TRIS RATING
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TTCL PLC

No. 221/2022
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CORPORATES

Company Rating:	BB+
Outlook:	Positive

Last Review Date: 30/11/21

Company Rating History:

Date	Rating	Outlook/Alert
15/03/19	BB+	Stable
11/10/18	BBB-	Stable
29/12/17	BBB	Stable
28/03/14	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on TTCL PLC (TTCL) at "BB+". At the same time, we revise the company's outlook to "positive" from "stable". The "positive" outlook reflects TTCL's declining financial leverage and improving operating performance, supported by its increasing backlog. Revenues are expected to stay above THB10 billion per annum over the next three years.

The rating continues to reflect TTCL's acceptable track record in engineering, procurement, and construction (EPC) for the industrial segment, and relatively stable cash flow from its investment in the power business. However, the rating is constrained by intensifying competition as well as increasing construction material and labor costs which could pressure TTCL's profit margin in the short to medium term.

KEY RATING CONSIDERATIONS

Improving operating performance, supported by sizable backlog

TTCL's operating performance in the first nine months of 2022 was better than projected. Its total operating revenues grew to THB8.7 billion, up 75% from the same period last year. The strong growth in revenues was supported by the resumption of investment in the power and petrochemical industries. New EPC contracts signed in 2021 and in the first nine months of 2022 were worth THB12.6 billion and THB16.2 billion, respectively, up significantly from THB5.7 billion in 2020. TTCL's backlog at the end of September 2022 stood at THB23.6 billion, the highest value since 2016. Its backlog comprised domestic projects (80%) and overseas projects (20%).

In our base-case forecast, we project TTCL's annual revenue to range from THB11-THB14 billion during 2022-2024, assuming that TTCL secures new construction contracts worth around THB10 billion per annum during 2023-2024. Despite the expected rise in construction material and labor costs, the company should be able to maintain its gross profit margin in the 7%-8% range over the forecast period. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) margin is expected to be around 8.5% in 2022 and 6.0%-6.5% during 2023-2024. The higher EBITDA margin in 2022 reflects a reverse in the provision for doubtful debts of the Rock Salt Processing project in the Lao People's Democratic Republic (Lao PDR) worth THB571 million, which helps offset the provisions of THB276 million for doubtful debts of other projects.

Acceptable track record in the industrial segment

TTCL has extensive experience and expertise in engineering design, procurement of machinery and equipment, as well as construction of turnkey projects for industrial and process plants. The company has an acceptable track record in its focused markets, which are companies in the petrochemical, petroleum-related, and power industries. TTCL has also moved to undertake larger projects and expand its footprint in several countries.

The company is among the top Stock Exchange of Thailand (SET)-listed contractors in terms of revenue base and asset size. The company has generated THB7-THB11 billion in revenue annually over the past five years. TTCL has also placed more emphasis on providing feasibility study services, which render a higher gross margin as they primarily involve only designing parts. Although the size of this type of work is rather small, feasibility study services have the potential to lead to higher value EPC contracts.

Relatively stable cash flow from the power investment

TTCL's investment in power generation helps lessen its susceptibility to the cyclical nature of the construction business. The company holds a 43% stake in Toyo Thai Power Myanmar Co., Ltd. (TTPMC), which owns a 120-megawatt (MW) gas-fired power plant in Myanmar (the Ahlone project). Our financial assessment includes the debts and cash flow of TTPMC, in proportion to TTCL's guarantee exposure to the project. The EBITDA contribution from the Ahlone project is expected to be around THB200 million per annum over the next three years.

TTPMC's operating performance has not been affected by political unrest or the recent foreign currency restrictions imposed by the Myanmar government. Although payments for electricity are made in US dollars, the Electric Power Generation Enterprise (EPGE) has continued to pay on time. The electricity payments have been used to repay debt owed by TTPMC to the Export-Import Bank of Thailand (EXIM Bank). TTPMC also has an investment insurance policy with the EXIM Bank, that covers losses or damages resulting from certain political events in Myanmar.

TTCL has planned to invest in the expansion phase of the Ahlone project, which will increase production capacity by 388 MW. The project requires an investment of around THB20 billion, which is beyond TTCL's current financial capability. Although TTCL obtained the power purchase agreement (PPA) in 2021, we do not expect the expansion project to materialize in the near term since potential creditors and/or investors still have concerns over the ongoing political unrest in Myanmar. Hence, we have not incorporated the project into our base-case forecast.

