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A Strategic Partner of S&P Global

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LALIN PROPERTY PLC

CORPORATES

Company Rating: BBB+
Outlook: Stable

Last Review Date: 30/09/22

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 the company's modest revenue and earnings base as well as portfolio concentration in terms of product types and segmentation. However, the rating also takes into consideration the company's relatively favorable profit margin, low financial leverage, and adequate liquidity. In addition, the rating incorporates our concerns over interest rate hike and the reimposition of the loan-to-value (LTV) rules, which could negatively impact demand for residential property in the short to medium term.

KEY RATING CONSIDERATIONS

Rating constrained by modest revenue and earnings base

LALIN's credit profile takes into account the company's modest scale of revenue and earnings compare with other rated property developers. Its operating revenue ranged between THB5.5-THB6.5 billion while its earnings before interest, taxes, depreciation, and amortization (EBITDA) stayed in the THB1.5-THB2.0 billion range in 2020-2022. LALIN's revenue and EBITDA in 2022 ranked 13th and 12th, respectively, out of the 25 developers rated by TRIS Rating.

Looking forward, we view that LALIN's operating performance and profitability is likely to be increasingly challenged by intense competition from leading players in the market. In addition, the unfavorable economic situation resulting from interest rate hikes and high household debt as well as the still-weak purchasing power of middle- to low-income homebuyers, which are LALIN's major customers, could put pressure on the company's operating results.

However, we expect LALIN to be able to maintain its total operating revenue in the THB5-THB6 billion range, following its plan to launch 10-12 new landed property projects per annum. Based on its proven record of efficient cost control, we expect LALIN to sustain a favorable profit margin in 2023-2025, with the gross profit margin hovering around 38%. LALIN's EBITDA margin is expected to stay at around 25%, down slightly from 27%-28% in the past three years.

Concentrated product portfolio

We view that LALIN's product portfolio is relatively concentrated in the affordably and middle priced segments. LALIN offers landed property products, including single detached houses and semi-detached houses (SDH and semi-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 substantial, the purchasing power of homebuyers within this segment is limited and bank loan rejection rates are relatively high, especially during the period of economic slowdown.

To expand its customer base and lower the risk of bank loan rejections, LALIN has introduced two new brands in the higher-priced segment, the THB4.5-THB8.0 million range for SDH and semi-DH as well as the THB2.6-THB3.5 million range for townhouses. However, the revenue contribution from these new products remains relatively modest at this time.

As of June 2023, LALIN had 86 on-going projects. The value of the remaining unsold units (including built and un-built units) was THB27.9 billion. LALIN's key products are townhouses, contributing around 55% of total revenues in 2021 through the first six months of 2023 (6M2023).

Interest rate hikes directly impact LALIN's target customers

The Bank of Thailand (BOT) has already raised the policy rate by 100 basis points (bps) to 2.5% this year. 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. Consequently, banks have become more stringent in their lending practices towards these groups of homebuyers. The bank rejection rate for LALIN's customers rose from 30% in 2022 to 40% in 6M2023.

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. The impact of the LTV measures on LALIN is likely to be relatively low since most of its products are priced in the THB2-THB3 million per unit range.

Financial leverage is trending upward, but remains low

LALIN's financial leverage, as measured by the debt to capitalization ratio, increased to 31% at the end of June 2023 from 21%-26% in the past three years. Its debt to EBITDA ratio (annualized with the trailing 12 months) also rose to 2.9 times as of June 2023 from 1.2-1.6 times in 2020-2022. Although LALIN's financial leverage is trending upward, the ratio remains low compared with the industry average. In addition, with its strategic focus on landed property development, which is less capital intensive than high-rise property development, LALIN's leverage should not increase much from the current level.

Our base case scenario expects LALIN's debt to capitalization ratio to stay below 35% and debt to EBITDA ratio below 3.5 times in 2023-2025. We assume LALIN to launch new landed property projects worth THB7.0-THB8.5 billion per annum. We project the budget for land acquisition to be THB1.5-THB2.5 billion annually, with estimated construction expenditures of THB2.5-THB3.0 billion.

As of June 2023, LALIN had total consolidated debts of THB4.3 billion, comprising THB3.4 billion debentures and THB0.9 billion short-term debts. All debts are unsecured and rank pari passu.

Liquidity should remain adequate

We expect LALIN to be able to refinance most of its maturing debentures and short-term debts to maintain adequate liquidity and to fund its business operations. As of June 2023, LALIN's sources of liquidity consisted of cash on hand and investments in fixed-income funds of around THB0.3 billion, and undrawn committed credit facilities from banks of THB2.2 billion. Funds from operation (FFO) over the next 12 months is forecast to be THB1 billion. LALIN also has unencumbered assets at book value worth THB11.4 billion, which can be pledged as collateral for new credit facilities, if needed.

