TRIS RATING
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CreditNews ข่าวเครดิต

PRUKSA HOLDING PLC

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CORPORATES

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

Last Review Date: 22/03/19

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on Pruksa Holding PLC (PSH) and the ratings on PSH's guaranteed debentures at "A". The debentures are unconditionally and irrevocably guaranteed by Pruksa Real Estate PLC (PS), PSH's subsidiary, rated "A" with a "stable" outlook by TRIS Rating. The guaranteed debentures are ranked pari passu to PS's senior unsecured debentures.

The ratings reflect PSH's creditworthiness as the holding company of the Group. PSH's major subsidiary is PS, in which PSH holds a 98.23% equity stake. The ratings are based on the significant dividend stream PSH receives from PS. After reorganization in 2016, PS's residential property business remains a major revenue contributor of PSH. As a result, PS is considered as a "core" subsidiary of PSH. Therefore, we view that the company ratings on PSH and PS are equivalent.

The ratings on PSH take into consideration the strengths of PS in the residential property market. PS's competitiveness is derived from its relatively diversified product portfolio, cost competitiveness, and large backlog, which partly secures the company's future revenue stream. The ratings also take into consideration the Group's moderate financial leverage level, the cyclicality and competitive environment in the residential property development business, and the impact from the introduction of new loan-to-value (LTV) rules by the Bank of Thailand (BOT).

KEY RATING CONSIDERATIONS

Expected stable dividend stream from PS

As PSH is PS's major shareholder, with a 98.23% stake, TRIS Rating expects PSH to receive a reliable stream of dividend from its investment in PS. According to the Group's dividend policy, PS will pay dividends to PSH not less than 50% of net profit. Dividends received from PS were Bt5,508 million in 2017 and Bt1,996 million in 2018.

As of March 2019, PS was PSH's only major subsidiary, representing 98% of total assets of the Group. PSH is in the initial phase of investment in the healthcare business. Its first private hospital is under construction and will commence operation in the fourth quarter of 2020. TRIS Rating views that PS will continue to be PSH's only core subsidiary in the medium term.

Leading market position in the residential property industry

TRIS Rating expects PSH could maintain its strong market position in the residential property market over the next three years. PSH's leading market position is underscored by its presales and transfer performance. Presales reached a record high of Bt51,101 million in 2018. Presales from townhouses contributed 45%-50% of total presales during 2016-2018, followed by condominiums (30%) and single-detached houses (SDH) (20%). Presales during the first three months of 2019 decreased by 12% year-on-year (y-o-y) to Bt11,178 million.

PSH's total operating revenue has ranked highest among all listed residential property developers in Thailand over the past three years. Its operating revenue was in the range of Bt44,000-Bt47,000 million per annum during 2016-2018. Revenue from landed property projects has been stable at Bt23,000 million per annum for townhouse and Bt9,000 million per annum for SDH during the past three years. Revenue from condominium was Bt12,000-Bt14,000 million per year during 2016-2018. PSH's total operating revenue grew by 42% y-o-y to Bt11,909 million in the first quarter of 2019. Under TRIS Rating's base case scenario, we expect PSH's total operating revenue to stay above Bt45,000 million per annum during 2019-2021. Revenue from the real estate business will remain a key contributor to total operating revenue. Revenue from the healthcare business will remain negligible.

Diversified product portfolio, with well-accepted brands in the middle-to-low priced townhouse segment

TRIS Rating views that PSH's product portfolio is well-diversified in terms of product types and price ranges. The company offers townhouse, SDH, and condominium units to various segments. Townhouse products cover the low- to middle-end segments, with selling prices ranging around Bt1-Bt5 million per unit. PSH's townhouse units mainly focus on the Bt1.5-Bt3 million per unit segment under the Baan Pruksa and Pruksa Ville brands. PSH's SDH unit prices range from Bt3 million to Bt10 million. Most SDH projects are developed under the Pruksa Village, Passorn, and The Plant brands, targeting the Bt3-Bt5 million per unit segment. PSH's condominium projects cover the low- to high-end segments, with selling prices ranging from Bt40,000 to Bt280,000 per square meter (sq.m.). The company offers valued condominium projects under the Plum Condo, The Privacy, The Tree, and Ivy brands, with unit prices ranging from Bt1 million to Bt7 million. Its premium condominium projects are developed under the Chapter One, Chapter, and The Reserve brands, targeting the above Bt3 million per unit segment.

