

# ASSETWISE PLC

No. 163/2023  
31 August 2023

## CORPORATES

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

**Last Review Date:** 31/08/22

Company Rating History:		
Date	Rating	Outlook/Alert
31/08/21	BBB-	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Assetwise PLC (ASW) at “BBB-” with a “stable” rating outlook. The rating takes into account ASW’s strengthening position within the middle- to low-priced condominium segment, as well as its considerable backlog. However, the rating is partly constrained by the company’s product segment concentration and its relatively high financial leverage resulting from an aggressive expansion. ASW’s expansion into the landed property segment, coupled with investments in residential properties in Phuket, are expected to help diversify its product portfolio. However, these investments are still at an early stage and will require time to prove their merit.

The rating also takes into consideration our concerns over the imposition of more stringent loan-to-value (LTV) rules this year and interest rate hikes, which could negatively impact demand for housing and the funding costs of developers in the short to medium term.

## KEY RATING CONSIDERATIONS

### Strengthening position in mid- to low-priced condominiums

In TRIS Rating’s view, ASW’s market share, especially in the middle- to low-priced condominium segments, has improved over time. The company’s condominium projects developed under the “Kave”, “Atmoz”, and “Modiz” brands have become well-accepted among college students and young professionals. This is evidenced by ASW’s increasing presales and transfers in the past few years.

ASW’s operating performance during 2022 through the first half of 2023 improved, in line with TRIS Rating’s expectations. Revenue in 2022 reached a record high of THB5.5 billion, up from THB5.0 billion in 2021. In the first half of 2023, revenue was THB2.9 billion, increasing by 6% year-on-year (y-o-y). The company’s earnings before interest, taxes, depreciation, and amortization (EBITDA) margin stayed in the range of 23%-25% during 2022 through the first half of 2023, slightly better than the industry average.

ASW’s presales also increased significantly in 2022. The combined presales, which encompass both joint-venture (JV) projects and the company’s projects, exceeded THB10 billion in 2022. This marks a significant increase from THB4-THB5 billion annually during 2018-2021. Presales in the first half of 2023 maintained their upward trend, reaching THB6.5 billion, representing a 12% y-o-y increase.

### Diversification should help sustain revenue and earnings growth

ASW plans to diversify its property portfolio to cover various product types, price ranges, and locations. The company aims to increase the proportion of landed property projects to around 30% of its portfolio by the end of 2025. ASW plans to launch five landed property projects during the second half of 2023 through the first half of 2024, under the “Arbor”, “Chann”, and “The Honor” brands, with a total project value of THB9-THB10 billion. Its landed property projects cover the mid- to high-priced housing segments with prices ranging from THB3-THB60 million per unit.

ASW has also diversified into the Phuket area. In December 2022, the company invested THB210 million for a 30% stake in Botanica Grand Avenue Co., Ltd. (BGA) to develop luxury villas with a project value of THB9-THB10 billion. In March 2023, ASW acquired a 57.8% stake, worth approximately THB1 billion,

in Rhom Bho Property PLC (TITLE) from a major shareholder to expand the development of condominium projects in Phuket. Currently, TITLE holds around 80 rai of land located on three major Phuket beaches: Bangtao, Naiyang, and Rawai. The company plans to develop nine condominium projects worth approximately THB12-THB14 billion on these land plots over the next three years.

In our view, a diversified portfolio will give the company more flexibility to adjust its products to meet market demand in various locations. This strategy, if successful, will help sustain revenue and earnings growth in the long term. However, its expansion into the landed property segment and its investments in Phuket are still at an early stage and need time to prove their success.

#### **Backlog partly secures future revenues and earnings**

Under TRIS Rating's base case, we project ASW's annual revenue will grow to THB12-THB15 billion in 2024-2025 from approximately THB7-THB8 billion in 2023. Its EBITDA margin is expected to stay in the range of 20%-25%. ASW's revenue and earnings growth is expected to be supported by its sizeable condominium backlog and more project launches over the next 2-3 years. Under ASW's growth strategy, the company plans to launch new projects worth approximately THB22-THB23 billion in 2023, doubling from 2022.

At the end of June 2023, ASW's backlog stood at THB14.5 billion, including THB4.0 billion of backlog under JVs. ASW's backlog is likely to be recognized as revenue of around THB4.4 billion in the second half of 2023, THB4.3 billion in 2024, and the rest in 2025. Backlog from the JV projects will be transferred to customers from this year onwards. Thus, ASW will realize share profit from JV projects of THB130 million in 2023, increasing to THB300-THB330 million per annum during 2024-2025. Currently, ASW has jointly developed six condominium projects worth THB10.6 billion, three projects with Takara Leben Co., Ltd. (Takara), two with Tokyo Tatemono Asia Pte. Ltd. (TTA), and one with a local developer. The JVs are facilitating ASW's growth without the need for heavy capital outlays.