On the flip side, LALIN's maturing debts over the next 12 months amounted to THB2.2 billion, comprising THB1.2 billion in debentures and THB1 billion in short-term bills of exchange (B/Es) and promissory notes (P/Ns). LALIN plans to refinance maturing debentures and B/Es by new debentures issuance and internal cash flow. We expect LALIN's cash flow protection to remain strong over the next three years, with its FFO to debt ratio remaining above 20% and EBITDA interest coverage ratio above 8 times.

The financial covenant on LALIN's debt obligations requires the company to maintain its interest-bearing debt to equity ratio below 2 times. The ratio at the end of June 2023 was 0.5 times. We believe LALIN should remain 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 LALIN's operations during 2023-2025:
- LALIN to launch new landed property projects worth THB7.0-THB8.5 billion
- Annual budget for land acquisition of THB1.5-THB2.5 billion
- Total operating revenue in the range of THB5-THB6 billion with EBITDA margin of around 25%

RATING OUTLOOK

The "stable" outlook reflects our expectation that LALIN will be able to deliver operating results in line with our target and sustain its prudent financial discipline. We also expect LALIN to keep its debt to capitalization ratio below 35% and debt to EBITDA ratio below 3.5 times over the forecast period.

RATING SENSITIVITIES

The rating and/or outlook could be revised downward should the company's operating performance and/or financial profile significantly deviate from our expectations. We could also lower the rating and/or outlook if LALIN's competitive position weakens considerably in the future. On the other hand, the credit upside scenario could emerge if LALIN executes a substantial larger revenue and earnings base comparable with higher-rated peers, while maintaining a prudent financial policy.

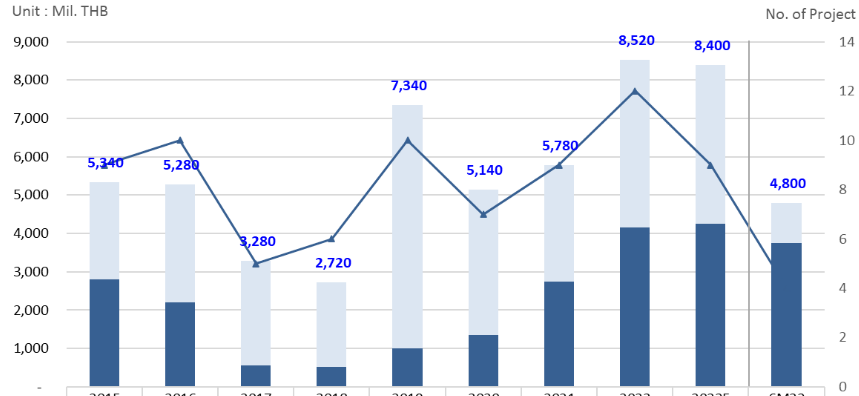
COMPANY OVERVIEW

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 71% equity stake as of March 2023. LALIN focuses on the middle- to low-income landed property segment. In 2009, the company launched two landed property brands: "LANCEO" and "LIO". The LANCEO brand offers SDH and semi-DH units with prices ranging from THB3-THB6 million. The LIO brand offers townhouses at prices of THB2-THB3 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 half 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. LALIN also launched the "LIO Prestige" brand for townhouses with prices ranging between THB2.6-THB3.5 million per unit. In 2022, the revenue contributions from projects in the Greater Bangkok area and other provinces were around 93% and 7%, respectively.

As of June 2023, LALIN's residential project portfolio comprised 86 on-going projects, with a remaining value of THB27.9 billion and a backlog value of THB1.5 billion. Over the past five years, almost all revenue has been derived from landed property projects.

