TRIS RATING
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LALIN PROPERTY PLC

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CORPORATES

Company Rating:	BBB+
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
03/11/17	BBB+	Stable
14/10/15	BBB+	Negative
20/06/13	BBB+	Stable
03/06/11	BBB	Positive
15/02/08	BBB	Stable
12/09/07	BBB+	Negative

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RATIONALE

TRIS Rating affirms the company rating on Lalin Property PLC (LALIN) at "BBB+" with a "stable" outlook. The rating reflects LALIN's relatively small business scale with limited product types and price range, its improving operating performance, and its strong financial profile supported by its favorable profitability and relatively low financial leverage. The rating also incorporates concerns over the cyclical and competitive nature of the residential property industry, and the high level of Thailand's household debt which impacts the affordability of homebuyers in the middle- to low-income segments.

KEY RATING CONSIDERATIONS

Small business scale with limited product types and price range

LALIN's revenue base is smaller than most of the property developers rated by TRIS Rating. The company's product types and price range are quite limited. LALIN's products focus mainly on detached houses (SDH and DH) and townhouses (TH), with a unit price range between Bt1.5 million to Bt4 million. Considering the performance recorded in 2017, LALIN's revenue stood at Bt3,589 million, far smaller than its peers receiving the same rating. However, its favorable profit margin and conservative financial policy help support its rating at the current level.

Revenues improved steadily in the past few years

LALIN's revenues improved significantly from a drop in 2015. Its revenue increased by more than 30% per annum during 2016 and 2017. Revenues in the first half of 2018 also increased by 35% year-on-year (y-o-y), to Bt2,082 million. Its improving revenues were due to the launch of more projects than in the past. Going forwards, LALIN plans to launch 8-10 new projects worth around Bt4,000-Bt5,000 million per annum. Thus, TRIS Rating expects LALIN's revenues to stay in the range of Bt3,900-Bt4,400 million during 2018-2021.

However, sales in several old projects remain sluggish. As of June 2018, LALIN had 57 projects on hand. The value of the remaining unsold units (including built and un-built units) was around Bt18.6 billion, with an average unit price of Bt2.5 million per unit. Around 60% of the unsold value was in projects in Bangkok and vicinity, while the remainder of the unsold units was in projects in the upcountry. Since almost 70% of the remaining units were un-built units, the company plans to increase sales of these projects by adjusting the products and prices to meet customers' demand.

Favorable profitability

We believe LALIN will maintain its satisfactory profitability. As the company focuses only on landed properties, there is no pressure to lower its price to accelerate sales. In addition, its relatively low land cost and selling and administrative expenses help support its favorable margin. Its operating margin, as measured by operating income before depreciation and amortization as a percentage of sales, was at 24%-26% during 2014 through the first half of 2018, higher than the average operating margin of 18%-20% for the top 20 listed property developers. Under TRIS Rating's base case, LALIN's operating margin should be maintained at around 23%-24% in 2018 and thereafter, taking into account the intense market competition, rising cost environment, and overhead expenses needed to support LALIN's expansion plans.

Exposure to cyclical and competitive industry

Demand for housing is cyclical and largely impacted by the economy. Due to a slowdown in the domestic economy and concerns over the lingering high level of household debt nationwide, lending policies at banks remain stringent. Rejection rates for mortgage loans have increased significantly, particularly in the middle- to low-income segment, which is LALIN's main target homebuyer. Thus, LALIN has to focus more on the screening process of its potential customers. In the first half of 2018, LALIN's bank rejection rate dropped slightly to 20% from around 20%-25% in 2017.

Relatively low financial leverage

We forecast LALIN's debt to capitalization ratio to be maintained at around 35%. Based on LALIN's financial policy, the company targets to keep its total liabilities to total equity (D/E) ratio below one time in the medium to long term. Under its financial covenant, the company has to maintain its total debt to equity ratio below two times. We believe LALIN will be able to comfortably comply with its financial covenant.

