LALIN PROPERTY PLC

No. 151/2021
23 September 2021

CORPORATES

Company Rating:	BBB+
Outlook:	Stable

Last Review Date: 22/09/20

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" rating outlook. The rating reflects LALIN's relatively small revenue and earnings base with limited product types and price range. However, LALIN's financial performance is considered satisfactory as its revenue and earnings before interest, taxes, depreciation, and amortization (EBITDA) have grown steadily over the past five years while maintaining high level of profitability. The rating also takes into consideration LALIN's relatively low financial leverage and our concerns over the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, which continues to pressure the demand for residential property and the profitability of property developers for extended periods.

KEY RATING CONSIDERATIONS

Small size with portfolio concentration

We view LALIN's revenue base as comparatively small compared with other rated property developers. Its revenue in 2020 ranked 14th out of the 23 developers rated by TRIS Rating. LALIN's revenue in 2020 was THB5.75 billion, accounting for 2% of the total revenues generated by the 23 rated developers.

The company's product portfolio is relatively concentrated in the middle- to low-priced segments. LALIN focuses mainly on the development of landed residential property, including detached houses (SDH and DH) under the "LANCEO" brand with a price range of THB3-THB6 million per unit, and townhouses under the "LIO" brand with selling prices in the THB2-THB3 million per unit range. Although the customer base in the middle- to low-priced segment is relatively large, the purchasing power of this segment is limited and price-sensitive, and the bank loan rejection rate is quite high. Thus, LALIN recently launched the "Baan Lalin the Prestige" brand for SDH and semi-DH, with prices ranging from THB5 million to THB8 million per unit, to expand its product portfolio into the higher-priced segment and avoid the bank rejection issue.

As of June 2021, LALIN had 73 on-going projects. The value of the remaining unsold units (including built and un-built units) was THB23.18 billion. LALIN's key products are townhouses, contributing around 60% of total revenues during 2020 through the first half of 2021.

Satisfactory operating performance expected to continue

Despite the COVID-19 pandemic, we expect LALIN's satisfactory operating performance to continue. Our base-case forecast projects LALIN's total operating revenue in 2021 to be around the same level as the previous year as we foresee that LALIN's operations will soften in the third quarter before gradually rebounding in the last quarter. We project LALIN's total operating revenue to reach THB6.0-THB6.3 billion per annum during 2022-2023 or a 5% year-on-year (y-o-y) growth, based on its plan to launch 9-11 new landed property projects worth THB6-THB7 billion per annum over the next three years.

Despite stagnant demand caused by the ongoing COVID-19 outbreak, LALIN's profitability remains strong. LALIN's EBITDA margins stood at 29 % in 2020 and 1H2021. Going forward, we expect LALIN to maintain its favorable level of profitability over the next three years. LALIN excels at controlling land and construction costs, and is less pressured to clear finished stock. Therefore, we project LALIN's gross profit margin to stay in the 38%-39% range over the forecast period. We view that LALIN may incur higher selling, general, and administrative (SG&A) expenses resulting from its business expansion. However, LALIN should be able to keep its SG&A expenses at 14%-16% of total operating revenue over the next three years. LALIN's EBITDA are expected to stay around THB1.5-THB1.6 billion per annum during 2021-2023. We expect LALIN to sustain its EBITDA margin of at least 25% and net profit margin above 18% over the forecast period.

Low financial leverage

We expect LALIN to maintain its prudent financial policy. LALIN's leverage has been comparatively lower than the industry average as the company has focused only on landed property projects which require less capital than high-rise condominium projects. Its debt to capitalization ratio was 31% in 2020, while the average debt to capitalization ratios of the 23 rated developers was 52% in 2020. As of June 2021, LALIN's ratio was 28%. In our base-case forecast, we assume LALIN to launch new landed property projects worth THB6-THB7 billion per annum in 2021-2023. We forecast the annual budget for land to range THB1.2-1.5 billion and construction expenditure to be around THB3 billion annually over the next three years. As a result, we expect the debt to capitalization ratio to stay below 35% and the debt to EBITDA ratio to remain below 3.5 times during 2021-2023.

As of June 2021, LALIN had THB3.23 billion in debt, including THB3 million of priority debt. LALIN's priority debt to total debt ratio was then 0.1%. As LALIN's priority debt ratio is less than the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", we view that its unsecured creditors are not significantly disadvantaged with respect to claims against the company's assets.

