

SINO-THAI ENGINEERING & CONSTRUCTION PLC

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CORPORATES

Company Rating: A-
Outlook: Stable

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RATIONALE

TRIS Rating assigns a company rating of “A-” to Sino-Thai Engineering & Construction PLC (STEC) with a “stable” rating outlook. The rating reflects STEC’s strong business profile as a leading engineering and construction services provider with a strong and solid track record in the industry, large and moderately diversified backlog, and healthy capital structure with ample liquidity. The rating however is weighed down by the company’s low profit margins amid the intense competition and rising construction material and labour costs, the cyclical nature of the engineering and construction (E&C) industry, and a potential rise in its financial leverage to support its growth ambition through potential new investments.

KEY RATING CONSIDERATIONS

Well-established business profile

TRIS Rating considers STEC’s business profile to be strong and solid with an impressive and long track record in the industry. Its business profile is buoyed by its proficiency and competence in undertaking various types of E&C work as well as its strong market position. STEC ranks 2nd in Thailand’s E&C industry by 2022 revenues.

STEC is categorized as a Class 1 licensed contractor for most government authorities and state-owned enterprises. The company is one of the few prequalified construction contractors eligible to participate in bidding for large public projects. Given its established and long track record, the company is well positioned to bid for several large new infrastructure projects in the years ahead.

Sizeable and moderately diversified backlog

We assess STEC’s backlog to be rather sizeable and moderately diversified. The value of STEC’s backlog stood at THB 115 billion as of 31 December 2022, comprising 55% infrastructure projects, 34% building construction projects, 7% energy projects, and the rest for industrial and environmental projects. Classified by customer type, the order backlog was made up of 61% private projects while 39% were public projects. Key remaining projects in the backlog include the Denchai - Chiangrai -Chiangkhong double-track railway, Mochit Complex, the Hin Kong Power Plant, U-Tapao airport, and the MRTA Purple Line southern section. Current backlog orders will help secure revenue over the next three to four years.

TRIS Rating’s base case projection indicates that current backlog could secure around 86% of the forecast revenue during 2023-2025. We expect the revenue to increase slightly to around THB31.4-THB35.6 billion per annum during 2023-2025, from THB30 billion in 2022. Meanwhile, we expect the company to sign new contracts worth around THB 25 billion per annum during 2023–2025 to maintain an order backlog of not less than THB100 billion. We believe that new contracts of around THB 25 billion per annum is achievable given the potential projects slated for bidding during 2023-2025.

Healthy capital structure with net cash position

The company’s efficient working capital management, especially advance payments from project owners and the credit extended by suppliers and sub-contractors, have substantially strengthened STEC’s capital structure. The company received advance payments from customers of THB14-THB20 billion

during 2018-2022 while it reported account payables of THB4.4-THB6.4 billion over the past 5 years. This spontaneous financing provides STEC with a key source of liquidity and financial flexibility to bid for and undertake large projects while keeping its external funding requirements low.

Intense competition and cyclical nature of E&C industry

As a pure contractor, STEC is highly exposed to the cyclical nature and competitive environment of the E&C business, which puts considerable pressure on the overall business risk profile of the company. Besides the intense competition, fluctuations in raw material costs and the impacts of the COVID-19 pandemic have caused STEC's gross profit margin to fall during the past 3 years. Gross profit margin shrank to 4.3%-4.9% range during 2020 – 2022, compared with more than 7% in the past. Its EBITDA margin also narrowed, declining to 6%-7%, compared with 9%-11% in the past.

Looking ahead, given that the company has incorporated higher construction materials and labour costs in its newly signed contracts, STEC's gross profit margin should gradually improve to around 5%-6% during 2023 -2025, from 4.9% in 2022. Due to its relatively low selling and administrative expenses, its EBITDA margin is expected to stay above 6% throughout the forecast period.

Anticipated rise in financial leverage from new investments

STEC aims to expand and diversify its businesses over the next few years to seek more recurring and stable revenue and cash flow. The company is keen to seek new investments to strengthen its revenue streams and cash flow with decent margins. The investment journey has already started through a 30% stake in SITEM ST Engineering and Services Company Limited, providing services related to maintenance and building engineering system management. We expect to see more investments in the coming years.