LALIN plans to launch 8-10 new projects worth Bt4,000-Bt5,000 million per year during 2018-2021, in order to pursue revenue growth. Since the company focuses on landed residential property projects, its leverage remains lower than the industry average. Based on its growth plan over the next three years, we believe the company's large capital expenditures in land purchases and construction expenditures will continue to push its total debt to around Bt3,300-Bt3,700 million, but we expect growing sales and revenues will offset the impact. Consequently, we foresee LALIN's net debt to capitalization ratio should stay at around 35% and net interest-bearing debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio should not exceed 4 times.

Strong liquidity profile

LALIN's liquidity is sufficient to meet its needs over the next 18 months. At the end of June 2018, LALIN had Bt559 million in cash on hand and Bt1,410 million in unused committed credit facilities that can be used to service its debts due over the next 18 months, amounted Bt1,601 million. LALIN mainly uses long-term fixed-rate senior unsecured debentures as a source of financing, accounting for 89% of LALIN's total debt. As of June 2018, LALIN had Bt460 million in debentures maturing by the end of 2018, plus Bt800 million due in 2019, Bt940 million maturing in 2020, and Bt600 million due in 2021. LALIN plans to refinance most of the maturing bonds with new bond issues. The funds needed to purchase land and finance new projects will be backed up by LALIN's bank credit lines.

Over the next three years, we estimate LALIN's funds from operations (FFO) will range from Bt720-Bt800 million per annum. The FFO to net debt ratio is expected to stay around 22%, and the EBITDA interest coverage ratio is expected to keep higher than 9.5 times.

RATING OUTLOOK

The "stable" outlook reflects the expectation that LALIN will be able to sustain its operating performance at the target level, plus the ability to maintain its prudent financial policies.

Under TRIS Rating's base case scenario, we assume that LALIN's revenue is projected to be Bt3,900-Bt4,400 million per annum in 2018-2021. The operating margin is expected to hold at least 20%. Also, we expect that LALIN will continue to follow prudent financial policies and keep the net debt to capitalization ratio around 35% and net interest-bearing debt to EBITDA ratio below 4 times during the same period.

RATING SENSITIVITIES

We could lower the rating and/or outlook if LALIN's operating performance and/or financial profile significantly deteriorate from the target levels. Also, a weaker competitive position in the future may lead to a downward rating or outlook revision. In contrast, we could raise the rating if LALIN is able to enlarge its business scale while maintaining a cautious financial policy.

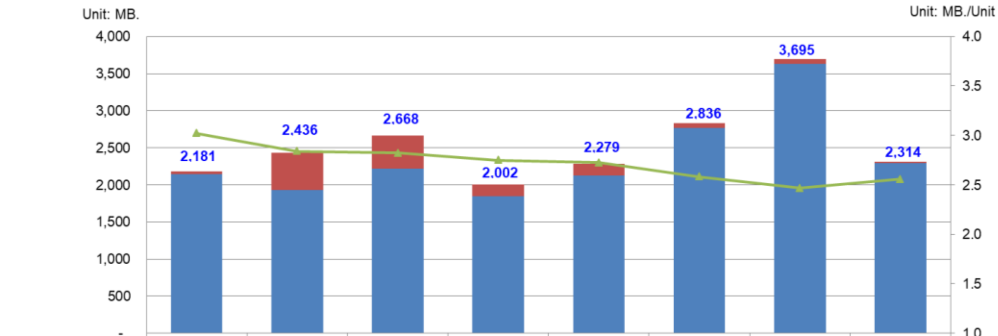
COMPANY OVERVIEW

LALIN was established in 1988 by Mr. Taveesak Watcharakkawongse and Mr. Chaiyan Chakarakul, and listed on the Stock Exchange of Thailand (SET) in 2002. The Chakarakul and Watcharakkawongse families, the company's founders and major shareholders, held a 70% stake in total as of June 2018. LALIN focuses on the middle- to low-income housing segment. In 2009, the company launched two new housing brands: "LANCEO" and "LIO". The LANCEO brand offers SDH and semi-DH units with prices per unit ranging from Bt2.5 million to Bt4 million. The LIO brand offers townhouses at prices of Bt1.5-Bt2.5 million per unit. LALIN opened its first condominium project in late 2011. Its condominium projects use the "LEVO" and "LIB" brands, with unit prices ranging from Bt1.4-Bt3 million. LALIN expanded upcountry in late 2012. Presently, its upcountry projects are located in Chonburi, Rayong, Chachoengsao, and Nakornratchasrima provinces. Most upcountry projects target customers living near industrial estates.

