TRIS RATING
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CreditNews ข่าวเครดิต

Italian-Thai Development PLC

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CORPORATES

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

Company Rating History:

Date	Rating	Outlook/Alert
30/09/13	BBB-	Stable
27/08/12	BB+	Negative
02/07/12	BB+	Alert Negative
08/06/12	BBB-	Negative
06/05/11	BBB	Stable
30/04/09	BBB+	Negative
13/09/07	BBB+	Stable
11/01/07	A-	Negative
23/11/05	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Italian-Thai Development PLC (ITD) and the rating on its senior unsecured debentures at "BBB-". The ratings reflect the company's solid market position in the domestic engineering and construction (E&C) industry, long track record, and broad range of end user markets. The ratings also reflect ITD's sizable project backlog and a promising outlook for the domestic E&C industry over the next few years. The ratings are constrained by ITD's precarious financial profile and the cyclical nature of the E&C industry. The ratings are also weighed down by several poorly-performing investments, which impede a turnaround.

KEY RATING CONSIDERATIONS

Strong business profile

ITD's strong business profile is underpinned by its position as the industry leader. ITD is the largest E&C contractor, by revenue, listed on the Stock Exchange of Thailand (SET). Revenue ranged between Bt45-Bt55 billion per annum over the past five years.

ITD's business profile is bolstered by its extensive track record of undertaking projects for both public sector and private sector clients. With its experience and resources, ITD provides a complete range of construction and engineering services. ITD can take E&C projects around the country, giving it a diverse base of customers.

ITD has expanded abroad in a search for new business opportunities. These strengths help alleviate business concentration risks because ITD can offer a broad range of customers, located in and outside Thailand, a broad range of products and services.

Large and diverse project backlog

The ratings affirmation takes into account the large and diverse project backlog. As of June 2018, the backlog stood at Bt301.5 billion. The backlog includes a railway and port concession in Mozambique, worth Bt113.7 billion, and a toll road concession in Bangladesh worth Bt37.6 billion. However, major construction works of these two projects have not commenced. As a result, we leave these two projects out of our forecast in order to take a more conservative view of the size of the backlog.

Despite excluding the projects in Mozambique and Bangladesh, ITD's backlog hit a record of Bt150.2 billion this year. The backlog does include other large projects such as the Hongsa mining project in the Lao People's Democratic Republic (Lao PDR), worth Bt19.0 billion, and the Mae Moh mine contract #9, worth Bt29.5 billion. These two projects will generate revenue from this year through 2029. The large number of projects in the backlog means ITD has secured a significant amount of future revenues, as long as the projects can be completed as planned.

Operating performance will remain on a roll

ITD's operating performance during the past 12 months was in line with TRIS Rating's base case forecast. Revenue in the first half of 2018 totaled Bt29.4 billion, a substantial 14.3% year-on-year (y-o-y) rise. Revenue grew because of infrastructure and industrial constructions projects abroad, including mass transit projects in Bangladesh. Profitability has held steady. The operating margin (operating profit before depreciation and amortization as a percentage of revenue) in the first half of 2018 was 10%, the same as in 2017.

Given the prospects for a number of government funded, large-scale infrastructure projects, we maintain a broadly positive view on the domestic E&C industry. ITD is poised for substantial growth in light of its ability to win contracts.

ITD's solid market position and new opportunities underpin the current ratings. We expect that ITD's operating performance will remain on a roll. The company racked up new contracts worth Bt39 billion in the first half of 2018 while new contracts in 2017 amounted to Bt83 billion. In our base case forecast, revenue will grow from Bt57 billion in 2018 to Bt70 billion by 2021. ITD's robust backlog will secure a notable portion of revenue about 85% of the base case revenue in 2018 and 2019, 70% in 2020, and 50% in 2021. The operating margin is forecast to stay above 8.5%.

Leverage still on the rise

The ratings are weighed down by the company's precarious financial profile. ITD's capital structure is debt-heavy. ITD could face difficulty in generating enough cash to meet its debt obligations. Its gearing is higher than rated peers. Total debt rose to Bt45.5 billion as of June 2018, up from Bt40.4 billion in 2017 and Bt35.1 billion in 2016. The debt to capitalization ratio remained high at 72.3% as of June 2018, increasing from 71.8% at the end of 2017. We forecast that leverage will keep rising. ITD must get new loans to fund the working capital it needs for the active projects.