#### **Relatively high financial leverage**

ASW's rapid expansion has led to a significant increase in its debt burden over the past couple of years. As of June 2023, ASW's debt to capitalization ratio (including proportionate debt from JVs) stood at 63.7%, up from 57.5% in 2022 and 42% in 2021. This ratio slightly exceeded our target of 60%. However, we expect the ratio to drop below 60% by the end of 2023 once several condominium projects are completed and transferred in the second half of 2023.

Looking ahead, we project ASW's debt to capitalization ratio to stay in the 55%-60% range during 2024-2025. The ratio of its funds from operations (FFO) to debt could drop below 10% in 2023 but should recover to more than 10% in the following years. Under TRIS Rating's base case, we expect ASW to launch new projects worth around THB15-THB25 billion per annum over the next three years. The budget for land acquisition is set at around THB3.5-THB4.5 billion per annum. According to the covenants on its loan obligations, ASW is obliged to maintain its net interest-bearing debt to equity ratio below 2.5 times. The ratio was 1.6 times at the end of June 2023. We expect ASW to have no problem complying with its financial covenants over the next 12 to 18 months.

#### **Negative impact from interest rate hikes and more stringent LTV rules**

The Bank of Thailand (BOT) has already raised the policy rate four times this year, in January, March, May, and August. We view that rising interest rates will affect not only the funding costs of developers but also the debt servicing capacity of homebuyers, especially those in the middle- to low-income segments. Rising interest rates could also dampen demand from investors as their expected returns would be eroded by higher funding costs. However, due to the higher rental yields of ASW's condominiums in the vicinity of universities, we do not expect the proportion of demand from investors to change much from the current level.

The reimposition of LTV rules could also soften housing demand in the short to medium term. In our view, the LTV rules will generally have a greater impact on the middle- and high-end segments since these buyers may have more than one mortgage contract. However, the impact of LTV measures on ASW is likely to be alleviated to some extent due to some proportion of cash sales, especially from buyers who are investors.

#### **Manageable liquidity**

We view ASW's liquidity as manageable over the next 12 months. As of June 2023, the company's liquidity sources comprised cash on hand of THB799 million and available credit facilities of THB151 million. We forecast the company's FFO over the next 12 months to be around THB1.0-THB1.5 billion. The company also has unencumbered condominium units worth around THB0.5-THB0.6 billion, which can be pledged as collaterals for bank loans if needed.

ASW's uses of funds over the next 12 months will amount to THB2.5 billion, comprising repayments of THB1.1 billion for short-term loans, THB0.4 billion for project loans, and THB1.0 billion for debentures. Short-term loans are mostly for working capital and bridging loans for land purchases which are expected to be converted to project loans over time. Its project loans

will be repaid with cash received from the transfers of finished units to customers. The company might need to partially refinance the debentures that will mature in the next 12 months through the issuance of new debentures.

As of June 2023, ASW's total debt, as per our priority debt calculation, was approximately THB10.2 billion. ASW's priority debt, including secured debts at the company and total debt at the subsidiary levels, was about THB7 billion. This translates to a priority debt to total debt ratio of 69%. As its priority debt ratio was above our threshold of 50%, we view that ASW's senior unsecured creditors could be at a significantly disadvantaged position to its priority debt holders with respect to claims against the company's assets.

#### BASE-CASE ASSUMPTIONS

- ASW to launch new residential projects worth around THB15-THB25 billion per annum (including JV projects) over the next three years.
- Revenue forecast at around THB7.7 billion in 2023, increasing to THB12-THB15 billion per annum in 2024-2025.
- EBITDA margin to stay in the 20%-25% range.
- Land acquisition budget of around THB3.5-THB4.5 billion per annum over the next three years.

#### RATING OUTLOOK

The "stable" outlook reflects our expectations that ASW's financial performance will not significantly deteriorate from our base-case forecast. Despite its aggressive expansion plan, we do not expect ASW's debt to capitalization ratio to rise significantly higher than 55% while its FFO to debt ratio is expected to range from approximately 10%-15% over the next three years.

