

UAC GLOBAL PLC

No. 82/2024
17 May 2024

CORPORATES

Company Rating: BBB-
Outlook: Negative

Last Review Date: 23/05/23

Company Rating History:		
Date	Rating	Outlook/Alert
05/05/22	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on UAC Global PLC (UAC) at “BBB-”. At the same time, we revise the rating outlook to “negative” from “stable” as UAC’s earnings recovery is below our expectation while its new projects carry material execution risks.

The rating continues to mirror UAC’s competitiveness in the core trading business and its sound capital structure. Conversely, the rating is tempered by the company’s overreliance on major customers and suppliers and ongoing underperformances of its key energy projects.

KEY RATING CONSIDERATIONS

Earnings recovery below expectation

The “negative” outlook reflects the risk that UAC’s earnings recovery could be prolonged as its operating results failed to pick up as we previously anticipated. In 2023, UAC reported a whopping 83% growth in its earnings before interest, taxes, depreciation, and amortization (EBITDA) to THB266 million from a plunge the prior year. That said, EBITDA came in below our previous expectation of about THB400 million per year over the long term.

The earnings miss mainly resulted from significantly lower-than-forecast dividends UAC received from BBGI Biodiesel Co., Ltd. (BBGI-BI), a key associated company, of which performance stayed under product price spread pressure.

Also, UAC’s energy business remained sluggish. Its newly developed projects including the onshore oil and gas production (the L10/43 and L11/43 projects) and the waste management in the Lao People’s Democratic Republic (Lao PDR) still needed fine-tuning during the initial stage of operations. The latest biogas power plant, the Phu Pha Man, faced commercial operation delays.

Execution risks of recent energy projects

UAC has developed the L10/43 and L11/43 projects, located near its Petroleum Production Plant (PPP), to produce oil and gas. The company believes these projects will not only help boost revenue and earnings, but also increase gas supplies to the PPP, improving the operations of its energy business. However, actual production in 2023 remained below expectation. Given UAC’s lack of a proven record and uncertain petroleum reserves, we conservatively forecast the two projects to bring in THB130-THB160 million in annual revenue during 2024-2026. The company’s experienced partner should help ensure the project success.

Also, UAC is developing a 3-megawatt (MW) biogas power plant project, Phu Pha Man, in Khon Kaen Province. The first phase of the project (1.5 MW) started operation in February 2024. The remainder should be operational in the second quarter this year, behind the original plan. The high operational risk and procurement of raw materials remain key challenges. Our base-case projection predicts the Phu Pha Man will generate a revenue of THB25 million for the first operating year in 2024, before increasing to THB60-THB80 million annually during 2025-2026.

Overseas RDF project successes to be proven

UAC has begun establishing its overseas presence, with two waste management projects in the Lao PDR and Indonesia. The waste management

project in the Lao PDR is UAC's first overseas investment, using municipal solid waste as a raw material to produce refuse derived fuel (RDF) and supply to a cement producer. In 2023, RDF production still fell short of targets in terms of volume and heating value. We expect UAC to steadily enhance its production efficiency in the years ahead. Apart from this, UAC is constructing an RDF plant in Indonesia, aiming to serve its partner for cement production. This newly developed project is scheduled to begin operation in late 2024.

In our view, the company's lack of a proven record in RDF production, plus demand risk, will pose considerable challenges to the operating results. Also, these projects have raised UAC's exposures to higher country and regulatory risks, as well as the risk of currency convertibility. In our forecast, both RDF projects should generate THB40 million in revenue in 2024, before rising to THB60-THB90 million annually during 2025-2026.

Competitive strengths in trading business

We view UAC's competitive strengths in its trading business as remaining the key supporting factor to the company rating. The trading of chemicals and equipment is UAC's core business, making up more than 80% of its total revenue and EBITDA. We expect UAC to remain competitive and profitable, given the company's long track record, well-established relationships with key customers, and technical expertise.

UAC imports and distributes chemicals and equipment mainly used in oil refining and petrochemical production. The company is an authorized distributor for renowned global suppliers such as Honeywell and PALL Corporation. With almost three decades in the business, UAC has several leading refineries and petrochemical companies in Thailand as repeat customers. The company's products are widely recognized and usually require technical support, which helps retain customers.

Overreliance on major customers and suppliers

The strengths in the trading business are held back by UAC's significant business concentration. The company has purchased about 60% of its products from its top five suppliers and sold more than 30% of its products to its top five customers over the past five years. The risk of overreliance is mitigated by UAC's longstanding relationships with key suppliers and customers. The company has a sound record of renewing supply contracts and its sustaining customer base. Its customers, mainly companies in the oil and gas, petrochemicals, and utility sectors, generally need chemicals and equipment throughout their plant life cycles. Switching suppliers can be costly for these companies.

