had debts maturing within the next 12 months totaling around THB2.0 billion, comprising short-term loans, mainly promissory notes (P/N), worth THB1.0 billion, debentures of THB0.7 billion, long-term loans of THB0.2 billion, and lease liabilities of THB0.1 billion. The repayment of short-term loans is relatively flexible, as banks typically extend or roll over the loan tenor to match the project timeline. The repayment of these short-term loans will come from proceeds received from project owners. The maturing long-term loans should be covered by funds from operations (FFO). The company plans to refinance the upcoming debentures due in February 2025, amounting to THB0.7 billion, through new debenture issuance. Additionally, the company had cash on hand of THB51 million, undrawn credit facilities of around THB66 million, and expected FFO of approximately THB250 million to further support its liquidity and future construction projects.

As a key financial covenant on RT's debentures requires the company to maintain an interest-bearing debt to equity ratio below 2.5 times, we expect RT to carefully manage its capital structure to avoid breaching this covenant. Additionally, RT's bank loan covenant requires the company to maintain a debt service coverage ratio of above 1.1 times; however, the ratio stood at 0.5 times in 6M24, below the required level. Given RT's track record of delivering construction projects as planned and the more stable operating performance expected over the next 2-3 years, we anticipate that RT will obtain covenant waivers from its lender, especially since the remaining debt from this lender was only THB14 million as of 30 June 2024.

Debt structure

At the end of June 2024, RT's total debt, as per our priority debt calculation, was approximately THB2.5 billion. RT's priority debt, including secured debts at the company and total debt at the subsidiaries, was about THB1.2 billion. This translates to a priority debt to total debt ratio of 48%.

BASE-CASE ASSUMPTIONS

- RT to secure new construction contracts worth about THB1.5-THB3.5 billion per year during 2024-2026.
- Total operating revenue of THB3.5-THB3.8 billion per year during 2024-2026.
- EBITDA margin in the 12%-15% range during 2024-2026.
- Total capital spending of around THB150-THB350 million per year during 2024-2026.

RATING OUTLOOK

The "stable" outlook reflects our expectation that RT will maintain its competitive edge in tunnel and shaft works and secure new projects as targeted. Furthermore, we expect the company's operating performance and financial leverage to remain in line with our projections.

RATING SENSITIVITIES

A credit upside on RT would materialize if the company's financial performance significantly improves such that its EBITDA stays at around THB500 million while its net debt to EBITDA ratio stays below 4 times on a sustained basis. On the contrary, the rating and/or outlook could be revised downward should its operating performance and/or financial profile turn out to

be worse than our expectations. This could be due to project delays, cost overruns, or inefficient management of working capital, such that the net debt to EBITDA ratio stays above 7 times for an extended period.

COMPANY OVERVIEW

RT was founded in 2000 by Mr. Chawalit Tanomtin and listed on the Stock Exchange of Thailand (SET) in 2020. Mr. Chawalit Tanomtin remains the major shareholder, holding approximately 16% of the company’s shares as of June 2024. The company is a contractor specializing in geotechnical works, covering tunnel and shaft construction, dam construction, hydro power plants, pipe jacking, and horizontal directional drilling. RT is also engaged in slope protection and stabilization work, earth and rock excavation, and geological exploratory drilling services. Revenue from tunnel and shaft construction remains the key source of RT’s revenue, accounting for 63% of total revenue during the first six months of 2024, followed by dam construction and irrigation systems which contributed 21% of total revenue.

KEY OPERATING PERFORMANCE

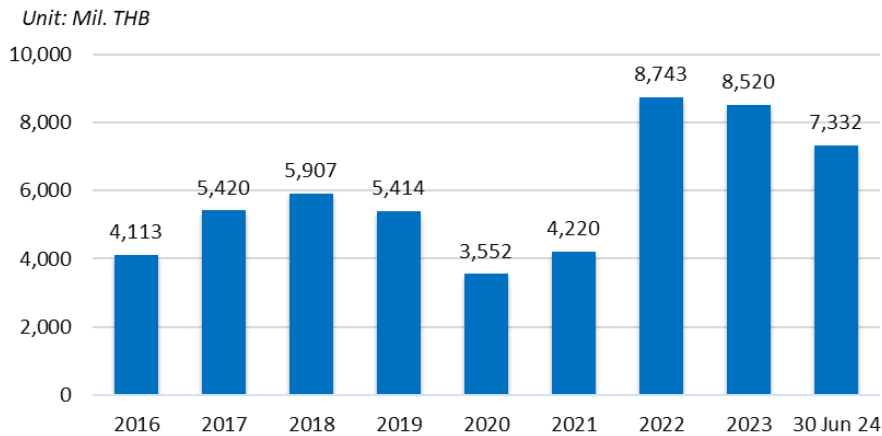
Table 1: Revenue Breakdown by Type of Project

Unit: %

Type of Project	2017	2018	2019	2020	2021	2022	2023	Jan-Jun 2024
Tunnel & Shaft Construction	33	65	61	59	51	32	54	63
Dam Construction & Irrigation System	7	1	2	8	20	33	19	21
Hydropower Plant	41	16	4	1	-	-	5	8
Pipe Jacking & Horizontal Directional Drilling	13	11	11	12	15	15	8	6
Others	6	7	22	20	13	20	14	3
Total	100	100	100	100	100	100	100	100

Source: RT

Chart 1: Backlog



Source: RT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	1,850	3,150	2,053	2,488	2,860
Earnings before interest and taxes (EBIT)	153	204	(302)	100	364
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	247	392	(146)	255	550
Funds from operations (FFO)	161	226	(227)	198	428
Adjusted interest expense	85	155	77	54	68
Capital expenditures	50	141	84	32	28
Total assets	6,103	5,738	4,515	3,915	4,050
Adjusted debt	2,330	2,252	1,527	990	525
Adjusted equity	1,249	1,070	1,030	1,337	1,389
Adjusted Ratios					
EBITDA margin (%)	13.3	12.4	(7.1)	10.2	19.2
Pretax return on permanent capital (%)	8.1 **	6.0	(10.7)	3.8	15.7
EBITDA interest coverage (times)	2.9	2.5	(1.9)	4.7	8.1
Debt to EBITDA (times)	4.7 **	5.8	(10.5)	3.9	1.0
FFO to debt (%)	14.0 **	10.0	(14.9)	20.0	81.5
Debt to capitalization (%)	65.1	67.8	59.7	42.6	27.4

* Consolidated financial statements

** Adjusted with trailing 12 months

RELATED CRITERIA

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

Right Tunnelling PLC (RT)

Company Rating:	BB+
Rating Outlook:	Stable

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