

AAPICO HITECH PLC

No. 104/2022
30 June 2022

CORPORATES

Company Rating: BBB+
Outlook: Stable

Last Review Date: 30/06/21

Company Rating History:

Date	Rating	Outlook/Alert
30/06/21	BBB+	Stable
07/07/20	BBB+	Negative
22/07/19	BBB+	Stable
24/08/18	BBB+	Positive
12/11/14	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on AAPICO Hitech PLC (AH) at “BBB+”, with a “stable” outlook. The rating continues to reflect AH’s strong competitive position as a Tier-1 automotive parts manufacturer in Thailand, its solid core operations, and efficient cost control. These strengths are partially offset by the company’s rather thin profit margins, customer concentration risk, and the cyclical nature of the automotive industry. The rating also takes into consideration its greater exposure to overseas operations as well as heightening uncertainty over the global economic outlook amid concerns over ramifications of the Russia-Ukraine conflict.

KEY RATING CONSIDERATIONS

Strong competitiveness in OEM auto parts business

We expect AH to maintain its strong position in the Original Equipment Manufacturer (OEM) auto parts business, accounting for 70%-80% of its total revenue. This core business has recently been leading the company’s growth.

AH’s competitive position is attributable to its lengthy track record of producing auto parts for several automakers. The company has never lost orders from major customers. The reliability of its operations and its credibility have helped establish strong relationships with major customers such as Isuzu, DANA, Ford, Continental, Auto Alliance (AAT; a Ford and Mazda joint venture), and Nissan. Automakers are also reluctant to change their major suppliers due to high switching costs and concerns over product quality.

The company is the sole chassis frame supplier for Isuzu and Mazda BT-50 in Thailand. As the major customer, Isuzu accounts for about a quarter of AH’s total revenue. The long and close relationships with major customers and high switching costs for automakers help mitigate the concentration risk. The sales performance of Isuzu has been relatively strong over the past few years.

Overseas operations pose both challenges and opportunities

Following its growth strategy, AH has invested nearly THB7 billion in the Sakthi Group through equity and loans. The main production bases are in Portugal and India where performances have improved recently following the easing of Coronavirus Disease 2019 (COVID-19) controls. We expect the Portuguese operation to add THB3-THB4 billion in annual revenue and THB0.3-THB0.4 billion in annual earnings before interest, taxes, depreciation, and amortization (EBITDA) to AH. The Indian operation is still in dispute with the existing shareholders of the Sakthi Group. We do not expect any adverse impacts, such as further impairment losses, on AH.

Looking forward, the investment in the Sakthi Group should help increase AH’s business scale and establish its footprint in the European and Indian markets. AH should also benefit from high-margin cast products. However, the changing business environment, plus uncertainty over the Russia-Ukraine conflict, have escalated operational risk, posing significant challenges to AH. We expect AH to carefully handle the risks associated with its overseas operations. The long-term operating results remain to be seen.

Performance on growth path

AH has recently managed to recover its operating performance, despite the challenging business environment. The company’s revenue and earnings will

likely rise significantly in coming years. Our base-case forecast predicts its total operating revenue will range between THB25-THB26 billion per annum during 2022-2024, up from about THB21 billion in 2021. The company should benefit from the recovering auto demand, new products it has been ordered, and higher selling prices of auto parts for new car models. Its new showrooms will also help add revenue. However, revenue growth remains uncertain considering the heightened risk of global recession and the chip shortage.

We expect a continued increase in AH's earnings following the revenue jump. The company's EBITDA should climb to about THB2.5 billion per annum over the next three years, from THB2.1 billion in 2021. Our forecast assumes slightly lower profit margins, given the increasing cost environment. Its EBITDA margin should range between 9%-10% during 2022-2024, compared with 10.5% in the first quarter of 2022. The company's ability to pass-through raw material costs to automakers should help manage costs effectively.

Financial profile to remain under control

We predict AH's capital structure and debt serviceability to stay firm, given the expected rise in its cash flows. The company's debt to capitalization ratio should fall in the 40%-50% range during 2022-2024. Its debt to EBITDA ratio should hover around 3 times, with the funds from operations (FFO) to debt ratio of above 20% over the forecast period. The three ratios improved recently following the company's earnings recovery.

As of March 2022, total debt, excluding financial lease, was reported at THB7.4 billion. The priority debt, including secured debt at the company and total debt at the subsidiary level, was about THB3.2 billion. This translates to a priority debt to total debt ratio of 43%.

Manageable liquidity

We believe AH will continue to manage its liquidity appropriately. During the remaining nine months of 2022, debts of about THB3.1 billion will come due, comprising THB2 billion short-term loans for working capital and THB1.1 billion long-term bank loans. At the end of March 2022, cash and marketable securities were nearly THB0.7 billion. FFO during the remaining nine months of 2022 are forecast to be THB0.9 billion. As a result, the liquid assets and cash from operations should total THB1.6 billion. The company's undrawn credit facilities of about THB4 billion should cover the shortfall of THB1.5 billion.

