PRE-BUILT PLC

No. 17/2018
20 February 2018

CORPORATES

Company Rating:	BBB
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
11/04/17	BBB	Stable
30/06/14	BBB-	Stable

Contacts:

Auyporn Vachirakanjanaporn

auyporn@trisrating.com

Rapeepol Mahapant

rapeepol@trisrating.com

Monthian Chantarklam

monthian@trisrating.com

RATIONALE

TRIS Rating affirms the company rating of Pre-Built PLC (PREB) at "BBB" with "stable" outlook. The rating reflects the company's long track record of constructing high-rise buildings, steady profitability, and ample financial flexibility. These strengths are partially offset by the high concentration risk in the end-markets PREB serves, the cyclical nature of the engineering and construction (E&C) industry, and stiff competition.

KEY RATING CONSIDERATIONS

Long track record

PREB's business profile is acceptable, backed by a long track record. PREB has built many high-rise buildings in a number of end-use segments, such as residential property, commercial property, hotels, and industrial projects.

PREB has the capability to construct industrial plants and public works (infrastructure projects) as well as take on system and design work. However, the company remains focused on the construction of residential property projects. PREB's customer base largely comprises reputable property developers, most of which are listed on Stock Exchange of Thailand (SET).

PREB constructs condominium projects, chiefly in Bangkok and in prime areas outside the metropolitan area. Property developers launch a significant number of new condominium projects each year. As a result, PREB has been awarded construction contracts from several property developers. The value of the new contracts awarded ranged between Bt4-Bt8 billion per year during 2012-2016. For the first nine months of 2017, PREB has racked up Bt4.4 billion in new contracts.

Steady profitability

PREB uses pre-cast concrete system technology in its building projects. By using this technology, PREB can control the construction costs and the project timelines, two crucial factors for success. PREB can maintain good profitability amidst tough competition. For example, PREB's revenue declined in its core construction segment in 2015 and 2016. However, the gross profit margin remained at double-digit percentages in both years.

PREB's operating performance for the first nine months of 2017 was slightly better than TRIS Rating's expectation. The gross profit margin of the construction segment remained at around 14%, after a resurgence in revenue.

PREB completed the divestiture of Built Land PLC and its property development business in May 2017. The divestiture pushed the overall gross profit margin below 20% for the first nine months of 2017, compared with 26% in 2016. The gross profit margin of the property development segment is generally higher than the construction segment. That said, the overall gross profit margin achieved beat TRIS Rating's estimate.

TRIS Rating's forecast assumes the gross profit margin from the construction segment will remain above 10% over the next three years. The overall gross profit margin will drop further in 2018 but will steadily increase from 2019 onward. Sales of residential property will boost the profit margin.

High concentration risk

The construction segment accounted for the vast majority of total revenue over the past several years with one exception. In 2016, PREB recognized a sizable amount of revenue from selling its largest condominium project. Looking ahead, construction segment will remain the company's centerpiece, contributing more than 80% of revenue.

Most of PREB's construction projects are condominium projects. PREB is highly reliant on a few large customers. For the past three years, four clients, Ananda Development PLC (ANAN), a Pra Dhammakaya-related foundation, Quality Houses PLC (QH), and Raimon Land PLC (RML) were PREB's largest customers. Each client accounted for 20%-35% of total revenue each year. As of September 2017, the biggest clients were ANAN and Thammasat University. The projects for these two large clients made up about 60% of the value of PREB's project backlog. This level of customer concentration risk keeps a lid on the rating. However, the risk is somewhat alleviated because the major customers are creditworthy. Payment risk is acceptable.

The rating also takes into consideration the cyclical nature of the E&C industry, such as the recent drop-off in demand for condominiums. Stiff competition also poses a downside risk.

Ample financial flexibility

PREB's financial profile is acceptable. The debt to capitalization ratio declined sharply to 9.4% at the end of 2016. PREB recognized a substantial amount of revenue and profit when it sold its residential properties. PREB was debt-free at the end of September 2017. The divestiture of Built Land PLC, PREB's property development arm, meant PREB could unload the debts of the subsidiary as well. The divestiture brought in a substantial amount of funds. PREB can invest in other ventures through Pre-Built Holding Co., Ltd., another subsidiary. The sizable amount of cash also provided more financial flexibility.

