CHONBURI CONCRETE PRODUCT PLC

No. 21/2020
5 March 2020

CORPORATES

Company Rating:	BB+
Outlook:	Stable

Last Review Date: 25/03/19

Company Rating History:

Date	Rating	Outlook/Alert
14/09/17	BB+	Stable
05/04/17	BBB-	Negative
22/03/16	BBB-	Stable

Contacts:

Pravit Chaichamnapai, CFA
pravit@trisrating.com

Rapeepol Mahapant
rapeepol@trisrating.com

Parat Mahuttano
parat@trisrating.com

Monthian Chantarklam
monthian@trisrating.com

RATIONALE

TRIS Rating affirms the company rating on Chonburi Concrete Product PLC (CCP) at "BB+" with a "stable" outlook. The rating still reflects CCP's established operations and benefits from good business location in Chonburi province. However, the rating is partially tempered by the small size of business, geographical concentration, as well as high susceptibility to the cyclicality and intense competitive pressure in the building material industry. The rating also incorporates the likelihood of a weakened market position of the company in the ready-mixed concrete (RMC) business.

KEY RATING CONSIDERATIONS

Fairly competitive position in Chonburi province

CCP is well positioned to capture demand in Chonburi province. With its longstanding operation of more than 30 years and established customer base, CCP is fairly competitive within its area. CCP's core assets, including precast concrete plants, a lightweight concrete factory, and a modern trade retail shop, are all in Chonburi province. The company benefits from the good location of its core assets in terms of competitive delivery cost, higher-than-average consumption of building materials, and a promising outlook for construction work from the government's flagship, the Eastern Economic Corridor (EEC) projects.

Over the past five years, the company's revenue has sustained at the level above Bt2.3 billion per year, backed by strong relationships with its customers in Chonburi and Rayong provinces.

Small business scale and geographical concentration

CCP's scale of business is small. The company has marginal 2%-3% market share. The company's credit strength is also hampered by its narrow product offering and logistics competitiveness confined to Chonburi and nearby provinces. CCP's business profile also reflects a regional concentration risk as the majority of its sales totally relies on construction activities in Chonburi and Rayong provinces.

Highly susceptible to cyclical industry and intense competition

CCP's end markets are highly cyclical, leading to earning volatility over time. The company's product demand is heavily reliant on new construction and government's infrastructure outlays. The company also faces intense market competition, characterized by price wars, little product differentiation, and a large number of competitors. Given the thin and volatile nature of its earnings, the company's performance is highly susceptible to repercussions of the market downturn.

Likely weakened market position in RMC

The company has shifted its focus away from RMC. CCP's RMC business has experienced declining sales volumes and thinner margins for several years. In response, CCP has come up with a turnaround strategy whereby it has ceased production of RMC. CCP sold its RMC plants almost entirely and dismissed a number of workers in order to cut fixed operating costs. Instead, CCP now operates its RMC business as a trader to serve its customers. The company utilizes its remaining fleet of vehicles to provide transport services for other RMC suppliers.

In our view, the shift in business model could negatively impact CCP's long-term market position and future revenue. This is due to the company's shrinking distribution network and its high reliance on other RMC producers. Although the company will benefit from the reduction of fixed operating costs, we expect its RMC profit margin to be thinner.

Leaning toward precast concrete

After moving away from RMC business, the company is leaning toward the lucrative precast concrete business with an aim to increase the variety of product offerings and widen its end markets. We expect CCP's strong performance in the precast concrete segment to continue, partly compensating the weakening RMC segment.

Unlike RMC, CCP's precast concrete business remains intact, as evidenced by the moderate growth of revenue, less volatile profit margin and the lower number of competitors. CCP's precast concrete segment has shown successive revenue growth over the past five years, generating gross profit margin in the 13%-16% range. We expect revenue from the precast concrete segment to rise, contributing about 35%-40% of total revenue over the next three years, compared with 32% in 2018.

Improved operating performance

CCP's operating performance improved in 2019, largely driven by a turnaround in the light-weight concrete business of its subsidiary, SMART Concrete PLC (SMART). CCP's consolidated revenue in 2019 grew by 9.3% year-over-year (y-o-y) to about Bt2.6 billion. CCP's earnings before interest, taxes, depreciation and amortization (EBITDA) improved by 76.5% y-o-y to Bt0.279 billion from Bt0.158 billion in 2018, the lowest level over the last five years.

The company's financial profile also improved, led by heightened profitability and lower outstanding debts. In 2019, the company's EBITDA margin improved to 10.6%, in contrast to 6.5% in 2018. The ratio of funds from operations (FFO) to debt increased to 28.9% in 2019 from 11.6% in 2018.

Business prospect remains fragile

TRIS Rating views that CCP's business is vulnerable to the imminent downturn of the construction industry. Given the current glut of property, growth of private construction will likely continue to slow in 2020. On the contrary, we expect the public sector to remain the key driver of domestic construction. However, the prolonged disbursements of government budget will cause delays in the commencements of construction projects in the public sector. We expect the competition in the industry to heighten in the wake of delayed project biddings.

