

# CHO THAVEE PLC

No. 194/2020  
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## CORPORATES

**Company Rating:** B+  
**Outlook:** Stable

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## RATIONALE

TRIS Rating assigns the company rating on Cho Thavee PLC (CHO) at “B+” with a “stable” outlook. The rating reflects the company’s weak financial profile from its small and volatile operating cash flow and its high level of leverage. The rating also reflects our concern on CHO’s liquidity as most of its debts are maturing within 24 months for which refinancing is heavily relied on to fill the funding gap. We also view that CHO’s operating performance will continue to be under pressure over the next 12-18 months from the vulnerable economic conditions and delays in several projects that CHO aims to participate in.

## KEY RATING CONSIDERATIONS

### Small and fluctuating revenue and earnings base

CHO’s business profile is constrained by its small and fluctuating revenue and earnings base, which is largely characterized by the nature of its project-based business. During 2015-2017, CHO’s revenue ranged between THB1.1-THB1.6 billion per year. Earnings before interest, taxes, depreciation, and amortization (EBITDA) ranged from THB(-8) to THB112 million per year during the same period.

In 2018, CHO, with its joint venture partner, Scan Inter PLC, entered into a contract to deliver 489 NGV buses to the Bangkok Mass Transit Authority (BMTA) with a total project value of THB4.3 billion. The sale of the buses totaled Bt1.9 billion with the provision of maintenance services for a 10-year period worth THB2.4 billion. As a result, CHO’s revenue jumped to THB2.3 billion in 2018, half of which coming from the delivery of 300 NGV buses to the BMTA. In 2019, the company reported THB1.6 billion in revenue, of which about one-third was from the delivery of the remaining 189 NGV buses. EBITDA improved to THB252 million in 2018 and THB245 million in 2019, with the main contribution coming from the bus project.

### Efforts to grow recurring income to improve revenue stability

One of CHO’s key strategies is to grow its service income in order to improve its revenue stability. Currently, the 489-buses contract constitutes CHO’s major recurring income project. Under this contract, CHO will receive annual revenue from the provision of maintenance services of about THB145 million during 2020-2022, THB214-THB228 million during 2023-2027, and THB36 million in 2028. CHO also provides maintenance services for the fleet of the logistics company, Linfox Transport (Thailand) Ltd. (Linfox), which yields annual revenue of about THB60-THB90 million. Although the contract with Linfox is on an annual basis, CHO expects the contract will be renewed every year given its service track record with the logistics company. In addition, CHO aims to expand service revenue through the “Siblor 24” project, which is a truck service center, and through project management services such as the production of offshore patrol vessels. A larger recurring income base, if successfully executed, will add to the company’s revenue and earnings stability, thereby proving a positive credit factor.

### Operating performance hard hit by COVID-19

CHO’s operating performance has been hard hit by the Coronavirus Disease 2019 (COVID-19) pandemic. For the first nine months of 2020, CHO reported THB521 million in revenue, a 61% drop year-on-year (y-o-y) and net losses of THB139 million. We expect CHO to continue seeing depressed earnings over the next 12-18 months. The outbreak is causing a slowdown in the airline

industry globally, which affects CHO's airport ground support equipment business, one of its key strengths and main revenue sources. The virus containment measures imposed by the government coupled with the fragile economy will also cause delays to several projects that the company plans to participate in.

Our base-case assumption projects CHO's revenue to be in the THB650-THB700 million range in 2020 and THB900-THB1,200 million per annum during 2021-2022. The revenue assumption takes into account project backlogs, mainly from the light gun restoration for the Royal Thai Army project and 489-buses project, which are expected to translate into revenues of around THB375 million in 2020, THB460 million in 2021, and THB155 million in 2022.

CHO's profitability is weak, mainly due to its underutilized capacity. CHO has prepared its manpower and capacity with the aim to undertake several projects. However, many projects, especially governmental-related projects, have been delayed or cancelled due to public policy changes. The fallout of the COVID-19 pandemic further adds uncertainty and delays to many projects in which CHO plans to participate. We expect CHO's profitability to continue to be weak unless the company can greatly improve the utilization of its production capacity. Our base-case scenario projects CHO's EBITDA margin to be materially impacted by depressed earnings in 2020. We expect the EBITDA margin to be in mid-single digits in 2020 before improving to 10%-12% in 2021-2022. This will translate into an EBITDA of THB30-THB40 million in 2020 and THB90-THB130 million per year during 2021-2022. However, we expect CHO's funds from operations (FFO) to be negative or minimal due to high financial costs. For the first nine months of 2020, CHO's FFO was negative THB88 million. Our base-case scenario projects CHO's FFO to be negative of THB110 million in 2020 and to be in the range of negative THB30 million to around THB20 million per year during 2021-2022. CHO's earnings upside will rely on its ability to secure new projects, especially in the project management and service segment which has a higher margin compared with the standard product segment.