As of June 2018, LALIN's residential project portfolio comprised 57 on-going projects, with a remaining value of Bt18,632 million and a backlog value of Bt1,374 million. Landed property projects were LALIN's major source of revenue, constituting 70%-80% of total revenue during 2015 through the first six months of 2018. The revenue contribution from semi-DH projects hovered around 20%. Condominium projects contributed a small portion of total revenue since no condominium projects have been launched during the past six years.

KEY OPERTING PERFORMANCE

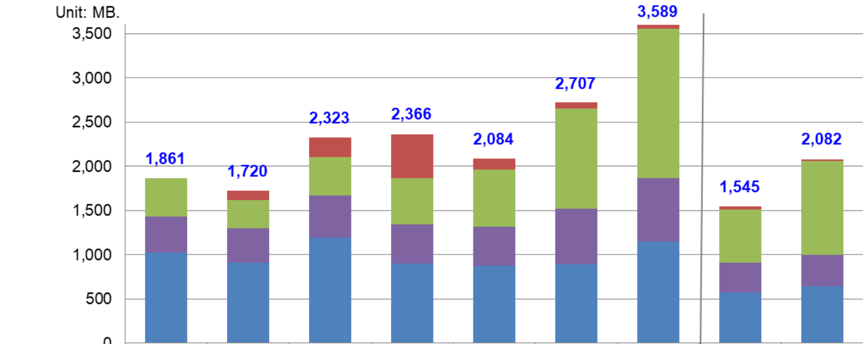
Chart 1: Presales Performance



	2011	2012	2013	2014	2015	2016	2017	6M18
Condo (LHS)	37	504	450	151	156	69	62	21
Housing (LHS)	2,144	1,932	2,218	1,851	2,122	2,767	3,633	2,294
Avg. Price (RHS)	3.0	2.8	2.8	2.7	2.7	2.6	2.5	2.6

Source: LALIN

Chart 2: Revenue Breakdown by Product



	2011	2012	2013	2014	2015	2016	2017	6M17	6M18
Condo		101	222	500	130	66	57	30	13
Townhouse	428	320	427	522	646	1,137	1,687	602	1,062
Semi-DH	409	392	484	434	438	623	718	340	354
SDH	1,023	907	1,190	904	875	893	1,149	572	645
Total Revenue	1,861	1,720	2,323	2,366	2,084	2,707	3,589	1,545	2,082

Source: LALIN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Jun 2018		--------------Year Ended 31 December ---------- 2017	2016	2015	2014
Total operating revenues	2,082		3,589	2,707	2,084	2,366
Operating income	540		918	668	495	594
Earnings before interest and taxes (EBIT)	540		911	662	481	593
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	571		968	710	525	630
Funds from operations (FFO)	442		691	521	314	436
Adjusted interest expense	28		105	63	117	84
Capital expenditures	20		44	62	68	201
Total assets	10,138		9,894	9,185	8,021	7,348
Adjusted debt	2,669		3,132	3,174	2,235	2,013
Adjusted equity	5,773		5,524	4,968	4,683	4,513
Adjusted Ratios						
Operating income as % of total operating revenues (%)	25.94		25.58	24.69	23.74	25.12
Pretax return on permanent capital (%)	12.20	**	10.77	8.60	6.94	9.16
EBITDA interest coverage (times)	20.58		9.21	11.33	4.47	7.52
Debt to EBITDA (times)	2.35	**	3.23	4.47	4.26	3.20
FFO to debt (%)	31.99	**	22.06	16.41	14.07	21.67
Debt to capitalization (%)	31.61		36.18	38.98	32.30	30.84

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

Lalin Property PLC (LALIN)

Company Rating:	BBB+
Rating Outlook:	Stable

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