#### RATING SENSITIVITIES

We could revise the rating and/or outlook upward if the company can enlarge its revenue base and cash flow while maintaining its debt to capitalization ratio at around 50% on a sustained basis. On the other hand, we would revise the rating and/or outlook downward should ASW's financial leverage deteriorate significantly from our base-case forecast, such that its debt to capitalization ratio rises above 60% and/or the FFO to debt ratio falls below 10% for an extended period.

#### COMPANY OVERVIEW

ASW was established in 2005 by the Vipapong Family. The company became a public company in May 2020 and was listed on the Stock Exchange of Thailand (SET) in April 2021. After the initial public offering (IPO), the Vipapong Family continued to be ASW's largest shareholder, holding a 68% stake in the company as of June 2023.

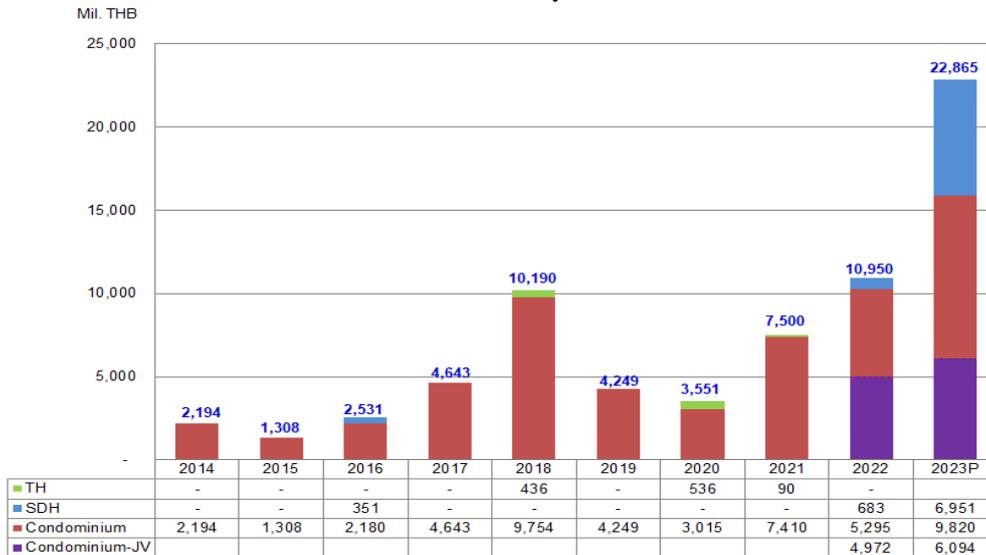
ASW focuses on the middle- to low-end condominium segments. ASW's condominium brands include: "Kave", "Atmoz", and "Modiz". "Modiz" is a middle- to high-income condominium segment brand with selling prices of THB90,000-THB130,000 per square meters (sq.m.). The "Atmoz" brand has selling prices of THB65,000-THB90,000 per sq.m. and the "Kave" brand was introduced to capture the middle- to low-income segments, with selling prices from THB60,000-THB75,000 per sq.m. ASW's condominium projects are located mostly in the Lat Phrao and Ramindra areas. It also has several projects located near universities in the Rangsit and Salaya areas and has expanded its condominium projects into Sri Racha in Chonburi Province.

The company's single detached house projects are developed under the "Esta", "The Arbor", and "The Honor" brands, with unit prices from THB3-THB60 million. Its townhouse projects are developed under brand names like "Glam" and "Baan Puri Puri", with prices ranging from THB10-THB17 million per unit.

ASW began a concerted effort to expand its portfolio in 2022. The company started to develop condominium projects by joining hands with strategic partners in JVs, Takara and TTA, Japanese property developers. ASW holds 51% stakes in the JVs while its partners hold 49%. In 2023, ASW invested in a 30% stake in BGA to develop luxury villas in Phuket. ASW also acquired a 57.8% stake in TITL from a major shareholder to expand the development of condominium projects in Phuket.