TRIS Rating views that PSH's wide product range and well-recognized brands benefit the company in having the flexibility to adjust its portfolio to meet market demand and retain market position. As of March 2019, PSH had a large project portfolio, with around 200 existing projects. Total unsold value of these projects was Bt95,000 million (including built and un-built units). Townhouse projects comprised 47% of total remaining value, while SDH and condominium projects constituted 28% and 25%, respectively. PSH's backlog was worth Bt32,000 million at the end of March 2019. PSH will deliver its backlog to customers, worth Bt18,000 million during the remainder of 2019, Bt7,200 million in 2020, and Bt7,400 million in 2021.

Cost competitiveness from large precast production volume and self-managed construction

TRIS Rating expects that PSH will be able to maintain its cost competitiveness from sizable precast production and self-managed construction. PSH employs precast and prefabrication technologies to control construction costs and shorten the construction periods for its residential projects. The company also manages the whole construction process for all of its landed property projects and for some condominium projects. PSH has been one of the lowest cost property developers in Thailand. Thus, PSH can offer residential units at competitive prices while maintaining a favorable operating income.

PSH's operating income was 18%-21% during 2016 through the first three months of 2019. The ratio has been higher than the industry average of around 15%. Going forward, PSH's profitability may be threatened by the intense competition among large property developers and rising land costs. However, TRIS Rating expects PSH to keep operating income at least 15%.

Exposure to cyclical and highly competitive residential property business

The residential property market closely follows the domestic economy. However, the volatility in this market is much more pronounced than in the overall economy. Slow recovery in the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the affordability of middle- to low-income homebuyers. In addition, the implementation of the new LTV rules by the BOT should impact the sales of condominium units in the short term. Under the new LTV rules, homebuyers can borrow up to 70%-80% of the collateral value, down from 90%-100%, for their second and subsequent mortgage loans. Therefore, PSH may have to lengthen the down payment period for some homebuyers. The delay in transfer may impact the company's revenue recognition in the second half of 2019. However, we expect the lower LTV ratio for the second and subsequent mortgage loans should benefit developers in the long run.

The slow growth in the domestic market has driven the company to expand its foreign customer base. Property sales to foreign buyers were around 30% of total condominium presales in 2018. Most foreign buyers are Chinese. However, slower growth in the Chinese economy and concerns over the global trade tension may negatively affect demand from foreign buyers. Thus, PSH has to carefully manage new project launches to match the demand in each segment.

Moderate financial leverage

TRIS Rating forecasts that PSH's debt to capitalization ratio may increase during 2019-2021 from its business expansion in both the residential property and healthcare businesses. We assume the company to launch new landed property projects worth Bt30,000-Bt35,000 million per annum during 2019-2021. The company is expected to open new condominium projects worth Bt29,000 million in 2019 and Bt20,000 million per annum during 2020-2021. The budget for land acquisition is forecast to be Bt8,000 million in 2019 and Bt12,000 million per year during 2020-2021. For the healthcare business, we assume PSH to invest Bt900 million in 2019, Bt1,900 million in 2020, and Bt600 million in 2021.

Despite its expansion into the residential property and health care businesses, TRIS Rating expects PSH to keep the debt to capitalization ratio below 50%, or the interest-bearing debt to equity ratio below 1 times over the next three years. As of March 2019, PSH's debt to capitalization ratio was 39% and its interest-bearing debt to equity ratio was 0.63 times.

Adequate liquidity

On a consolidated basis, PSH's liquidity is adequate. As of March 2019, PSH held Bt2,744 million in cash plus undrawn unconditional committed credit facilities from financial institutions of around Bt7,000 million. Funds from operations (FFO) over the next 12 months are forecast at Bt6,500 million. Debt due over the next 12 months will amount to Bt10,706 million, comprising Bt4,100 million in debentures and Bt6,606 million in short-term loans from banks.

