TRIS RATING
A Strategic Partner of S&P Global

CreditNews ข่าวเครดิต

SNC FORMER PCL

No. 55/2024
11 April 2024

CORPORATES

Company Rating:	BBB
Issue Rating:	
Guaranteed	AAA
Outlook:	Negative

Last Review Date: 19/06/23

Company Rating History:

Date	Rating	Outlook/Alert
19/06/23	BBB	Stable

Contacts:

Rapeepol Mahapant

rapeepol@trisrating.com

Pravit Chaichamnapai, CFA

pravit@trisrating.com

Parat Mahuttano

parat@trisrating.com

Sermwit Sriyotha

sermwit@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on SNC Former PLC (SNC) at “BBB”. At the same time, we revise the rating outlook to “negative” from “stable”. The outlook revision reflects increasing pressure on SNC’s financial profile, resulting from a deterioration in its performance during a heavy investment period. A recovery in its financial profile is surrounded by several uncertainties including the slowing global economy and challenges on development of the company’s sizable green industrial estate project.

We affirm the rating on SNC’s guaranteed debenture at “AAA/Stable”. The debenture is guaranteed by Credit Guarantee and Investment Facility (CGIF, rated “AAA/Stable”), a trust fund of the Asian Development Bank (ADB).

The company rating continues to mirror SNC’s competitiveness as a leading air conditioning parts manufacturer in Thailand, cost-efficient production, conservative financial policy, and well-managed working capital. These strengths are held back by intense market competition, customer concentration risk, and risks associated with new ventures.

KEY RATING CONSIDERATIONS

Weaker-than-expected earnings

SNC recently reported a material drop in its earnings. The company’s earnings before interest, taxes, depreciation, and amortization (EBITDA) fell by 50% year-on-year (y-o-y) to THB819 million in 2023, significantly weaker than our previous estimate of THB1.2 billion.

The earnings slide followed a revenue decline as the company’s customers postponed their orders in response to lackluster global demand. SNC also cut sales to a customer to prevent potential bad debts. Its efficient cost control helped limit loss impacts, keeping the EBITDA margin at 8.7% in 2023.

Our base-case forecast assumes that SNC’s revenue and earnings will rebound, starting from 2025. We project its total operating revenue to rise gradually to THB12.5 billion in 2026. EBITDA will likely reach THB1.3 billion, given an EBITDA margin of 8%-10%.

However, the performance recovery remains uncertain and will probably take some time, given the fragile global economy. The slow recovery will affect any prospects of improvement in the company’s financial profile.

Recovery in financial profile remains uncertain

SNC’s debt burden recently rose, following substantial expenditures it made to improve production efficiency and diversify into other businesses. One of the projects under development includes a green industrial estate, which requires heavy investment spending. The company has already acquired land worth approximately THB2 billion for this project. As of December 2023, its reported debt stood at THB4.2 billion, up from below THB3 billion in the past.

The rising debt load, coupled with the falling earnings, has weakened SNC’s financial profile. The debt to EBITDA ratio, representing debt obligations against cash flow, shot up to 3.8 times in 2023, from below 1 time in the past several years. The funds from operations (FFO) to debt ratio fell to 19.6% in 2023.

Looking forward, SNC's financial profile should gradually improve, boosted by the earnings recovery. That said, the softening global economic growth will be a major challenge. Additionally, debt unloading may take some time and remains uncertain. Its large-scale investment in the green industrial estate project is scheduled to start paying off in late 2025. Proceeds from any land sold would significantly bring down the company's debt. Any project delays, cost overruns, and underperforming sales results will likely affect its debt level.

In our base-case forecast, SNC's annual investment expenditures are assumed to be about THB800 million during 2024-2025, declining to THB300 million in 2026. The debt to EBITDA ratio is projected to fall to about 2 times and the FFO to debt ratio to rise to about 40% in 2026.

Competitive strength in air conditioning parts business

TRIS Rating assesses SNC as a large manufacturer of parts in the air conditioner industry in Thailand. The company also offers manufacturing and assembly (OEM) for branded home appliance manufacturers, mostly air conditioner producers. The sales revenue from air conditioner producers has accounted for 60%-75% of SNC's total revenue over the last three years.

We believe SNC will remain competitive. Its long track record of providing reliable production and good product quality has helped establish strong relationships with its customers, including Daikin, Mitsubishi, Fujitsu, Sharp, Toshiba, and Hisense. Additionally, the strong air conditioner supply chain in Thailand has helped sustain the company's production orders.

