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CreditUpdate เครดิตวาระ

CHONBURI CONCRETE PRODUCT PLC

No. 63/2017 | 14 September 2017

Company Rating: BB+
Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
05/04/17	BBB-	Negative
22/03/16	BBB-	Stable

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Rating Rationale

TRIS Rating downgrades the company rating of Chonburi Concrete Product PLC (CCP) to “BB+” from “BBB-” and revises the company’s rating outlook to “stable” from “negative”. The rating downgrade reflects CCP’s worsening performance, waning cash flow protection, and rises in liquidity risk and refinancing risk, given the amount of debts coming due in the next 12 months.

The rating continues to reflect CCP’s established operation, adequate competitive strength in its market, and moderate balance sheet. However, these strengths are partially offset by its small scale compared with listed peers, regional concentration in Chonburi province, and sluggish domestic demand along with increasingly intense competition.

CCP is a producer of concrete products in Chonburi province. The company was established in 1983. CCP’s business covers three primary segments: ready-mixed concrete and precast concrete, modern-trade retailing business operated by ChonburiKanyong Co., Ltd. (CKY), and light weight concrete operated by Smart Concrete PLC (SMART). CCP was listed on the Stock Exchange of Thailand (SET) in 2003. The company’s consolidated revenue dropped for a second straight year in 2016, slipping to Bt2.3 billion. The concrete segment contributed about 57% of total revenue. The retailing business and light-weight concrete product segments made up about 28% and 12%, respectively.

CCP’s business strength lies in long-standing operation and competitiveness in its markets. The company has been operating in Chonburi for over 30 years, establishing a strong customer base in the province. Its major facilities and factories are located in Chonburi, providing the company with competitive advantages in serviceability and delivery cost over peers in the same region or elsewhere. A strong economic development in the Eastern region of Thailand is also an important factor supporting the company’s revenue growth.

That said, CCP’s business scale is smaller than other listed peers. The company’s market position is relatively weak as the cement and concrete industry is dominated by three large cement producers. Given its small scale of business, CCP is highly susceptible to repercussions of a market downturn. CCP’s business profile demonstrates a regional concentration risk as over 75% of its sales revenue comes from Chonburi province. The rating also takes into account CCP’s volatility in revenue and profit margin.

The rating downgrade is predicated on CCP’s weaker-than-expected performance and the light weight concrete that remains the most troubled segment. Demand has been anemic in the cement and concrete segments. The competition in the building material industry remains intense, characterized by price wars and a large number of competitors in Chonburi province. As a result, CCP’s consolidated revenue contracted further in the first half of 2017, sliding to Bt1.1 billion, or a 5% decline year-over-year. The long delays in government’s infrastructure outlays and a slower growth rate in residential projects have combined to drag down CCP’s overall performance.

CCP’s profitability remains mired. CCP reported an operating loss of Bt15 million in the first half of 2017. CCP’s operating margin (operating profit before depreciation and amortization) fell further to 6.2% in the first half of 2017. The operating margin has been below 10% since 2015. The loss-making light weight concrete segment is a major reason for the deterioration in the operating margin. SMART has suffered the successive decline in sales and earnings over the past three years. SMART's operating margin declined significantly from over 20% to merely 2.3% in 2016 and tumbled to -3.1% in the first half of 2017. Due to the fragile market, TRIS Rating expects SMART's poor performance will not recover in the short term and will take a toll on the group performance.

CP's funds from operations (FFO) have steadily declined as profit tailed off. FFO came in at Bt68 million in the first half of 2017, well below TRIS Rating's expectation. In contrast to the waning cash flow, debt rose further to Bt885 million as of June 2017. The FFO to total debt ratio decreased to 16.5% (annualized) in the first half 2017, much lower than our credit guidance of 20%. The weakened cash flow against financial obligations demonstrated an increase in liquidity risk. The rating downgrade reflects this heightened risk.

CCP's sources of liquidity are inadequate to cover the debts coming due over the next 12 months. FFO is expected to range between Bt130-Bt150 million during the next 12 months. The company has bills of exchange (B/Es) of Bt150 million to be due in October and November 2017 and Bt250 million in bonds coming due in May and July 2018. We expect CCP to roll over or refinance a major portion of its outstanding debt. TRIS Rating assesses that CCP's refinancing risk is heightened, taking into account the worrisome outlook of CCP's operating results and uncertainty in the money market at the present.

Looking forward, TRIS Rating views that CCP's profitability remains a key rating driver. TRIS Rating maintains a broadly positive view on the domestic construction industry, particularly in the government-promoted Eastern Economic Corridor (EEC) areas. Nevertheless, we do not expect a prompt resurgence in the demand of building materials to outpace the current oversupply. As such, we do not expect a healthy rebound of CCP's performance in the near term.

Rating Outlook

The "stable" outlook reflects TRIS Rating's view that the severe competition will continue to pressure the profitability of CCP's core business. The light weight concrete segment may continue to post losses and this segment will need more time to recover. TRIS Rating expects the company can maintain its competitive market position in Chonburi province as well as reduce debt level and maintain liquidity in order to wind through this stressful period of the industry cycle.

The rating and/or outlook could be upgraded if CCP can enhance its cash flow against financial obligations, which could be achieved by improved profitability over a sustained period and significant drops in its debt level.

The rating and/or outlook could be downgraded if the operating performance of CCP weakens further and/or the outstanding debt is significantly higher than the current level.

Chonburi Concrete Product PLC (CCP)

Company Rating:	BB+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Jun 2017	------------------Year Ended 31 December ------------ 2016	2015	2014	2013
Revenues	1,113	2,315	2,400	2,631	2,593
Finance costs	18	34	28	25	55
Net income from operations	(7)	12	54	135	106
Funds from operations (FFO)	68	157	171	228	294
Capital expenditures	88	318	265	357	170
Total assets	2,968	2,936	2,770	2,617	2,370
Total debts	885	821	651	456	556
Total liabilities	1,511	1,387	1,200	1,104	1,266
Shareholders' equity	1,457	1,549	1,570	1,513	1,104
Depreciation & amortization	84	157	145	119	110
Dividends	61	60	0	38	6
Operating income before depreciation and amortization as % of sales	6.2	8.5	9.6	12.0	13.9
Pretax return on permanent capital (%)	1.1 **	2.2	4.7	11.5	16.1
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.9	6.0	8.6	13.1	7.0
FFO/total debt (%)	16.5 **	19.1	26.3	50.1	52.8
Total debt/capitalization (%)	37.8	34.7	29.3	23.1	33.5

* *Consolidated financial statements*

** *Annualized (trailing 12 months)*

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