

UAC GLOBAL PLC

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CORPORATES

Company Rating: BBB-
Outlook: Stable

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RATIONALE

TRIS Rating assigns a company rating of “BBB-” to UAC Global PLC (UAC) with a “stable” outlook. The rating reflects UAC’s competitiveness in its core trading business, the substantial dividends it receives from a key associated company, and its low financial leverage. Conversely, the rating is tempered by the company’s heavy reliance on major customers and suppliers. The rating also takes into consideration the company’s underperforming energy business and execution risks associated with new projects.

KEY RATING CONSIDERATIONS

Competitive strengths in trading business

We view UAC’s competitiveness in its core trading business to be its key strength. With more than two decades in this business, UAC is an authorized distributor for major global suppliers such as Honeywell and PALL Corporation. UAC’s products are widely recognized and usually require technical supports, which helps retain customers. Most of UAC’s repeat customers are leading refineries and petrochemical companies in Thailand.

The trading of chemicals and equipment is the centerpiece of UAC’s business, making up more than half of the total revenue and earnings before interest, taxes, depreciation, and amortization (EBITDA) over the past five years. UAC will likely retain its competitive strengths in this business over the next few years, considering its long track record, well-established relationships with key customers, and technical expertise.

Heavy reliance on major customers and suppliers

UAC’s strengths in the trading business are weighed down by the company’s high business concentration. UAC purchases about 70% of its products from its top five suppliers. Most of the supply contracts are made under non-exclusive agreements, covering periods of less than two years. Despite the short-term nature of the contracts, UAC has generally been able to renew supply contracts, reflecting its longstanding alliances.

At the same time, UAC’s top five customers have contributed about 40% of the company’s revenues over the past five years. However, UAC’s customers generally need chemicals and equipment throughout their plant life cycles and switching suppliers could be costly.

Revenue hit by pandemic

UAC’s trading business has been affected significantly by the Coronavirus Disease 2019 (COVID-19) pandemic, resulting in dwindling revenue over the past two years. Demand for UAC’s products fell as refineries cut production and delayed investments due to the uncertainty induced by the pandemic. That said, the gross margin of this business appears to be resistant to fluctuations in commodities prices. The gross margin remains at a favorable level of about 20% on average. We expect UAC’s core revenue to recover, given a post-COVID-19 economic recovery and reviving oil demand.

Substantial dividends income

The rating takes into account the substantial dividends UAC receives from Bangchak Biofuel Co., Ltd. (BBF), an associated company in which UAC holds a 30% stake. The dividends received over the past two years largely helped offset plummeting earnings from the trading business. BBF primarily produces and

sells biodiesel, which is blended with diesel fuel for use as a fuel, and crude glycerin. BBF is facing two main challenges; intensifying competition due to an oversupply and a reduction of the biodiesel content in fuel as a part of the government's current measures to control diesel prices. That said, we expect BBF will continue delivering meaningful dividends over the long term, given the growth prospects of biofuel. In our base case, we expect UAC to receive dividends from BBF of THB150-THB180 million per annum during 2022-2024.

Energy business underperforms

UAC has invested in many energy projects including small power plants and petroleum production. Most of UAC's energy projects have underperformed, due primarily to insufficient feedstocks, high operational risks, and regulatory changes.

UAC's Petroleum Production Plant (PPP) and two gas-fired power plants in Sukhothai province are exposed to fuel supply risk. Their operations rely heavily on two gas suppliers, PTT Exploration and Production PLC (PTTEP) and Siam Moeco Ltd. (SML). During the past two years, PTTEP reduced its crude oil production, while SML ceased operations. Gas supplies as a by-product from crude oil production fell, causing unsteady operations.

UAC recently accepted the transfer of the petroleum concession from SML. UAC plans to produce petroleum at the onshore block located near its PPP. With an investment cost of about THB50 million, UAC expects to receive additional gas supplies, which will improve feedstock supplies and enhance the capacity of its PPP and power plants. The company intends to start production in the third quarter of 2022. Given UAC's lack of experience in petroleum production and uncertain petroleum reserves, we make conservative assumptions in relation to this project in our base case.

