TRIS RATING
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LALIN PROPERTY PLC

No. 145/2019
17 September 2019

CORPORATES

Company Rating: BBB+
Outlook: Stable

Last Review Date: 12/10/18

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 revenue base with less diversity of product types and price range, on-going satisfactory operating performance, high profitability, and relatively low financial leverage compared with its rated peers in the industry. The rating also reflects TRIS Rating's concerns over the negative impact from the introduction of new loan-to-value (LTV) rules by the Bank of Thailand (BOT), and the cyclicality and heightened competition in the residential property development industry.

KEY RATING CONSIDERATIONS

Small size with narrow range of products and market segments

LALIN is smaller than most property developers rated by TRIS Rating in terms of revenue. Despite healthy growth, LALIN's revenue remains far smaller than its rated peers. In 2018, LALIN's revenue reached Bt4.1 billion, ranked 18th out of 22 developers rated by TRIS Rating. Its revenue share accounted for around 1.5% of total revenues generated from real estate sales by the 22 rated developers.

Moreover, the company's product types and targeted market segments are relatively limited. The company focuses mainly on landed residential property, including detached houses (SDH and DH) and townhouses, with a unit price range between Bt1.5 million to Bt4 million. Revenue contribution from townhouses accounted for 54% and 67% of total revenues in 2018 and in the first half of 2019, respectively.

Improving operating performance

LALIN's operating performance has improved over the last three years. Its revenue grew from Bt2.1 billion in 2015 to Bt4.1 billion in 2018. Also, revenue in the first half of 2019 increased slightly by 5% year-on-year (y-o-y), to Bt2.2 billion. LALIN was able to accomplish its presales as targeted of Bt4.4 billion in 2018, growing from Bt3.7 billion in the previous year. Presales during the first half of 2019 also rose by 16% y-o-y to Bt2.6 billion.

Most presales were derived from new projects launched in the past few years. The sales of several old projects remains slow. As of July 2019, LALIN had 60 projects on hand. The value of the remaining unsold units (including built and un-built units) was around Bt20.4 billion. Around 70% of the unsold value was in projects in Bangkok and vicinity, while the remainder of the unsold units was in projects in the upcountry. The company plans to increase sales of these projects by using its marketing channels, especially digital marketing, coupled with active direct sales teams penetrating its strategic area.

Under TRIS Rating's base case forecast, LALIN's revenue is expected to be Bt4.5-Bt4.8 billion per annum during 2020-2021. In order to pursue revenue growth, LALIN planned to launch 9 new landed residential property projects in 2019. As of August 2019, LALIN has already launched 8 housing projects worth Bt6.2 billion in Bangkok and vicinity and plans to launch one new housing project worth around Bt700 million in Rayong province in the last quarter of 2019. Going forward, LALIN plans to launch 8-10 new projects worth around Bt4-Bt5 billion per annum in 2020-2021.

Strength in sustaining profitability

LALIN's profitability remains satisfactory. Its gross profit margins ranged between 39%-40% over the last five years. The ability to control land cost and construction cost enabled the company to keep its decent gross profit margins for years. LALIN was able to control its selling and administrative expenses (SG&A expenses) at around 15%-17% of its revenues. Thus, its operating margins (operating income as percentage of total operating revenues) stayed at around 24%-26% during 2014-2018 through the first half of 2019.

According to the management, the company will focus on profit margins rather than growth of revenues. Most of its remaining units are vacant land plots not finished units; thus, the company does not need to accelerate sales by offering discounts. Due to LALIN's pricing policy and its cost efficiency, TRIS Rating expects LALIN will maintain its operating margin at around 23%-24% over the next two years, despite the more competitive environment.

Exposure to cyclical and highly competitive residential property business

The residential property market closely follows the domestic economy. However, the volatility in this market is much more pronounced than in the overall economy. A sluggish domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the affordability of middle- to low-income homebuyers, which are LALIN's main target customers. In the first half of 2019, LALIN's bank rejection rate remained comparatively high at around 20%. Thus, LALIN has to focus more on the screening process of its potential customers.