KEY OPERATING PERFORMANCE

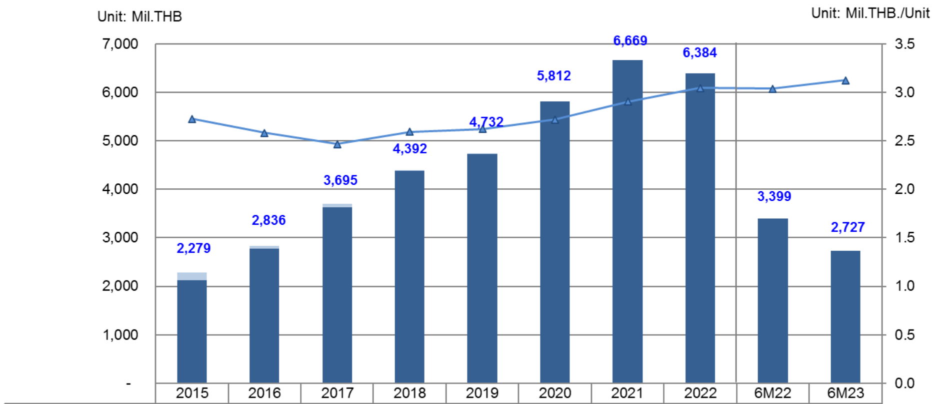
Chart 1: New Project Launches



	2015	2016	2017	2018	2019	2020	2021	2022	2023F	6M23
Townhouse	2,540	3,080	2,720	2,200	6,340	3,790	3,030	4,370	4,150	1,050
SDH	2,800	2,200	560	520	1,000	1,350	2,750	4,150	4,250	3,750
Total	5,340	5,280	3,280	2,720	7,340	5,140	5,780	8,520	8,400	4,800
No. of project	9	10	5	6	10	7	9	12	9	4

Source: LALIN

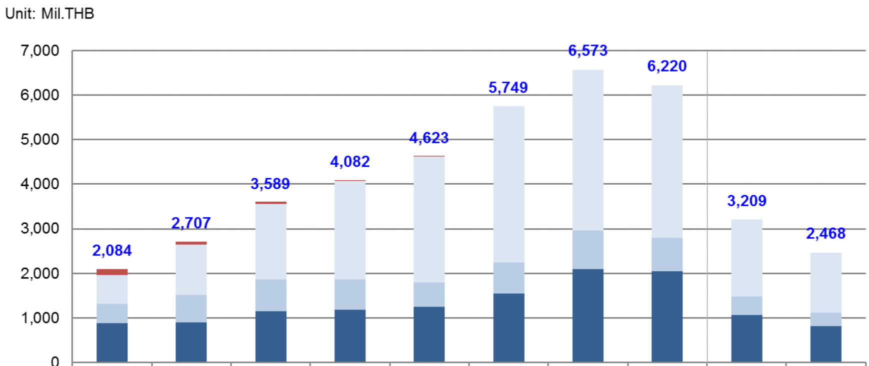
Chart 2: Presales Performance



	2015	2016	2017	2018	2019	2020	2021	2022	6M22	6M23
Condo (LHS)	156	69	62	14	2					
Housing (LHS)	2,122	2,767	3,633	4,379	4,721	5,810	6,669	6,384	3,399	2,727
Avg. Price (RHS)	2.7	2.6	2.5	2.6	2.6	2.7	2.9	3.0	3.0	3.1

Source: LALIN

Chart 3: Revenue Breakdown by Product



	2015	2016	2017	2018	2019	2020	2021	2022	6M22	6M23
Condo	130	66	57	13	2	0	0	0	0	0
Townhouse	646	1,137	1,687	2,197	2,819	3,507	3,615	3,421	1,733	1,357
Semi-DH	438	623	718	692	554	690	854	746	417	296
SDH	875	893	1,149	1,180	1,248	1,552	2,103	2,053	1,059	814
Total Revenue	2,084	2,707	3,589	4,082	4,623	5,749	6,573	6,220	3,209	2,468

Source: LALIN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2023		-----------Year Ended 31 December --------- 2022	2021	2020	2019
Total operating revenues	2,468		6,220	6,573	5,749	4,623
Earnings before interest and taxes (EBIT)	585		1,674	1,827	1,594	1,201
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	608		1,716	1,875	1,645	1,252
Funds from operations (FFO)	436		1,293	1,415	1,191	897
Adjusted interest expense	60		102	110	118	120
Real estate development investments	14,646		12,862	11,433	10,916	10,831
Total assets	15,434		13,837	13,209	12,454	11,502
Adjusted debt	4,150		2,747	2,242	2,652	3,355
Adjusted equity	9,066		8,935	8,256	7,472	6,564
Adjusted Ratios						
EBITDA margin (%)	24.62		27.59	28.53	28.62	27.08
Pretax return on permanent capital (%)	10.94	**	14.27	16.32	15.23	12.43
EBITDA interest coverage (times)	10.14		16.89	17.03	13.95	10.47
Debt to EBITDA (times)	2.91	**	1.60	1.20	1.61	2.68
FFO to debt (%)	25.36	**	47.08	63.12	44.90	26.73
Debt to capitalization (%)	31.40		23.51	21.36	26.20	33.83

* *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

Company Rating:	BBB+
Rating Outlook:	Stable

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