

# SENA DEVELOPMENT PLC

No. 12/2018

12 February 2018

## CORPORATES

**Company Rating:** BBB-  
**Outlook:** Stable

### Company Rating History:

Date	Rating	Outlook/Alert
11/11/14	BBB-	Stable

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## RATIONALE

TRIS Rating affirms the company rating of Sena Development PLC (SENA) at “BBB-”. The rating reflects the company’s acceptable track record in the middle- to low-income segment of the residential property market, its improving revenue base, and relatively high profitability. The company has moved to higher-priced products to expand its project portfolio since 2015. The success of its expansion, therefore, remains to be seen. The supportive factors are partly offset by SENA’s rapid business expansion, which may raise financial leverage and lower cash flow protection over the next three years. The rating also takes into consideration the cyclical and competitive environment in the residential property development business and the concern over the high level of household debt nationwide which impacts the affordability of homebuyers, especially in the middle-to-low income segment.

## KEY RATING CONSIDERATIONS

### Acceptable track record in middle-to-low income residential property segment

SENA has been in residential property business since 1993. The company focuses on the residential property segment pricing Bt1-Bt5 million per unit for condominium and Bt5-Bt10 million per unit for housing. Its products comprise condominium projects, sold under The Niche, Sena Eco Town, and The Kith brands; SDH projects under the Sena Park Grand, Sena Park Ville, and Sena Ville brands; as well as townhouse and commercial property projects under the Sena Town and Sena Shophouse brands. SENA has completed a number of condominium and housing projects since inception. The brand names are perceived by customers as long-established products, offered at affordable prices. Although its customer base is still limited, SENA focuses on middle-to low-income segment which is the largest customer base in the residential property market. As of December 2017, the company had 25 projects with 3,700 units available for sale. The backlog was worth around Bt2,800 million (excluding the backlog units under joint venture (JV) project worth Bt2,000 million).

### Larger revenue base, with relatively high profitability level

SENA’s revenue base improved from around Bt2,000-Bt3,000 million per annum during 2013-2015 to Bt4,006 million in 2016. Transfers of condominium units in The Niche Mono Ratchavipha project drove the growth. Revenue in the first nine months of 2017 decreased by 8% year-on-year (y-o-y) to Bt2,954 million since few condominium units were transferred to customers during this period. However, revenue for full year of 2017 is expected to reach around Bt5,000 million, driven mainly by the transfer of several condominium projects, including The Niche Pride Thonglor-Petchaburi project, and a higher contribution from the company’s solar energy business.

Despite the fluctuation of its profitability over the last couple of years, SENA’s profitability was considered high compared with the rated peers. SENA’s operating margin ranged from 18%-25% during 2013-2016, compared with an average of 15%-17% for rated peers. The operating margin dropped to 16% in the first nine months of 2017 due to the lower gross profit margin on a land plot sold to a JV company. The JV is owned by SENA (51%) and Hankyu Realty (49%). However, the gross profit margin of its residential sales remained strong at around 40%. Going forwards, the operating margin may be under pressure

by rising competition among large players in the residential property market. However, the operating margin is forecast to hold at around 15%-20%.

#### **Aggressive expansion over the next three years may lead to higher leverage and weaker cash flow protection**

SENA plans to increase its revenue base to around Bt9,000 million by 2020. SENA spent around Bt1,500 million to purchase land plots in 2017. The company also launched nine residential projects (including one condominium project as a JV) worth a total of Bt9,100 million in 2017. Presales jumped to Bt6,322 million in 2017 from Bt3,700-Bt3,800 million per year during 2015-2016. Over the next three years, the land acquisition budget will be Bt2,000-Bt3,600 million per annum. The company plans to launch 15-18 new residential projects, including three condominium projects under the JV, worth Bt23,000 million, in 2018. The investment amount is much higher than in the past. However, SENA carefully manages its investment policy in order to comply with its financial discipline. In addition, the company will shift its target to the segment with higher prices since the affordability of buyers in this segment remains strong.

