

CH. KARNCHANG PLC

No. 32/2018
9 May 2018

CORPORATES

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	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 Bt4,300 million in senior unsecured debentures, due within five years. The new issue rating replaces the issue rating previously assigned on 2 May 2018, following CK's request to increase the issue size to up to Bt4,300 million, from Bt4,000 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 cyclicity of and competitive threats in the engineering and construction (E&C) industry.

CK's operating performance in 2017 was in line with TRIS Rating's expectation. Revenue came in at Bt36 billion, down 21% from the previous year. Revenue in 2016 was record-high at Bt45.8 billion, around half of which was contributed by the Xayaburi hydropower dam project. The gross profit margin in 2017 increased to 8.3%, from 7.2% in 2016. CK's funds from operations (FFO) in 2017 increased to Bt2.8 billion, up from Bt1.5 billion in 2016.

CK's backlog at the end of 2017 stood at Bt72.2 billion. Major projects in the backlog include the MRT Orange Line project contracts worth a combined value of Bt25.5 billion, the maintenance and engineering (M&E) equipment contract for the MRT Blue Line worth Bt16.1 billion, and the Xayaburi hydropower dam project worth Bt13.9 billion. These three projects account for 77% of the company's total backlog value.

At the end of 2017, CK's debt to capitalization ratio was 62.21%, down from 72.39% in 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, the debt to capitalization ratio is expected 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, 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

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.

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

	----- Year Ended 31 December -----				
	2017	2016	2015	2014	2013
Revenue	36,071	45,809	34,851	32,870	32,677
Finance cost	1,393	1,166	1,545	1,468	1,538
Net income from operations	1,810	2,002	2,193	2,261	3,221
Funds from operations (FFO)	2,790	1,510	3,161	3,222	5,410
Capital expenditures	911	1,886	1,660	1,405	2,864
Total assets	79,274	94,928	93,066	80,872	72,034
Total debts	39,294	57,303	53,841	42,392	37,332
Total liabilities	55,401	73,074	72,210	61,402	55,194
Shareholders' equities	23,873	21,854	20,856	19,471	16,841
Depreciation & amortization	993	953	981	988	697
Dividends	874	1,146	1,061	701	936
Operating income before depreciation and amortization as % of sales	5.11	5.35	5.99	7.77	8.07
Pretax return on permanent capital (%)	4.69	4.27	6.25	7.12	13.89
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.11	3.64	3.40	3.49	4.57
FFO to total debt (%)	7.10	2.64	5.87	7.60	14.49
Total debt to capitalization (%)	62.21	72.39	72.08	68.53	68.91

* Consolidated financial statements

CH. Karnchang PLC (CK)

Company Rating:	A-
Issue Ratings:	
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-
CK233A: Bt4,000 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 Bt4,300 million senior unsecured debentures due within 5 years	A-
Rating Outlook:	Stable

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