Improved financial leverage

TTCL's financial leverage has improved substantially in the last five years, following a series of divestments in its power asset portfolio during 2018-2021. TTCL's debt, including the portion of TTPMC's debts guaranteed by TTCL, stood at THB1.9 billion as of September 2022, down from a peak of THB10.1 billion at the end of 2017. Its debt to capitalization ratio was 34.8%, a sharp decline from 53.3% in 2021 and above 70% in 2017-2018.

Looking forward, TTCL's debt is expected to rise amid higher working capital needs for new contracts signed during 2021-2022. Annual capital expenditure is set at around THB200-THB260 million. We do not expect the company to have any major investments in the next 2-3 years. Thus, TTCL's debt to capitalization ratio should hover around 50% over the next three years. Despite the expected rise in its debt level, improved cash flow from operations should help the company maintain its ratio of funds from operations (FFO) to debt at around 10%. Its EBITDA interest coverage ratio should be in the range of 2.8-4.8 times.

A key financial covenant on its debentures requires the company to maintain its interest-bearing debt to equity ratio below 3 times. As of September 2022, the ratio was 1.01 times. We believe the company will be able to comply with the covenant during the forecast period. Its priority debt to total debt ratio at the end of September 2022 was 13%.

Manageable liquidity

We assess TTCL's liquidity as manageable over the next 12 months. TTCL had THB2.2 billion in cash on hand as of September 2022. FFO over the next 12 months are forecast at THB550-THB580 million. TTCL's debt coming due in the next 12 months is THB1.7 billion, comprising THB1.6 billion in short-term bank loans and THB0.1 billion in financial leases. TTCL's cash on hand should be sufficient to repay its loans and fund its planned capital expenditures. The company normally rolls over its short-term debts to maintain liquidity for working capital. The portion of TTPMC's debt guaranteed by TTCL will be repaid with the proceeds from electricity sales to EPGE.

BASE-CASE ASSUMPTIONS

- TTCL to secure new EPC contracts worth THB16.2 billion in 2022, and THB10 billion yearly during 2023-2024.
- Gross margin of construction to be 7%-8%.
- EBITDA margin to be in the 6%-8% range.
- Annual capital expenditure of THB200-THB260 million per year.

RATING OUTLOOK

The "positive" outlook reflects our expectation that TTCL's operating performance will continue to improve while its leverage will not significantly deviate from our target. Based on the sizable backlog, TTCL should be able to maintain its annual revenues above THB10 billion over the next three years. Its FFO to debt ratio should stay above 10%.

RATING SENSITIVITIES

The rating and/or outlook could be revised upward should TTCL secure sizable new contracts and improve its operating performance such that the EBITDA margin stays above 6% and the FFO to debt ratio remains around 10%-15% on a sustained basis. Conversely, the rating and/or outlook could be revised downward if TTCL fails to secure enough contracts to maintain operating cash flow, or its performance deteriorates further. Downward pressure could also emerge if TTCL records a significant increase in doubtful debts and/or sees a surge in debt used to finance new investments.

COMPANY OVERVIEW

TTCL is an EPC contractor based in Thailand. The company was established in 1985 as a joint venture between Italian-Thai Development PLC (ITD) and Toyo Engineering Corporation (TEC), a Japanese EPC firm. TTCL went public in 2008 and was listed on the SET a year later. TTCL is positioned as an integrated EPC contractor for industrial plants, including refineries and plants for petrochemicals, chemicals, fertilizer, oil and gas, and electrical power.