Based on TRIS Rating's forecast, PS's operating performance should be capable of generating sufficient cash to repay obligations. PSH will issue new debentures to replace PS's maturing bonds and provide the inter-company loans to PS. Short-term loans will either be rolled over or repaid. PSH normally uses short-term loans in order to lower cost of funds. However, PSH intends to have enough unused committed credit lines and cash flow from operations to cover all short-term debt repayment.

According to the key financial covenants on PSH's debentures, PSH has to maintain its reported interest-bearing debt to equity ratio (based on a consolidated basis) at lower than 2 times. The ratio at the end of March 2019 was 0.67 times. Thus, the company was in compliance with its financial covenants. TRIS Rating believes that PSH should have no problem complying with its financial covenants over the next 12 to 18 months.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base case forecast:

- PSH will launch new landed property projects worth Bt30,000-Bt35,000 million per annum over the next three years as well as new condominium projects worth Bt29,000 million in 2019 and Bt20,000 million per annum during 2020-2021.
- Total operating revenue will stay above Bt45,000 million per annum, and the operating income is forecast to be at least 15%.
- Land acquisition is budgeted at Bt8,000 million in 2019 and Bt12,000 million per year during 2020-2021.
- Capital expenditures for the healthcare business is forecast to be Bt900 million in 2019, Bt1,900 million in 2020, and Bt600 million in 2021.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that PSH will be able to sustain its operating performance during 2019-2021. The company's property subsidiary should be able to deliver a large number of the units in its backlog as scheduled. Despite more intense competition in the residential property market, TRIS Rating expects PSH to keep its operating income at least 15%. Its debt to capitalization ratio should be kept below 50% on a consolidated basis.

RATING SENSITIVITIES

PSH's ratings will depend on the operating performance and financial position of the Group. A successful diversification into new businesses will be positive for the Group. On the contrary, the ratings on PSH will be negatively affected if the investments in new businesses drag down the financial position of the Group.

COMPANY OVERVIEW

According to the restructuring plan for PS, PSH was established on March 2016 as a holding company. PSH made a tender offer for all securities of PS at a swap ratio of 1:1. After the completion of the tender offer, the holding company became the major shareholder of PS and its securities were listed on the Stock Exchange of Thailand (SET) in December 2016 in place of PS, whose securities were delisted from the SET simultaneously. As of March 2019, the Vijitpongpun family was PSH's largest shareholder, owning a 75% stake. PSH holds a 98.23% stake in PS.

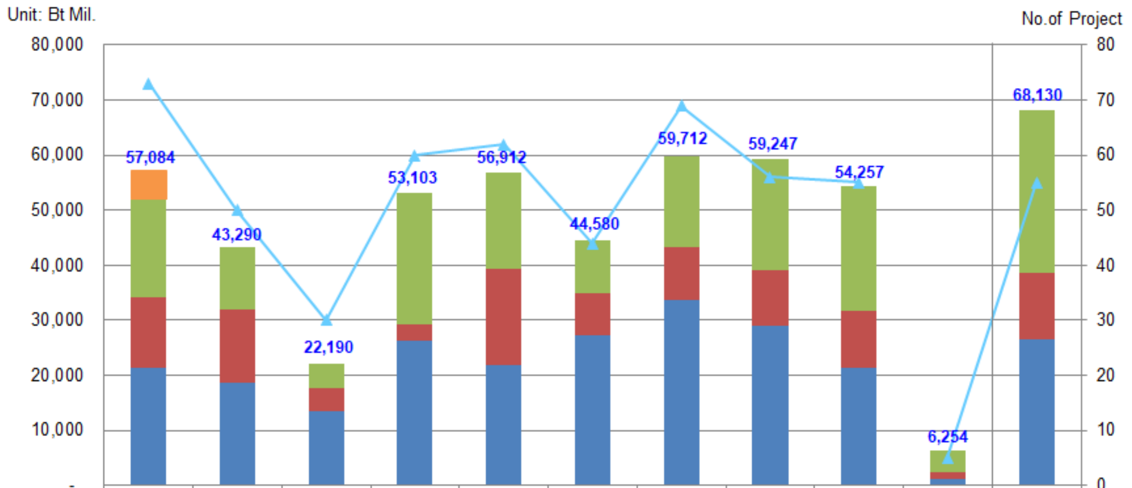
After the reorganization, PSH became a holding company while PS retained its focus on residential property business for sale. All operating assets and key members of the management team remain intact. Since the residential property business will continue to be the major revenue contributor to the Group over the next several years, PS is considered as a "core" subsidiary of the Group. Thus, the company ratings on PS and the Group are equivalent. The organizational structure under PSH will provide more flexibility for the Group to expand into new businesses and facilitate alliances with strategic partners.