Execution risks associated with new projects

In addition to the petroleum production, UAC is developing new power generation projects, including a biogas power plant in Khon Kaen province and a waste management project in the Lao People's Democratic Republic (Lao PDR). UAC won the 3-megawatt (MW) biogas power plant project (Phu Pha Man) through competitive bidding. UAC co-invests and shares benefits in the project with a community enterprise. UAC expects the project to start operation in the second half of this year. In our view, UAC will likely find it challenging to achieve satisfactory operating results in this project, considering the low tariff rates for electricity sales and high operational risks of biogas power.

The rating also takes into account risks associated with UAC's first overseas project. The project in the Lao PDR includes construction of a waste management facility and a power generation facility. In the first phase, the project will use municipal solid waste from Vientiane Capital as a raw material to produce Refuse Derived Fuel (RDF) and supply to industrial users, such as cement producers. The second phase involves construction of a power plant that will use RDF to generate electricity for sale to Electricite du Laos (EDL). The project cost is about THB800 million in total, which is considered large relative to UAC's investment capability. In materializing the project, UAC will need to secure key contracts, such as an RDF offtake agreement and a power purchase agreement (PPA).

We believe the waste management project carries high project risk, particularly in view of the scale of the project, UAC's lack of experience in undertaking waste-to-energy projects, evolving regulations, as well as the creditworthiness of the power buyer. Hence, we expect UAC to be prudent in developing the project and invest in a measured way. In our base forecast, we assume UAC will proceed with the first phase only, which requires an investment cost of approximately THB150 million, and engage with credible RDF buyers. We do not expect the second phase to be undertaken in the near term. For this reason, it is not included in our base-case forecast.

Low financial leverage

We expect the trading business to remain UAC's core earnings contributor, benefiting from a rebounding demand. The energy business should also deliver improved operating results, thanks to ongoing efficiency enhancements. In our base-case forecast, we project UAC's total operating revenue to rise gradually to about THB2 billion in the next three years, with an EBITDA margin (or EBITDA as a percentage of revenue) of about 20%. We forecast EBITDA to be about THB400 million per annum while funds from operations (FFO) should come in at about THB350 million per annum over the forecast period.

The rating embeds our expectation that UAC's financial leverage will remain low. We assume the company will not invest aggressively over the next three years, with total capital expenditure of about THB260 million. During 2022-2024, we forecast a debt to EBITDA ratio of 2-3 times and an FFO to debt ratio of 35%-40%. The ratio of debt to capitalization should remain low at about 30%-35%.

As of December 2021, UAC's consolidated debt, excluding lease obligations, totaled THB817 million, of which THB335 million was priority debt, comprising secured debt owed by UAC and all borrowings incurred by its operating subsidiaries. The priority debt to total debt ratio was 41%.

Manageable liquidity

We expect UAC to manage its liquidity prudently. As of December 2021, UAC had THB483 million of long-term debt obligations coming due in the next 12 months. These included debentures worth THB300 million maturing in June 2022. UAC plans to refinance the debentures with a new issuance of debentures. UAC's sources of liquidity comprised undrawn credit facilities, plus cash and marketable securities, of THB537 million.

A key financial covenant on UAC's debentures requires the company to keep its net interest-bearing debt to equity ratio below 3 times. The ratio was 0.5 times at the end of 2021. We believe the company will stay compliant with the financial covenant over the forecast period.

BASE-CASE ASSUMPTIONS

- Total operating revenue to range from THB1.7-THB2 billion per annum during 2022-2024.
- EBITDA margin to stay at about 20%.
- Capital expenditure to total THB260 million for the forecast period.

RATING OUTLOOK

The "stable" outlook embeds our expectation that UAC will maintain a competitive edge in its trading business, the newly invested projects will perform satisfactorily, and that the company will not expand aggressively in the years ahead. As such, UAC's earnings and financial leverage should remain in line with our forecasts.

RATING SENSITIVITIES

A rating upgrade is limited in the near term, but it could happen if UAC significantly enlarges its earnings base. This could occur if UAC significantly improves the operating performance of its energy business and receives robust returns from its newly invested projects. On the contrary, a downward rating pressure would emerge if UAC's earnings significantly weaken and/or its financial profile deteriorates considerably.

