

PRUKSA HOLDING PLC

No. 115/2022
18 July 2022

CORPORATES

Company Rating:	A
Issue Ratings:	
Guaranteed	A
Outlook:	Negative

Last Review Date: 19/04/22

Company Rating History:

Date	Rating	Outlook/Alert
27/04/18	A	Stable

Contacts:

Hattayanee Pitakpatapee
hattayanee@trisrating.com

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Preeyaporn Kosakarn
preeyaporn@trisrating.com

Jutamas Bunyawanichkul
jutamas@trisrating.com

Suchada Pantu, Ph.D.
suchada@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Pruksa Holding PLC (PSH) and the ratings on PSH's guaranteed debentures at "A". At the same time, TRIS Rating revises the company's rating outlook to "negative" from "stable". The debentures are unconditionally and irrevocably guaranteed by Pruksa Real Estate PLC (PS), PSH's subsidiary, rated "A/Negative" by TRIS Rating. The guaranteed debentures are ranked pari passu to PS's senior unsecured creditors.

The ratings reflect PSH's creditworthiness as the holding company of PS, in which PSH holds a 98.23% equity stake, and the significant dividend stream PSH receives from PS. PS is considered as a "core" subsidiary of PSH in accordance with our "Group Rating Methodology".

The "negative" outlook on PSH derives from PS's weaker-than-expected operating performance and concerns over its ability to retain market position in the residential property industry. The ratings also take into account PS's diversified product portfolio, the Group's moderate financial leverage, as well as our concerns over the country's high level of household debt and rising inflation which may impact the purchasing power of homebuyers in the short to medium term.

KEY RATING CONSIDERATIONS

Weaker-than-expected operating performance

PSH's operating results fell short of our previous forecast. With sluggish demand in the residential property industry since the beginning of the COVID-19 pandemic, PSH has slowed down its new project launches from 2020 until this year. Intense competition from leading property developers also contributed to a further deterioration in PSH's operating performance. In addition, PSH's healthcare business was negatively affected by the lingering COVID-19 pandemic, which led to fewer customers than expected. PSH reported total operating revenue of THB28.4 billion in 2021, 10% lower than our previous target. Its total operating revenue was only THB6 billion during the first three months of 2022, far below our previous full-year revenue forecast of THB38 billion.

PSH's profitability also softened due to price campaigns in some residential property projects, introduced to speed up sales and clear inventory, together with a loss incurred by Vimut Hospital, its first flagship hospital, which opened in May 2021. As a result, its gross profit margin declined to 29%-30% during 2021 through the first three months of 2022, from 33% in 2020 and 36% during 2017-2019. PSH's earnings before interest, taxes, depreciation, and amortization (EBITDA) decreased to THB4.3 billion in 2021, from THB5 billion in 2020 and THB8-THB9 billion per annum in 2017-2019. PSH reported EBITDA of only THB1 billion in the first quarter of 2022, significantly deviating from our previous full-year target of THB6.5 billion. PSH posted a net profit of only THB0.6 billion in the first three months of 2022, equivalent to 14% of our previous whole-year target of THB3.9 billion.

Revenue and profitability to remain under pressure

We view the weak economic environment and rising inflation will put more pressure on PSH's operating performance in the short to medium term. Under our base-case forecast, we project PSH's total operating revenue to range

between THB30-THB32 billion per annum during 2022-2024. We anticipate the majority of the revenue will come from the residential property business, accounting for 97%-98% of the total, while revenue from the healthcare business remains minimal.

PSH has focused on clearing its inventory over the past two years. The company launched residential property projects worth only THB15.8 billion in 2020 and THB21.1 billion in 2021, dropping from THB40-THB60 billion per annum during 2015-2019. In 2022, the company plans to launch new residential projects worth only THB16.3 billion, comprising landed property projects worth THB12.8 billion and condominium projects worth THB3.5 billion. PSH's backlog has also declined, falling to THB20 billion at the end of April 2022, from THB29 billion in 2019 and THB33 billion in 2018. Based on the backlog as of April 2022, around 90% of the total is expected to be transferred to customers during the remainder of 2022, and the rest during 2023-2025. Thus, we view that PSH's revenue over the next couple of years will depend largely on the company's ability to generate new residential sales and transfers each year.

