TTCL PLC

No. 227/2024
4 December 2024

CORPORATES

Company Rating:	BBB-
Outlook:	Stable

Last Review Date: 06/12/23

Company Rating History:

Date	Rating	Outlook/Alert
06/12/23	BBB-	Stable
30/11/22	BB+	Positive
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 "BBB-" with a "stable" rating outlook. The rating reflects the company's acceptable track record in industrial engineering, procurement, and construction (EPC) projects, steady dividend income from its investment in a power plant in Myanmar, moderate financial leverage, and adequate liquidity. Additionally, its diversification into biomass pellet production (referred to as "black pellets"), if successful, could boost long-term revenues and earnings. However, TTCL faces challenges such as intensified competition, exposure to project delays and cost overruns amid fluctuations in construction material and labor costs, and the cyclical nature of the engineering and construction (E&C) industry.

KEY RATING CONSIDERATIONS

Acceptable track record in the industrial segment

TTCL is a major EPC contractor in Thailand, specializing in the petrochemical and energy sectors. Its expertise in EPC works distinguishes it from other general contractors in the country. However, its scale remains relatively small compared with international EPC contractors. Therefore, the company strategically focuses on medium-scale projects to leverage its cost advantage over international competitors. Additionally, the company provides feasibility study services, which often pave ways for higher-value EPC contracts, even though they are relatively small in scale.

Over the past three years, TTCL has secured new contracts worth THB13-THB23 billion annually, with major clients including PTT Group, Bangchak Group, and Siam Cement Group. The company has also extended its operations to international markets such as Vietnam, Qatar, and Malaysia. However, excess petrochemical capacity from China has led several customers in Thailand to postpone their projects. As a result, the value of new contracts signed by TTCL plunged to THB3 billion in 2024, causing its backlog to decline to only THB11.5 billion as of September 2024 from nearly THB20 billion in 2023. This backlog provides revenue visibility for just one year. However, based on its ongoing front-end engineering design work, the company expects to secure approximately THB13-THB14 billion in EPC contracts next year.

2024 performance short of targets, but recovery expected

TTCL's operating performance in the first nine months of 2024 (9M24) fell short of TRIS Rating's expectations. Despite a 22% year-on-year (y-o-y) increase in revenue to THB15.1 billion, the company's gross profit margin fell to 5.0%, a considerable decline compared with the 7.7%-8.9% range achieved in the previous two years. As a result, TTCL's EBITDA in 9M24 dropped to THB366 million, down by 46% y-o-y. The decline in profit margin was primarily due to cost overruns on certain petrochemical and power projects, which were impacted by construction delays and higher-than-expected costs of materials and equipment. These projects are expected to be completed within 2024, with no further losses anticipated in 2025.

Looking forward, we project TTCL's annual revenue to be THB18 billion in 2024, before decreasing to the THB11-THB12 billion range during 2025-2026, based on the current backlog. We expect the company to secure new construction contracts worth THB3 billion in 2024 and approximately THB12-THB18 billion annually during 2025-2026. The company's gross profit margin is projected to recover to around 7% in 2025-2026. Its EBITDA margin is also expected to improve, to 5.2% in 2026 from 3.2% in 2024. However, a failure to secure new construction contracts and/or any further decline in the company's profit margin could result in a negative rating action.

Relatively stable dividend from power investment

TTCL's 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), provides relatively stable dividend income, helping mitigate the company's exposure to the cyclical construction industry. TTPMC's operating performance has remained resilient over the past several years, despite political unrest and currency restrictions in Myanmar. Due to the electricity shortage in Myanmar, the Electric Power Generation Enterprise (EPGE) pays for electricity in US dollars on time, enabling TTPMC to repay its debt to the Export-Import Bank of Thailand (EXIM Bank), which will be fully repaid this year. Additionally, TTPMC holds an investment insurance policy with EXIM Bank, covering losses due to specific political events in Myanmar.

Given that the Ahlone Project is now debt-free, its annual dividend contribution is projected to increase to approximately THB140-THB150 million, up from the current range of around THB70-THB120 million per annum. Our base case does not factor in the planned investment for the expansion phase of the Ahlone Project. We do not foresee the expansion project proceeding in the near term due to the substantial investment costs involved and concerns among potential creditors and investors regarding the ongoing political unrest in Myanmar.

