

AREEYA PROPERTY PLC

No. 186/2021
28 October 2021

CORPORATES

Company Rating: BB-
Outlook: Negative

Last Review Date: 20/10/20

Company Rating History:

Date	Rating	Outlook/Alert
20/10/20	BB-	Stable
30/12/19	BB	Negative
04/01/18	BB	Stable
30/12/16	BB+	Negative
13/01/15	BB+	Stable
10/01/14	BBB-	Negative
13/03/13	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Areeya Property PLC (Areeya) at “BB-” and revises the outlook downward to “negative” from “stable”. The “negative” outlook reflects TRIS Rating’s concerns over Areeya’s weaker-than-expected operating performance and heightened liquidity risk.

The rating continues to reflect the company’s small revenue base and high financial leverage. The rating also takes into consideration our concerns over the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, which continues to put pressure on the domestic economy and demand for residential properties.

KEY RATING CONSIDERATIONS

Weaker-than-expected operating performance

Areeya’s operating performance was weaker than TRIS Rating’s previous forecast. Although its sales were in line with our forecast, the weaker gross profit margin coupled with high interest expenses caused its net profit in 2020 to total only THB195 million, about half of our forecast. The company also reported a loss of THB84 million in the first half of 2021. The company’s gross profit margin dropped to 24% in 2020 and 22% in the first half of 2021, down from 29%-34% in 2016-2019 and lower than our previous forecast of 26%-29%. The lower margins were mainly due to aggressive price reductions to raise sales and the thin margin of construction management services.

Looking forward, we expect Areeya’s operating revenue in 2021 to be THB3.05 billion, and then recover to the THB4-THB4.3 billion per annum range. However, we expect Areeya’s profitability to continue to be pressured by the intense competition in the industry. Its gross profit margin is expected to stay in the 21%-23% range and earnings before interest, taxes, depreciation and amortization (EBITDA) margin is expected to range between 8%-11% during 2021-2023. Thus, the company could continue to report a net loss over the next couple of years.

Elevated liquidity concern

We assess Areeya to face heightened liquidity risk. Weak operating performance coupled with the large amount of debt due each year has raised concerns over the company’s liquidity. As of June 2021, the company had THB4.76 billion in debt due over the next 12 months, comprising THB3.64 billion in debentures, THB800 million in long-term loans, THB120 million in bills of exchange (B/Es), and THB200 million in promissory notes (P/Ns). Areeya’s sources of liquidity are quite limited. As of June 2021, the company had THB183 million in cash, THB39 million in undrawn committed credit facilities, and THB429 million in unencumbered assets, which could be pledged as collateral for new credit facilities.

Areeya has already refinanced THB2 billion of secured debentures due in October 2021. The company plans to refinance THB1.47 billion of debentures due in January 2022 and THB167 million due in February 2022 with new bond issues. The new debentures will be secured with collateral from the matured issues. However, the weak operating performance of the company coupled with the economic downturn have raised concerns over its refinancing ability.

Small revenue base

We view Areeya's revenue base as comparatively small compared with other rated property developers. Its revenue in 2020 ranked 15th out of the 23 developers rated by TRIS Rating. Areeya's revenue in 2020 was THB5.64 billion, accounting for 2% of the total revenues generated by the 23 rated developers and lower than our previous forecast. The lower revenue was mainly the result of high cancellation rates in the "Chalermnit" condominium project and the adverse impacts of COVID-19. Revenue during the first half of 2021 declined further by 14% year-on-year (y-o-y) to THB1.67 billion due to the resurgence of the COVID-19 pandemic and the absence of new project launches during the period.

Looking forward, Areeya's revenue from residential sales is expected to range between THB2.5-THB3.9 billion per annum, while revenues from construction management services will be THB460-THB570 million per annum during 2021-2023. As of June 2021, the company's total backlog stood at THB858 million. Around THB769 million of the backlog is scheduled to transfer in the second half of 2021, and the remaining THB89 million in 2024. Due to the small size of its backlog, Areeya's revenue will rely heavily on the company's ability to generate new sales from new and existing projects. As of June 2021, Areeya had 35 active projects. The remaining value of unsold units (both built and un-built) was around THB20.87 billion, comprising single detached houses (SDH; 20%), townhouses (TH; 25%), and condominiums (55%). About 17% of the remaining condominiums value was completed and ready to transfer. Areeya plans to launch landed property project worth THB833 million in the last quarter of this year, and new landed property projects worth THB1.8 billion and condominium projects worth THB5.8 billion in 2022.

High financial leverage

TRIS Rating expects Areeya's debt to capitalization ratio to hang above 70% over the next three years. Areeya's weaker-than-expected operating performance amid the COVID-19 pandemic drove the company's leverage higher. The erosion of retained earnings from a net loss caused further deterioration to its capital structure. The company's debt to capitalization ratio rose to 71% as of June 2021, higher than our previous forecast of below 70%. The financial covenant on AREEYA's debt obligations requires the company's net interest-bearing debt to equity ratio to remain below 3 times. The ratio at the end of June 2021 was 2.06 times. We expect the company to prudently manage its capital structure to comply with the financial covenants over the next 12 months. The company's cash flow protection remains weak with the funds from operations (FFO) to total debt ratio at 0.3% in the first half of 2021.

In our base-case forecast, we project Areeya's debt to capitalization ratio to be around 70%-73% in 2021-2023. The FFO to debt ratio is forecast to stay in the -2% to -4% range and EBITDA interest coverage ratio to fall below 1 time during the same period. The base case incorporates Areeya's plan to launch landed property project worth THB833 million in the last quarter of this year, and to launch new residential property projects worth THB7.6 billion in 2022. The budget for land is expected to be around THB230-THB450 million per annum over the next three years. Our forecast also includes a land purchase from the directors worth of THB204 million with 100% debt financing in October 2021.