Because ITD remains highly leveraged, operating profit is dragged down by a substantial interest burden of over Bt2 billion per year. Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio remained low at 2.6 times in the first half of 2018. Funds from operations (FFO) to debt ratio was weak at 7.0% as of 2017, then fell to 6.4% (annualized, based on the trailing 12 months) in the first half of 2018.

The debt burden remains a drag on the ratings. In TRIS Rating's base case forecast for 2018-2021, the debt to capitalization ratio will remain high, ranging from 70%-73%. The interest-bearing debt to equity ratio could rise as high as 2.9 times, close to the 3.0 times limit in the financial covenant of the outstanding debentures.

Capital expenditures are forecast at around Bt3.2 billion in 2018. ITD will purchase the machinery and equipment for the Mae Moh mine contract #9 project during 2019 and 2020. Capital expenditures will rise to Bt5.5-Bt6.0 billion a year during these two years before declining to around Bt3.8 billion in 2021. We expect ITD to generate FFO of around Bt3.0-Bt3.5 billion per annum. The FFO to debt ratio is expected to stay above 7%, while the EBITDA interest coverage ratio will stay above 2 times.

Poorly-performing investments impeding a turnaround

ITD incurred a substantial amount of debt to fund several large investments. The investments have not been successful and make it difficult to enhance cash flow. In hopes of broadening its revenue base, ITD invested in five large projects: a potash mine in Thailand, the Dawei industrial estate in Myanmar, a toll road in Bangladesh, a bauxite mine and alumina plant in Lao PDR, and a railway and port concession in Mozambique. However, these projects are not paying off, particularly the long-delayed potash mine and the Dawei projects, which together have cost ITD about Bt10 billion to date.

Our view is that investments are a drag on ITD. In addition, the associated execution risks, such as country risks and regulatory risks, appear to outweigh the benefits of the projects. ITD will remain saddled with a heavy debt load, given the remote likelihood that the huge investments will come to fruition in the near term.

The substantial interest burden could outstrip ITD's operating profit if margins fall or if it incurs significant losses on several projects. Like other E&C companies, ITD must contend with the cyclicality of the E&C industry. An industry downturn could cut deeply into revenues and operating profit.

Liquidity tightening but manageable

ITD's liquidity is tight but it should be manageable. At the end of June 2018, ITD had Bt23 billion in debts coming due over the next 12 months: Bt11 billion in short-term loans, Bt11 billion in long-term loans, and Bt1.3 billion in bonds. Liquidity sources are Bt3.8 billion in cash, and undrawn short-term credit lines of Bt6.3 billion. FFO over the next 12 months is forecast at around Bt3 billion. Most of the debts are project finance loans. ITD uses the periodic progress payments to repay the loans. We expect that ITD will be able to roll over most of its debts.

RATING OUTLOOK

The "stable" outlook embeds our expectation that ITD will continue to secure sizable projects, maintain its solid market position, and boost profitability and liquidity. Moreover, we assume ITD can keep the operating margin at or above 8.5%. If so, ITD will gradually increase the amount of cash available to service its debt obligations. Further, we expect ITD to remain compliant with the financial covenants over the next three years, despite a forecast rise in leverage.

RATING SENSITIVITIES

Given ITD's relatively weak financial profile, a rating upgrade is unlikely over the next 12-18 months. Gearing is expected to remain elevated. In contrast, downward rating pressure could develop if profitability weakens. This could occur as a result of aggressive bidding, delays in construction, or cost overruns. A downgrade could come if the operating margin declines to 7% or if the FFO to debt ratio falls below 5% over the next 2-3 years.

COMPANY OVERVIEW

ITD was established in 1958 by Dr. Chaijudh Karnasuta and Mr. Giorgio Berlingieri, an Italian naval architect. The company was listed on the SET in 1994. ITD's business is divided into three segments: domestic construction, overseas construction, and long-term investments.

