NAWARAT PATANAKARN PLC

No. 45/2017 | 28 June 2017

Company Rating: BBB-

Issue Ratings:
Senior unsecured BBB-

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
01/04/14	BBB-	Stable

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Rating Rationale

TRIS Rating affirms the company rating of Nawarat Patanakarn PLC (NWR) and the ratings of NWR's outstanding senior unsecured debentures at "BBB-". At the same time, TRIS Rating assigns a rating of "BBB-" to NWR's proposed issue of up to Bt2,000 million in senior unsecured debentures due within three years. The company will use the proceeds from the new debentures to repay some of its existing loans and fund business expansion. NWR's ratings reflect the company's acceptable track record of undertaking a broad range of construction projects for the public and private sectors as well as moderate-sized project backlog. These strengths are partially offset by high leverage, cyclical nature of the engineering and construction (E&C) industry, competitive threats, and the execution risks associated with its property development projects.

Established since 1976, NWR has been a general contractor, providing a broad range of civil construction work including the construction of buildings, factories, transportation infrastructures, ports, irrigation works, tunnels, and pipe jacking projects. The company was listed on the Stock Exchange of Thailand (SET) in 1995. As of March 2017, NWR's major shareholder was Mr. Polpat Karnasuta, who holds about 11% of the shares outstanding. NWR expanded its scope of business to include property development in 2012. In 2013, NWR set up a wholly-owned subsidiary, Mana Patanakarn Co., Ltd. (MANA), to develop condominium and housing projects.

The ratings reflect NWR's moderate business risk profile, characterized by an acceptable track record in project executions and completions. On the strength of its broad range of works, NWR's annual revenue has ranged between Bt6.5-Bt7.5 billion. NWR ranks sixth among the SET-listed contractors, considering annual revenue and asset size. Revenue in the first quarter of 2017 was Bt2.07 billion, a 22% year-on-year (y-o-y) rise. The construction segment accounted for the majority (about 80%) of annual revenue during each of the past five years. In addition, NWR has a significant revenue stream from a nine-year contract, covering 2009-2018, to excavate earth and coal at the Mae Moh mine. The Mae Moh project was undertaken by NWR-SBCC Joint Venture (JV).

The ratings also take into account NWR's moderate-sized project backlog. As of March 2017, the backlog stood at Bt11.46 billion. The major projects in the backlog include the coal excavation project at the Mae Moh mine worth Bt1.55 billion, a wastewater treatment management project worth Bt1.25 billion, and a project to build the runway, taxiway, and aircraft aprons for the Betong airport worth Bt1.17 billion. The value of the three largest projects in the backlog was Bt3.97 billion, accounting for 35% of the total backlog. Domestic E&C opportunities, arising to a great extent from promised government outlays for a number of large-scale infrastructure projects, underpin the ratings to some extent. TRIS Rating is of the view that NWR is poised to secure these forthcoming projects as the main contractor or a sub-contractor although the actual implementation timelines for the upcoming projects are uncertain.

NWR expanded into the property development industry, a strategic aim at ramping up its revenue base. NWR invested 40% in an associated company, a JV with CharnIssara Development PLC (CI), in 2006. The associated company developed two high-rise condominium projects, worth nearly Bt4 billion in aggregate, and recently began developing an upmarket single-detached house (SDH) project worth Bt2.6 billion. In 2012, the company launched a residential property development project, an SDH project under its own "Baranee" brand. Since 2013, the company's property development segment has been developed under a subsidiary, MANA. MANA launched two SDH projects and one low-rise condominium project, with a combined value of around Bt3.4 billion. The property development segment remains small, but revenue has gradually increased over the past few years. The ratings recognize NWR's short track record of developing residential property projects. The execution risks that come with the foray into residential property development remain a rating concern. For instance, while sale in an SDH project remains slower than expected, NWR must carry the financial burden of the project.