We expect its profitability to improve but remain lower than the pre-COVID-19 level, owing to rising inflationary pressure and ongoing intense competition among residential property developers. We view that PSH will absorb the loss incurred by Vimut Hospital over the next few years. However, the loss recorded by the healthcare business should not cause a significantly deterioration in the overall profitability of the group. PSH's better cost control and lower selling, general, and administrative (SG&A) expenses with more outsourced services should partly offset the company's lower gross profit margin. We expect its gross profit margin to hover around 30% and its EBITDA margin to stay in the 15%-17% range over the forecast period.

Diversified residential products and well-recognized brands in middle- to low-priced townhouse

PSH's product portfolio is well-diversified in terms of various product type and price range. The company offers townhouses, single-detached houses (SDH), and condominiums to homebuyers across diverse market segments. PSH's townhouse products cover the low- to middle-income segments, with selling prices ranging from THB2-THB5 million per unit. SDH products are priced from THB3-THB12 million per unit. PSH's condominium portfolio covers the low- to high-end segments, with selling prices ranging from THB50,000-THB260,000 per square meter (sq.m.).

We view that PSH's well-accepted brand recognition and diversified product portfolio should give the company the flexibility to adjust its products to meet market demand in a timely manner and retain its market position. PSH intends to reshape its product portfolio with an increasing proportion of landed residential products and middle- to high-priced townhouse and SDH products. As of April 2022, PSH had a large portfolio, with around 170 existing projects. The total unsold value of these projects was THB73.2 billion (including built and unbuilt units). Townhouse projects comprised 49% of total remaining value, SDH projects 31%, and condominium projects 20%.

PS to continue to be a major dividend contributor to PSH over the next three years

As PSH is PS's major shareholder, with a 98.23% stake, we expect PSH to receive a significant amount of dividends from PS. According to the group's dividend policy, PS will pay dividends to PSH of not less than 50% of net profit. Dividends received from PS amounted to THB2.9 billion in 2020 and THB2.4 billion in 2021. As of March 2022, PS was PSH's only major subsidiary, accounting for 96% of the group's EBITDA and 90% of the total assets of the group.

PSH marked its entry into the healthcare business with the opening of "Vimut Hospital" in May 2021 and by investing in a 51% stake in Thep Thanyapa Co., Ltd., the owner of Theptarin Hospital, in February 2021. PSH also set up a new subsidiary, Vimut Wellness Services Co., Ltd., to operate a medium rehabilitation hospital. Recently, PSH set up Innosprout Holding Co., Ltd. to invest in a 3.7% share in Pathology Asia Holdings, a holding company involved in clinical laboratory and genomics. The investment cost was THB2.5 billion. As these subsidiaries are still in the initial stage, we expect the revenue contribution from PSH's healthcare business to remain minimal during 2022-2024. We view that PS will continue to be PSH's only core subsidiary in the medium term.

Moderate financial leverage

We assess PSH's leverage as moderate. As of March 2022, its debt to capitalization ratio was 28%. Under its business strategy, PSH plans to enhance its healthcare business portfolio and expand investment into prop-tech as well as health-tech companies through corporate venture funding. Investment in the healthcare business is expected to be around THB500 million per annum during 2022-2023 and around THB1.7 billion in 2024. The budget for investment through corporate venture fund is set to be THB3.5 billion in 2022, including the investment in Pathology Asia Holdings, and THB1.5 billion per annum in 2023-2024.

We assume PS to launch new landed property projects worth around THB13 billion in 2022 and THB15-THB22 billion per annum during 2023-2024. New condominium project launches are forecast to be worth THB3.5 billion this year and THB5-THB8 billion per annum in 2023-2024. The budget for land acquisition is THB6-THB8 billion per annum over the next

three years. As a result, we expect its debt to capitalization ratio to stay in the 27%-32% range, and the debt to EBITDA ratio to stay below 5 times during 2022-2024.

As of March 2022, PSH had THB17.3 billion in debt, comprising THB14.8 billion debentures, THB1.8 billion short-term loans, and THB757 million long-term loans. PSH's priority debt, amounting to THB2.5 billion, was secured debt at the subsidiary level. This means the ratio of PSH's priority debt to total debt was 14.5%. Although its priority debt ratio is less than 50%, we prefer PSH's debentures to be guaranteed by PS since PS or other subsidiaries may incur more debt in the future.