COMPANY OVERVIEW

UAC was founded in 1995 by the Jivacate family as a supplier of chemicals and equipment mainly for the oil refinery and upstream petrochemicals industries. The company later expanded into the energy and chemical businesses. It was listed on the Market for Alternative Investment (MAI) in 2010 and moved to the Stock Exchange of Thailand (SET) in February 2020. As of December 2021, the Jivacate family remained the major shareholder, holding a 56.2% stake in UAC.

The trading business accounted for the majority (66%) of UAC's total revenue in 2021, followed by the chemicals business (23%) and the energy business (11%).

UAC's trading business serves companies in the oil and gas, petrochemicals, and utilities sectors. UAC imports a host of chemical products, such as adsorbent and molecular sieve products, filtration products, and etc. The company is authorized distributor of global manufacturers, including Honeywell, and PALL Corporation.

In the energy segment, UAC developed the first compressed biomethane gas (CBG) project in Thailand. However, the project eventually ceased operations. UAC's PPP produces several petroleum products including liquefied petroleum gas, natural gas liquids, and methane. UAC also owns a 1.5-MW biogas power plant using Napier grass to produce electricity for sale to the Provincial Electricity Authority (PEA). In addition, UAC has two gas-fired power plants and small solar rooftop projects. UAC recently secured a contract for a new 3-MW biogas power plant under the government's Energy for All scheme. Located in Khon Kaen province, the biogas power plant will use Napier grass to produce and sell electricity to the PEA. As of December 2021, UAC's aggregate installed capacity was 13.1 MW, across two gas power projects (6.9 MW), three biogas power projects (4.5 MW), and two solar rooftop projects (1.7 MW). The 10.1 MW power plants were operational.

In the chemicals business, UAC Advance Polymers & Chemicals Co., Ltd. (UAPC), a subsidiary, manufactures and supplies chemicals such as latex emulsion and latex polymer. UAPC mainly distributes its products in the domestic market, covering various industries such as paints and coatings, printing inks, textiles, adhesives, adhesive tapes, paper, and packaging, etc.

KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown

Unit: %

	2017	2018	2019	2020	2021
Trading	64	77	81	67	66
Chemicals	21	13	12	22	23
Energy	14	10	7	11	11
Total	100	100	100	100	100
Total revenue (Bt million)	1,627	2,553	2,872	1,269	1,466

Source: UAC

Table 2: Power Project Portfolio

Company	Held by UAC	Installed Capacity (MW)	Contracted Capacity (MW)	Tariff
Solar Rooftop				
VBD	99%	0.75	0.75	FIT
SHT	100%	0.92	1.00	FIT
Sub total - Solar		1.67	1.75	
Gas				
STA	100%	3.90	3.60	TOU
PDT	100%	3.00	2.62	TOU
Sub total - Gas		6.90	6.22	
Biogas				
MT2	100%	1.50	1.00	FIT
PPM	45.01%	3.00	3.00	FIT
Sub total - Biogas		4.50	4.00	FIT
Grand total		13.07	11.97	

Source: UAC

VBD : Von Bundit

SHT : Sahathai Steel Pipe

MT2 : Mae Taeng 2

STA : Sao Thian-A

PDT : Pra Du Thao

PPM : Phu Pha Man

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	1,521	1,293	2,904	2,609	1,657
Earnings before interest and taxes (EBIT)	292	320	241	246	190
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	416	322	286	333	348
Funds from operations (FFO)	356	258	187	216	270
Adjusted interest expense	49	57	69	90	71
Capital expenditures	43	35	22	69	220
Total assets	3,217	3,130	3,045	4,033	3,164
Adjusted debt	945	1,071	1,216	2,076	1,499
Adjusted equity	1,771	1,624	1,444	1,304	1,313
Adjusted Ratios					
EBITDA margin (%)	27.39	24.94	9.84	12.78	20.98
Pretax return on permanent capital (%)	10.48	11.55	7.78	7.81	6.85
EBITDA interest coverage (times)	8.48	5.64	4.15	3.69	4.90
Debt to EBITDA (times)	2.27	3.32	4.26	6.22	4.31
FFO to debt (%)	37.68	24.06	15.34	10.41	17.99
Debt to capitalization (%)	34.78	39.74	45.72	61.41	53.31

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

UAC Global PLC (UAC)

Company Rating:	BBB-
Rating Outlook:	Stable

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