Relocation of Chinese production bases boosts OEM sales

SNC operates through three main business segments: Electrical Parts (Parts), OEM, and Vehicle Parts (Auto). The company originally engaged in the Parts segment and later expanded into the OEM segment. Currently, the OEM segment accounts for the majority of revenue, making up almost 60% of the total, up from 30%-40% in the past. The company has benefited from Chinese manufacturers relocating their production bases to Thailand amid the China-US trade war. New OEM orders significantly boosted SNC's revenue during 2020-2022 before a drop in 2023. The Parts segment remains the most profitable, contributing 40%-50% of the company's EBITDA.

Cost competitiveness

SNC's cost-efficient production is a key advantage that has helped the company retain customer. This cost competitiveness is underpinned by benefits from large production scale, manufacturing expertise, customizable production lines, and improved operating efficiency through automation. The company's sizable factory, with multiple production lines and spacious warehouses, provides a competitive edge in manufacturing a diverse range of products and enables the company to obtain sizable OEM orders.

We believe SNC's policy toward automated production and the use of robots will enhance its productivity and lower costs, attracting more customers to its manufacturing services. In our view, the transition to full automation is another key advantage of the company over other players, given the capital and know-how required. As of 2023, SNC operated about 700 robots. The use of more robots significantly helped cut cash overhead costs in 2023, when sales orders plummeted.

Intense competition

SNC operates in a highly competitive environment, facing pressure from customers with high bargaining power that frequently demand lower prices. We expect the company to remain competitive as it continues to improve production efficiency, making investments in new technologies and innovations to bring down manufacturing costs. The ongoing investments have helped create barriers to entry.

Heavy reliance on few customers

SNC continues to be highly exposed to concentration risk. The company's top three OEM customers have made up 50%-60% of its total revenue over the past three years. Failure to secure orders from one or two customers could significantly affect its operating performance.

The largest OEM customer is a giant Chinese consumer electronics and appliances manufacturer, currently accounting for 30%-40% of SNC's total revenue. This Chinese manufacturer has a strong commitment to SNC through its investment in half of the new production lines at SNC's factory.

Risks associated with new ventures

We view that SNC's ventures into the power and green industrial estate development businesses will expose the company to unfamiliar business environment. The company is developing a 3-megawatt (MW) waste-to-energy (WTE) power plant in Yala Province, with an estimated development cost of THB700 million. We assess the WTE power project as having high operational risk due to its complexity and the hard-to-control quality of municipal waste. Different types of waste provide different calorific values, resulting in varying degrees of power output. Contaminants can also affect operational stability.

The project is scheduled to commence operations in early 2025, bringing THB140 million in annual revenue and THB60 million in annual EBITDA.

Additionally, SNC is developing a green industrial estate in Chonburi Province, costing about THB3 billion in total. As SNC has no track record in the business, the development and execution risks of the green industrial estate put a strain on its business risk profile. On top of this, the large investment amount has pushed up the company's financial leverage. The success of the project development and sales performance remain to be seen. Any delay or deviation of realizing returns from the project will put pressure on SNC's credit profile.

SNC recently entered the electric vehicles (EV) supply chain business. In the initial stage of development, the company will import auto parts in semi-knocked-down (SKD) form and assemble vehicles for its partner. We consider the risks associated with the project acceptable as it is similar to the company's existing OEM operations for air conditioners and other electric appliances. Our base-case forecast assumes the EV business will bring in THB100-THB200 million in revenue per annum over the next three years.

Prudent financial policy and working capital management

We expect SNC to maintain its conservative financial policy. Despite a rise in its debt load, the company's capital structure remains firm, with a debt to capitalization ratio of just below 40% as of December 2023. The strong capital structure is supported by its effective working capital management. SNC has been able to keep low working capital requirements, thanks mainly to its ability to negotiate with suppliers to extend credit terms to match accounts receivable and inventory days. Additionally, SNC's policy of holding high levels of cash provides a cushion to support its debt servicing ability and liquidity management.

A key financial covenant on SNC's debentures requires the company's interest-bearing debt to equity ratio to stay below 1.5 times. The ratio was 0.8 times as of December 2023. However, the earnings drop has caused a breach of the financial covenants on the guaranteed agreement with CGIF that require the debt to EBITDA ratio to stay below 4 times and the debt service coverage ratio (DSCR) to stay above 1.2 times. The former ratio was 5.1 times and the latter 1.1 times in 2023. We believe SNC will obtain covenant waivers from CGIF.

Adequate liquidity

We expect SNC to manage its liquidity sufficiently over the next 12 months. Debts of almost THB1.4 billion will mature in 2024. As of December 2023, the company held cash of THB1.1 billion. The shortfall of about THB300 million should be covered by its FFO, estimated at about THB570 million, and the proceeds from account receivables amounting to THB1.4 billion. SNC has been actively managing customer payment risk, with proactive measures to prevent bad debts.