We assume the company will invest THB2.5 billion per annum in new businesses over the next three years, in addition to its normal capital expenditures of around THB620-THB710 million per annum. We foresee a potential rise in its financial leverage in 2025 while the company will remain in a net cash status in 2023–2024. We expect its adjusted net debt to EBITDA to reach 1.3 times in 2025, with FFO to adjusted net debt of 57%, and adjusted net debt to net capitalization of 12%. This degree of financial leverage should be manageable thanks to the company's prudent financial management.

Ample liquidity

We consider STEC's liquidity to be ample, underpinned by sizeable advances from project owners and long credit terms from suppliers. As of December 2022, STEC had cash on hand of THB6.9 billion, and short-term investments of THB1.3 billion. The company normally invests in short-term investments to enhance yield while protecting its principal investments. The company also had unutilized banking facilities of THB7.9 billion that could be used as an external funding source if needed. For uses of funds, STEC reported total debts of THB700 million under lease liabilities of which THB324 million is to be repaid within 12 months. STEC's sources of funds should comfortably cover its repayment obligations.

Furthermore, the company had substantial investments in equity instruments worth THB 12.6 billion as of 31 December 2022, including investments in Gulf Energy Development Public Company Limited (GULF) of THB12.2 billion and Thai Solar Energy Public Company Limited (TSE) of THB0.45 billion. The company also had investment properties, mostly land, valued at about THB4.9 billion as of 31 December 2022, which could also serve as a liquidity buffer should the need arise. The company could easily monetize these assets, especially its investments in equity instruments, to enhance its liquidity position or to support new businesses or investments.

BASE-CASE ASSUMPTIONS

- Revenue of THB31.4-THB35.6 billion per annum over the next 3 years.
- Construction gross profit margin of around 5%-6% during 2023-2025.
- New investments of THB2.5 billion per annum during 2023-2025.
- Maintenance CAPEX at 2.0% of revenue.
- Minimum cash on hand of THB3.0 billion.

RATING OUTLOOK

The "stable" outlook reflects our expectation that STEC will retain its robust market position in the E&C industry as well as its strength in securing and completing projects. We also expect STEC to maintain an EBITDA margin in the 5%-10% range with a debt to EBITDA ratio of below 2.0 times.

RATING SENSITIVITIES

STEC's credit upside would materialize if the company significantly enlarges its revenues and earnings base. On the contrary, the rating and/or outlook could be revised downward if its financial profile deteriorates significantly, due to project delays, cost overruns, or overinvestment, causing its debt to EBITDA to stay above 3.5 times for an extended period.

COMPANY OVERVIEW

Sino Thai Engineering & Construction Public Company Limited (STEC) was established in 1962 by the Charnvirakul family and listed on the Stock Exchange of Thailand (SET) in 1992. Currently, the Charnvirakul family owns a 22.2% share of STEC through various companies and individuals. STEC is a well-known construction contractor, providing E&C services to the public and private sectors. The company's key projects include infrastructure developments, energy projects, building construction, industrial plant construction, environmental projects, and others. As of 31 Dec 2022, 61% of STEC's revenue was generated by private-sector projects, and the rest by projects for the public sector. Infrastructure projects contributed 58% of total revenue, followed by energy projects (25%), building projects (13%), industrial plant projects (3%), and environmental projects (2%). However, the revenue mix varies over time.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	30,432	27,794	35,871	33,062	27,586
Earnings before interest and taxes (EBIT)	1,042	899	1,174	1,843	1,765
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,069	2,029	2,120	2,461	2,390
Funds from operations (FFO)	1,898	1,928	1,982	2,266	2,255
Adjusted interest expense	24	37	61	73	50
Capital expenditures	353	556	1,132	714	510
Total assets	50,790	46,622	44,033	49,207	45,575
Adjusted debt	-	-	-	-	-
Adjusted equity	19,889	17,367	14,712	14,648	11,221
Adjusted Ratios					
EBITDA margin (%)	6.80	7.30	5.91	7.44	8.66
Pretax return on permanent capital (%)	5.23	4.94	6.83	12.39	14.72
EBITDA interest coverage (times)	86.33	54.51	34.99	33.88	47.62
Debt to EBITDA (times)	-	-	-	-	-
FFO to debt (%) **	n.m.	n.m.	n.m.	n.m.	n.m.
Debt to capitalization (%)	-	-	-	-	-

* Consolidated financial statements

** The company's adjusted net debts were negative. The ratio hence is not meaningful (n.m).

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Sino-Thai Engineering & Construction PLC (STEC)

Company Rating:	A-
Rating Outlook:	Stable

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