The ratings are also offset by the company's high leverage. NWR has shouldered a much higher debt load over the past three years. The debt level has increased significantly since 2014 for three reasons: rising working capital needs, increasing activities in the property development segment, and needed capital expenditures. NWR's financial profile, as reported, does not fully reflect its debt exposure. As a result, TRIS Rating includes the debts of the NWR-SBCC JV in the rating assessment to reflect the company's potential exposure as a JV partner and guarantor. At the end of March 2017, NWR had Bt5 billion in consolidated debt, which included debt at the JV level on pro-rata basis, up from Bt2.4 billion at the end of 2013. The debt to capitalization ratio was 57.38% as of March 2017, increasing from 50% on average during 2012-2014. NWR also suffers from long overdue receivables, which hurt operating cash flow considerably. NWR's financial performance during the past 12 months fell slightly short of TRIS Rating's expectation. The operating margin (operating profit before depreciation and amortization as a percentage of revenue) in the first quarter of 2017 was 9.5%, constant from 2016. TRIS Rating expects that NWR's debt level will remain high unless the company manages its working capital more efficiently and accelerates sales of the residential property projects. The ratings are also constrained by the cyclicality in the E&C industry and stiff competition, which remain downside risks for revenues and profits.

TRIS Rating's base-case scenario expects NWR's revenues to range from Bt9-Bt10 billion per annum during 2017-2019. The downside risk in the revenue projection is moderate in light of the moderate-sized project backlog. The backlog secures a notable portion of revenues in 2017 and 2018. The revenue contribution from the property development segment is expected at around Bt600 million per annum. The operating margin is expected to improve gradually from 6%-8% to stay above 8%, because of higher gross profit margin from property development projects. The debt to capitalization ratio is expected to stay in a range of 45%-55% during 2017-2019. Funds from operations (FFO) are expected to be Bt600-Bt700 million per annum. The FFO to total debt ratio is expected to stay above 15%, while the EBITDA (earnings before interest, taxes, depreciation, and amortization) interest coverage ratio is expected to stay above 4 times.

Rating Outlook

The "stable" outlook reflects the expectation that NWR will maintain its competitive position in the civil engineering work, for both public and private sector clients. NWR is poised to grasp the opportunities ahead and it can manage and collect its outstanding receivables. The debt to capitalization ratio is expected to stay below 55%, or the interest-bearing debt to equity ratio below 1.5 times, during 2017-2019. The operating margin is expected to improve and stay above 8%.

NWR's ratings and/or outlook would be revised downward if operating performance falls below expectations. In addition, the ratings would be affected if any large investment in the property development sector causes the debt to capitalization ratio to exceed 60% for a sustained period. The credit upside case is limited over the next 12-18 months as leverage is expected to remain high while the revenue contribution from the property development segment is still small. NWR's success in the property development segment and a lessening of its debt load will be positive factors for the ratings and/or outlook.

Nawarat Patanakarn PLC (NWR)

Company Rating:	BBB-
Issue Ratings:	
NWR178A: Bt1,500 million senior unsecured debentures due 2017	BBB-
NWR188A: Bt1,500 million senior unsecured debentures due 2018	BBB-
Up to Bt2,000 million senior unsecured debentures due within 3 years	BBB-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		------------------------Year Ended 31 December --------------------				
	Jan-Mar 2017	2016	2015	2014	2013	2012
Revenue	2,065	8,312	7,586	6,826	6,727	6,704
Finance cost	50	196	165	90	134	123
Net income from operations	(7)	52	(174)	8	58	553
Funds from operations (FFO)	45	445	69	186	430	420
Capital expenditures	64	715	671	445	407	564
Total assets	12,497	12,577	11,435	9,445	8,988	7,653
Total debt	4,785	4,550	4,349	2,658	2,385	2,255
Adjusted total debt	5,025	4,871	5,031	3,860	-	-
Total liabilities	8,764	8,831	7,752	5,571	5,960	5,626
Shareholders' equity	3,733	3,746	3,683	3,874	3,028	2,026
Depreciation & amortization	94	317	275	226	479	434
Dividends	-	-	-	-	188	-
Operating income before depreciation and amortization as % of sales	9.47	9.75	8.36	7.67	6.99	7.97
Pretax return on permanent capital (%)	0.69 **	3.54	0.69	2.49	4.54	17.02
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.63	4.42	3.00	4.34	5.23	8.85
FFO/total debt (%)	2.95 **	16.56	8.51	13.04	18.04	18.61
Total debt to capitalization	57.38	56.53	57.74	49.91	44.07	52.68

* *Consolidated financial statements*

** *Non-annualized*

Note: *All ratios have been adjusted by including JV's financial performance (NWR-SBCC) on pro-rata basis since 2014. A new accounting standard has taken effect since 2015. The standard covers recognition of the performance of the JV companies. The new standard meant NWR has had to change the accounting method to recognize the performance of its JV from the proportionate consolidation method to the equity method. As a result, some financial figures in 2014 and beyond may not be directly comparable to the values prior to 2014.*

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