Adequate liquidity

On a consolidated basis, we assess PSH to have adequate liquidity over the next 12 months. As of March 2022, PSH's sources of funds comprised THB1.1 billion cash on hand, THB6.7 billion undrawn committed credit facilities, and THB15 billion undrawn uncommitted credit facilities. We forecast PSH's funds from operations (FFO) in 2022 to be THB4.2 billion. PSH also had unencumbered land at book value of THB10.6 billion, which could be pledged as collateral for new loans, if needed. Debts due over the next 12 months will amount to THB8.3 billion, comprising THB6 billion debentures, THB1.8 billion short-term loans, THB400 million long-term loans, and THB118 million lease liability. PSH already repaid the THB2 billion debentures due in May 2022 with new debenture issues.

The financial covenants on PSH's bonds and bank loans require the company to maintain its interest-bearing debt to equity ratio below 2 times. As of March 2022, the ratio was 0.4 times. We believe that PSH should have no problems complying with the financial covenants over the next 12 to 18 months.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base case forecast for PSH's operations during 2022-2024:

- PSH to launch new landed property projects worth around THB13 billion in 2022 and THB15-THB22 billion annually in 2023-2024.
- PSH to launch new condominium projects worth THB3.5 billion in 2022 and THB5-THB8 billion per annum during 2023-2024.
- Budget for land acquisition to be THB6-THB8 billion per annum.
- Capital expenditures for the healthcare business to be around THB500 million per annum during 2022-2023 and around THB1.7 billion in 2024.
- Investment through corporate venture fund is set to be THB3.5 billion in 2022 and THB1.5 billion per annum in 2023-2024.
- Total operating revenue to revert to THB30-THB32 billion per annum with EBITDA margin of around 15%-17%.

RATING OUTLOOK

The "negative" outlook reflects our concerns over PSH's weaker-than-expected operating results in terms of revenue and earnings as well as the property subsidiary's ability to sustain competitiveness in the residential property market. Intense competition from leading property developers couple with an unfavorable economic environment from rising inflation could lead to a further deterioration in PSH's operating performance.

RATING SENSITIVITIES

PSH's outlook could be revised back to "stable" should the company execute a recovery in its operations and profitability such that its earnings are comparable with peers in the same rating category. On the contrary, a downward revision could emerge if the operating performance of PSH's property subsidiary further deteriorates than expectation and/or the operation of the healthcare business materially weighs down the credit profile of the group, such that the debt to EBITDA ratio stays above 5 times.

COMPANY OVERVIEW

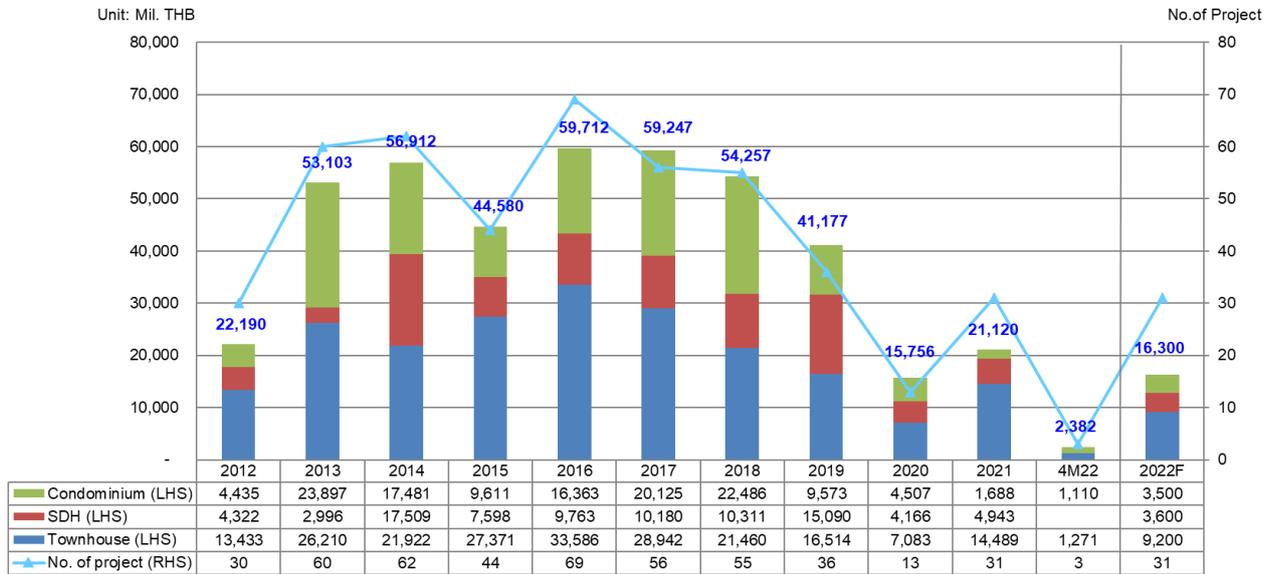
PSH was established in March 2016 as a holding company, in accordance with the restructuring plan of PS. PSH made a tender offer for all securities of PS at a swap ratio of 1:1. After completion of the tender offer, the holding company became the major shareholder of PS and its securities have been listed on the Stock Exchange of Thailand (SET) since December 2016 in place of PS, whose securities were simultaneously delisted from the SET. As of March 2022, the Vijitpongpun family was PSH's largest shareholder, owning a 76% stake. PSH holds a 98.23% stake in PS.