Despite its JV with Hankyu Realty will help partially relieve its capital needs, SENA's funding need to pursue its growth plan remains significant. Thus, SENA's leverage is expected to rise. Its adjusted debt to capitalization ratio (adjusted for proportionated debt from the JV projects) is expected to increase to around 60%-65% over the next three years. The ratio of funds from operations to adjusted total debt is expected to drop sharply to around 5%. Earnings may not grow fast enough to match the rapid rise in the debt level. In addition, the success of the newly launched projects remains to be seen.

#### **Higher income from solar energy and commercial property businesses, but the amount remained minimal**

SENA started commercial operation of the solar farms in late 2015. The company sold 72 million kilowatt hours (KWh) per year of electricity to the Provincial Electricity Authority (PEA) during 2016-2017. The solar farms generated revenue of around Bt400 million per annum and an earnings before interest, tax, depreciation, and amortization (EBITDA) margin of 90% of total revenue during 2016 through the first nine months of 2017. SENA's share of the profit from the solar farms was Bt57 million in 2016 and Bt53 million in the first nine months of 2017. Revenue from the engineering, procurement, and construction (EPC) work and the solar rooftops on the warehouses was Bt37 million in 2016 and increased to Bt57 million in the first nine months of 2017. Higher contribution from the solar energy business will help improve the stability of its earnings and will benefit its credit profile.

The revenue contribution from the commercial property, including SENA Fest community mall, serviced apartments, and a rental warehouse, was Bt160 million in 2016 and Bt190 million in the first nine months of 2017. The company also joined with Aira Property Co., Ltd. and Sangfah Construction Co., Ltd. to construct a grade-A office building on Phayathai road. The investment cost was around Bt2,000 million. SENA holds 25% of this project. The project will be complete in mid-2020.

#### **Exposed to cyclical and highly competitive residential property business**

The residential property market closely follows trends in the overall economy. However, the volatility in this market is much more pronounced than in the general economy. A recent slowdown in domestic economy, coupled with a rising level of household debt nationwide, has raised concerns over the affordability of homebuyers, especially in the low-income segment. Thus, several property developers have shifted their focus toward the higher-income segment, making competition in this segment more intense.

#### **Acceptable liquidity profile**

SENA's liquidity is acceptable. At the end of December 2017, the company had Bt760 million in cash plus undrawn unconditional project loans from financial institutions of Bt2,200 million. Funds from operations (FFO) over the next 12 months is forecast at around Bt800 million. Debt due over the next 12 months amounts to about Bt1,900 million, comprising Bt800 million in debentures, Bt100 million in project loans, Bt600 million in short-term promissory notes (P/Ns), and Bt400 million in short-term bills of exchange (B/Es).

SENA plans to refinance all the maturing bonds with new bond issues. Project loans will be repaid with cash flow from the transfers of residential units. Short-term P/N as a bridging loan for land purchase will be converted to long-term project loans. SENA plans to roll over or repay short-term B/E depending on cash flow at that time. However, the company will maintain adequate back-up credit facilities from financial institutions to cover the outstanding B/Es.

According to the key financial covenants on its bank loans, the company has to maintain its total liabilities to total equity ratio at lower than 1.5 times. The ratio at the end of September 2017 was 1.38 times. Thus, the company was in compliance with its financial covenants. However, the company has to carefully manage its capital structure to prevent the breach of its financial covenants since its cushion is quite limited.

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**RATING OUTLOOK**

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The “stable” outlook reflects the expectation that SENA will be able to develop and deliver its existing and future projects as targeted. With its aggressive business expansion, SENA’s debt burden is expected to increase. Under TRIS Rating’s base case, SENA’s revenue base should range between Bt5,000-Bt7,000 million per annum over the next three years. TRIS Rating expects SENA’s presales over the next three years will reach Bt8,000-Bt11,000 million per annum. Revenue from condominium projects will comprise 60%-65% of total revenue. Revenue from project management, solar energy, and rental business will account for the rest. The adjusted debt-to-capitalization ratio is expected to rise but should be maintained at lower than 65% or the interest-bearing debt to equity ratio should stay below 2 times. The operating margin should hold at 15%-20%.

