

VILLA KUNALAI PCL

No. 15/2023
22 February 2023

CORPORATES

Company Rating: BB
Outlook: Stable

Last Review Date: 24/02/22

Company Rating History:		
Date	Rating	Outlook/Alert
24/02/22	BB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Villa Kunalai PCL (KUN) at “BB”, with a “stable” rating outlook. The rating reflects the company’s modest business scale; portfolio concentration in terms of number of projects, location, and segmentation; as well as high financial leverage. The rating also incorporates our concerns over the persistently high household debt levels and rising inflation which could impact the purchasing power of homebuyers in the middle- to low-income segments while pushing up development and funding costs for developers.

KEY RATING CONSIDERATIONS

Rating constrained by modest revenue and earnings base

KUN’s revenue and earnings are relatively modest compared with other rated property developers. Its revenue base ranged around THB0.8-THB1 billion in 2020-2022. Given its relatively small capital base, its capacity to expand is quite limited. It will take time to enlarge its business to a level comparable with higher rated peers. In addition, its operating performance is easily affected by changes in customer preferences and market conditions.

Looking forward, we expect KUN’s operating performance to grow in tandem with the domestic economy. Our base case forecasts KUN’s total operating revenue gradually building up to the THB1.0-THB1.4 billion per annum range in the next three years. KUN’s gross profit margins should retain in the 29%-31% range and earnings before interest, taxes, depreciation and amortization (EBITDA) margins in the 15%-20% range. Although inventories from some low-profit projects remain, KUN’s overall profit margin is likely to be enhanced by higher profit margins from better cost control in newly launched and future projects. We expect KUN’s annual EBITDA to increase to THB250-THB300 million in 2023-2025, up from around THB200 million in 2021-2022 and around THB150 million in 2020.

Performance depends heavily on a few projects in limited areas

KUN’s small operational scale with only a handful of active projects in a few locations is a major constrain for its credit profile since any unfavorable response in one or two projects could considerably impact the overall performance of the company. KUN’s residential project portfolio as of December 2022 comprised six on-going projects situated in three locations: the Bang Bua Thong area, Chachoengsao province, and the Bang Khun Thian area. Total unsold project value (including built and unbuilt units) amounted to THB5.2 billion. Of the unsold value, 70% was from a single project in the Bang Khun Thian area while almost all the remainder was from the projects in the Bang Bua Thong area.

KUN’s products target the middle- to low-priced segments, with selling prices ranging THB2-THB6 million per unit. However, KUN intends to diversify its project locations and broaden its customer base by launching projects in new potential areas targeting the higher-priced segment with unit prices of THB6-THB10 million. The company launched “Kunalai Navara Rama II” worth THB3.7 billion in the Bang Khun Thian area in 2022 and plans to launch “Kunalai Navara Rangsit” worth THB6.7 billion in the Rangsit Klomg 2 area this year. With a larger scale than the existing projects, KUN plans to develop these two projects phase by phase to alleviate project risk. In our view, an attempt to diversify its

locations and product price segments, if successful, will be positive for the rating.

High financial leverage but improvement expected from 2023 onwards

We expect KUN's financial leverage to hang at a high level at the end of 2022 following its continued aggressive expansion. During 2021 and 2022, KUN purchased two large land plots in the Bang Khun Thian and Rangsit areas with a total purchasing price of around THB1 billion. With its relatively small capital base, we predict these sizable transactions will push its debt to capitalization ratio above 60% at the end of 2022, from 56% in 2021 and 32% in 2020. Its funds from operations (FFO) to debt ratio is likely to stay below 10% in 2022.

However, we expect KUN's financial leverage to gradually improve from 2023 onwards. This is based on our assumption that KUN will deleverage through a capital increase of THB150 million within 2023. Proceeds from the new capital injection plus the expected growth in revenue and earnings should bring the company's leverage down from the current level. We forecast KUN's debt to capitalization ratio to improve to a level below 60% and its FFO to debt ratio to hover around 10% during 2023-2025.

Our base-case scenario projects KUN to launch new landed residential projects worth THB7.3 billion in 2023 and THB1.0-THB1.4 billion per annum in 2024-2025. We estimate the budget for land acquisition at THB600-THB700 million in 2023 and THB150-THB200 million per annum in 2024-2025. We also project annual capital expenditures for construction of THB650-THB750 million over the next three years.