As of June 2021, AREEYA had THB7.71 billion in debt, including THB7.18 billion of secured debt. Thus, AREEYA's priority debt to total debt ratio was 93%. As AREEYA's priority debt ratio is higher than the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", we view that its unsecured creditors are in a significantly disadvantaged position with respect to claims against the company's assets.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base case forecast for AREEYA's operations during 2021-2023:

- AREEYA to launch landed property projects worth THB833 million in the last quarter of 2021. In 2022, AREEYA plans to launch new residential property projects worth THB7.6 billion, comprising new landed property projects worth THB1.8 billion and condominium projects worth THB5.8 billion.
- Budget for land acquisition to be THB230-THB450 million per annum in 2021-2023.
- Operating revenue to range from THB3-THB4 billion per annum during 2021-2023.
- Gross profit margin to range from 21%-23% and EBITDA margin from 8%-11% during 2021-2023.

RATING OUTLOOK

The "negative" outlook reflects Areeya's weaker-than-expected operating performance and heightened liquidity risk.

RATING SENSITIVITIES

The rating and/or outlook could be revised upward if the company's operating performance and capital structure improve, with the company's debt to capitalization ratio stays below 70% on a sustained basis and its liquidity concerns are resolved. In contrast, the rating could be revised downward if the company's operating performance and financial profile

show no signs of recovery and significantly deviate from our base-case forecast. The rating could be revised downward multiple notches if the company cannot secure debt refinancing as planned.

COMPANY OVERVIEW

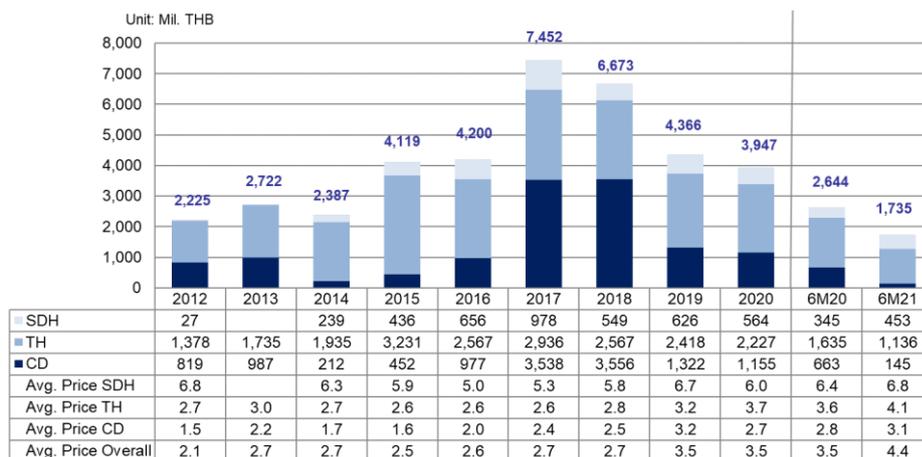
Areeya was established by the Laohapoonrungsee family in 2000 and listed on the Stock Exchange of Thailand (SET) in April 2004. The Laohapoonrungsee family has been the company’s major shareholder since its inception, owning a 46% stake as of June 2021. Mr. Wisit Laohapoonrungsee remains Areeya’s chairman and chief executive officer (CEO).

Areeya offers a wide range of residential property products including single detached houses (SDHs), semi-detached houses (semi-DHs), townhouses, and condominiums. Its products target the middle-income segment. Across Areeya’s product portfolio, the average selling price was THB4.5 million per unit. Townhouses are the company’s main product, contributing more than half of revenue. In 2020, Areeya launched new semi-DH and SDH products under the “Como Bianca” and the “Como Botanica” brand with average selling prices of THB6 million and THB7 million per unit, respectively. The company will launch the “AREN” townhouse brand this year, with prices ranging from THB4-THB5 million per unit.

As of June 2021, Areeya had 35 active projects with a total project value of THB37.44 billion. The value of the remaining unsold units, across all of its active projects, was about THB20.87 billion. About 55% of the value was in condominium projects, 25% in townhouse projects, and 20% in SDH projects. About 17% of the remaining value of condominiums was ready to transfer. Areeya’s backlog stood at about THB858 million as of June 2021.

KEY OPERATING PERFORMANCE

Chart 1: Presales Performance



Source: Areeya

Chart 2: Revenue Breakdown by Product


Source: Areeya

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2021	2020	2019	2018	2017
Total operating revenues	1,670	5,641	2,870	3,929	4,958
Earnings before interest and taxes (EBIT)	137	797	80	396	536
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	159	847	148	464	605
Funds from operations (FFO)	(173)	39	(495)	(154)	(67)
Adjusted interest expense	316	728	675	583	627
Real estate development investments	8,813	9,325	11,834	11,488	10,717
Total assets	12,741	13,144	15,279	14,297	13,510
Adjusted debt	7,881	7,925	9,680	9,713	9,075
Adjusted equity	3,302	3,424	3,253	3,332	3,340
Adjusted Ratios					
EBITDA margin (%)	9.51	15.02	5.16	11.82	12.20
Pretax return on permanent capital (%)	5.89 **	6.35	0.60	3.02	4.17
EBITDA interest coverage (times)	0.50	1.16	0.22	0.80	0.96
Debt to EBITDA (times)	10.09 **	9.35	65.36	20.91	15.00
FFO to debt (%)	0.29 **	0.49	(5.12)	(1.58)	(0.74)
Debt to capitalization (%)	70.47	69.83	74.85	74.46	73.09

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Areeya Property PLC (Areeya)

Company Rating:

BB-

Rating Outlook:Negative

TRIS Rating Co., Ltd.

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