CHO THAVEE PLC

No. 206/2021
18 November 2021

CORPORATES

Company Rating: B
Outlook: Negative

Last Review Date: 23/11/20

Company Rating History:

Date	Rating	Outlook/Alert
23/11/20	B+	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Cho Thavee PLC (CHO) to "B" from "B+" with a "negative" rating outlook. The rating downgrade reflects the deeper deterioration in CHO's operating performance than our previous projection, its weak earnings generating capability, and high leverage. The "negative" outlook reflects our concerns over CHO's stretched liquidity as most of its debts are due in the next 12-18 months. We view CHO's refinancing ability is constrained by its weak operating performance and financial position, while funding plans to meet its obligations remain unclear.

KEY RATING CONSIDERATIONS

Weak operating performance

CHO's operating performance has been severely affected by the Coronavirus Disease 2019 (COVID-19) pandemic. The COVID-19 fallout has caused delays or cancellations in several projects that the company plans to participate in. Additionally, the slump in the airline industry globally has affected CHO's airport ground support equipment business, one of its key strengths and main revenue sources. In 2020, CHO reported a 59% year-on-year (y-o-y) drop in revenue to THB648 million, from THB1,569 million in 2019. For the first nine months of 2021, CHO's revenue declined by 33% y-o-y to THB350 million.

We expect CHO to continue facing operating challenges in the coming quarters, following uncertainty surrounding the COVID-19 developments and economic headwinds while the company's recurring income base remains modest. CHO's recurring income is estimated to reach around THB200-THB300 million per annum during 2021-2023. Our base-case assumption projects CHO's revenue to be around THB530 million in 2021 and THB600-THB700 million per annum during 2022-2023. The revenue assumption takes into account project backlogs which are expected to translate into revenues of around THB75 million in the remainder of 2021, THB220 million in 2022, and THB250 million in 2023.

The company is attempting to transform into a more technologically advanced company to improve its business and revenue growth prospects. However, we view that this transformation is still in an early phase with many uncertainties and high execution risks.

Continued operating losses

During the past few years, CHO's profitability has been persistently deteriorating, mainly due to its underutilized capacity. CHO has prepared its manpower and capacity with the aim of undertaking several projects. However, many projects, especially government related projects, have been delayed or cancelled due to public policy changes. The drastic drop in revenue further damaged CHO's profitability and resulted in operating losses, despite the company's cost control efforts. CHO's earnings before interest, taxes, depreciation, and amortization (EBITDA) was -THB24 million in 2020 and -THB72 million in the first nine months of 2021. With high interest expenses, funds from operations (FFO) fell to -THB169 million in 2020 and -THB206 million in the first nine months of 2021.

Our base-case scenario projects CHO's EBITDA to be around -THB100 million in 2021, improving to THB30-THB40 million per year during 2022-2023. However, we expect FFO to remain negative due to the company's high financial costs. We project CHO's FFO to be around -THB235 million in 2021 and in the range of -THB110 to -THB120 million per year during 2022-2023. CHO's earnings upside will rely on its ability to secure new projects, especially in the project management and service segment which has a higher margin compared with the standard product segment.

Weak debt servicing ability exacerbated by negative EBITDA

At the end of September 2021, its adjusted debt was THB1.9 billion. The leverage ratio spiked due to the earnings losses. Our base-case assumption expects CHO's leverage to remain high with an adjusted debt to EBITDA ratio of 55-60 times during 2022-2023. We project the EBITDA interest coverage ratio to be negative in 2021 and around 0.3 times during 2022-2023.

As of September 2021, CHO's priority debt (secured debt and unsecured debt at the subsidiary level) to total debt ratio was around 35%, below our threshold of 50%. We therefore consider that CHO's unsecured creditors are not significantly disadvantaged with respect to claims against the company's operating assets.

Under the financial covenants on its bank loans, CHO is required to maintain a debt to equity (D/E) ratio below 3 times and a debt service coverage ratio (DSCR) over 1.2 times. At the end of September 2021, the ratios were 2.53 times and -0.07 times, respectively. The company has already obtained waivers from its lenders for breach of the DSCR covenant. For its debentures, CHO is required to maintain an interest-bearing debt to equity (IBD/E) ratio below 3 times. The ratio at the end of September 2021 was 2.14 times. In our view, concerns over the possibility of CHO breaching the covenants on its D/E and IBD/E ratios is partly alleviated by convertible debenture funding. CHO has been issuing convertible debentures of up to THB400 million to the Advance Opportunities Fund (AO Fund) and Advance Opportunities Fund 1 (AO Fund 1). Up until 31 October 2021, CHO had issued a total of THB340 million in convertible debentures, of which THB330 million has been converted to company shares. However, we view that CHO might not be able to comply with the DSCR covenant in the next 12-24 months and may need to seek an additional waiver from its lenders.

