

# CH. KARNCHANG PLC

No. 56/2020  
31 July 2020

## CORPORATES

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
Senior unsecured	A
<b>Outlook:</b>	Stable

Last Review Date: 30/04/20

### Company Rating History:

Date	Rating	Outlook/Alert
04/04/19	A	Stable
30/01/15	A-	Stable
24/01/14	BBB+	Positive
26/02/13	BBB+	Stable
21/01/11	BBB	Stable
09/06/09	BBB+	Negative
23/07/07	BBB+	Stable
16/02/07	A-	Alert Negative
07/09/04	A-	Stable

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## RATIONALE

TRIS Rating affirms the company rating on CH. Karnchang PLC (CK) and the ratings on its outstanding senior unsecured debentures at “A” with a “stable” outlook. At the same time, TRIS Rating assigns a rating of “A” to CK’s proposed issue of up to THB3 billion in senior unsecured debentures and an additional greenshoe portion of up to THB2 billion due within 10 years. The company plans to use the proceeds from the new debentures to repay some of its existing loans and fund business expansion.

The ratings reflect CK’s strong business profile as a top-tier construction contractor with high capabilities of undertaking large and sophisticated construction projects. The ratings also recognize CK’s strategic investments, which have helped bring in business synergy and enabled CK to diversify its sources of income cushioning a drop-off in the construction business. Conversely, the ratings are weighed down by earnings contraction and a dwindling backlog. The ratings also recognize the severe competition in the engineering and construction (E&C) industry and potential delays in public construction projects.

CK’s operating performance in the first quarter of 2020 was slightly below TRIS Rating’s expectation. Revenue was THB5.4 billion, down 28% from the same period a year ago. The gross profit margin was constant at around 10% during 2019 through the first quarter of 2020. CK’s backlog as of March 2020 stood at THB35 billion, leaving the company with immense pressure to replenish the diminishing construction projects in hands.

As we expected, the bidding for large infrastructure projects will likely be postponed for the rest of this year, due to the impact of the Coronavirus Disease 2019 (COVID-19). As such, we expect CK’s revenue to remain sluggish throughout 2020. However, we expect CK’s performance to improve each year thereafter as the large public infrastructure projects in the pipeline start to come back on stream. In our view, public investment will be key in reviving the economy following the devastating effects of the COVID-19 fallout.

We assess CK to have adequate liquidity over the next 12 months. As of March 2020, CK had THB9.4 billion in cash. We forecast CK’s funds from operations (FFO) at about THB1.6-THB1.8 billion over the next 12 months. At the end of March 2020, CK had debts due over the next 12 months of THB2.7 billion, comprising THB1.1 billion in short-term loans, THB0.6 billion in long-term loans, and THB1.0 billion in bonds. CK plans to repay the loans with revenue from construction projects or refinancing through new bond issuance. Given its presence in the capital market and its credit profile, we view the refinancing risk as low.

## RATING OUTLOOK

The “stable” outlook reflects our expectation that CK will remain highly competitive in securing sizable new contracts in connection with prospective infrastructure projects. We also expect CK to sustain its gross margin of construction at 7%-8% despite stiff industry competition, while managing its debt to capitalization ratio in the range of 50%-55% over the next three years, and its strategic investments remain fruitful.

**CreditUpdate**, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company’s current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been “upgraded,” “downgraded,” “affirmed” or “cancelled.” The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating’s monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

## RATING SENSITIVITIES

The ratings are unlikely to be upgraded in the near term, but this could occur if CK significantly uplift its cash flow protection such that the debt to earnings before interest, tax, depreciation, and amortization (EBITDA) ratio stays below 5 times for a sustained period, and the debt to capitalization ratio stays below 50%.

Contrarily, pressure on the ratings could develop if CK's operating cash flow drops significantly, possibly due to delays and cost overruns in major construction projects. A plunge in operating performance, or a deluge of investments, or extensive financial support provided to its affiliates, which causes the debt to capitalization ratio to stay above 60% for a sustained period, could also trigger a rating downgrade.

## RELATED CRITERIA

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

## CH. Karnchang PLC (CK)

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
CK20NA: THB1,000 million senior unsecured debentures due 2020	A
CK215A: THB2,250 million senior unsecured debentures due 2021	A
CK217A: THB820 million senior unsecured debentures due 2021	A
CK225A: THB1,600 million senior unsecured debentures due 2022	A
CK226A: THB3,000 million senior unsecured debentures due 2022	A
CK227A: THB910 million senior unsecured debentures due 2022	A
CK235B: THB2,700 million senior unsecured debentures due 2023	A
CK245A: THB1,600 million senior unsecured debentures due 2024	A
CK246B: THB3,500 million senior unsecured debentures due 2024	A
CK247A: THB1,500 million senior unsecured debentures due 2024	A
CK25NA: THB1,000 million senior unsecured debentures due 2025	A
CK267A: THB2,700 million senior unsecured debentures due 2026	A
CK283A: THB800 million senior unsecured debentures due 2028	A
CK287A: THB1,020 million senior unsecured debentures due 2028	A
CK296A: THB3,500 million senior unsecured debentures due 2029	A
Up to THB3,000 million senior unsecured debentures and additional greenshoe portion of up to THB2,000 million due within 10 years	A
<b>Rating Outlook:</b>	Stable

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