

CHAI WATANA TANNERY GROUP PLC

No. 12/2020

12 May 2020

CORPORATES

Company Rating: BB+
CreditAlert: Negative

Last Review Date: 30/05/19

Company Rating History:

Date	Rating	Outlook/Alert
20/06/18	BB+	Stable

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RATIONALE

TRIS Rating places Chai Watana Tannery Group PLC's (CWT) "BB+" rating on CreditAlert with a "negative" implication. The rating action reflects our concerns over the refinancing risk of its debentures coming due amid unfavorable financial market conditions.

CWT has a total of Bt631.4 million debentures due this year. These include debentures worth Bt337.1 million due on 23 May 2020 and a further worth Bt294.3 million due on 1 September 2020. Currently, the company has undrawn credit facilities, plus cash and marketable securities, of about Bt200 million, resulting in a shortfall of Bt137.1 million for the debentures due on 23 May 2020. CWT plans to seek an agreement from the debenture holders for a partial and deferred payment for the debentures due this month. The debentures due on 1 September 2020 could be covered by new bank loans and proceeds from the sale of its solar power project. However, the current turmoil in the financial markets and the slowdown in the automotive sector have raised concerns over the refinancing risk.

CWT's operating performance has improved recently, boosted by a rise in revenue and earnings from the auto leather business and the power generation business. The company's total operating revenue rose to Bt2 billion in 2019, from a low of Bt0.9 billion. Its earnings before interest, tax, depreciation, and amortization (EBITDA) increased to Bt350 million in 2019 from a level below Bt100 million per annum in the past several years. Nevertheless, the coronavirus (COVID-19) pandemic is dampening auto demand significantly. TRIS Rating preliminarily estimates the company's total operating revenue will drop by about 20% to Bt1.7 billion in 2020 and recover gradually to a level above Bt2 billion per annum during 2021-2022. The predictable revenue from the power generation business and a rise in revenue from the new business, aluminum-body boats and mini buses, should help alleviate the fallout from the COVID-19. In 2019, the power generation business made up approximately 17% of CWT's total operating revenue and 45% of total EBITDA. In TRIS Rating's view, the long-term outlook on CWT's business remains unchanged. We are concerned about the company's liquidity in the near term and its investment plan that will likely squeeze cash flow in the medium term.

We expect the company's further expansion for its power generation business will strain its balance sheet and cash flow over the next three years. CWT plans to invest in a waste-to-energy (WTE) project, producing up to 10 megawatts (MW) of electricity from refuse-derived fuel (RDF). This project involves construction of a waste management facility (the first phase) and a power generation facility (the second phase). The total investment cost is preliminarily estimated at Bt1-Bt1.3 billion, representing about 30% of total assets. TRIS Rating holds the view that the company will need a capital increase if it starts the second phase. Aggressive debt-funded investments could put pressure on the rating.

TRIS Rating will keep monitoring the situation and resolve the CreditAlert once CWT demonstrates sufficient liquidity sources to cover its debt servicing obligations.

RELATED CRITERIA

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

Chai Watana Tannery Group PLC (CWT)

Company Rating:	BB+
CREDITALERT:	Negative

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