Diversification into biomass pellet could enhance revenues and earnings

TTCL initiated the production of biomass pellets in 2023, concentrating specifically on "black pellets" intended for use by coal-fired power plants and industrial facilities in Japan. The company has established a manufacturing plant in Lampang Province with an annual production capacity of 75,000 metric tons (MT) and an investment outlay of THB1.3 billion. The manufacturing process utilizes agricultural residue, primarily corn husks and wood chips, as raw materials. The facility has been completed and is currently undergoing commercial operation testing, one year later than initially planned.

In our view, the black-pellet business, if successful, has the potential to enhance TTCL's revenues and earnings in the long run. Commercial production and revenue recognition for this project are expected to commence in 2025. Assuming full capacity utilization, the black-pellet business is projected to generate an estimated annual income of approximately THB800 million, with an expected gross profit margin ranging from 18% to 20%. However, we expect production to gradually ramp up to 60% in 2026 from around 45% in 2025, considering the time required for potential clients to test the products.

Moderate financial leverage

TRIS Rating anticipates that TTCL's financial leverage will remain stable over the next three years. As of September 2024, the company's debt to capitalization ratio rose to 32.5%, from 31.7% in 2023 and 0.7% in 2022. This increase was due to investments in the black-pellet project and the working capital required for ongoing construction projects.

Looking ahead, we forecast TTCL's debt to capitalization ratio to range from 35%-40% over the next three years, as the company does not expect any major capital expenditures (CAPEX). Our base case assumes the company's annual CAPEX to be around THB170-THB250 million. With stable debt levels and improved operational cash flow, TTCL's fund from operation (FFO) to debt ratio should stay at around 13%-15% and the debt to EBITDA ratio should remain at around 3.5-4.2 times. However, the company still faces risks from ongoing litigation related to various projects. A negative outcome could result in the need to write off debts, potentially leading to a negative rating action.

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 2024, the ratio was 1.2 times. We believe the company will remain in compliance with the covenant over the forecast period.

Adequate liquidity

We assess TTCL's liquidity as adequate over the next 12 months. As of September 2024, the company had THB2.4 billion in cash on hand and anticipates FFO over the next 12 months of THB320 million. TTCL's debt coming due in the next 12 months is THB1.6 billion, comprising THB1.2 billion in short-term loans and financial leases, and THB0.4 billion in debentures. The company's cash on hand and projected FFO should cover its funding needs over the next 12 months. However, the company typically rolls over short-term debts to maintain liquidity for working capital. It also plans to refinance maturing debentures with new debenture issuances.

Debt structure

As of September 2024, TTCL's consolidated debt, excluding lease liabilities, stood at THB3.7 billion. Within this amount, THB0.16 billion was classified as priority debt, which included secured debt held by TTCL and all borrowings undertaken by its subsidiaries. The ratio of priority debt to total debt was 4%.

BASE-CASE ASSUMPTIONS

- TTCL to secure new EPC contracts worth THB3 billion in 2024, and THB12-THB18 billion yearly during 2025-2026.
- Construction gross margin is projected to be 4.5% in 2024, rising to 7% in 2025-2026.
- EBITDA margin to be in the 3.2%-5.2% range.
- CAPEX of THB170-THB250 million annually over the next three years.

RATING OUTLOOK

The "stable" outlook reflects our expectation that TTCL's operating performance will not significantly deviate from our target. TTCL is expected to maintain annual revenues of THB11-THB18 billion over the next three years. Its debt to EBITDA ratio should stay below 5 times while its FFO to debt ratio should remain above 10%.

RATING SENSITIVITIES

The rating and/or outlook could be revised upward should TTCL generate stronger-than-expected earnings and lower its debt, resulting in an FFO to debt ratio of above 20% or a debt to EBITDA ratio below 3.5 times for a sustained period. 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, causing its debt to EBITDA ratio to rise above 5 times.

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 was listed on the Stock Exchange of Thailand (SET) in 2009. The company is positioned as an integrated EPC contractor for industrial plants, including refineries and plants which produce petrochemicals, chemicals, fertilizer, oil and gas, and electrical power.

TEC gradually reduced its stake in TTCL to 10% from 22% during 2015-2017. In February 2018, TEC sold off its remaining shares in the company. As of April 2024, Mr. Hironobu Iriya, the top manager at TTCL, held 6.6% of the company's shares.

