

ITALIAN-THAI DEVELOPMENT PLC

No. 24/2022
11 March 2022

CORPORATES

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

Last Review Date: 30/09/21

Company Rating History:

Date	Rating	Outlook/Alert
08/04/21	BBB-	Stable
19/01/21	BBB-	Alert Negative
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 existing senior unsecured debentures at “BBB-” with a “stable” rating outlook. At the same time, TRIS Rating assigns a rating of “BBB-” to ITD’s proposed issue of up to THB6 billion senior unsecured debentures due within five years. The company intends to use the proceeds from the new debentures to repay some of its existing debentures.

The ratings reflect ITD’s solid market position as the largest construction contractor with strong competitive strengths in undertaking large construction projects. The ratings also consider ITD’s large and diverse project backlogs. However, these strengths are weighed down by its high financial leverage and fierce competition in the engineering and construction (E&C) industry. The ratings are also constrained by perennial problems surrounding ITD’s ailing investments which continue to hamper a turnaround in operating performance.

ITD’s operating performance in 2021 was in line with TRIS Rating’s expectations. Despite the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, revenue increased 8.5% from last year to THB59.3 billion. Gross margin improved to 9.4%, up from 8.9% in 2020. We expect ITD’s earnings to continue on a growth path, given the government’s infrastructure projects rollout, and the company’s capability of winning new contracts. As of December 2021, ITD’s backlog stood at THB295 billion. In our forecast, we project ITD to generate revenue of around THB66 billion annually during 2022-2023. ITD’s large backlog will secure a significant portion of revenue, representing about 65% of the base-case revenue forecast in 2022, and 50% in 2023. Gross margin is expected to be quite stable at 9.5%-10%. The earnings before interest, taxes, depreciation, and amortization (EBITDA) margins are forecast to stay around 10%-11% over the next three years, resulting in EBITDA of THB6.8-THB7.1 billion per year.

ITD has a highly leveraged capital structure. The debt to capitalization ratio remained high at 73%-74% in the past three years. We project the debt to capitalization ratio to stay at this level over the next three years. ITD is obliged to keep its net interest-bearing debt to equity ratio below 3.0 times, under the key financial covenants on its outstanding debentures. The ratio at the end of December 2021 was 2.34 times. We believe the company will be able to meet the condition during the forecast period.

We assess ITD to have tight liquidity over the next 12 months. As of December 2021, the company had a total of THB31.4 billion in debt coming due over the next 12 months. After assessing its sources of liquidity comprising its annual cash inflow, cash on-hand, and undrawn facilities, we expect ITD will need to refinance most of its maturing debts to maintain adequate liquidity and to fund projects in the pipeline. We expect ITD should be able to manage the refinancing of maturing debts, many of which are secured by assignments of payments from construction contracts. The refinancing risk is largely mitigated by ITD’s strong capability of completing construction projects and the acceptable payment risk of project sponsors.

The assigned issue rating on ITD’s senior unsecured debentures is equal to the company rating on ITD, as the priority debt to total debt ratio is below the 50% threshold. According to TRIS Rating’s “Issue Rating Criteria”, we view the company’s senior unsecured creditors as not being significantly disadvantaged

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to its priority debt holders. As of December 2021, ITD's priority debt to total debt ratio was 48%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that ITD will maintain its solid market position and competence, enabling the company to secure sizable projects. Its profitability and liquidity should gradually improve. We expect ITD to keep the EBITDA margin at or above 10%. We also expect the company's financial leverage to be in the range of our forecast levels. As such, we expect ITD should gradually increase the amount of cash available for debt service.

RATING SENSITIVITIES

Given ITD's relatively weak financial profile, a rating upgrade is unlikely over the next 12-18 months. Leverage is expected to remain elevated. However, the ratings could be upgraded if the company significantly reduces its debt load. On the other hand, downward revision to the ratings could develop if profitability weakens materially. This could occur as a result of aggressive biddings, delays in construction, or cost overruns. A downgrade scenario could be triggered if the EBITDA margin declines to 7% or if the funds from operations (FFO) to debt ratio falls below 5% for a sustained period.

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

Italian-Thai Development PLC (ITD)

Company Rating:	BBB-
Issue Ratings:	
ITD226A: THB6,000 million senior unsecured debentures due 2022	BBB-
Up to THB6,000 million senior unsecured debentures due within 5 years	BBB-
Rating Outlook:	Stable

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