Leverage is expected to rise again once PREB commences developing new residential property projects. Looking ahead, gearing is bound to rise. However, TRIS Rating does not expect explosive growth in PREB's property development segment. Although leverage may rise, PREB's ample liquidity and conservative financial policies will offset the increases.

During 2018-2020, financial leverage is expected to increase slightly as PREB develops more residential property projects. In all, leverage should stay manageable. When assessing the credit rating, TRIS Rating includes the debts of associated companies which are property developers. PREB has potential exposure because it is the shareholder and guarantor of the associated companies. The financial profile as reported does not fully reflect PREB's debt exposure.

Solid liquidity profile

PREB's liquidity profile is strong. As of September 2017, cash and short-term investments amounted to Bt2.5 billion. Funds from operations (FFO) over the next 12 months are forecast at around Bt300 million. Cash flow protection, as measured by the FFO to total debt ratio and the EBITDA (earnings before interest, tax, depreciation, and amortization) interest coverage ratio, should stay high over the next three years.

RATING OUTLOOK

The "stable" outlook reflects the expectation that PREB will sustain its competitive edge in its core business. Profitability and the financial profile are stay forecast to meet expectations. In the base case scenario, TRIS Rating assumes revenue will be Bt4.5-Bt5.5 billion per annum during 2018-2020. The operating margin (operating income before depreciation and amortization as a percentage of sales) will range from 6%-9%. The FFO are forecast at Bt300-Bt400 million per annum. Financial leverage is expected to increase slightly as PREB starts to develop more property projects. Despite the light rise, leverage should stay manageable. The debt to capitalization ratio (including the amount of debt incurred by associated companies with respect to the portion PREB has guaranteed) is expected to stay below 30% over the next three years.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term. Two positive factors for the rating are: rises in revenue and profitability for a sustained period, and leverage remaining prudent.

In contrast, the rating and/or outlook could be lowered if the company's competitive position slips. A downgrade would be possible if revenue and profitability decline or if the investments in property development segment cause the debt level to rise and the capital structure to deteriorate considerably.

COMPANY OVERVIEW

PREB was established in 1995 by the Charoentra family, AP (Thailand) PLC (AP), and the Quest Capital Group. The company is a general contractor focusing on the construction of high-rise buildings for private sector clients. PREB was listed on the

SET in 2005. As of September 2017, the founding Charoentra family was the company's largest group of shareholders, owning 26.3% of the total number of shares.

PREB expanded into the production and distribution of construction materials in 2004, through a wholly-owned subsidiary, PCM Construction Material Co., Ltd. (PCM), under the "PCM" brand. PCM produces precast concrete. In 2009, PREB established a wholly-owned subsidiary, Built Land PLC, to develop residential property projects. Built Land develops condominium and townhouse projects. The property development segment boosted PREB's profit margin at the cost of an elevated level of debt.

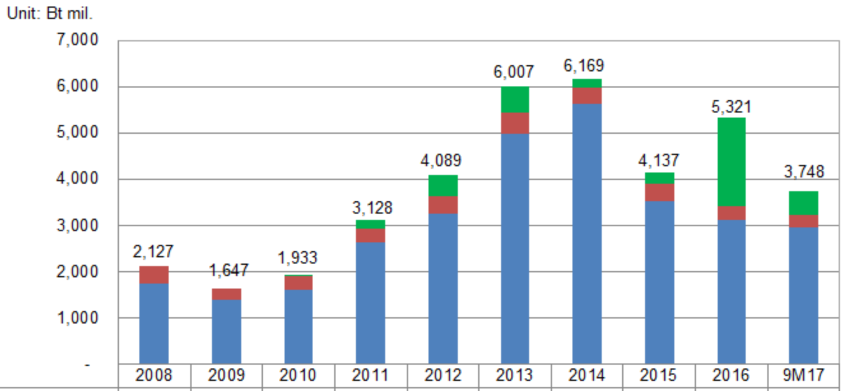
In 2017, PREB made a significant change in strategy by divesting Built Land for around Bt900 million. PREB recorded a gain of Bt289 million from the divestiture, leaving the company with a debt-free balance sheet and a considerable amount of cash. PREB now aims to develop other residential property projects, primarily through joint ventures with other property developers. TRIS Rating is of the view that this strategy will build PREB's backlog, bring in profit from the sale of property, and let the company shoulder less debt.