A financial covenant of the debentures requires AH to maintain the net total liabilities to equity ratio below 2 times. The ratio stood at 1.5 times as of March 2022. TRIS Rating believes that AH will stay compliant with the covenants for the next 12 to 18 months.

BASE-CASE ASSUMPTIONS

- Total operating revenue to increase to THB25-THB26 billion per annum over the next three years.
- EBITDA margin to range between 9%-10%.
- Investments and capital expenditures to range between THB0.8-THB1.3 billion per annum.

RATING OUTLOOK

The "stable" outlook reflects our expectation that AH will maintain its competitiveness in its core lines of business. The company's revenue and earnings should increase while gearing will be well managed. Its ability to pass-through increases in raw material costs should help AH handle the rising cost pressure.

RATING SENSITIVITIES

AH's rating and/or outlook could be revised upward should AH's operating performance and financial profile significantly improve such that its EBITDA remains above THB2.5 billion per annum and its debt to EBITDA ratio is sustained at or below 2.75 times. In contrast, the rating and/or outlook could be lowered if the company performs significantly below estimates. This could be the case if its debt to capitalization ratio exceeds 50% and/or its debt to EBITDA ratio stays above 4 times on a sustained basis.

COMPANY OVERVIEW

Established in 1996, AH is a large Tier-1 manufacturer of automotive parts in Thailand. The company started as a Ford distributor, before expanding to the manufacture of auto parts. It was listed on the Stock Exchange of Thailand (SET) in 2002. As of March 2022, the major shareholder of AH remained the Yeap family, holding about 39% of the outstanding shares.

AH has two core lines of businesses: OEM auto parts and car dealerships. The company's OEM products are stamped or pressed parts, forged, cast and machined parts, plastic parts, and jigs and dies. The key OEM products are stamped or pressed parts including chassis frames. The car dealership business sells Ford, Mitsubishi, MG, and Mazda vehicles in Thailand and

Honda and Proton vehicles in Malaysia. AH has also established a joint venture in Thailand to import and distribute three brands of motorcycles including Bajaj, KTM, and Husqvarna.

The OEM auto part business accounts for 70%-80% of its total revenue annually, while the car dealership business constitutes the rest. In the first quarter of 2022, AH's operations in Thailand contributed 64% of total revenue, followed by operations in Portugal (17%), Malaysia (14%), and China (5%).

KEY OPERATING PERFORMANCE

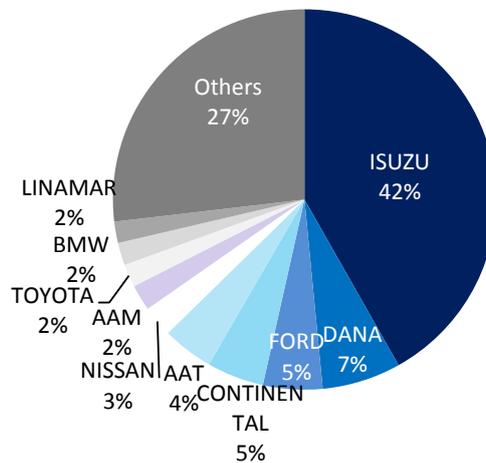
Table 1: Revenue Breakdown

Unit: %

Sources of Revenue	2018	2019	2020	2021	Jan-Mar 2022
OEM auto parts	64	70	70	74	76
Car dealership	36	30	30	26	24
Total	100	100	100	100	100
Total revenue (mil. THB)	16,738	18,389	17,419	20,433	6,730

Source: AH

Chart 1: Major OEM Customers in 1Q22



Source: AH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

	Jan-Mar 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	6,815	20,746	17,798	18,959	17,370
Earnings before interest and taxes (EBIT)	523	1,279	565	1,493	1,538
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	713	2,138	1,757	2,923	2,490
Funds from operations (FFO)	605	1,696	1,340	2,383	2,220
Adjusted interest expense	81	350	376	312	212
Capital expenditures	227	1,497	638	1,003	915
Total assets	23,772	22,722	22,346	21,293	17,891
Adjusted debt	7,325	7,726	9,351	8,580	6,087
Adjusted equity	9,303	8,815	7,741	7,481	7,947
Adjusted Ratios					
EBITDA margin (%)	10.46	10.30	9.87	15.42	14.34
Pretax return on permanent capital (%)	7.79 **	7.29	3.28	9.55	11.37
EBITDA interest coverage (times)	8.77	6.11	4.67	9.36	11.74
Debt to EBITDA (times)	3.26 **	3.61	5.32	2.94	2.44
FFO to debt (%)	24.67 **	21.96	14.33	27.78	36.48
Debt to capitalization (%)	44.05	46.71	54.71	53.42	43.37

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

AAPICO Hitech PLC (AH)

Company Rating:	BBB+
Rating Outlook:	Stable

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