Construction Industry - Key Success Factors

BUSINESS RISK ASSESSMENT

Market Position
A comprehensive analysis is conducted to measure the company’s position in the industry. Companies with strong market position are believed to have better competitive advantage in tender process particularly in securing large contract. Companies with strong market position will also have strong bargaining power toward supplier. Number of tender awarded, amount of work in hand, and company’s revenue growth are the parameters used in assessing market position. The ability to win tender and secure large projects are further supported by high reliability, strong reputation and proven track record in deliver many kind of projects. The company’s ability to secure large projects/contracts in the intensifying competition environment will further enhanced if it has strong financial back up.

Diversification
The risk analysis includes the assessment of the company’s ability to diversify its revenue sources in terms of business line, customer base, and operational area. Having more diversified revenue source is perceived to be more resistant to any adverse changes in business or economic condition. Having many clients from various businesses and areas with numerous projects that are not concentrated should also reduce volatility and maintain stability of the cash flow performance. The suppliers’ profiles are also an important factor particularly in relation with the ability to provide material needed in timely basis. In addition, more diversified supplier base could minimize the operational risk as it could maintain the availability and continuity of material requirement.

Project Management
The analysis includes a comprehensive assessment toward management’s quality and philosophy in running the business as well as their policy and strategy to enhance the company’s business performance in the future. The ability to successfully complete projects on time and on budget is crucial, which in turn could secure the recurring businesses. Past successful experiences in doing major projects can also enhance the company’s reputation. Personnel expertise and advanced technology to do specific and sophisticated projects are also incorporated. Number of nonperforming projects and the ability to handle and settle the particular projects also become important factors in rating determination.

Operating Management
The ability to manage the business efficiently is the most important factor, particularly to deal with tightening competition. The ability to reduce costs and optimize efficiency are highly incorporated in the rating consideration. Companies which are able to offer more competitive pricing will have better position to win a tender. Having a good management combined with control over account receivables and synchronizing it with the expenses the company has disbursed are also important factors to maintain working capital needs as low as possible, which in turn could minimize the dependency on external borrowing. The analysis on operating margins (EBIT and EBITDA) is also assessed by comparing the company’s ratios with other players in the same industry or other industry with similar characteristic, which is important in analyzing the company’s competitiveness. The analysis is helpful to measure operating efficiency.
FINANCIAL RISK ASSESSMENT

Financial Policy
The analysis includes a review of management's philosophy, strategy and policies toward financial risk (historical, current and future). It also includes examination of management's financial targets (growth, leverage, debt structure and dividend policy), hedging and other policies in an effort to reduce the company's overall financial risk (historical vs. future). The company's track record on fulfilling its previous financial obligations is also examined to determine the degree of its commitments and willingness and consistency to pay obligations on a timely basis.

Capital Structure
The analysis covers careful examination of the company's historical, current and projected leverage (total and net debt in relation to equity and EBITDA), debt structures and composition (rupiah vs. foreign currencies, short-term debt vs. long-term debt, fixed rate vs. floating rate). Management of its liabilities is also thoroughly reviewed.

Cash Flow Protection And Liquidity
The analysis covers thorough reviews of the company's cash flow generation and capability to meet its short-term and long-term financial obligations. The degree of its debt-servicing capability level is measured by the company's interest and debt coverage ratio. The degree of its liquidity in fulfilling its short-term liabilities relative to its sources of cash is also thoroughly assessed. The sources of cash are assessed, which include cash balance, estimated cash from operations, unused credit facilities, and other sources of cash. The uses of cash other than short-term liabilities, such as capital expenditure, are also assessed.

Financial Flexibility
The analysis covers combined evaluations of all the financial measures above to arrive at an overall view of the company's financial health. Analysis of other related factors or figures that are not specifically examined above, such as insurance coverage, restrictive covenants in loan/bond agreements or parental linkage and support, are also covered. Other analytical tasks covered are the evaluation of the company's options under stress, including contingency plans and other capabilities and flexibility to deal with various adverse scenarios. Shareholder support and commitment are also greatly considered.
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