At the end of September 2022, KUN's total debt stood at THB1.1 billion. KUN's priority debt, including secured debt at the company and its subsidiaries, was THB724 million. This translates to a priority debt to total debt ratio of 69%. Thus, in our view, KUN's unsecured creditors are significantly disadvantaged to its priority debt holders with respect to the priority of claims against the company's assets.

Tight but manageable liquidity

We assess KUN's liquidity to be tight but manageable over the next 12 months. Debt maturing over the next 12 months will amount to THB649 million, comprising THB247 million debentures, THB54 million short-term promissory notes (P/N), and THB348 million long-term project loans. KUN's sources of liquidity at the end of September 2022 included cash on hand of THB117 million and undrawn unconditional committed credit facilities of THB123 million. We forecast KUN's FFO to be THB100 billion in 2023. In addition, KUN had unencumbered land banks at book value of THB86 million, which can be pledged as collaterals for new loans (if needed). KUN usually refinances its matured debentures by new debenture issuances and rolls over its matured short-term P/N. Project loans are normally repaid with the proceeds from the underlying projects' unit transfers.

The financial covenants on KUN's debentures require the company's net interest-bearing debt to equity (net IBD/E) ratio to remain below 3 times. The ratio at the end of September 2022 was 1.4 times. We believe that the company should have no problems remaining in compliance with the financial covenants over the next 12 to 18 months.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for KUN's operations during 2023-2025:

- KUN to launch new landed property projects worth THB7.3 billion in 2023 and THB1.0-THB1.4 billion per annum in 2024-2025.
- Budget for land acquisition of THB600-THB700 million in 2023 and THB150-THB200 million per annum in 2024-2025.
- Capital increase of THB150 million in 2023.
- Total operating revenue to increase to the THB1.0-THB1.4 billion level.
- Gross profit margin to range from 29%-31% and EBITDA margin from 15%-20%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that KUN will be able to deliver operating performance and improve its financial profile in line with our forecast. We expect KUN's revenues to stay in the THB1.0-THB1.4 billion range and the EBITDA margin to range between 15%-20% over the next three years. We also expect KUN's debt to capitalization ratio to stay below 60% and its FFO to debt ratio to hover around 10% from 2023 onwards.

RATING SENSITIVITIES

The rating and/or outlook could be revised downward should the company's operating results and/or financial profile deteriorate significantly from our expectations causing the debt to capitalization ratio to rise above 60% and the FFO to debt ratio to fall below 10%, without sign of recovery. On the other hand, a credit upside scenario could emerge if KUN achieves meaningful growth in revenues and earnings base, while maintaining its financial profile at the current level.