Adequate liquidity

We assess LALIN to have adequate liquidity to cover its debt repayments until the end of 2022. At the end of June 2021, the company had debts coming due from July 2021 to December 2022 of THB1.48 billion, comprising THB1.33 billion in debentures, THB150 million in bills of exchange (B/Es), and the remainder in short-term loans from financial institutions. The company already refinanced THB400 million of debentures due in August 2021 with a new three-year bond issuance. LALIN's sources of liquidity at the end of June 2021 comprised cash on hand of THB312 million, investments in fixed-income fund of THB700 million, and undrawn committed credit facilities of THB2.54 billion. We forecast LALIN's funds from operations (FFO) to hover around THB1 billion per annum. These sources of liquidity should be sufficient to cover the debts coming due over the next 18 months even if the company is unable to rollover any of its debts. We expect LALIN's cash flow protection to remain strong over the next three years. The FFO to debt ratio is expected to be in the range of 32%-34%, and the EBITDA interest coverage ratio around 13 times.

The financial covenant on LALIN's debt obligations requires the company's total interest-bearing debt to equity ratio to remain below 2 times. The ratio at the end of June 2021 was 0.4 times. We believe the company should have no problems complying with the financial covenant over the next 18 months.

BASE-CASE ASSUMPTIONS

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

- LALIN to launch new landed property projects worth THB6-THB7 billion annually
- Budget for land acquisition to be THB1.2-THB1.5 billion per year
- Total operating revenue to stay around THB5.7 billion in 2021 and grow to THB6.0-THB6.3 billion per annum during 2022-2023.

RATING OUTLOOK

The "stable" outlook reflects our expectation that LALIN will be able to deliver its operating performance as targeted and maintain its prudent financial policies. Although the ongoing COVID-19 pandemic is leading to stagnant growth in residential property demand for an extended period, we expect LALIN to sustain its favourable profit margin and retain low financial leverage. We expect LALIN to keep its EBITDA margin at least at 25% and the debt to capitalization ratio below 35% over the forecast period.

RATING SENSITIVITIES

LALIN's rating and/or outlook could be revised downward if the company's operating performance and/or financial profile are heading for a deeper deterioration than expected. A rating and/or outlook downward revision could also occur if LALIN's competitive position weakened in the future. In contrast, we could raise the rating if LALIN is able to enlarge its revenue and earnings base while maintaining a prudent financial policy.

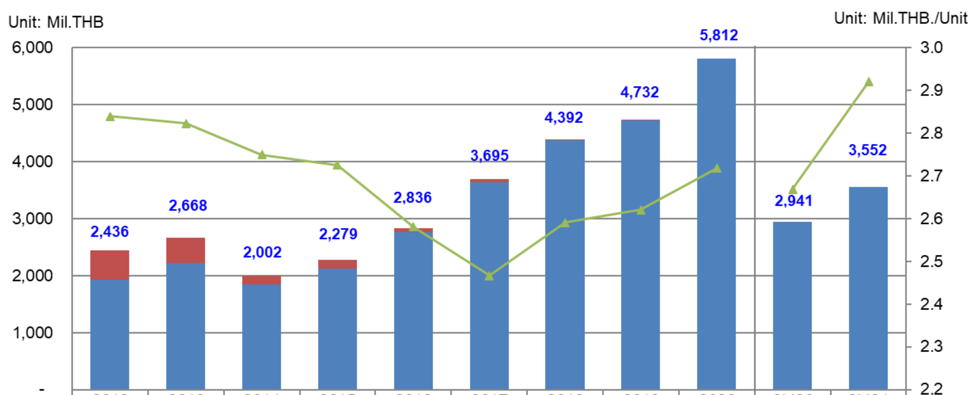
COMPANY OVERVIEW

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 combined 68% equity stake as of March 2021. LALIN focuses on the middle- to low-income housing segment. In 2009, the company launched two housing brands: "LANCEO" and "LIO". The LANCEO brand offers SDH and semi-DH units with prices ranging from THB2.5-THB4.0 million. The LIO brand offers townhouses at prices of THB1.5-THB 2.5 million per unit. LALIN launched its first condominium project in late 2011. Its condominium projects use the "LEVO" and "LIB" brands, with unit prices ranging from THB1.4- THB3.0 million. LALIN expanded upcountry in late 2012. Currently, it has upcountry projects in Chonburi, Rayong, Chachoengsao, and Nakorn Ratchasima provinces. Most upcountry projects target customers living near industrial estates. During the second quarter of 2021, LALIN launched the "Baan Lalin the Prestige" brand for SDH and semi-DH to expand its property development portfolio into the higher-priced segment, with prices ranging between THB5-THB8 million per unit. In 2020, the revenue contributions from projects in the Greater Bangkok area and other provinces were around 89% and 11%, respectively.