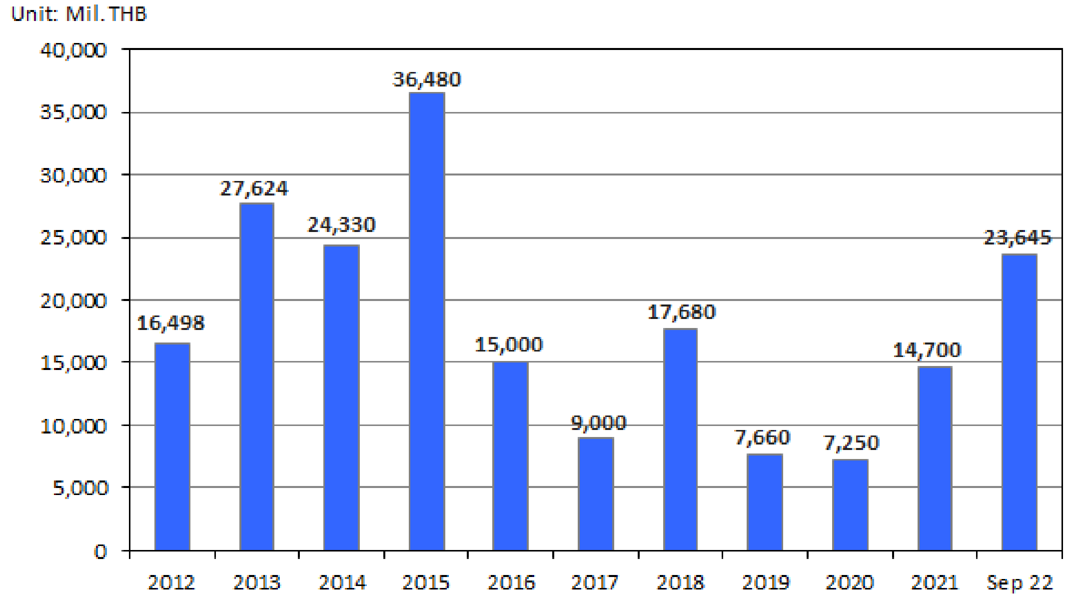
TEC gradually reduced its stake in TTCL from 22% to 10% during 2015-2017. In February 2018, TEC sold off its remaining shares in the company. As of March 2022, TTCL's major shareholder was Global Business Management Co., Ltd., a common shareholder company set up by TTCL's management, holding 6.3% of the total shares outstanding.

TTCL has a strategy to expand into the power business, a move that has helped the company secure EPC contracts and earn steady revenue streams. TTCL's investments in power projects enable it to generate steady sources of income from multi-year power purchase agreements. Since 2010, TTCL has invested in several power projects. The company has undertaken all the EPC work for its power project investments, which include natural gas-fired plants, biogas plants, and solar-powered plants. TTCL's major power asset is the Ahlone project, a 120-MW gas-fired power plant in Myanmar.

However, due to the substantial overdue payments and cost overruns in several projects, TTCL had to put aside hefty allowances for doubtful accounts in 2018 and 2019. This caused serious deterioration in its capital structure. To prevent any further deterioration, TTCL decided to divest its power-generating assets, including a significant portion of the Ahlone project. The proceeds from the divestitures have been used to pay down debt and maintain liquidity. At the end of September 2022, TTCL's direct and indirect shareholding in the Ahlone project was 43%.

KEY OPERATING PERFORMANCE

Table 1: Backlog at Year End



Source: TTCL

Table 2: Construction Revenue Breakdown by Location

Unit: %

Location	2015	2016	2017	2018	2019	2020	2021	Jan-Sep 2022
Domestic	44.0	34.0	38.5	48.5	62.9	47.9	45.2	45.0
Overseas	56.0	66.0	61.5	51.5	37.1	52.1	54.8	55.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Revenue (mil. THB)	**21,524**	**20,024**	**10,447**	**8,328**	**10,497**	**6,869**	**6,347**	**8,382**

Source: TTCL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2022	-------------Year Ended 31 December			-----------
		2021	2020	2019	2018
Total operating revenues	8,745	6,764	7,208	10,711	8,360
Earnings before interest and taxes (EBIT)	667	206	593	(659)	(2,202)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	776	392	840	(236)	(1,944)
Funds from operations (FFO)	597	207	515	(641)	(2,428)
Adjusted interest expense	151	167	263	372	475
Capital expenditures	135	61	336	110	652
Total assets	18,445	14,411	14,678	17,149	19,360
Adjusted debt	1,875	3,064	2,953	2,113	7,883
Adjusted equity	3,514	2,686	2,253	2,078	2,747
Adjusted Ratios					
EBITDA margin (%)	8.83	5.72	11.53	(2.15)	(22.85)
Pretax return on permanent capital (%)	8.46 **	2.95	7.22	(6.27)	(15.55)
EBITDA interest coverage (times)	5.13	2.35	3.19	(0.64)	(4.09)
Debt to EBITDA (times)	2.49 **	7.82	3.52	(8.94)	(4.05)
FFO to debt (%)	28.43 **	6.75	17.44	(30.35)	(30.81)
Debt to capitalization (%)	34.78	53.28	56.72	50.42	74.16

* *Consolidated financial statements*

** *Annualized with trailing 12 months*

Note *Adjusted financial profile with inclusion of assets, liabilities, and cash flow from the Ahlone project in proportion to TTCL's stakes since 2019*

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

TTCL PLC (TTCL)

Company Rating:	BB+
Rating Outlook:	Positive

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