In March 2017, PREB set up Pre-Built Holding Co., Ltd., a wholly-owned investment vehicle. Pre-Built Holding started developing residential property project in mid-2017. The company, in collaboration with Premium Place Group Co., Ltd., a property developer, has started to develop a low-rise condominium project located near the BTS Green Line (Sena Nikhom station). The project is worth about Bt1.5 billion. P&P Asset Group Co., Ltd, the developer, is 49% owned by Pre-Built Holding and 51% by Premium Place Group. PREB is the contractor for the project.

PREB's major source of revenue is the construction segment. This segment has accounted for 80%-90% of revenue each year since inception. The balance is from the sales of construction materials and residential properties. Revenue from the residential property segment jumped to 35.6% of total revenue in 2016, because PREB's largest condominium project, TEMPO Grand Sathorn-Wuttakard, started transferring finished units to customers. Looking ahead, construction segment should remain the company's main source of revenue.

KEY OPERTING PERFORMANCE

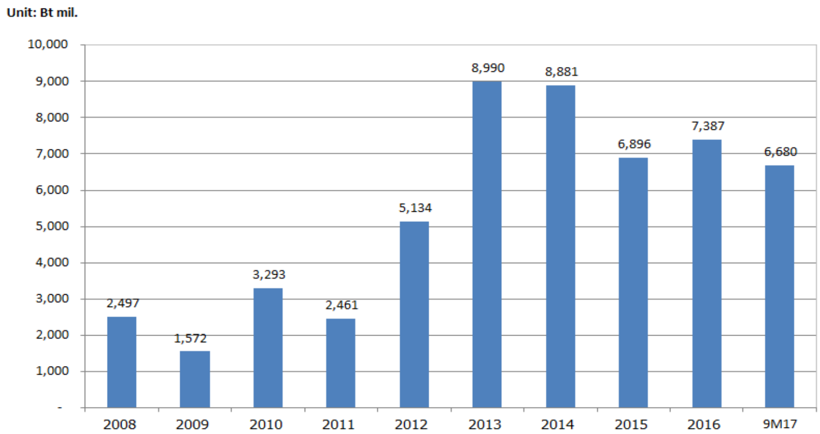
Revenue Breakdown



	2008	2009	2010	2011	2012	2013	2014	2015	2016	9M17
Residential property	-	-	30	193	464	582	199	239	1,895	514
Sales of construction materials	372	256	285	290	371	451	357	366	309	268
Construction	1,756	1,391	1,618	2,645	3,254	4,974	5,612	3,532	3,117	2,965

Source: PREB

Backlog as of September 2017



Source: PREB

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Sep 2017	------------- Year Ended 31 December --------- 2016	2015	2014	2013
Revenue	3,748	5,321	4,137	6,169	6,007
Finance cost	4	39	27	9	1
Net income from operations	320	788	303	306	261
Funds from operations (FFO)	332	936	442	351	190
Capital expenditures	13	24	19	43	107
Total assets	4,610	5,056	5,253	4,744	4,276
Total debts	0	211	821	501	107
Total liabilities	2,579	3,016	3,845	3,453	3,168
Shareholders' equity	2,031	2,040	1,409	1,291	1,109
Depreciation & amortization	34	50	52	49	44
Dividends	309	154	185	123	9
Operating income before depreciation and amortization as % of sales	14.48	19.35	9.35	6.03	5.76
Pretax return on permanent capital (%)	41.09 **	46.09	20.34	26.12	30.60
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	153.70	27.66	17.35	48.41	290.28
FFO/total debt (%)	n.a.**	442.57	53.88	70.02	178.45
Total debt to capitalization	0	9.39	36.81	27.94	8.78

* *Consolidated financial statements*
** *Annualized with trailing 12 months*
n.a. *Not available*
Note: *Financial performance as of September 2017 was adjusted by including property development business.*

Pre-Built PLC (PREB)

Company Rating:	BBB
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000