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**RATING SENSITIVITIES**

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SENA’s rating and/or outlook could be revised upward should the company successfully expand its business while its financial profile does not significantly deteriorate from the target levels. On the contrary, a significant decline in operating performance and/or financial position during expansion periods could lead to a rating downgrade and/or an outlook revision.

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**COMPANY OVERVIEW**

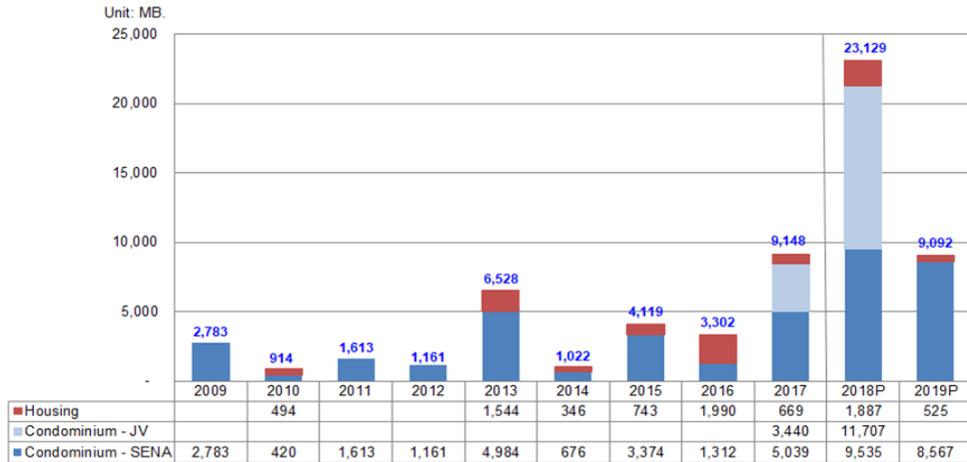
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SENA was established by Mr. Theerawat Thanyalakphark in 1993 and listed on the Stock Exchange of Thailand (SET) in 2009. As of August 2017, the Thanyalakphark family continued to be the company’s largest shareholder, owning a 50% stake. SENA focuses on the residential property development business. Its products cover condominiums, single detached houses (SDH), twin houses, townhouses, and commercial units. SENA’s products mainly target the middle-to low-income segment, with an average unit price of Bt2 million for condominium units and Bt5.9 million for housing units.

As of December 2017, SENA’s portfolio consisted of 14 condominium projects wholly-owned by SENA, one condominium project developed under JV, and 10 housing projects, worth a total value of Bt21,600 million. Across the entire portfolio, the projects were 57% sold and 35% transferred. SENA had remaining unsold units (including built and un-built units) worth Bt7,800 million (excluding unsold units under JV project worth Bt1,400 million) available for sale and a backlog worth Bt2,800 million (excluding backlog under JV project worth Bt2,000 million). The backlog will partly secure future revenue stream during 2018-2019.

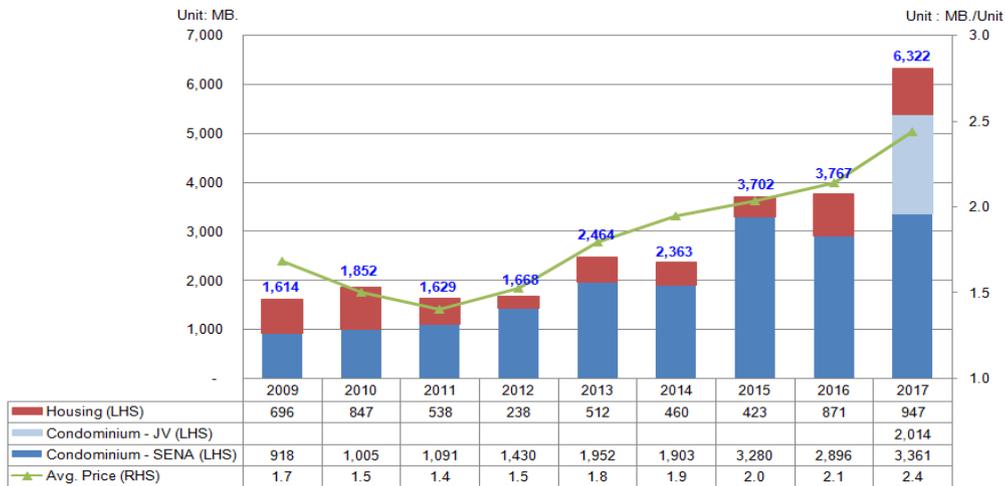
**KEY OPERATING PERFORMANCE**

**New Residential Project Launches**



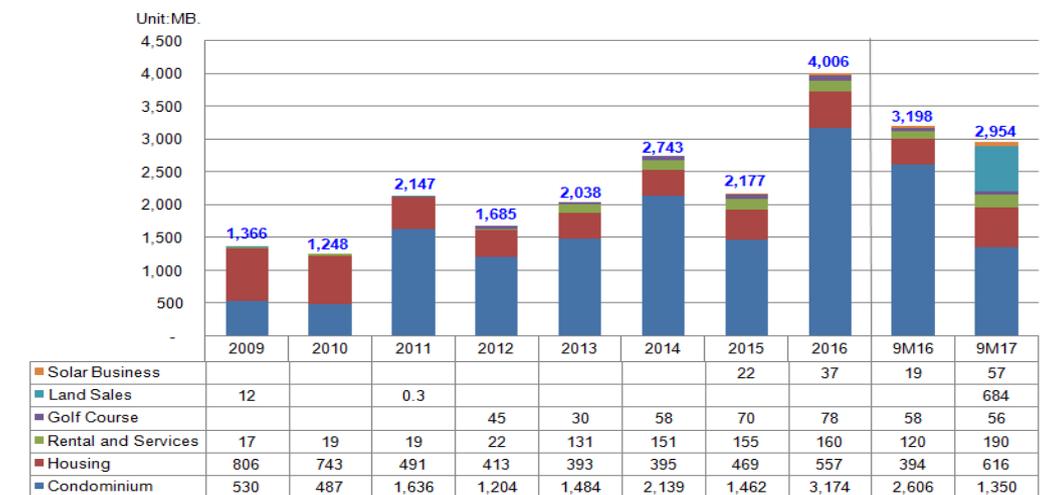
Source: SENA

**Presales**



Source: SENA

**Revenue Breakdown**



Source: SENA

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***
*Unit: Bt million*

	Jan-Sep 2017	----- Year Ended 31 December -----			
		2016	2015	2014	2013
Revenue	2,954	4,006	2,177	2,743	2,038
Gross interest expense	121	130	137	160	147
Net income from operations	310	763	254	435	270
Funds from operations (FFO)	332	770	215	414	288
Inventory investment	(935)	985	(922)	(577)	(578)
Total assets	10,262	7,633	8,136	6,709	5,641
Total debts	4,640	3,007	3,996	3,437	2,739
Adjusted debts	5,132	3,007	3,996	3,437	2,739
Shareholders' equity	4,310	4,048	3,541	2,776	2,415
Operating income before depreciation and amortization as % of sales	16.12	24.74	17.94	22.69	20.16
Pretax return on permanent capital (%)	7.31 **	14.21	5.13	10.40	8.62
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.22	9.31	3.43	4.53	3.18
FFO/total debt (%)	9.06 **	25.60	5.39	12.06	10.51
Total debt/capitalization (%)	54.36	42.62	53.02	55.32	53.15
Total debt/capitalization (%) ***	51.84	42.62	53.02	55.32	53.15

*Note: All ratios have been adjusted by proportionated debt from JVs since 2017 onwards.*

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

\*\*\* Excluding proportionate debt from JVs

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**Sena Development PLC (SENA)**

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<b>Company Rating:</b>	BBB-
<b>Rating Outlook:</b>	Stable

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