PSH operates as a holding company which currently invests in the residential property for sale and healthcare businesses. PSH's residential property portfolio is well-diversified, covering landed property and condominium products across broad price ranges. Its main products target the middle- to low-priced market segments. PSH has expanded into the healthcare business with the launch of "Vimut Hospital", its first flagship hospital, in May 2021, and by investing in a 51% stake in

"Theptarin Hospital" in February 2021. In 2022, PSH began investing through corporate venture fund in prop-tech, health-tech and e-commerce companies. PSH invested SGD100 million (approx. THB2.5 billion), a 3.7% stake, in "Pathology Asia Holdings" in February 2022. Revenue and earnings from the residential property business will continue to be a key contributor to the group over the next several years, thus PS is considered as a "core" subsidiary of the group. The issuer ratings on PS and the group are equivalent.

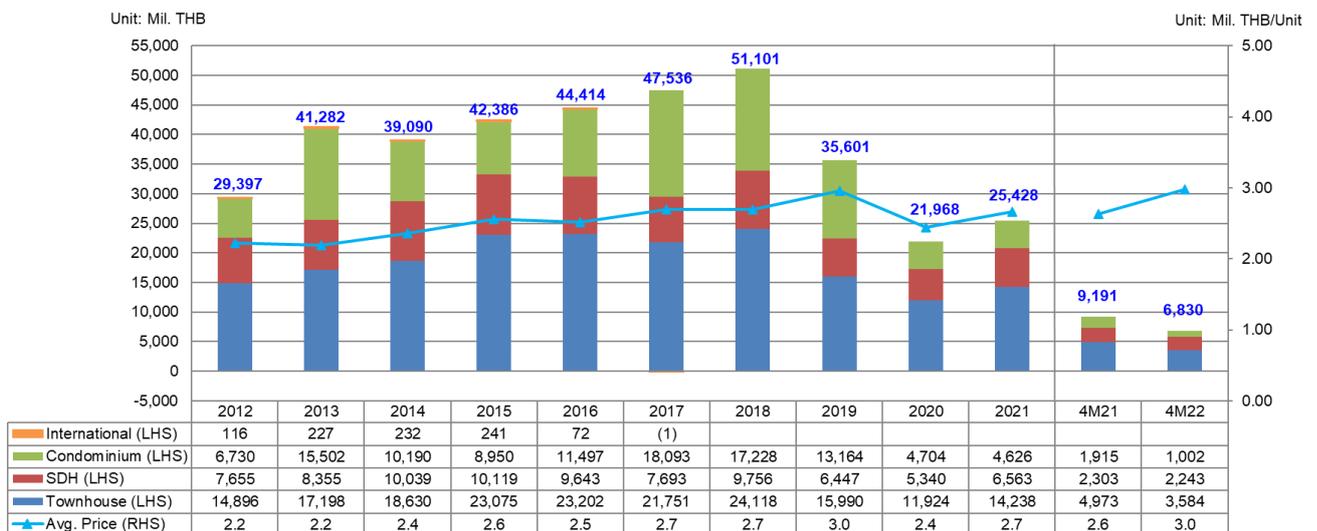
KEY OPERATING PERFORMANCE

Chart 1: New Residential Project Launches



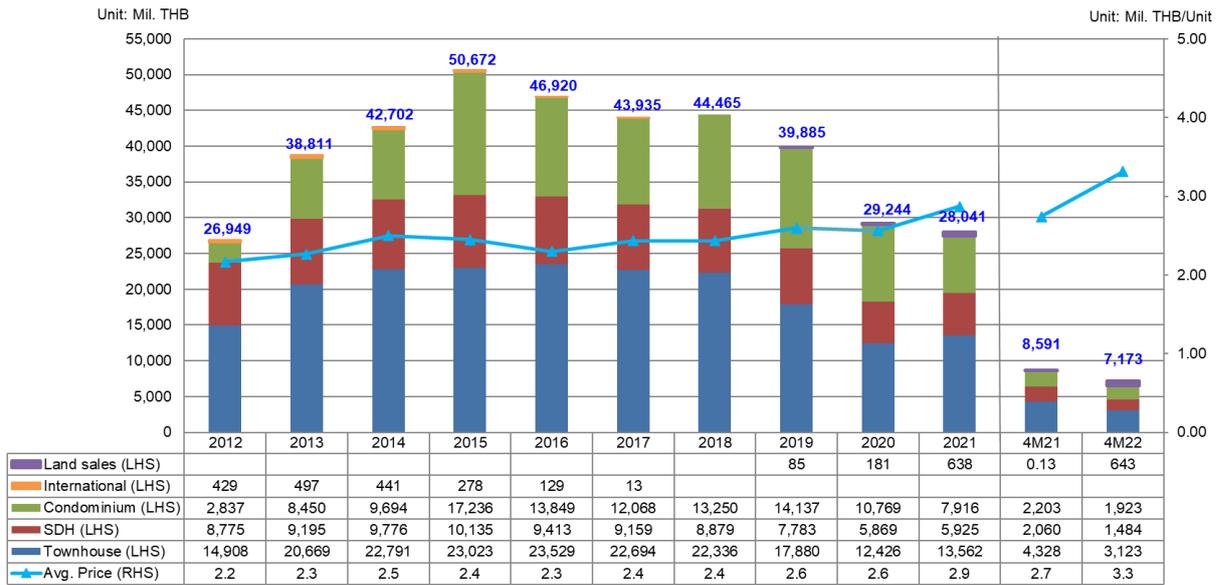
Source: PS

Chart 2: Presales Performance



Source: PS

Chart 3: Transfer Performance



Source: PS

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	5,981	28,430	29,513	40,152	45,071
Earnings before interest and taxes (EBIT)	898	3,827	4,559	7,823	8,384