PS is the leader in employing precast and prefabrication techniques for constructing its residential projects. The company owns precast factories and manages the construction of most residential projects by itself. PS's main focus is the middle-to low-end segment of the residential property market. Furthermore, PS is expanding its product portfolio into the high-end segment.

PSH is also expanding into the healthcare business. The company set up its healthcare subsidiary, "Vimut Hospital Holding Co., Ltd.", to invest in a private hospital. The investment cost for this flagship hospital is around Bt5,000 million during 2017-2021.

KEY OPERATING PERFORMANCE

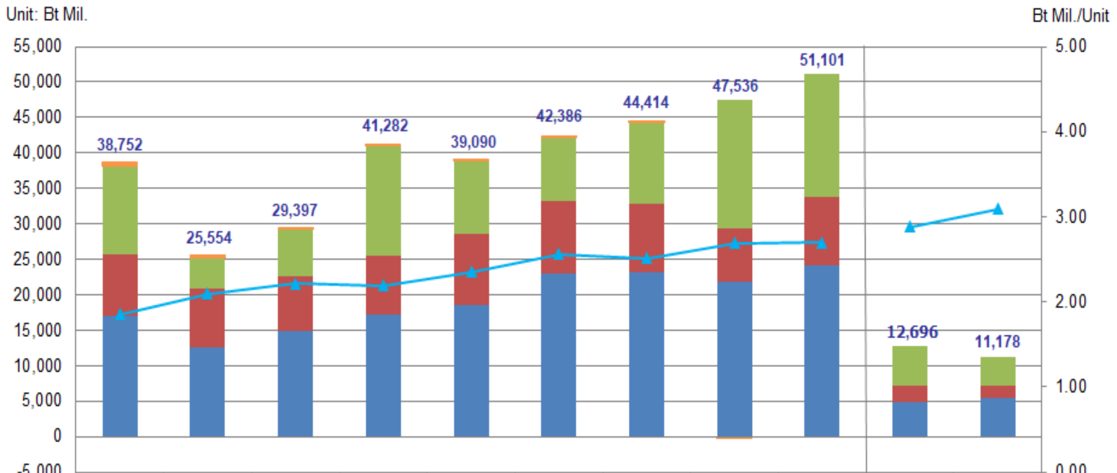
Chart 1: New Residential Project Launches



	2010	2011	2012	2013	2014	2015	2016	2017	2018	3M19	2019P
International (LHS)	5,170										
Condominium (LHS)	17,703	11,418	4,435	23,897	17,481	9,611	16,363	20,125	22,486	3,976	29,500
SDH (LHS)	12,910	13,200	4,322	2,996	17,509	7,598	9,763	10,180	10,311	1,176	12,100
Townhouse (LHS)	21,301	18,672	13,433	26,210	21,922	27,371	33,586	28,942	21,460	1,101	26,530
No. of project (RHS)	73	50	30	60	62	44	69	56	55	5	55

