

# CH. KARNCHANG PLC

No. 51/2018  
19 July 2018

## CORPORATES

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

### Company Rating History:

Date	Rating	Outlook/Alert
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 of CH. Karnchang PLC (CK) and the ratings of CK's 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 Bt2,750 million in senior unsecured debentures, due within 10 years. The new issue rating replaces the issue rating previously assigned on 16 July 2018, following CK's request to increase the issue size to up to Bt2,750 million, from Bt2,000 million. The company will use the proceeds from the new debentures to refinance the existing debentures.

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 company's high leverage, as well as the cyclical nature of and competitive threats in the engineering and construction (E&C) industry.

CK's operating performance in the first quarter of 2018 was below TRIS Rating's expectation. Revenue was Bt7.4 billion, down 8% from the same period a year ago. The gross profit margin in the first quarter of 2018 increased slightly to 8.6%, from 8.3% in 2017. CK generated funds from operations (FFO) in the first quarter of 2018 for about Bt518 million, up 22% from the same period last year.

CK's backlog as of March 2018 stood at Bt65.4 billion. Major projects in the backlog include the MRT Orange Line project contracts worth a combined value of Bt24.8 billion, the maintenance and engineering (M&E) equipment contract for the MRT Blue Line worth Bt13.9 billion, and the Xayaburi hydropower dam project worth Bt11.6 billion. These three projects account for 77% of the company's total backlog value.

At the end of March 2018, CK's debt to capitalization ratio was 61.67%, down from 62.21% in 2017 and 68.0%-72.0% during 2013-2016. This ratio improved after CK transferred the project loan of the MRT Purple Line project to Bangkok Expressway and Metro PLC (BEM), which was in line with TRIS Rating's expectation. Nevertheless, TRIS Rating expects the debt to capitalization ratio of CK to remain elevated, taking into consideration working capital needs and the sponsor loan to the Xayaburi project.

## RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectations that CK will remain highly competitive in securing new projects. In the base case scenario, TRIS Rating assumes CK's revenue will be around Bt35-Bt38 billion per annum during 2018-2020. CK's strong backlog should secure future revenue. Moreover, we expect to see that CK could sustain its gross margin above 8% on average despite stiff competition and the total debt to capitalization ratio could stay below 65% over the next three years.

## RATING SENSITIVITIES

A credit upside is possible if CK could significantly enhance cash flow protection by generating stronger-than-expected FFO, as well as maintain its debt to capitalization ratio below 60% for a sustained period. A credit downside will be

caused by significant cost overruns in major projects or unanticipated, extensive financial support provided to its affiliates, which would markedly hurt CK's cash flow.

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***
*Unit: Bt million*

	Jan-Mar 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Revenue	7,439	36,071	45,809	34,851	32,870
Gross interest expense	312	1,393	1,166	1,545	1,468
Net income from operations	302	1,810	2,002	2,193	2,261
Funds from operations (FFO)	518	2,790	1,510	3,161	3,222
Capital expenditures	108	911	1,886	1,660	1,405
Total assets	78,176	79,274	94,928	93,066	80,872
Total debts	38,450	39,294	57,303	53,841	42,392
Shareholders' equities	23,894	23,873	21,854	20,856	19,471
Operating income before depreciation and amortization as % of sales	6.22	5.11	5.35	5.99	7.77
Pretax return on permanent capital (%)	5.27**	4.69	4.27	6.25	7.12
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	2.82	3.11	3.64	3.40	3.49
FFO/total debt (%)	7.50**	7.10	2.64	5.87	7.60
Total debt/capitalization (%)	61.67	62.21	72.39	72.08	68.53

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

## CH. Karnchang PLC (CK)

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
CK187A: Bt1,000 million senior unsecured debentures due 2018	A-
CK188A: Bt1,000 million senior unsecured debentures due 2018	A-
CK193B: Bt1,500 million senior unsecured debentures due 2019	A-
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-
CK225A: Bt1,600 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-
CK295A: Bt1,000 million senior unsecured debentures due 2029	A-
Up to Bt2,750 million senior unsecured debentures due within 10 years	A-
<b>Rating Outlook:</b>	Stable

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