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,002	4,289	5,013	8,589	9,094
Funds from operations (FFO)	707	2,913	3,410	6,238	6,754
Adjusted interest expense	137	610	761	816	788
Real estate development investments	55,292	56,757	66,863	76,244	71,960
Total assets	70,850	72,052	78,273	86,782	81,845
Adjusted debt	17,013	16,741	25,286	31,930	29,366
Adjusted equity	44,630	44,072	43,786	43,792	41,874
Adjusted Ratios					
EBITDA margin (%)	16.76	15.09	16.99	21.39	20.18
Pretax return on permanent capital (%)	5.85 **	5.69	6.16	10.42	12.13
EBITDA interest coverage (times)	7.32	7.04	6.59	10.53	11.53
Debt to EBITDA (times)	3.94 **	3.90	5.04	3.72	3.23
FFO to debt (%)	17.31 **	17.40	13.49	19.54	23.00
Debt to capitalization (%)	27.60	27.53	36.61	42.17	41.22

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021

Pruksa Holding PLC (PSH)

Company Rating:	A
Issue Ratings:	
PSH22NA: THB3,500 million guaranteed debentures due 2022	A
PSH22NB: THB500 million guaranteed debentures due 2022	A
PSH235A: THB750 million guaranteed debentures due 2023	A
PSH23NA: THB2,000 million guaranteed debentures due 2023	A
PSH245A: THB3,000 million guaranteed debentures due 2024	A
PSH245B: THB1,000 million guaranteed debentures due 2024	A
PSH24NA: THB3,000 million guaranteed debentures due 2024	A
PSH255A: THB1,000 million guaranteed debentures due 2025	A
Rating Outlook:	Negative

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2022, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria