TRIS RATING
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CreditNews ข่าวเครดิต

UNIQUE ENGINEERING AND CONSTRUCTION PLC

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CORPORATES

Company Rating:	BBB+
Issue Rating:	
Senior unsecured	BBB
Outlook:	Stable

Last Review Date: 11/12/19

Company Rating History:

Date	Rating	Outlook/Alert
25/06/18	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Unique Engineering and Construction PLC (UNIQ) at "BBB+" with a "stable" outlook. At the same time, TRIS Rating affirms the ratings on UNIQ's senior unsecured debentures at "BBB". The issue ratings' one notch below the company rating reflects the inferior position of the senior unsecured debentures relative to the company's secured debts. The ratio of the company's secured debts to its total assets exceeds TRIS Rating's rating threshold of 20%.

The ratings reflect UNIQ's enhanced competitiveness, fairly sizable backlog, and sound profitability. However, these strengths are offset by the company's high business concentration and increasing debt loads. The ratings also recognize the severe competition in the engineering and construction (E&C) industry and potential delays in bidding public construction projects.

KEY RATING CONSIDERATIONS

Enhanced competitiveness

UNIQ's competitive strengths are propelled by its concerted attempts to build up its bidding qualifications. The company collaborated with leading China-based contractors on projects much larger than UNIQ's usual projects in a bid to increase recognition of its track record of bidding and completing large-scale public infrastructure projects. UNIQ ratcheted up its industry recognition after the completion of the Red Line (Bang Sue - Taling Chan) mass transit railway project, setting the path to take on large-scale construction projects.

The company subsequently won bids for sizable rail transportation infrastructure projects, consistently strengthening its market position. The Orange Line (Thailand Cultural Center - Min Buri) is the first electric train project bid without any joint venture partners. Across the construction industry, UNIQ has ascended to become the fourth-largest E&C contractor listed on the Stock Exchange of Thailand (SET), as measured by revenue and asset size.

TRIS Rating expects UNIQ's competitiveness will stay positive. The company is leaning toward much-anticipated public transportation infrastructure projects in the years ahead.

High business concentration

UNIQ's ratings are held back by its high business concentration. The company's backlog is dominated by a few large infrastructure projects. The three largest projects under construction make up almost all its backlog. Failure to complete one or more projects or any significant interruption in a project could cause a material impact on operating performance.

In our view, UNIQ will likely continue to place public construction projects at the forefront of its growth strategy. Despite a promising outlook of public infrastructure projects over the coming years, project implementation timelines are uncertain. Delays in bidding or awarding of contracts, or commencement of projects could curtail the company's growth.

Severe competition and delays in project bidding

In 2019, domestic construction grew by 1.9% year-over-year (y-o-y). Public construction rose by 2.4% while private construction increased by merely 1.4%.

The outlook for private construction remains bleak, as residential construction represents around half of this segment. Given the current glut of properties for sale, we expect the sluggish domestic private construction will continue in the near term. At the same time, we expect the public segment to remain the key driver of domestic construction.

Downside risks comprise long-delayed budget disbursements and stiff competition. The fiscal budget legislative process has long been delayed. This has disrupted budget disbursements and caused delays in the commencement of large-scale projects. We expect the competition in the industry to heighten in the wake of delays in project bidding and awarding. In addition, we view that the coronavirus (COVID-19) pandemic will likely exacerbate the situation. The fallout from the pandemic could add to various downside risks, such as further delays in large project bidding, interruptions of works in progress, shortages of workers, etc. These threats could erode UNIQ's profitability.

Nonetheless, we still maintain a positive view on the domestic E&C industry over the medium term. In our view, the public investment budget and state enterprise outlays will continue to play a major role in the government's efforts to revive the economy amid the damaging effects of the COVID-19.

Revenue contraction in short term

TRIS Rating expects UNIQ's revenue in 2020 to decline. Delays in launching several mass transit projects have significantly cut down the company's new contracts over the past two years. Opening bids for large infrastructure projects appear to be postponed at least until the second half of this year, due to the impacts of COVID-19.

Our base-case forecast assumes the company's total operating revenues will fall to Bt9.5 billion in 2020 and then bounce back to Bt11-Bt12 billion in 2021-2022. UNIQ's fairly sizable backlog, worth about Bt17.3 billion as of December 2019, will prevent a precipitous fall in revenue. On the earnings front, we expect EBITDA (earnings before interest, taxes, depreciation, and amortization) will decline to around Bt1.9 billion in 2020 and then increase to Bt2.1 billion per year during 2021-2022. Over the medium to long term, UNIQ should benefit from the government's efforts to push forward a number of infrastructure projects.

Profitability to remain sound

UNIQ's profitability is sound. Its EBITDA margin (EBITDA as a percentage of total operating revenues) ranged between 19%-22% over the past five years, higher than other top-tier contractors. We expect the company to maintain its efficient cost controls. UNIQ's centralized cost center helps monitor changes in raw material purchases and prices, as well as increases bargaining power with its suppliers. It also keeps the cost structure flexible by using a large number of sub-contractors. This strategy keeps overhead costs low as it can wind down or expand throughout the industry cycles by adjusting the amount of sub-contracted work. On the downside, this strategy could cause a shortage of workers.

More intense competition could erode UNIQ's profitability over the next three years. In our base-case forecast, we project the EBITDA margin to range around 19%-20% during 2020-2022, down from 22% in 2019. That said, the projected level of profitability is still high. The EBITDA margins of other top-tier contractors rated by TRIS Rating stayed below 12% during the past five years.

