

# UAC GLOBAL PLC

No. 91/2023  
23 May 2023

## CORPORATES

**Company Rating:** BBB-  
**Outlook:** Stable

**Last Review Date:** 05/05/22

### 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-” with a “stable” outlook. The rating continues to reflect UAC’s competitiveness in its core trading business, the substantial dividends it receives from a key associated company, and its healthy capital structure. Conversely, the rating is constrained by the company’s heavy reliance on major customers and suppliers, its underperforming energy projects, and execution risks associated with new investments. The rating also embeds our expectation of revival in the company’s earnings.

## KEY RATING CONSIDERATIONS

### Competitive strengths in trading business

We expect UAC to remain competitive in its core trading business, considering its 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 major global suppliers such as Honeywell and PALL Corporation. The trading business has constituted more than half of the company’s total revenue and earnings before interest, taxes, depreciation, and amortization (EBITDA) over the past five years.

With more than two decades in the business, UAC has a number of leading refineries and petrochemical companies in Thailand as repeat customers. UAC’s products are widely recognized and usually require technical support, which helps retain customers.

### Heavy reliance on major customers and suppliers

The strengths in the trading business are offset by UAC’s high business concentration. The company has purchased 66% of its products from its top five suppliers and sold almost 40% of its products to its top five customers over the past five years.

However, the risk of overreliance is alleviated by UAC’s longstanding relationships with key suppliers and customers. The company has generally been able to renew supply contracts and keep repeat customers. 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.

### Divestiture of chemicals business lowers leverage

In March 2023, UAC sold its interest in UAC Advance Polymer & Chemicals Co., Ltd. (UAPC), a latex emulsion and latex polymer producer, to the ICAP-SIRA Group, an Italian manufacturer of chemical specialties. UAC earned THB227 million in net cash from this transaction. Holding the remaining 30% stake, UAPC has become UAC’s associated company. In effect, UAPC’s total debt of nearly THB300 million was deconsolidated from UAC’s balance sheet, reducing UAC’s level of leverage. At the same time, UAC’s annual revenue base will likely decline slightly as the company will recognize earnings from the chemicals business in the form of shared profit instead.

### **Underperforming energy business**

UAC has invested in several energy projects including small power plants and petroleum production. Most of UAC's energy projects have underperformed, due primarily to insufficient feedstocks, high operational risks, and regulatory changes.

The Petroleum Production Plant (PPP) and two gas-fired power plants in Sukhothai Province make up more than half of UAC's energy revenue. They are exposed to fuel supply risk as their operations rely heavily on PTT Exploration and Production PLC (PTTEP)'s crude oil production. Despite increased gas supplies in 2022, the capacity utilization rates of these energy projects remained low.

### **Execution risks associated with new projects**

UAC has recently begun petroleum production at the onshore block located near its PPP (the L10/43 and L11/43 projects) in the last quarter of 2022, generating a small amount of revenue. UAC expects petroleum production will help increase gas supplies to the PPP, improving the operations of its energy business over the next three years. Given the company's lack of experience in the new venture and uncertain petroleum reserves, we conservatively project an annual revenue of THB100-THB140 million during 2023-2025.

Apart from the petroleum production, UAC has recently developed a 3-megawatt (MW) biogas power plant project (Phu Pha Man) in Khon Kaen Province and a waste management project in the Lao People's Democratic Republic (Lao PDR). The Phu Pha Man project is expected to start operation in the second half of this year after facing delays in obtaining the power purchase agreement (PPA). In our view, the high operational risk of biogas power plants remains its key risk. In our base case, we project the Phu Pha Man project will bring in THB15 million in revenue in 2023 and THB50-THB70 million a year during 2024-2025.

The waste management project in the Lao PDR is UAC's first overseas investment. The project will use municipal solid waste from Vientiane as a raw material to produce refuse derived fuel (RDF) and supply to industrial users, such as cement producers. We view the company's lack of experience, evolving regulations, and demand risk will pose considerable challenges to the targeted operating results. The project is expected to start operation in the second half of this year, bringing in THB20 million in revenue in the first operating year and THB60 million a year during 2024-2025. In the second phase of this project, UAC plans to construct a waste-to-energy power plant using RDF to generate electricity for sale to Electricite du Laos (EDL). As the development is currently put on hold, we include only the RDF production phase in our base-case projection.

### **Downbeat 2022 earnings**

UAC reported an earnings slump in 2022. Its EBITDA plunged to THB156 million in 2022 from THB416 million the year earlier. The weakened earnings resulted from additional expenses associated with the company's new projects and the heightened costs of the chemicals business arising from the Russia-Ukraine conflict. Most importantly, UAC did not receive dividends from BBGI Bio Diesel Co., Ltd. (BBGI Bio Diesel), an associated company in which UAC holds a 30% stake. BBGI Bio Diesel faced a significant decline in its earnings, due in large part to surging raw material prices and the government measure to reduce biodiesel content in fuel to control diesel oil prices.

