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CreditNews ข่าวเครดิต

LOXLEY PLC

No. 138/2017 3 November 2017

Company Rating: BBB+

Issue Ratings:
Partially guaranteed A-

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
02/10/15	BBB+	Stable

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Rating Rationale

TRIS Rating affirms the company rating of LOXLEY PLC (LOXLEY) at "BBB+" and affirms the rating of LOXLEY's senior partially guaranteed debentures at "A-". The ratings reflect LOXLEY's diverse range of businesses and long-established relationships with its customers and suppliers. The ratings also incorporate the sustained cash flow from sizable dividends received from its profit-making associated companies. Conversely, the ratings are tempered by LOXLEY's relatively low profitability and the volatility of its revenue stream, which is mainly project-based income.

LOXLEY's business profile is satisfactory, underpinned by its diverse sources of revenue from multiple lines of business, which help mitigate fluctuations in revenue. LOXLEY, a conglomerate founded in 1939, and its wholly-owned and majority-owned subsidiaries provide a wide range of products and services, primarily in three segments: (1) technology, (2) trading, and (3) services. LOXLEY, as an operating holding company, has also made investments in several associated companies and joint ventures (JV). These associated companies and JVs further widen LOXLEY's scope of operations to cover lines of business such as the production and distribution of lubricants, industrial coated and pre-painted steel, optical fiber cables, and more.

The technology segment accounts for the majority of LOXLEY's revenue. In 2016, the technology segment represented 61% of total revenue. In response to the volatility of project-based revenues and profits, LOXLEY is striving to create new sources of income. Recurring revenue is derived from the trading and the service segments, which contributed 39% of total revenue in 2016.

The ratings incorporate LOXLEY's long-term relationships with clients and suppliers. The company has a well-established market presence, particularly in the government sector, backed by its track record of completed projects for several government departments. LOXLEY has an expert and experienced management team and personnel. The company's employees are well-trained and capable of delivering high-quality products and services across a range of industries. In addition, the high level of technical skills possessed by LOXLEY's staff creates innovations and new business opportunities despite the high overhead cost of employing a large number of technical staff. These strengths enable LOXLEY to repeatedly win the bidding on government projects. The company is in the process of restructuring its organization in order to improve its efficiency. The company expects to gain more projects while maintaining the same number of employees. The company plans to terminate some unprofitable business units.

LOXLEY earns a sizable amount of dividends from its profit-making associated companies. The key associated companies stem from LOXLEY's partnership with BP PLC, one of the world's largest oil and gas companies, and BlueScope Steel Ltd., a leading steelmaker headquartered in Australia. The dividends are a stable, sustainable source of cash flow for LOXLEY since the associated companies have strong market presences and healthy financial performances.

On the other hand, the ratings are constrained by LOXLEY's relatively low profitability and the volatility of its revenue stream. LOXLEY's performance predominantly derives from project-based revenue, particularly in the technology segment. LOXLEY relies on projects originated by the government and state-owned enterprises. As most government projects are awarded through competitive bidding, the profit margin for a typical project is quite low, owing to stiff competition. LOXLEY's revenue stream thus hinges on government budgets and the initiation of new projects. The projects carry a minimal amount of payment risk, but have relatively low profit margins. The bidding projects sometimes face delays or cancellation, which increase the volatility of LOXLEY's revenue stream. In addition, LOXLEY, as with its rivals in the Information and Communication Technology (ICT) industry, must contend with fast-moving technological changes, with products or services becoming outdated over time.

In 2016, LOXLEY's revenue increased by 19.5% to Bt13,710 million, as more government-sponsored projects were launched. Its revenue continued to grow by 6% to Bt7,022 million in the first half of 2017. LOXLEY's operating profit margin improved but remained low because of its high overhead. The company's operating profit margin increased from -1.3% in 2016 to 1.2% in the first half of 2017, as its projects carried higher margins and prudently controlled selling and administrative expenses.

LOXLEY's leverage is considered moderate. As most of the company's debts are project financed debts, leverage is generally elevated in the wake of acquiring project contracts. At the end of June 2017, total debt was Bt3,702 million and the total debt to capitalization ratio stood at 35.7%. During 2017-2020, the total debt to capitalization ratio is expected to stay around 35%.

The company has acceptable liquidity, buoyed by the dividends it receives from major associated companies. Funds from operations (FFO) increased from Bt428 million in 2015 to Bt531 million in 2016 and stood at Bt430 million in the first half of 2017. As a result, the FFO to total debt ratio improved from 11.6% in 2015 to 14.7% in 2016 then rose to 17.2% (annualized from the trailing 12 months) in the first half of 2017. The earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio also improved from 3.5 times in 2016 to 5.9 times in the first half of 2017. As of June 2017, the company had cash on hand of Bt977 million and marketable securities worth Bt113 million. The company has undrawn credit facilities of around Bt4,145 million, with long-term debt repayment obligations of around Bt136 million due during the next 12 months. As of June 2017, the company's outstanding short-term obligations were Bt1,253 million.

During 2017-2020, LOXLEY's revenue is expected to range between Bt14,000-Bt16,000 million. LOXLEY's operating profit margin is forecast to stay low at around 1%-2%. The company is expected to receive approximately Bt600 million per annum in dividends from its investments. TRIS Rating estimates that LOXLEY's FFO to total debt ratio will range between 12%-15% and the EBITDA interest coverage ratio will be around 4 times.

Rating Outlook

The "stable" outlook reflects the expectation that LOXLEY could sustain its competitive position as it bids for projects and continue to show a sustainable level of project-based revenue. In addition, the company would continue to benefit from its diverse range of businesses and obtain considerable returns from its profitable associated companies. LOXLEY's ratings could be upgraded if the company significantly improves its profit margin and if its recent investments show notable payoffs. In contrast, downward rating pressure would emerge should LOXLEY experience a steep downturn in revenue, a further drop in profitability, or a material decline in the amount of dividends it receives.

Loxley PLC (LOXLEY)

Company Rating:	BBB+
Issue Ratings:	
LOXLEY20DA: Bt300 million partially guaranteed debentures due 2020	A-
LOXLEY22DA: Bt700 million partially guaranteed debentures due 2022	A-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		---------------------- Year Ended 31 December --------------------				
	Jan-Jun 2017	2016	2015	2014	2013	2012
Sales	7,022	13,710	11,472	14,476	14,929	14,135
Gross interest expense	92	190	155	163	216	232
Net income from operations	219	172	194	197	405	526
Funds from operations (FFO)	430	531	428	717	703	247
Capital expenditures	69	502	89	114	272	194
Total assets	14,952	15,710	14,283	13,765	13,330	13,330
Total debt	3,702	3,613	3,686	2,666	3,508	4,767
Shareholders' equity	6,660	6,625	6,593	6,411	5,389	4,802
Operating income before depreciation and amortization as % of sales	1.2	(1.3)	(1.5)	0.3	0.5	1.2
Pretax return on permanent capital (%)	4.5**	4.0	4.2	5.8	8.3	10.1
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	5.9	3.5	3.9	5.3	4.7	3.0
FFO/total debt (%)	17.2 **	14.7	11.6	26.9	20.0	5.2
Total debt/capitalization (%)	35.7	35.3	35.9	29.4	39.4	49.8

* *Consolidated financial statements*
** *Annualized from the trailing 12 months*

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