Source: PS

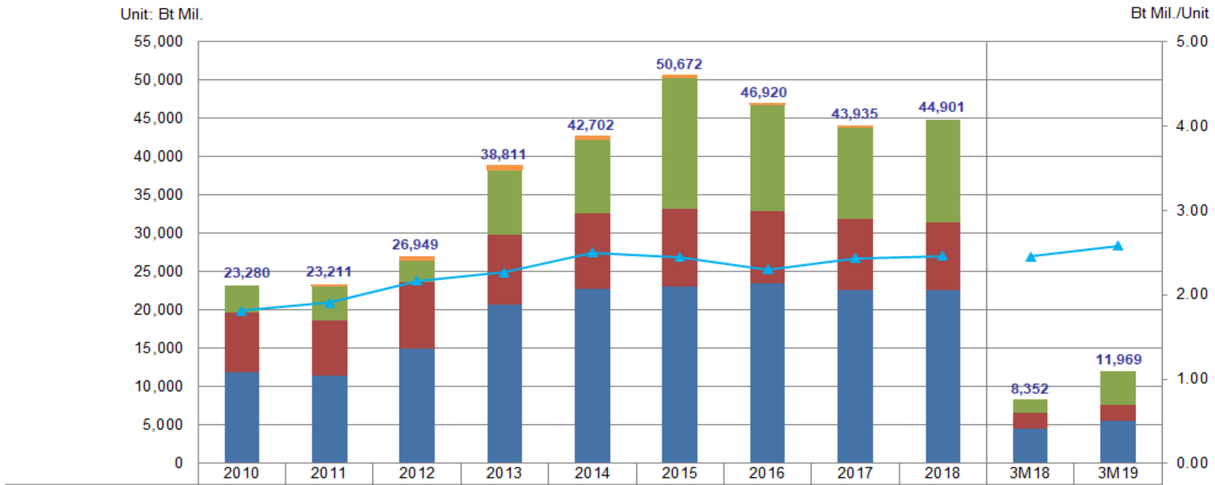
Chart 2: Presales Performance



	2010	2011	2012	2013	2014	2015	2016	2017	2018	3M18	3M19
International (LHS)	698	378	116	227	232	241	72	(1)			
Condominium (LHS)	12,340	4,265	6,730	15,502	10,190	8,950	11,497	18,093	17,228	5,450	3,959
SDH (LHS)	8,682	8,435	7,655	8,355	10,039	10,119	9,643	7,693	9,756	2,459	1,792
Townhouse (LHS)	17,032	12,476	14,896	17,198	18,630	23,075	23,202	21,751	24,118	4,787	5,428
Avg. Price (RHS)	1.9	2.1	2.2	2.2	2.4	2.6	2.5	2.7	2.7	2.9	3.1

Source: PS

Chart 3: Transfer Performance



	2010	2011	2012	2013	2014	2015	2016	2017	2018	3M18	3M19
International (LHS)		81	429	497	441	278	129	13			
Condominium (LHS)	3,608	4,487	2,837	8,450	9,694	17,236	13,849	12,068	13,411	1,817	4,276
SDH (LHS)	7,723	7,140	8,775	9,195	9,776	10,135	9,413	9,159	8,924	1,988	2,183
Townhouse (LHS)	11,948	11,503	14,908	20,669	22,791	23,023	23,529	22,694	22,566	4,547	5,510
Avg. Price (RHS)	1.8	1.9	2.2	2.3	2.5	2.4	2.3	2.4	2.5	2.5	2.6

Source: PS

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		------Year Ended 31 December ------		
	Jan-Mar 2019	2018	2017	2016
Total operating revenues	11,909	45,071	44,118	47,174
Operating income	2,483	8,578	7,896	8,419
Earnings before interest and taxes (EBIT)	2,419	8,383	7,820	8,324
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,619	9,094	8,327	8,893
Funds from operations (FFO)	1,959	6,750	5,974	6,597
Adjusted interest expense	159	788	771	818
Real estate development investments	72,061	71,960	63,791	59,838
Total assets	83,553	81,845	72,244	66,344
Adjusted debt	27,493	29,356	25,589	23,189
Adjusted equity	43,584	41,874	38,660	36,164
Adjusted Ratios				
Operating income as % of total operating revenues (%)	20.85	19.03	17.90	17.85
Pretax return on permanent capital (%)	13.28**	12.13	12.44	13.92
EBITDA interest coverage (times)	16.51	11.54	10.80	10.87
Debt to EBITDA (times)	2.67**	3.23	3.07	2.61
FFO to debt (%)	28.02**	22.99	23.34	28.45
Debt to capitalization (%)	38.68	41.21	39.83	39.07

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015
- Rating Methodology – Corporate, 31 October 2007

Pruksa Holding PLC (PSH)

Company Rating:	A
Issue Ratings:	
PSH215A: Bt4,750 million guaranteed debentures due 2021	A
PSH223A: Bt3,500 million guaranteed debentures due 2022	A
PSH235A: Bt750 million guaranteed debentures due 2023	A
Rating Outlook:	Stable

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