Rising debt loads

The level of leverage has increased steadily as UNIQ has won larger scale public work construction contracts. Public work construction generally requires large investments of working capital, due partly to delays in site handover and payments, as well as variation of orders over the course of construction. In addition, the company recently faced delays in the acceptance of works by project owners due in part to the COVID-19 outbreak. We expect UNIQ's gearing to drop upon the completion of the Red Line (Bang Sue Grand Station and Depots) project by the end of 2020. In our base case, we project the debt to capitalization ratio to decline to 40%-50% over the next three years, from 56.7% in 2019.

Cash flows against debt should deteriorate slightly as earnings drop. We expect the debt to EBITDA ratio to peak at about 4.5 times this year and then fall gradually to about 3 times. We project the ratio of funds from operations (FFO) to total debt to stay about 15% in 2020, and surge to 22%-29% during 2021-2022.

Manageable liquidity

We expect UNIQ to manage its liquidity prudently. Nearly 60% of total debts are short-term project financing from banks. Project financing provides flexible debt repayment terms. There are no debentures coming due in 2020, lessening concerns over the current turmoil in the debt capital market. The company has Bt0.9 billion in long-term loans coming due in 2020, which should be sufficiently covered by the expected FFO of Bt1.2 billion. As of December 2019, UNIQ had combined cash and undrawn credit facilities of approximately Bt5.5 billion.

A key financial covenant of UNIQ's debentures requires the net interest-bearing debt to equity ratio to stay below 3.5

times. The company was in compliance with this key financial covenant, with a ratio of about 1.4 times at the end of 2019. Given this large covenant headroom, we believe the company will live up the condition during the forecast period.

BASE-CASE ASSUMPTIONS

- UNIQ to secure new construction contracts for Bt10-Bt15 billion per year during 2020-2022.
- Of the total backlog (Bt17.3 billion), over 90% to be recognized as revenue over the next three years.
- EBITDA margin to stay around 19%-20%.
- Total capital spending to be Bt800 million per annum.

RATING OUTLOOK

The "stable" outlook includes our expectation that UNIQ will maintain its competitive edge in public works construction and its profitability will remain robust. We also expect the company's leverage to decline after the completion of the Red Line project.

RATING SENSITIVITIES

A rating upgrade could emerge if UNIQ can significantly enhance its revenue base and reduce reliance on a small number of projects, while keeping profitability sound and leverage under control. Contrarily, UNIQ's ratings and/or outlook could be revised downward if the financial profile deteriorates substantially, possibly due to project delays, cost overruns, or inefficient working capital management, pushing the debt to EBITDA ratio to stay above 5 times for a sustained period.

COMPANY OVERVIEW

UNIQ was founded in 1994 by Mr. Prasong Suviwattanachai and listed on the SET in 2007. The Suviwattanachai family remains the major shareholder, holding approximately 36% of the company's shares as of April 2020. The company is an E&C contractor, providing an extensive range of turnkey construction and related services for fundamental infrastructure such as roads, bridges, underpasses, highways, underground infrastructure, and mass transit systems and stations. It focuses on public sector projects in Thailand such as electric trains, double-track railways, and roads.

KEY OPERATING PERFORMANCE

Table 1: Backlog as of Dec 2019

Project	Project Owner	Backlog (Bt Bil.)	% of Total
Double Track Railway (Lop Buri - Pak Nam Pho) #1 & #2	SRT	8.7	50
Orange Line #4 & #6: Thailand Cultural Center - Min Buri	MRTA	7.3	42
Red Line #1: Bang Sue Grand Station and Depots	SRT	1.0	6
Others	-	0.3	2
Total		**17.3**	**100**

SRT = State Railway of Thailand
MRTA = Mass Rapid Transit Authority of Thailand
DRR = Department of Rural Road
Source: UNIQ

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	----------------------- Year Ended 31 December --------------------				
	2019	2018	2017	2016	2015
Total operating revenues	12,075	12,983	12,675	12,665	10,183
Earnings before interest and taxes (EBIT)	1,657	1,621	1,569	1,475	1,242
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,652	2,854	2,755	2,377	2,035
Funds from operations (FFO)	1,662	2,027	2,072	1,786	1,505
Adjusted interest expense	725	617	452	381	345
Capital expenditures	1,783	409	428	891	444
Total assets	32,821	29,340	27,561	23,735	18,990
Adjusted debt	10,685	8,340	7,245	5,084	4,793
Adjusted equity	8,146	7,740	7,297	6,748	6,159
Adjusted Ratios					
EBITDA Margin (%)	21.96	21.98	21.73	18.77	19.98
Pretax return on permanent capital (%)	9.03	10.01	11.08	11.85	11.12
EBITDA interest coverage (times)	3.66	4.63	6.10	6.23	5.89
Debt to EBITDA (times)	4.03	2.92	2.63	2.14	2.36
FFO to debt (%)	15.56	24.31	28.60	35.12	31.41
Debt to capitalization (%)	56.74	51.87	49.82	42.97	43.76

* *Consolidated financial statements*

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Unique Engineering and Construction PLC (UNIQ)

Company Rating:	BBB+
Issue Ratings:	
UNIQ222A: Bt2,000 million senior unsecured debentures due 2022	BBB
UNIQ232A: Bt3,000 million senior unsecured debentures due 2023	BBB
Rating Outlook:	Stable

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