In addition, the implementation of the new LTV rules by the BOT is expected to impact the demand for housing in the short to medium term. However, the impact should be more pronounced on condominiums than landed properties. Under the new LTV rules, homebuyers still can borrow up to 100% of the collateral value for their first mortgage. However, for the second and subsequent mortgage loans, homebuyers can borrow up to only 70%-80% of the collateral value, down from 90%-100%. Since more than 90% of LALIN's products are landed residential properties and most of LALIN's customers are first-time homebuyers, the impact from the new LTV rules on LALIN should not be so significant. However, LALIN still has to lengthen the down payment period for some homebuyers whom can borrow less than before.

Conservative financial policy

TRIS Rating expects LALIN to maintain its prudent financial policy. The company targets to keep its total liabilities to total equity (D/E) ratio below one times in the medium to long term. As the company focuses on landed residential property projects, its leverage remains lower than the industry average. The debt to capitalization ratio was 32.4% in 2018 and 34.6% at the end of June 2019. The average debt to capitalization ratios of the 22 rated developers was around 50% in 2018.

Despite LALIN's plan to launch 8-10 new projects worth Bt4-Bt5 billion per annum, we expect LALIN's debt to capitalization ratio to stay below 35% and its debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio would not exceed 4 times. According to its financial covenant, the company has to maintain its total debt to equity ratio below 2 times. TRIS Rating believes that the company should be able to comfortably comply with its financial covenant.

Strong liquidity profile

We assess LALIN to have a strong liquidity profile to meet its funding needs over the next 18 months. As of June 2019, LALIN had Bt1.8 billion of debts due in the next 13 months, comprising Bt1.4 billion in debentures, Bt250 million in bills of exchange (B/Es), and the remaining in short-term loans from financial institutions. As of June 2019, LALIN had Bt313 million in cash on hand, Bt2.16 billion in unused committed credit facilities, and expected funds from operations (FFO) of around Bt800 million per annum, which should be sufficient to meet its debt obligations over the next 18 months.

We believe LALIN's cash flow protection remains sound over the next three years. The FFO to debt ratio is expected to range between 23%-24%, and the EBITDA interest coverage ratio is expected to hover around 9 times.

BASE-CASE ASSUMPTIONS

- Revenue to grow 5% per annum during 2019-2021.
- Gross profit margin to hover around 38% and operating margin to range between 23%-24% over the next three years.
- Budget for land acquisition is expected to be Bt1.2-Bt1.3 billion per annum in 2019-2021.

RATING OUTLOOK

The "stable" outlook reflects our expectation that LALIN will be able to sustain its operating performance at the target level, and continue to maintain its prudent financial policies. TRIS rating expects LALIN's revenue to fall in the range of Bt4.3-Bt4.8 billion over the next three years, with its debt to capitalization ratio to be kept at around 35% and net interestbearing debt to EBITDA ratio below 4 times during the same period.

RATING SENSITIVITIES

The rating and/or outlook of LALIN could be under downward pressure if its 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 conservative financial policy.

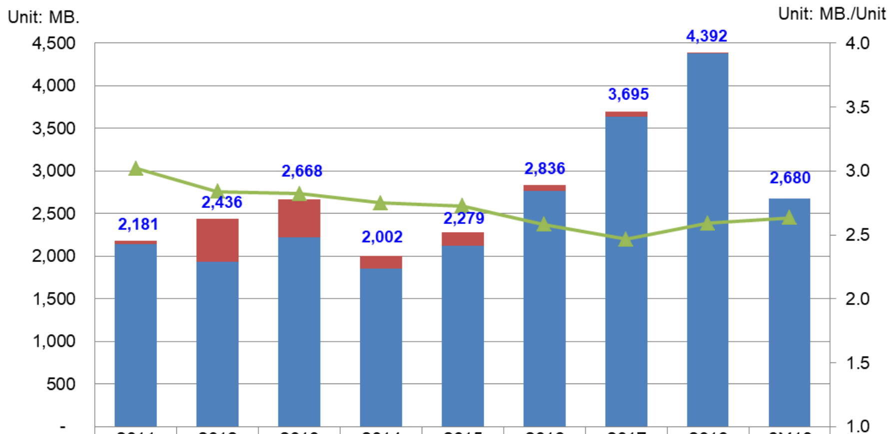
COMPANY OVERVIEW

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-Bt4.0 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-Bt3.0 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 July 2019, LALIN's residential project portfolio comprised 60 on-going projects, with a remaining value of Bt20.4 billion and a backlog value of Bt1.4 billion. Since 2016, landed property projects were LALIN's major source of revenue, constituting 98%-99% of total revenue.