### **Performance to recover in years ahead**

The rating affirmation embeds our expectation that UAC's earnings will bounce back. The company's much-anticipated projects including the Phu Pha Man biogas power plant project, the L10/43 and L11/43 petroleum production, and the waste management project in the Lao PDR will add revenue and earnings, starting from 2023. We also expect its existing energy projects to better perform, given the prospect of increased fuel supply.

Moreover, we expect BBGI Bio Diesel to recover its earnings and resume meaningful dividend payments to UAC, following lessened pressure on raw material prices. The government measure to increase biodiesel blending will likely help recover demand for its products.

Our base-case forecast projects UAC's total operating revenue to stay in the THB1.7-THB1.8 billion per annum range during 2023-2025. We expect dividends received from BBGI Bio Diesel to be THB120-THB160 million per annum. In all, we forecast UAC will arrive at THB340-THB380 million in EBITDA per annum.

### **Financial leverage to recede**

With reviving earnings and debt reduction resulting from the partial divestment in UAPC, our base-case projection projects UAC's debt to EBITDA ratio to fall to 2-3 times over the next three years, from a peak of 7.6 times in 2022. The ratio of its funds from operations (FFO) to debt should range between 30%-40% and its debt to capitalization ratio should stay low at about 30%. We believe UAC will not invest aggressively during 2023-2025, with an estimated aggregate capital expenditure and investments of about THB250 million over the forecast period.

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## Debt structure

As of March 2023, UAC's consolidated debt, excluding lease obligations, totaled THB681 million, of which THB73 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 11%.

## Sufficient liquidity

We expect UAC to manage its liquidity sufficiently. As of March 2023, UAC had THB193 million in short-term and long-term debt obligations coming due in the next 12 months, which should be covered by its cash on hand of THB331 million. Its existing debentures of THB500 million will be due in 2025.

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 0.3 times as of March 2023. We believe the company will stay compliant with the financial covenant over the forecast period.

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## BASE-CASE ASSUMPTIONS

Key assumptions in TRIS Rating's base-case forecast during 2023-2025 are as follows:

- Total operating revenue to range from THB1.7-THB1.8 billion per annum.
- Gross margin of the trading business to be 20%.
- EBITDA margin of the energy and petroleum projects to average 16%-25%.
- Dividend income from BBGI Bio Diesel to be THB120-THB160 million per annum.
- Capital expenditure and investments to total THB250 million.

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## RATING OUTLOOK

The "stable" outlook embeds our expectation of UAC's revival of earnings, aided by additional earnings from the company's new projects and a recovery in the dividends it receives from BBGI Bio Diesel. We also expect UAC to maintain a competitive edge in its trading business as well as a prudent investment policy. As such, UAC's earnings and financial leverage should remain in line with our forecasts.

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## RATING SENSITIVITIES

The prospect of a rating upgrade is limited in the near term, but it could happen if UAC significantly enlarges its earnings base. This could occur if its new projects perform significantly better than our forecast. Conversely, a downward revision to the rating could emerge should the company fail to recover its earnings. Negative rating pressure could also develop if UAC's cash generation against debt obligations are significantly below our forecast.

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## 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 2023, the Jivacate family remained the major shareholder, holding a 56.2% stake in UAC.

The trading business accounted for the majority (89%) of UAC's total revenue in the first quarter of 2023, followed by the energy business (11%). 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 2023. 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 project. Apart from the domestic projects, UAC owns one waste management project in the Lao PDR, with a total capacity for RDF production of 60,000 tons per year.

In the chemicals business, 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. In March 2023, UAC reduced its stake in UAPC to 30% from 100%.

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown

Unit: %

Business	2019	2020	2021	2022	Jan-Mar 2023
Trading	81	67	66	64	89
Chemicals	12	22	23	23	-
Energy	7	11	11	13	11
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Total revenue (mil. THB)</b>	<b>2,872</b>	<b>1,269</b>	<b>1,466</b>	<b>1,671</b>	<b>416</b>

Source: UAC

Table 2: Power Project Portfolio

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

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 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	427	1,720	1,521	1,293	2,904
Earnings before interest and taxes (EBIT)	35	120	292	320	241
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	62	156	416	322	286
Funds from operations (FFO)	38	90	356	258	187
Adjusted interest expense	11	52	49	57	69
Capital expenditures	6	86	43	35	22
Total assets	3,289	3,547	3,217	3,130	3,045
Adjusted debt	683	1,190	945	1,071	1,216
Adjusted equity	1,811	1,725	1,771	1,624	1,444
<b>Adjusted Ratios</b>					
EBITDA margin (%)	14.47	9.05	27.39	24.94	9.84
Pretax return on permanent capital (%)	2.54 **	4.09	10.48	11.55	7.78
EBITDA interest coverage (times)	5.81	2.99	8.48	5.64	4.15
Debt to EBITDA (times)	3.87 **	7.65	2.27	3.32	4.26
FFO to debt (%)	14.43 **	7.58	37.68	24.06	15.34
Debt to capitalization (%)	27.38	40.82	34.78	39.74	45.72

\* 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:**

Stable

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