Key energy projects continue to underperform

Most of UAC's existing energy projects have been underperforming. The PPP and two gas-fired power plants in Sukhothai Province, making up more than half of UAC's energy revenue in aggregate, have repeatedly suffered from insufficient fuel supply. The operations of these projects rely heavily on the supply of associated gas from PTT Exploration and Production PLC (PTTEP)'s crude oil production. Insufficient feedstocks from PTTEP have brought about underutilization of the PPP and power plants, as well as high production volatility over recent years.

Earnings gradually rebounding, but below expected range

We expect UAC's earnings will gradually improve in the years ahead as the newly developed projects should start paying off. However, the oil and gas production and the waste management are new for the company. Their earnings performances remain unproven and will probably not suffice to offset contractions in dividend income.

Looking forward, UAC should receive lower dividends from BBGI-BI, given our conservative assumption on product price spread. Our base-case projection expects income from dividends to stay in the THB40-THB45 million per annum range, down from THB100-THB200 million annually during 2020-2021.

In all, we predict UAC's EBITDA for 2024-2026 will range from THB270-THB330 million per annum, lower than our previous expected range of about THB400 million per year. Its total operating revenue will likely range from THB1.8-THB2 billion per annum over the forecast period.

Capital structure to remain sound

UAC's conservative financial policy has been a key supporting factor for the rating. The company's ownership reduction in its chemicals business considerably lowered its financial leverage. As of March 2024, the debt to capitalization ratio stood at 37%. Its capital structure should remain strong, with the debt to capitalization ratio ranging from 25%-35% during 2024-2026. Our base-case forecast estimates aggregate capital expenditure and investments to be THB250 million in 2024 and THB20-THB60 million per annum during 2025-2026.

Credit metrics weaker than anticipated

Despite the strong capital structure, the key credit metrics of UAC, as measured by the level of cash flow against debt obligations, are expected to be weaker than our previous assessment.

In this assessment, the company's debt to EBITDA ratio will likely stay about 3 times in 2024-2025 and decline to 2 times in 2026. Our previous assessment forecast the ratio to hover around 2 times throughout 2024-2026. In the first quarter of 2024, the debt to EBITDA ratio (annualized with trailing 12 months) was 3.7 times.

Meanwhile, we make a downward revision on UAC's funds from operations (FFO) to debt ratio in 2024-2025 to 25%-30% from our previous assessment of 40%. The FFO to debt ratio could improve to 40%, but not until 2026.

Debt structure

As of March 2024, UAC's consolidated debt, excluding lease liabilities, totaled THB892 million, of which THB392 million was priority debt, comprising secured debt owed by UAC and all borrowings incurred by its operating subsidiaries. The priority debt to total debt ratio was 44%.

Manageable liquidity

We assess UAC's liquidity as manageable. As of March 2024, the company had cash of THB236 million. It had THB427 million debt obligations coming due in the next 12 months, most of which were short-term loans for working capital. UAC should be able to rollover the short-term loans while repaying the long-term debt using its operating cash flow. Looking further ahead, the company plans to repay its existing debentures of THB500 million due in June 2025, using its operating cash flow and new debenture issuance.

A key financial covenant on UAC's debentures requires the company to keep its net interest-bearing debt to equity ratio below 3 times. The ratio was 0.5 times as of March 2024. We believe the company will remain compliant with the financial covenant over the forecast period.

BASE-CASE ASSUMPTIONS

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

- Total operating revenue to stay in the THB1.8-THB2 billion per annum range.
- Gross margin to stay about 20%.
- Dividend income from BBGI-BI to be THB40-THB45 million per annum.
- Capital expenditure and investments to total THB250 million in 2024 and THB20-THB60 million per annum during 2025-2026.

RATING OUTLOOK

The "negative" outlook indicates the possibility that we could lower the company rating if UAC's earnings recovery remains vulnerable, and UAC's earnings tend to stay weaker than our previous anticipation. We view the cash generation as subject to the successful materialization of UAC's new projects, which currently carry material execution risks and raise the company's business risk.

RATING SENSITIVITIES

A rating downgrade could occur if we see UAC's slow earnings recovery persists, with a sustained debt to EBITDA ratio of above 2 times. In contrast, we could revise our outlook to "stable" if UAC experiences a larger-than-expected pickup in earnings. As such, we would anticipate that the key credit metrics improve faster than we expect. This could be in the case that UAC's new projects establish a sustained track record of sound profitability, and its core trading business remains competitive. In such a scenario, the debt to EBITDA ratio should stay below 2 times on a sustained basis.

