

# CH. KARNCHANG PLC

No. 53/2023  
11 May 2023

## CORPORATES

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

**Last Review Date:** 30/03/23

### Company Rating History:

Date	Rating	Outlook/Alert
09/04/21	A-	Stable
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

### Contacts:

Auyporn Vachirakanjanaporn  
auyporn@trisrating.com

Bundit Pommata  
bundit@trisrating.com

Parat Mahuttano  
parat@trisrating.com

Suchada Pantu, Ph.D.  
suchada@trisrating.com



WWW.TRISRATING.COM

## 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” rating outlook. At the same time, TRIS Rating assigns a rating of “A-” to CK’s proposed issue of up to THB9 billion senior unsecured debentures due within 10 years. The new issue rating replaces the issue rating previously assigned on 30 March 2023, following CK’s request to increase the issue size to up to THB9 billion from up to THB7 billion. The company plans to use the proceeds from the debenture issuance to repay some of its existing debts and fund business expansion and working capital.

The ratings reflect CK’s leading position in Thailand’s engineering and construction (E&C) industry, its competitive strengths in undertaking large-scale and sophisticated construction projects, as well as the synergy and financial flexibility gained from its strategic investments. However, these strengths are partially offset by the company’s high leverage and the cyclicity and intense competition in the E&C industry.

CK’s operating performance in 2022 recovered from its trough in 2021. Revenue in 2022 increased to THB18.5 billion, up 42% from the previous year. However, its gross margin was pressured by sharply rising construction material and labor costs amid supply disruption and labor shortages. CK’s gross margin in 2022 declined to 8.6% from 9.3% in 2021. CK’s backlog at the end of 2022 stood at THB55.9 billion, up from its lowest level at THB29 billion in 2020.

We estimate CK’s revenue to increase to THB22 billion in 2023, THB27 billion in 2024, and THB30 billion in 2025. We also expect the company’s gross profit margin to remain in the 8.0%-9.0% range, given that construction material prices and labour costs will likely stabilize further. CK’s earnings before interest, tax, depreciation, and amortization (EBITDA) is set to be around THB2.7 billion in 2023 and increase to THB3.3-THB3.5 billion per annum in 2024 and 2025.

CK’s debt to EBITDA ratio jumped to 17-19 times during 2020-2022, significantly higher than its historical level of 8-10 times. We project the ratio to decline to 14-15 times in 2023, before dropping to around 10-13 times during 2024-2025. The debt to capitalization ratio was 62% at the end of 2022, up from 59% in 2021. We expect CK’s debt level to decline gradually from the current level as the company should receive the sponsor loan repayment of around THB10.8 billion from the Xayaburi Hydropower Project during 2023-2025 while the equity investment in the Luang Prabang Hydropower Project is estimated to be THB2.5-THB3.0 billion over the next three years. Thus, its debt to capitalization ratio is expected to gradually decline to around 57%-58% over the forecast period.

The key financial covenant on its debenture obligations requires maintenance of a net interest-bearing debt to equity ratio below 3 times. The ratio stood at 1.6 times as of December 2022. Most of CK’s debts are unsecured debts at the company level, with a very low level of priority debt.

We assess CK’s liquidity as adequate over the next 12 months. Debts coming due over the next 12 months will amount to THB8.2 billion, comprising THB4.2 billion debentures and THB4.0 billion bank loans. The company is likely to spend THB1.8-THB2.0 billion in capital expenditures, dividend payments, and equity investments in its affiliates. CK’s sources of liquidity as of December 2022

**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.

comprised THB7 billion in cash and short-term investments plus undrawn committed loans from banks of THB10 billion. We forecast CK's funds from operations (FFO) over the next 12 months to be THB1.1-THB1.2 billion. Also, the company has the flexibility to divest some of its shares in Bangkok Expressway and Metro PLC (BEM), CK Power PLC (CKP), and TTW PLC (TTW), if needed. However, it is likely that CK will maintain significant shareholding in these companies.

---

**RATING OUTLOOK**

The "stable" outlook reflects our expectation that CK will maintain its competitive position in the E&C business and achieve operating performance in line with our target. We expect CK to keep its EBITDA margin at around 11%-12% and the debt to EBITDA ratio to decline and be maintained at around 10 times over the next couple of years.

---

**RATING SENSITIVITIES**

A rating upgrade will depend on CK's ability to generate stronger-than-expected earnings and lower its debts, resulting in a debt to EBITDA ratio below 8 times for a sustained period.

Downward pressures on the ratings could emerge from significant cost overruns in major projects or unanticipated, extensive financial support provided to its affiliates, resulting in the debt to EBITDA ratio remaining above 13 times for a sustained period.

---

**RELATED CRITERIA**

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

**CH. Karnchang PLC (CK)**

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
CK235B: THB2,700 million senior unsecured debentures due 2023	A-
CK238A: THB500 million senior unsecured debentures due 2023	A-
CK245B: THB1,200 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-
CK255A: THB3,200 million senior unsecured debentures due 2025	A-
CK258A: THB3,000 million senior unsecured debentures due 2025	A-
CK25NA: THB1,000 million senior unsecured debentures due 2025	A-
CK265A: THB800 million senior unsecured debentures due 2026	A-
CK267A: THB2,700 million senior unsecured debentures due 2026	A-
CK275B: THB500 million senior unsecured debentures due 2027	A-
CK283A: THB800 million senior unsecured debentures due 2028	A-
CK285A: THB1,700 million senior unsecured debentures due 2028	A-
CK287A: THB1,020 million senior unsecured debentures due 2028	A-
CK295B: THB900 million senior unsecured debentures due 2029	A-
CK296A: THB3,500 million senior unsecured debentures due 2029	A-
CK308A: THB1,500 million senior unsecured debentures due 2030	A-
CK315A: THB2,500 million senior unsecured debentures due 2031	A-
CK325A: THB1,500 million senior unsecured debentures due 2032	A-
Up to THB5,000 million senior unsecured debentures and additional greenshoe portion of up to THB4,000 million due within 10 years	A-
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2023, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at [www.trisrating.com/rating-information/rating-criteria](http://www.trisrating.com/rating-information/rating-criteria)