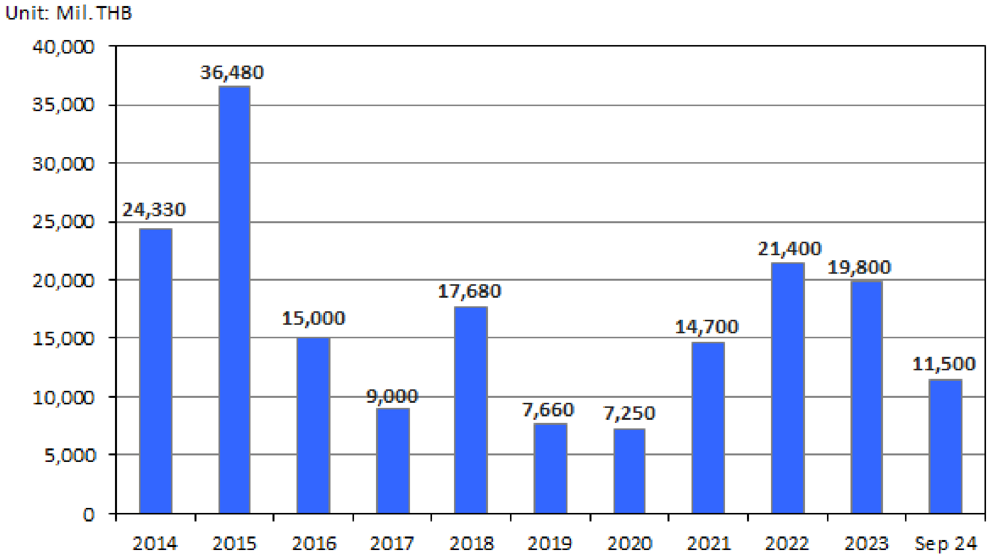
TTCL has a strategy to expand into the power business, a move that has helped the company secure EPC contracts and earn steady revenue streams. The company's investments in power projects enable it to generate steady sources of income from multi-year power purchase agreements. Since 2010, TTCL has invested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

TTCL has recorded substantial overdue payments and cost overruns in several projects. As a result, the company set aside hefty allowances for doubtful accounts in 2018 and 2019, which caused a serious deterioration in its capital structure. To prevent any further deterioration, TTCL decided to divest its power-generating assets, including a significant portion of its shareholding in TTPMC, the owner of a 120-MW gas-fired power plant in Myanmar (the Ahlone Project). The proceeds from the divestiture were used to pay down debt and maintain liquidity. Currently, the company's stake in TTPMC is 43%.

In 2023, the company started construction of a black-pellet plant in Lampang Province. The production capacity of the plant is 75,000 MT per year and the investment cost is around THB1.3 billion. Commercial production and revenue recognition for this project are scheduled to begin in 2025.

KEY OPERATING PERFORMANCE

Table 1: Backlog at Year End



Source: TTCL

Table 2: Construction Revenue Breakdown by Location

Unit: %

Location	2017	2018	2019	2020	2021	2022	2023	Jan-Sep 2024
Domestic	38.5	48.5	62.9	47.9	45.2	46.5	78.9	83.1
Overseas	61.5	51.5	37.1	52.1	54.8	53.5	21.1	16.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Revenue (mil. THB)	**10,447**	**8,328**	**10,497**	**6,869**	**6,347**	**11,273**	**16,965**	**15,039**

Source: TTCL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2024		------------Year Ended 31 December ---------- 2023	2022	2021	2020
Total operating revenues	15,149		17,065	11,370	6,410	6,917
Earnings before interest and taxes (EBIT)	339		601	834	126	447
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	366		622	838	69	450
Funds from operations (FFO)	142		387	575	(92)	158
Adjusted interest expense	201		206	199	143	230
Capital expenditures	216		1,043	181	61	336
Total assets	21,425		18,901	17,903	13,645	13,856
Adjusted debt	1,597		1,530	20	2,760	2,490
Adjusted equity	3,321		3,288	2,961	2,686	2,253
Adjusted Ratios						
EBITDA margin (%)	2.4		3.6	7.4	1.1	6.5
Pretax return on permanent capital (%)	4.6	**	9.0	13.5	2.0	5.9
EBITDA interest coverage (times)	1.8		3.0	4.2	0.5	2.0
Debt to EBITDA (times)	4.8	**	2.5	0.0	40.1	5.5
FFO to debt (%)	3.9	**	25.3	2,933.6	(3.3)	6.4
Debt to capitalization (%)	32.5		31.7	0.7	50.7	52.5

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

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

Company Rating:	BBB-
Rating Outlook:	Stable

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