COMPANY OVERVIEW

UAC was founded in 1995 by the Jivacate family as a supplier of chemicals and equipment mainly for the oil refinery and upstream petrochemicals industries. The company later expanded into the energy and chemical businesses and received a concession to produce petroleum. UAC was listed on the Market for Alternative Investment (MAI) in 2010 and moved to the Stock Exchange of Thailand (SET) in February 2020. As of March 2024, the Jivacate family remained the major shareholder, holding a 56.2% stake in UAC.

The trading business accounted for the majority (84%) of UAC's total revenue in 2023, followed by the energy business (16%). The trading business serves companies in the oil and gas, petrochemicals, and utility sectors. UAC imports a host of

chemical products, such as adsorbent and molecular sieve products, and filtration products. The company is an authorized distributor of global manufacturers, including Honeywell, and PALL Corporation.

In the energy segment, UAC's PPP produces several petroleum products including liquefied petroleum gas (LPG), natural gas liquids, and methane. The company also holds a long-term concession to produce petroleum near its PPP. With respect to power production, UAC's aggregate installed capacity was 16.1 MW, as of March 2024. UAC's power projects include two biogas power plants using Napier grass as the major raw material, two gas-fired power plants, two small solar rooftop projects, and one waste-to-energy (WTE) project. Apart from the domestic projects, UAC owns two RDF production projects located in the Lao PDR and Indonesia.

In the chemicals business, UAC Advance Polymer & Chemicals Co., Ltd. (UAPC) manufactures and supplies chemicals such as latex emulsion and latex polymer. UAPC mainly distributes its products in the domestic market, covering various industries such as paints and coatings, printing inks, textiles, adhesives, adhesive tapes, paper, and packaging. Currently, UAC owns a minority stake of 30% in UAPC.

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown

Unit: %

Business	2020	2021	2022	2023	Jan-Mar 2024
Trading	67	66	84	84	77
Chemicals	22	23	-	-	-
Energy	11	11	16	16	23
Total	100	100	100	100	100
Total revenue (mil. THB)	1,269	1,466	1,281	1,590	468

Source: UAC

Table 2: Current Power Project Portfolio

Project	Held by UAC	Installed Capacity (MW)	Contracted Capacity (MW)	Tariff
Solar Rooftop				
VBD	99%	0.75	0.75	FiT
SHT	100%	0.92	1.00	FiT
Sub total - Solar Rooftop		1.67	1.75	
Gas				
STA	100%	3.90	3.60	TOU
PDT	100%	3.00	2.62	TOU
Sub total - Gas		6.90	6.22	
Biogas				
MT2	100%	1.50	1.00	FiT
PPM	45.01%	3.00	3.00	FiT
Sub total - Biogas		4.50	4.00	FiT
Waste				
ODIN	10%	3.00	2.45	FiT
Sub total - Waste		3.00	2.45	FiT
Grand total		16.07	14.42	

Source: UAC

VBD : Von Bundit
SHT : Sahathai Steel Pipe
MT2 : Mae Taeng 2
ODIN : Odin

STA : Sao Thian-A
PDT : Pra Du Thao
PPM : Phu Pha Man

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	478	1,633	1,325	1,521	1,293
Earnings before interest and taxes (EBIT)	94	206	110	292	320
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	100	266	146	416	322
Funds from operations (FFO)	62	171	90	356	258
Adjusted interest expense	13	45	41	49	57
Capital expenditures	33	91	86	43	35
Total assets	3,790	3,638	3,547	3,217	3,130
Adjusted debt	1,118	766	1,190	945	1,071
Adjusted equity	1,907	1,856	1,725	1,771	1,624
Adjusted Ratios					
EBITDA margin (%)	21.0	16.3	11.0	27.4	24.9
Pretax return on permanent capital (%)	8.7 **	6.8	3.8	10.5	11.6
EBITDA interest coverage (times)	7.9	6.0	3.6	8.5	5.6
Debt to EBITDA (times)	3.7 **	2.9	8.2	2.3	3.3
FFO to debt (%)	17.4 **	22.3	7.6	37.7	24.1
Debt to capitalization (%)	37.0	29.2	40.8	34.8	39.7

* 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
- Issue Rating Criteria, 15 June 2021

UAC Global PLC (UAC)

Company Rating:

BBB-

Rating Outlook:

Negative

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