Debt structure

At the end of December 2023, SNC's consolidated debt, excluding lease liabilities, was about THB4 billion. Of this, THB2.7 billion was priority debt, comprising secured debt owed by SNC and all borrowings incurred by its operating subsidiaries. The priority debt to total debt ratio was 67%, suggesting that SNC's unsecured creditors are significantly disadvantaged to its priority debt holders with respect to claims against the company's assets.

BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating's base-case forecast for 2024-2026 are as follows:

- Revenues to increase gradually to THB12.5 billion in 2026.
- EBITDA margin to hover around 8%-10%.
- Annual investment expenditures will be about THB800 million during 2024-2025, falling to THB300 million in 2026.

RATING OUTLOOK

The "negative" outlook reflects the uncertainty of a recovery in SNC's cash generation against debt. Softening global demand and challenges stemming from the large-scale investment in its green industrial estate could continue to pressure the company's financial profile.

RATING SENSITIVITIES

A rating downgrade could occur if SNC's operating and financial performance are materially below forecast, possibly due to a further drop in customer orders, significant delays in projects under development, or project cost overruns. A debt to EBITDA ratio of above 4 times on a sustained basis could put the rating under pressure. On the contrary, the rating outlook could be revised to "stable" if SNC manages to improve its financial profile. This could develop from an improvement in the company's sales orders and projects in the pipeline are executed as planned.

The rating on SNC's guaranteed bonds may change if the rating on its guarantor, CGIF, changes.

COMPANY OVERVIEW

Established in 1994, SNC originally engaged in the manufacture of parts for air conditioners, household appliances, and air conditioning parts in cars. The main products included copper and aluminum pipes, metal sheets, pipe kits, plastic parts, and heat exchangers. In 2007, the company expanded into the OEM business for leading air conditioner producers. The OEM products consisted of air conditioners, refrigerators, heat pumps, etc.

The company has been listed on the Stock Exchange of Thailand (SET) since 2004. As of March 2024, the major shareholder was the Thaisa-nguanvolrakul family, owning about 34% of total outstanding shares.

Currently, SNC's core businesses can be separated into three units, comprising OEM, Parts, and Auto. In 2023, the OEM segment accounted for the majority (57% of total revenue), followed by Parts (33%) and Auto (10%). Additionally, the company is developing a 3-MW WTE power plant in Yala Province and a green industrial estate in Chonburi Province.

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown

Unit: %

	2019	2020	2021	2022	2023
OEM	39	63	72	76	57
Part	45	29	22	19	33
Auto	16	9	6	5	10
Others	0	0	0	0	0
Total	**100**	**100**	**100**	**100**	**100**
Total revenue (million THB)	**6,626**	**8,961**	**15,398**	**19,071**	**9,333**

Source: SNC

Table 2: EBITDA Breakdown

Unit: %

	2019	2020	2021	2022	2023
OEM	16	32	46	51	29
Part	58	50	41	41	52
Auto	24	13	9	7	16
Others	2	6	3	1	3
Total	**100**	**100**	**100**	**100**	**100**
Total EBITDA (million THB)	**691**	**899**	**1,320**	**1,640**	**819**

Source: SNC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-------------------Year Ended 31 December -----------------				
	2023	2022	2021	2020	2019
Total operating revenues	9,372	19,126	15,561	9,080	6,715
Earnings before interest and taxes (EBIT)	169	995	819	473	319
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	819	1,640	1,320	899	691
Funds from operations (FFO)	616	1,406	1,161	809	569
Adjusted interest expense	158	113	76	52	18
Capital expenditures	2,496	1,433	1,772	1,133	534
Total assets	11,699	13,657	13,947	7,770	5,397
Adjusted debt	3,136	1,324	769	569	0
Adjusted equity	4,969	5,259	4,911	3,578	3,398
Adjusted Ratios					
EBITDA margin (%)	8.7	8.6	8.5	9.9	10.3
Pretax return on permanent capital (%)	1.8	11.6	12.2	10.3	8.5
EBITDA interest coverage (times)	5.2	14.5	17.3	17.3	37.8
Debt to EBITDA (times)	3.8	0.8	0.6	0.6	0.0
FFO to debt (%)	19.6	106.2	151.0	142.3	n.m.
Debt to capitalization (%)	38.7	20.1	13.5	13.7	0.0

* *Consolidated financial statements*
n.m. = not meaningful

RELATED CRITERIA

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

SNC Former PLC (SNC)

Company Rating:	BBB
Issue Rating:	
SNC281A: THB1,000 million guaranteed debentures due 2028	AAA
Rating Outlook:	Negative

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000