

CH. KARNCHANG PLC

No. 45/2019
21 June 2019

CORPORATES

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
Outlook:	Stable

Last Review Date: 04/04/19

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". At the same time, TRIS Rating assigns a rating of "A" to CK's proposed issue of up to Bt10 billion in senior unsecured debentures 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 position as a top-tier contractor, its ability to undertake large-scale and sophisticated construction projects, as well as the synergy and financial flexibility the company gains from its strategic investments. However, the ratings are constrained by the cyclical nature of and competitive threats in the engineering and construction (E&C) industry.

CK's operating performance in the first quarter of 2019 was slightly below TRIS Rating's expectation. Revenue was Bt7.6 billion, up 1.4% from the same period a year ago. The gross profit margin increased slightly to 9.8% from 9.0% in 2018. CK generated funds from operations (FFO) of about Bt232 million, down 32% from the same period last year.

CK's backlog as of March 2019 stood at Bt42.3 billion. Major projects in the backlog include the MRT Orange Line project contracts worth a combined value of Bt19.8 billion, the MRT Blue Line project contracts worth a combined value of Bt10.2 billion, and the Xayaburi hydropower dam project worth Bt7.4 billion. These three projects account for 88% of the company's total backlog value.

At the end of March 2019, CK's debt to capitalization ratio was 52.9%, constant from 2018. Over the next three years, TRIS Rating expects the debt to capitalization ratio of CK will remain at around 50%-55%, taking into consideration working capital needs and the sponsor loan to the Xayaburi project.

CK's liquidity is viewed manageable. CK's liquidity source was Bt9.2 billion in cash plus current investments of Bt0.5 billion as of March 2019. We forecast CK's FFO at about Bt3.0 billion over the next 12 months. At the end of March 2019, CK has debts due over the next 12 months for Bt11.8 billion, comprising Bt8.3 billion in short-term loans and bills of exchange (B/Es), Bt426 million in long-term loans, and Bt3.0 billion in bonds. CK plans to repay loans with revenue from construction projects or refinanced by new bonds. Given its presence in the capital market and its credit profile, refinancing risk is considered low.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that CK will remain highly competitive in securing sizable new contracts in connection with the forthcoming infrastructure projects. CK could sustain its gross margin of construction at 8% despite stiff competition. CK's strategic investments remain fruitful and its debt to capitalization ratio is expected to stay around 50%-55% over the next three years.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term, but it could occur if CK could significantly uplift cash flow protection such that the debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio will markedly tail off and stay below 5 times for a sustained period. The debt to capitalization ratio in the meantime stays below 50%.

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

RELATED CRITERIA

- Rating Methodology – Corporate, 31 October 2007

CH. Karnchang PLC (CK)

Company Rating:	A
Issue Ratings:	
CK197A: Bt2,500 million senior unsecured debentures due 2019	A
CK198A: Bt500 million senior unsecured debentures due 2019	A
CK20NA: Bt1,000 million senior unsecured debentures due 2020	A
CK215A: Bt2,250 million senior unsecured debentures due 2021	A
CK217A: Bt820 million senior unsecured debentures due 2021	A
CK225A: Bt1,600 million senior unsecured debentures due 2022	A
CK227A: Bt910 million senior unsecured debentures due 2022	A
CK235B: Bt2,700 million senior unsecured debentures due 2023	A
CK245A: Bt1,600 million senior unsecured debentures due 2024	A
CK247A: Bt1,500 million senior unsecured debentures due 2024	A
CK25NA: Bt1,000 million senior unsecured debentures due 2025	A
CK267A: Bt2,700 million senior unsecured debentures due 2026	A
CK275A: Bt1,150 million senior unsecured debentures due 2027	A
CK283A: Bt800 million senior unsecured debentures due 2028	A
CK287A: Bt1,020 million senior unsecured debentures due 2028	A
CK295A: Bt1,000 million senior unsecured debentures due 2029	A
Up to Bt10,000 million senior unsecured debentures due within 10 years	A
Rating Outlook:	Stable

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