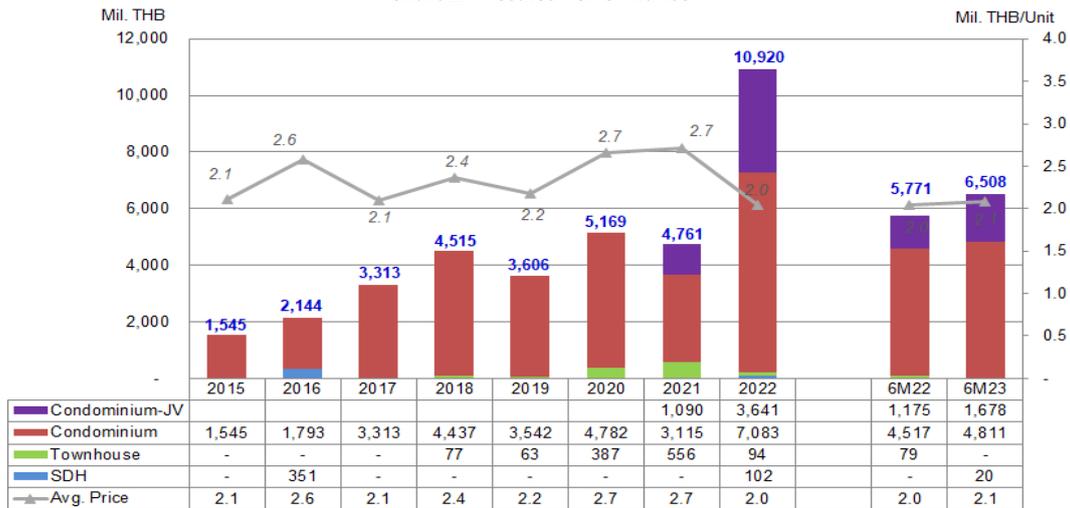
**KEY OPERATING PERFORMANCE**

**Chart 1: Residential Project Launches**



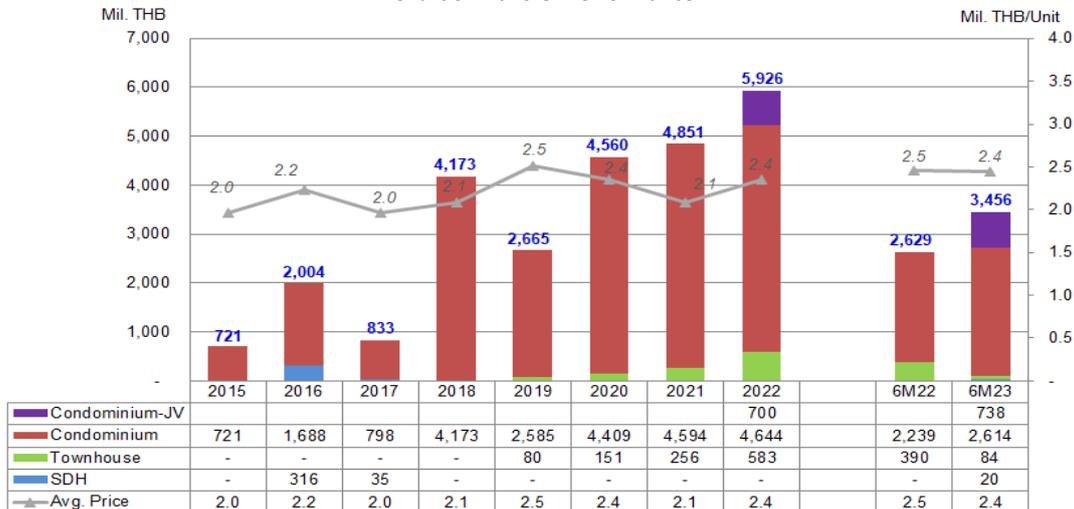
Source: ASW

**Chart 2: Presales Performance**



Source: ASW

**Chart 3: Transfer Performance**



Source: ASW

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	2,892	5,538	4,966	4,228	2,631
Earnings before interest and taxes (EBIT)	625	1,329	1,410	1,142	446
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	686	1,437	1,513	1,191	480
Funds from operations (FFO)	269	817	1,035	726	214
Adjusted interest expense	266	290	179	205	148
Real estate development investments	14,158	11,768	8,289	6,751	5,259
Total assets	18,356	15,537	11,335	8,160	6,860
Adjusted debt	10,467	8,052	3,573	3,757	3,584
Adjusted equity	5,958	5,953	4,937	2,297	1,716
<b>Adjusted Ratios</b>					
EBITDA margin (%)	23.73	25.94	30.46	28.17	18.24
Pretax return on permanent capital (%)	9.05 **	10.88	17.57	19.10	8.68
EBITDA interest coverage (times)	2.58	4.95	8.43	5.80	3.24
Debt to EBITDA (times)	7.40 **	5.60	2.36	3.15	7.47
FFO to debt (%)	6.49 **	10.15	28.97	19.33	5.97
Debt to capitalization (%)	63.73	57.49	41.99	62.06	67.63

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

## RELATED CRITERIA

- Homebuilders and Real Estate Developers Rating Methodology, 12 January 2023
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

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**Assetwise PLC (ASW)**

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

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**TRIS Rating Co., Ltd.**

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