Elevated liquidity concerns

We have major concerns over CHO's stretched liquidity as most of its debt is due within 18 months. At the end of September 2021, CHO had around THB1 billion in debt coming due in the following 12 months, comprising debentures of THB433 million and other short-term loans of THB582 million. Meanwhile, we expect CHO's FFO to be around -THB150 million due to the company's high financial costs. Its sources of funds include cash and cash equivalent on hand of THB71 million at the end of September 2021 and convertible debentures of up to THB160 million. CHO is also in the process of issuing another convertible debenture of up to THB350 million. There remains a large funding gap for CHO to cover. However, we view CHO's refinancing ability to be limited considering its weak operating performance and financial position. In August 2021, CHO had to request its debenture holders to extend the maturity of debentures CHO21OA worth THB300 million originally due in October 2021. The company partially repaid THB90 million in October 2021 and gained approval to extend the remaining THB210 million for another 18 months, due in April 2023. Additionally, CHO has debentures due of THB436 million in November 2021, for which there remains no solid funding plan for the obligations.

CHO is also in the process to raise fund in the form of investing in a Special Purpose Acquisition Company (SPAC), namely AROGO Capital Acquisition Corporation (AROGO). If AROGO receives approval from the U.S. Securities and Exchange Commission to list on the Nasdaq Capital Market, CHO would need to invest around THB130-THB140 million as a sponsor company. The proceeds raised via the SPAC will be used for acquiring a target company. Although the SPAC is part of CHO's strategic business transformation plan, in the short run it will put further strain on the company's liquidity.

BASE-CASE ASSUMPTIONS

- Revenue to be THB530 million in 2021 and THB600-THB700 million per annum during 2022-2023.
- EBITDA to be around -THB100 million in 2021, improving to THB30-THB40 million per year during 2022-2023.
- FFO to be around -THB235 million in 2021 and in the range of around -THB110 to -THB120 million per year during 2022-2023.
- Total capital spending of THB30-THB40 million per year during 2022-2023.
- Investment of around THB130-THB140 million in the SPAC in the fourth quarter of 2021.

RATING OUTLOOK

The "negative" outlook reflects our heightened concern over CHO's stretched liquidity over the next 12-18 months with unclear funding plans to meet its obligations.

RATING SENSITIVITIES

The rating could be downgraded if there are signs of escalating liquidity risk and/or a further deterioration in operating performance. The rating and/or outlook could be revised upward if CHO's business and financial profile improves with more reliable cash flow generation and lower leverage, and the liquidity concerns have been clearly addressed.

COMPANY OVERVIEW

CHO was founded in 1994 and listed on the Market for Alternative Investment (MAI) in 2013. The Taweesaengsakulthai family is the major shareholder of CHO with a stake of around 46% as of April 2021. CHO specializes in the design and manufacture of various types of large logistics trucks and special purpose vehicles. The company also provides project management and other engineering services. Its products and services can be categorized into three segments. The "standard product segment" comprises bodies for trucks, trailers, and semi-trailers which have standardized production processes. The "special product segment" covers products to meet specific designs and special engineering requirements. CHO's special products include ground support equipment such as catering high-loaders, passenger stairways, rescue stair vehicles, and other products such as firefighting trucks and military vehicles. For "project management and other services", the company leverages its expertise to manage special projects, for example, the construction of offshore patrol vessels for the Thai navy.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Sep 2021	--------------Year Ended 31 December ------------ 2020	2019	2018	2017
Total operating revenues	350	648	1,569	2,288	1,595
Earnings before interest and taxes (EBIT)	(122)	(94)	186	193	32
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	(72)	(24)	245	252	89
Funds from operations (FFO)	(206)	(169)	84	104	38
Adjusted interest expense	133	145	151	143	52
Capital expenditures	70	45	76	170	175
Total assets	3,212	3,138	3,252	3,641	2,328
Adjusted debt	1,889	1,885	2,136	2,256	1,290
Adjusted equity	910	937	958	889	662
Adjusted Ratios					
EBITDA margin (%)	(20.63)	(3.70)	15.61	11.02	5.59
Pretax return on permanent capital (%)	(6.38)	(3.11)	5.84	7.46	1.89
EBITDA interest coverage (times)	(0.54)	(0.17)	1.62	1.77	1.72
Debt to EBITDA (times)	(15.86)	(78.52)	8.72	8.94	14.46
FFO to debt (%)	(15.24)	(8.96)	3.95	4.63	2.95
Debt to capitalization (%)	67.49	66.78	69.04	71.74	66.08

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Cho Thavee PLC (CHO)

Company Rating:	**B**
Rating Outlook:	Negative

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