In addition, the performance of RMC trading remains uncertain and will depend on CCP's success in forming trade partnerships with other RMC producers. We believe that the profit margin of the light weight concrete segment may gradually decline as a result of the slowing property developments. We expect the promising growth of precast concrete in combination with reduced operating cost following disposal of the RMC plants would protect EBITDA from deterioration.

In our forecast for 2020-2022, we expect CCP will arrive at EBITDA of Bt200-Bt230 million with FFO falling in the range between Bt160-Bt190 million per year. Downside risk could stem from a failure in its new RMC trading business and the possibility of a profit swing in the light-weight concrete segment. We expect the ratio of FFO to debt will stay above 20%. We do not expect any large investments in the years ahead. As such, the company's outstanding debt should continue to decline.

Tight liquidity

CCP's liquidity is still tight as sources of funds are inadequate to cover uses of funds. Over the next 12 months, the sources of funds will comprise estimated FFO of Bt160 million and cash on hand of Bt30 million at the end of 2019. Over the same period, CCP's uses of funds will include long-term loan repayments of Bt141 million, capital expenditure of Bt100 million, and an estimated dividend payment of Bt30 million. We expect the company will need to rely on undrawn credit facilities which currently stands at about Bt124 million to cover the shortfall.

BASE-CASE ASSUMPTION

- Revenue to maintain in a range of between Bt2.3-Bt2.5 billion per annum during 2020-2022.
- EBITDA margin to stay at 8%-9%.
- The company's capital expenditure to fall to Bt100 million per annum.
- Dividend payment of Bt30 million per year.

RATING OUTLOOK

The “stable” outlook reflects TRIS Rating’s view that the severe industry competition will continue to suppress CCP’s revenue and profitability. CCP’s debt level is likely to decline in order to balance the cash flow to debt ratio and maintain debt serviceability.

RATING SENSITIVITIES

A rating upgrade is likely to be limited over near terms. However, the rating upgrade could occur if CCP significantly improves its market position, with enhanced business scale and heightened profitability. TRIS Rating views that CCP would also need to manage its liquidity more prudently to withstand the effects of the adverse market condition.

Negative rating pressure would build if CCP’s operating performance weakens further and/or its level of cash flow against debt obligations significantly deteriorates. This could be seen when the FFO to debt ratio falls below 10% for a sustained period.

COMPANY OVERVIEW

CCP is a producer of concrete products in Chonburi province. The company was established in 1983 and was listed on the Stock Exchange of Thailand (SET) in 2003. CCP’s business covers three primary segments, (1) ready-mixed concrete and precast concrete, (2) modern-trade retail business, and (3) lightweight concrete.

CCP’s concrete segment is primarily to produce ready-mixed concrete and precast concrete. The company’s precast concrete segment focuses on production of large drainpipe systems and paving stones. The products are sold under the “CCP” brand and distributed in Chonburi and nearby provinces. The modern-trade retail segment is operated by Chonburi Kanyong Co., Ltd. (CKY), a wholly-owned company established in 1983. CKY’s trading store is named “Kanyong Home Store”, distributing basic building materials and home improvement products in Chonburi. The light-weight concrete segment is operated under Smart Concrete PLC, which was established in 2004 and listed on the Market for Alternative Investment (MAI) in September 2014. In August 2018, the company sold almost all of its RMC plants to a cement producer and changed its business to be RMC trading instead.

The 2019 revenue of the CCP Group was Bt2.6 billion. The concrete segment, including ready-mixed concrete (23%) and precast concrete (33%), contributed about 56% of total revenue. The retail business and lightweight concrete segment generated 26% and 16% of total revenue, respectively.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	------------------------Year Ended 31 December ------------------				
	2019	**2018**	**2017**	**2016**	**2015**
Total operating revenues	2,641	2,421	2,357	2,326	2,414
Earnings before interest and taxes (EBIT)	114	(6)	24	47	100
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	279	158	196	216	255
Funds from operations (FFO)	231	101	148	168	201
Adjusted interest expense	42	48	41	36	31
Capital expenditures	139	100	158	327	318
Total assets	2,895	2,935	2,976	2,936	2,770
Adjusted debt	800	875	898	823	609
Adjusted equity	1,426	1,389	1,461	1,549	1,570
Adjusted Ratios					
EBITDA margin (%)	10.6	6.5	8.3	9.3	10.5
Pretax return on permanent capital (%)	5.0	(0.3)	1.0	2.0	4.7
EBITDA interest coverage (times)	6.7	3.3	4.8	6.0	8.3
Debt to EBITDA (times)	2.9	5.5	4.6	3.8	2.4
FFO to debt (%)	28.9	11.6	16.4	20.4	33.1
Debt to capitalization (%)	35.9	38.6	38.1	34.7	28.0

* *Consolidated financial statements*

RELATED CRITERIA

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

Chonburi Concrete Product PLC (CCP)

Company Rating:	BB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000