KEY OPERATING PERFORMANCE

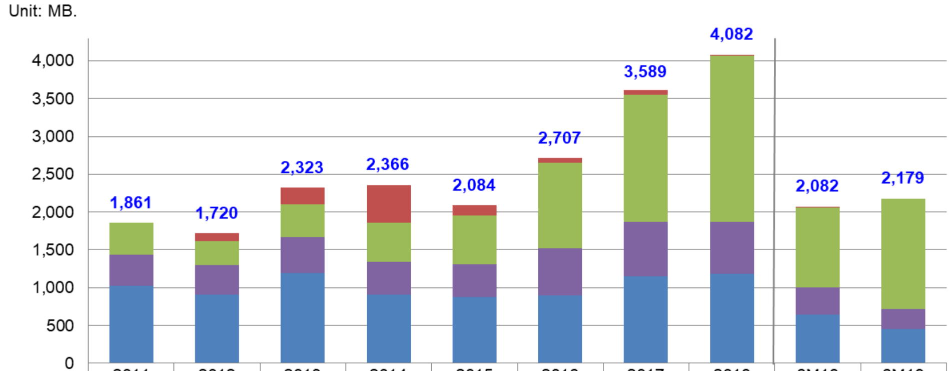
Chart 1: Presales Performance



	2011	2012	2013	2014	2015	2016	2017	2018	6M19
Condo (LHS)	37	504	450	151	156	69	62	14	
Housing (LHS)	2,144	1,932	2,218	1,851	2,122	2,767	3,633	4,379	2,680
Avg. Price (RHS)	3.0	2.8	2.8	2.7	2.7	2.6	2.5	2.6	2.6

Source: LALIN

Chart 2: Revenue Breakdown by Product



	2011	2012	2013	2014	2015	2016	2017	2018	6M18	6M19
Condo		101	222	500	130	66	57	13	13	
Townhouse	428	320	427	522	646	1,137	1,687	2,197	1,062	1,460
Semi-DH	409	392	484	434	438	623	718	692	354	262
SDH	1,023	907	1,190	904	875	893	1,149	1,180	645	458
Total Revenue	1,861	1,720	2,323	2,366	2,084	2,707	3,589	4,082	2,082	2,179

Source: LALIN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		--------------Year Ended 31 December ----------			
	Jan-Jun 2019	2018	2017	2016	2015
Total operating revenues	2,179	4,082	3,589	2,707	2,084
Operating income	539	1,040	918	668	495
Earnings before interest and taxes (EBIT)	549	1,043	911	662	481
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	574	1,104	968	710	525
Funds from operations (FFO)	425	806	691	521	314
Adjusted interest expense	42	103	105	63	117
Real estate development investments	10,309	9,359	9,319	8,608	7,221
Total assets	11,135	10,430	9,894	9,185	8,021
Adjusted debt	3,296	2,874	3,145	3,174	2,235
Adjusted equity	6,237	5,996	5,524	4,968	4,683
Adjusted Ratios					
Operating income as % of total operating revenues (%)	24.74	25.49	25.58	24.69	23.74
Pretax return on permanent capital (%)	11.19 **	11.56	10.76	8.60	6.94
EBITDA interest coverage (times)	13.69	10.71	9.21	11.33	4.47
Debt to EBITDA (times)	2.98 **	2.60	3.25	4.47	4.26
FFO to debt (%)	23.92 **	28.03	21.96	16.41	14.07
Debt to capitalization (%)	34.58	32.40	36.28	38.98	32.30

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

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Company Rating:	BBB+
Rating Outlook:	Stable

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