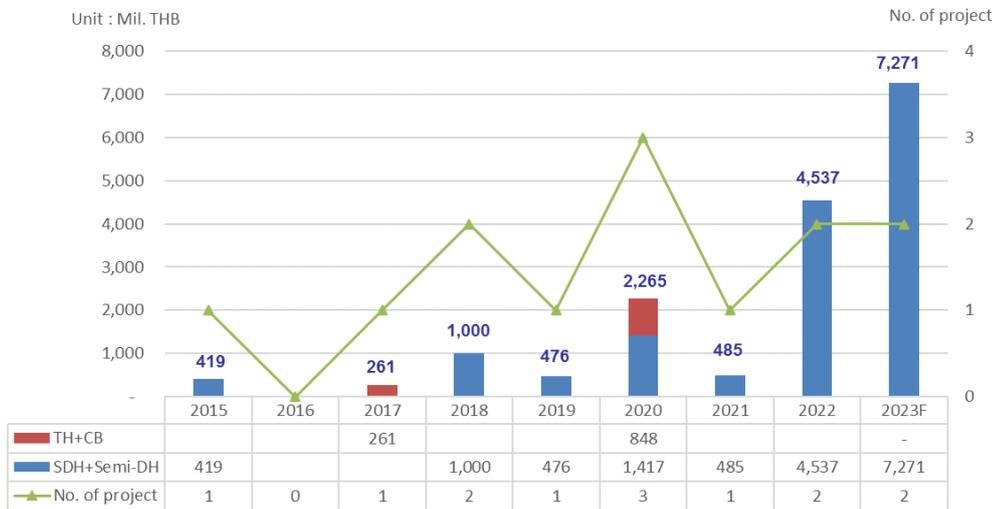
COMPANY OVERVIEW

KUN was established in 2007 by Mrs. Praweerat Dheva-aksorn and Mr. Kuna Dheva-aksorn to operate the property development for sale business. The company became a public company in February 2019 and was listed on the Stock Exchange of Thailand (SET) in December 2019. The Dheva-aksorn and Sangkawanich families, the company’s founders and major shareholders, held a combined 65% equity stake as of September 2022. KUN focuses on the middle- to low-income segment of landed property. The company offers single detached houses (SDH) and semi-DH with average selling prices of THB3-THB6 million per unit, townhouses (TH) with unit prices of around THB2 million, and commercial buildings (CB) with unit prices of THB3-THB4 million. Most of its landed property projects are located in the Bangbuathong area of Nonthaburi Province. In 2022, KUN launched the “Navara” brand in the Bang Khun Thian area to enter the higher income segment with selling prices of THB6-THB10 million per unit.

As of December 2022, KUN’s residential project portfolio comprised six on-going projects, with a remaining value of THB5.2 billion and a backlog value of THB172 million. Of the unsold value, 70% was from “Kunlai Navara Rama II” in the Bang Khun Thian area while almost all the remainder was from four projects in the Bang Bua Thong area.

KEY OPERATING PERFORMANCE

Chart 1: New Project Launches

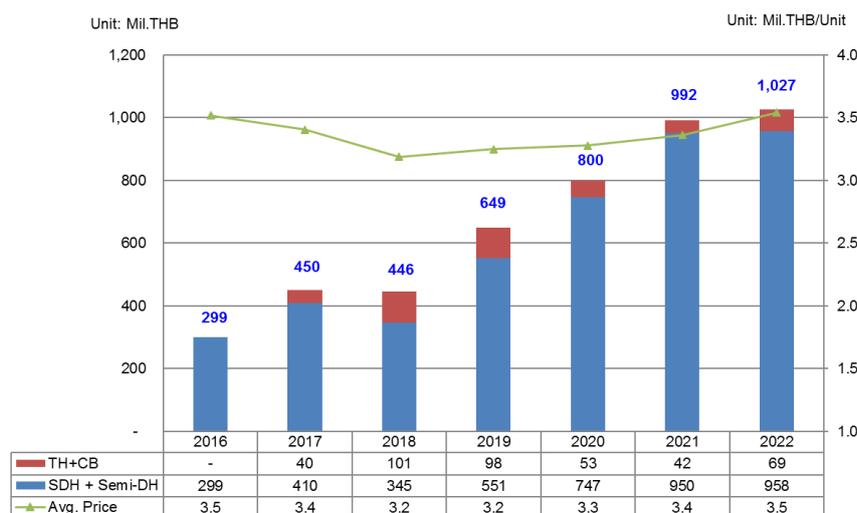


Source: KUN

Chart 2: Presales



Source: KUN

Chart 3: Transfers


Source: KUN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	740	996	804	653	447
Earnings before interest and taxes (EBIT)	142	223	141	94	40
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	147	230	148	102	48
Funds from operations (FFO)	87	151	98	55	15
Adjusted interest expense	37	39	28	34	31
Real estate development investments	1,599	1,481	797	781	684
Total assets	1,975	1,822	1,035	940	818
Adjusted debt	939	780	246	291	366
Adjusted equity	661	623	513	459	295
Adjusted Ratios					
EBITDA margin (%)	19.92	23.11	18.38	15.70	10.71
Pretax return on permanent capital (%)	14.34 **	18.33	16.70	12.65	5.92
EBITDA interest coverage (times)	4.01	5.92	5.37	3.03	1.54
Debt to EBITDA (times)	4.34 **	3.39	1.66	2.84	7.65
FFO to debt (%)	13.69 **	19.35	40.05	19.00	4.12
Debt to capitalization (%)	58.70	55.58	32.40	38.78	55.36

* 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

Villa Kunalai PCL (KUN)

Company Rating:	BB
Rating Outlook:	Stable

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