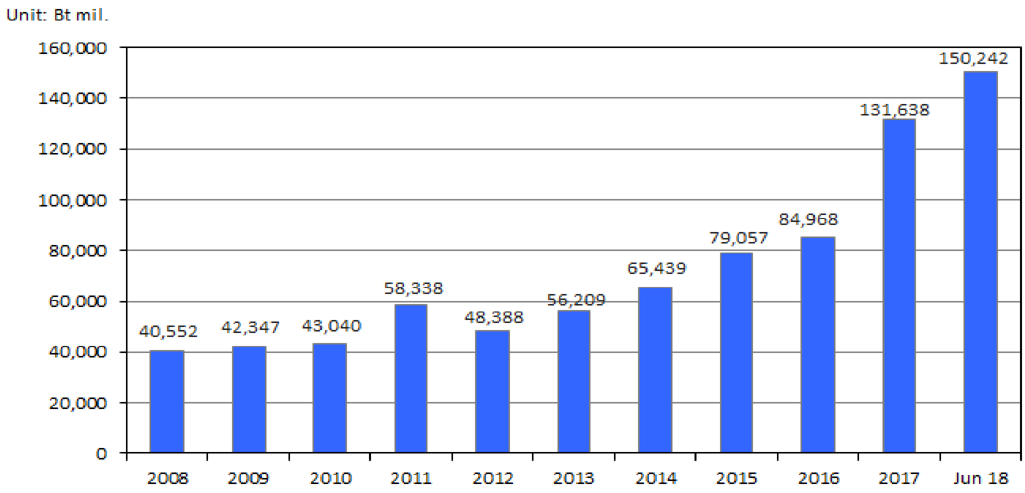
The company is engaged in a broad range of civil construction work, ranging from constructing buildings, industrial plants, pipelines, railways, expressways, airports, seaports, power plants, hydro-electric dams, and mines.

In all, domestic projects comprise 60%-70% of total revenue annually while overseas projects make up the rest. E&C projects undertaken by its India-based subsidiary, ITD Cementation India Limited, make up most of the revenue from overseas projects.

ITD faced difficulty during the 1997 financial crisis. A restructuring completed in 2002 diluted the ownership stake of the Karnasuta family from 64% to 48%. The family owns 27% as of March 2018. Mr. Premchai Karnasuta, the founder's son, has served as president since 1985.

KEY OPERTING PERFORMANCE

Table 1: Backlog at Year End



Source: ITD

Note: Excluding a railway and port concession in Mozambique worth Bt113.7 billion and a toll road concession in Bangladesh worth Bt37.6 billion

Table 2: Revenue Breakdown by Location

Unit: %

Location	2011	2012	2013	2014	2015	2016	2017	Jan-Jun 2018
Domestic	59.4	70.9	75.8	76.2	61.8	61.1	71.2	64.2
Overseas	40.6	29.1	24.2	23.8	38.2	38.9	28.8	35.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Revenue (Bt mil.)	**44,247**	**46,291**	**43,913**	**48,082**	**51,297**	**47,320**	**55,096**	**29,037**

Source: ITD

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Jun 2018	--------------Year Ended 31 December ---------- 2017	2016	2015	2014
Total operating revenues	29,354	55,430	47,669	51,539	48,470
Operating income	3,027	5,632	4,428	3,845	4,483
Earnings before interest and taxes (EBIT)	1,695	3,079	2,230	1,905	3,021
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,008	5,459	4,811	4,410	4,978
Funds from operations (FFO)	1,566	2,637	2,277	1,794	2,163
Adjusted interest expense	1,145	2,386	2,439	2,626	2,537
Capital expenditures	2,712	3,611	4,224	2,948	3,324
Total assets	94,552	87,829	78,120	78,095	73,190
Adjusted debt	42,890	37,647	32,788	31,773	29,461
Adjusted equity	16,427	14,773	14,333	14,577	15,348
Adjusted Ratios					
Operating income as % of total operating revenues (%)	10.31	10.16	9.29	7.46	9.25
Pretax return on permanent capital (%)	5.33 **	5.76	4.48	3.97	6.83
EBITDA interest coverage (times)	2.63	2.29	1.97	1.68	1.96
Debt to EBITDA (times)	7.69 **	6.90	6.81	7.20	5.92
FFO to debt (%)	6.36 **	7.00	6.94	5.65	7.34
Debt to capitalization (%)	72.31	71.82	69.58	68.55	65.75

* *Consolidated financial statements*

** *Annualized with trailing 12 months*

Italian-Thai Development PLC (ITD)

Company Rating:	BBB-
Issue Rating:	
ITD226A: Bt6,000 million senior unsecured debentures due 2022	BBB-
Rating Outlook:	Stable

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