As of June 2021, LALIN's residential project portfolio comprised 73 on-going projects, with a remaining value of THB23.18 billion and a backlog value of THB1.96 billion. Over the past five years, almost all revenue has been derived from landed property projects.

KEY OPERATING PERFORMANCE

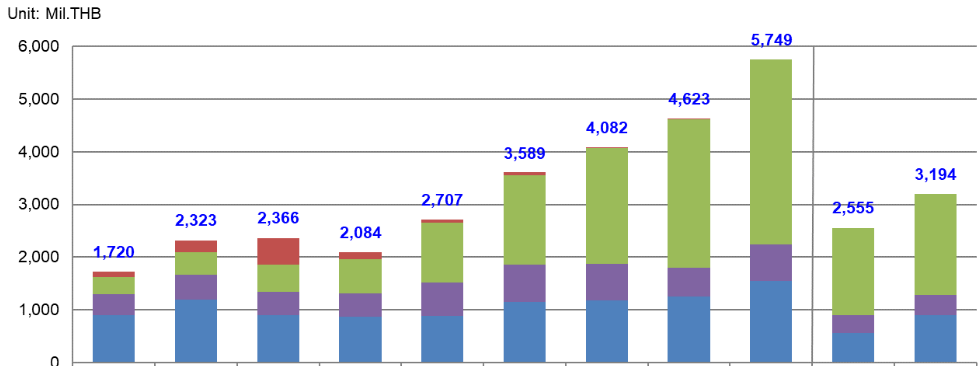
Chart 1: Presales Performance



	2012	2013	2014	2015	2016	2017	2018	2019	2020	6M20	6M21
Condo (LHS)	504	450	151	156	69	62	14	2			
Housing (LHS)	1,932	2,218	1,851	2,122	2,767	3,633	4,379	4,721	5,812	2,941	3,552
Avg. Price (RHS)	2.8	2.8	2.7	2.7	2.6	2.5	2.6	2.6	2.7	2.7	2.9

Source: LALIN

Chart 2: Revenue Breakdown by Product



	2012	2013	2014	2015	2016	2017	2018	2019	2020	6M20	6M21
Condo	101	222	500	130	66	57	13	2	0	0	0
Townhouse	320	427	522	646	1,137	1,687	2,197	2,819	3,507	1,661	1,917
Semi-DH	392	484	434	438	623	718	692	554	690	332	383
SDH	907	1,190	904	875	893	1,149	1,180	1,248	1,552	562	894
Total Revenue	1,720	2,323	2,366	2,084	2,707	3,589	4,082	4,623	5,749	2,555	3,194

Source: LALIN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2021	--------------Year Ended 31 December ----------- 2020	2019	2018	2017
Total operating revenues	3,194	5,749	4,623	4,082	3,589
Earnings before interest and taxes (EBIT)	887	1,594	1,201	1,043	911
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	911	1,645	1,252	1,104	968
Funds from operations (FFO)	695	1,227	897	806	691
Adjusted interest expense	49	83	125	103	105
Real estate development investments	11,260	10,907	10,831	9,360	9,319
Total assets	12,832	12,454	11,502	10,429	9,894
Adjusted debt	2,992	3,408	3,431	3,197	3,145
Adjusted equity	7,813	7,472	6,564	5,996	5,524
Adjusted Ratios					
EBITDA margin (%)	28.53	28.62	27.08	27.04	26.98
Pretax return on permanent capital (%)	16.33 **	15.23	12.43	11.56	10.76
EBITDA interest coverage (times)	18.68	19.85	10.04	10.71	9.21
Debt to EBITDA (times)	1.62 **	2.07	2.74	2.90	3.25
FFO to debt (%)	47.06 **	36.01	26.13	25.20	21.96
Debt to capitalization (%)	27.69	31.32	34.33	34.77	36.28

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

RELATED CRITERIA

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

Lalin Property PLC (LALIN)

Company Rating:	BBB+
Rating Outlook:	Stable

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