### **Weak financial profile**

CHO's current weak financial profile is mainly a result from the disruptions in many projects it has been involved in the past, particularly projects with the BMTA. For example, the net loss of THB91 million in 2016 was due mainly to the cancellation of an NGV bus project which CHO and its partner had initially won in bidding in late 2015. The project incurred certain expenses, particularly financial fees. In 2017, CHO entered into an "E-ticket" project with the BMTA under which CHO was to provide the 5-year rental of an E-ticket and cash box system on 2,600 BMTA buses. The total project value was THB1.7 billion. CHO installed 2,600 E-ticket systems and 800 cash boxes; however, the project was subsequently cancelled by the BMTA, by claiming that CHO failed to deliver the work within the timeframe stipulated in the contract. CHO later removed all the installed equipment and filed a petition against the BMTA. CHO's investment in the project was THB346 million, excluding operating and financing costs during project work. For the 489 buses project, the delivery of buses was periodically suspended in 2018, causing financial difficulties to CHO during the period.

CHO's leverage is high from undertaking large-scale projects such as the E-ticket and the 489 buses projects. Its adjusted debt doubled to THB1.3 billion in 2017 from THB651 million in 2016, before peaking at THB2.3 billion in 2018. At the end of September 2020, CHO's adjusted debt declined to THB1.95 billion. The leverage ratio spiked due to the depressed earnings. For the first nine months period of 2020, adjusted debt to EBITDA ratio was 21 times, annualized from the trailing 12 months. Our base-case assumption expects CHO's leverage to remain high with an adjusted debt to EBITDA ratio of over 12 times during 2021-2022. We assume that CHO will make no major investments during the period. Cash flow protection is weak. Our base-case scenario projects the EBITDA interest coverage ratio to be 0.2-1.2 times during 2020-2021.

### **Tight liquidity**

CHO's liquidity is a big concern to us as most of its debts are due within 24 months for which refinancing is heavily relied on to fill the funding gap. At the end of September 2020, CHO had THB1.33 billion in debt due over the next 12 months, comprising debentures of THB642 million and other short-term loans of THB687 million. We expect CHO's FFO to be negative by THB30-THB40 million due to high financial costs. Its sources of funds are mainly from cash on hand of THB53 million at the end of September 2020. The company recently sold a land plot and received net proceeds of THB189 million which are expected to be used to repay its debentures coming due. There remains a large funding gap for which, in our view, refinancing is overly relied on to fill the gap.

### **BASE-CASE ASSUMPTIONS**

- Revenue to be in the THB650-THB700 million in 2020 and THB900-THB1,200 million per annum range during 2021-2022.
- EBITDA margin to be in the mid-single digit in 2020 and to range between 10%-12% during 2021-2022.
- EBITDA of THB30-THB40 million in 2020 and THB90-THB130 million per year during 2021-2022.
- Total capital spending of THB30-THB50 million per year during 2020-2022.

## RATING OUTLOOK

The “stable” outlook reflects our expectation that CHO’s business and financial profile are not going to deteriorate materially from the current levels in the medium term.

## RATING SENSITIVITIES

The rating could be revised downward if CHO’s operating performance is materially weaker than expected and a continued erosion in its equity, or there are signs of escalating liquidity risk. The rating and/or outlook could be revised upward if CHO’s business and financial profile improves with more reliable cash flow generation and lower leverage. In addition, the liquidity concern has been clearly addressed.

## COMPANY OVERVIEW

CHO was founded in 1994 and listed on the Market for Alternative Investment (MAI) in 2013. Currently, the Taweesaengsakulthai family is the major shareholder of CHO with a stake of around 44%. CHO specializes in designing and manufacturing various types of large logistics trucks and special purpose vehicles. The company also provides project management and other engineering services. Its products and services can be categorized into three segments. The “standard product segment” offers the bodies for trucks, trailers, and semi-trailers which have standardized production processes. The “special product segment” provides products to meet specific designs and special engineering requirements. CHO’s special products include ground support equipment such as catering high-loaders, passenger stairways, rescue stair vehicles, and other products such as firefighting trucks and military vehicles. For “project management and other services”, the company leverages its expertise to manage special projects, for example, the construction of offshore patrol vessels for the Thai navy.

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	Jan-Sep 2020	2019	2018	2017	2016
Total operating revenues	521	1,569	2,288	1,595	1,066
Earnings before interest and taxes (EBIT)	(29)	186	193	32	(53)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	23	245	252	89	(8)
Funds from operations (FFO)	-88	84	104	38	(47)
Adjusted interest expense	110	151	143	52	40
Capital expenditures	42	76	170	175	145
Total assets	3,251	3,252	3,641	2,328	1,710
Adjusted debt	1,948	2,136	2,256	1,290	651
Adjusted equity	1,010	958	889	662	681
<b>Adjusted Ratios</b>					
EBITDA margin (%)	4.38	15.61	11.02	5.59	(0.77)
Pretax return on permanent capital (%)	0.86	5.84	7.46	1.89	(3.60)
EBITDA interest coverage (times)	0.21	1.62	1.77	1.72	(0.20)
Debt to EBITDA (times)	21.18	8.72	8.94	14.46	(79.67)
FFO to debt (%)	(3.15)	3.95	4.63	2.95	(7.18)
Debt to capitalization (%)	65.86	69.04	71.74	66.08	48.85

## RELATED CRITERIA

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

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**Cho Thavee PLC (CHO)**

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**Company Rating:****B+****Rating Outlook:****Stable**

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**TRIS Rating Co., Ltd.**

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