

# MAJOR DEVELOPMENT PLC

No. 110/2021

9 July 2021

## CORPORATES

**Company Rating:** BB+  
**Outlook:** Negative

**Last Review Date:** 10/07/20

### Company Rating History:

Date	Rating	Outlook/Alert
02/08/18	BB+	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Major Development PLC (MJD) at “BB+”. At the same time, TRIS Rating revises the company’s outlook to “negative” from “stable”. The “negative” outlook reflects MJD’s lower-than-expected operating performance and the uncertainty over its future performance amid the prolonged Coronavirus Disease 2019 (COVID-19) pandemic which could put more pressure on demands for both residential property and rental businesses.

The rating continues to reflect MJD’s relatively volatile operating performance as its products are concentrated in the high-end condominium segment, its relatively high financial leverage, and its well-accepted brand name in the luxury condominium segment.

## KEY RATING CONSIDERATIONS

### Operating performance remains under pressure

TRIS Rating expects MJD’s operating performance to remain under pressure over the next 2-3 years. We have revised down projections of MJD’s revenues to THB3.5-THB4.6 billion per annum during 2021-2023, lower than our previous forecast of THB4.5-THB6 billion per annum. Although we do not expect any significant price cut like last year, MJD’s earnings before interest, taxes, depreciation, and amortization (EBITDA) margin is likely to stay flat at around 15% in 2021, lower than our previous target of 17%-20%. The lower margins reflect MJD’s lower revenues and share of profit from investments in joint ventures (JVs) and its relatively high fixed operating expenses.

Amid sluggish demand for condominiums and the prolonged COVID-19 pandemic, MJD’s presales value (including presales from JVs) was only THB2.6 billion in 2020 and THB377 million in the first quarter of 2021. This is a sharp drop from THB5.2 billion in 2019 and THB11.6 billion in 2018. Backlog at the end of March 2021 was only THB5.4 billion, comprising THB2.3 billion of its own projects and THB3.1 billion under JVs. Most of its own backlog is expected to be recognized as revenue in the remainder of 2021. The backlog of JV projects are expected to be recognized as revenue of around THB0.6 billion within this year, and THB2.5 billion in 2022. Thus, MJD will have to focus on the sales of its existing completed projects in order to achieve its target revenue. At the end of March 2021, MJD had almost THB8.6 billion of completed units available for sales.

### Concentration in high-rise condominiums

In TRIS Rating’s view, MJD’s portfolio is overly concentrated in the high-rise condominium segment. At the end of March 2021, the company had 22 residential projects (including JV projects), with remaining units available for sale worth THB9.1 billion. About 71% of the value of its unsold units was high-rise projects. As high-rise condominium projects tend to tie up large amounts of capital and require a long development period, MJD’s revenue has been susceptible to a high degree of adverse impact when there is a material downward shift in market demand in the condominium segment. Whereas, the company has a certain amount of fixed operating expenses. As a result, we have seen a high degree of volatility in MJD’s profit margins. MJD’s EBITDA margin was 38% in 2018 before dropping to 18% in 2019 and 15% in 2020.

MJD tried to mitigate its portfolio concentration risk by developing more low-

rise condominium projects under the “Maestro” brand. The company has also developed townhomes and single detached houses (SDHs) under the “Malton” and “Mavista” brands. Average housing prices range from THB60-THB100 million per unit. Going forward, MJD plans to launch landed property projects worth THB4.5-THB5.5 billion in the next two years. We expect these landed property projects to take less time to develop and be transferred to customers. The success of its portfolio diversification should help smooth out its earnings. MJD’s investments in the hotel and office businesses are still marginal compared with its residential property business. Revenues from the hotel and office businesses are expected to be only THB0.2-THB0.3 billion per annum during the next 2-3 years.

### Well-accepted brands in the high-end segment

MJD’s brands are widely accepted in the high-end residential property segment. MJD’s condominium projects are developed under the “Muniq”, “M Series”, “Maru”, “Metris”, and “Maestro” brands. Its brand recognition is quite strong in the high-priced condominium segment, especially condominium projects with prices in the THB120,000-THB170,000 per square meter (sq.m.) range.

The company’s competitive edge in the high-end condominium segment is underpinned by its focus on quality, functional unit sizes, and prime locations. Most of MJD’s projects are located in prime areas close to stations on the existing mass transit lines. The rest are located in tourist destinations like Pattaya and Hua Hin. In the last couple of years, the company has diversified toward smaller projects such as 8-storey condominiums and detached houses in order to shorten development periods. However, its products are still mainly targeted to high-income homebuyers.

### Financial leverage remains high

MJD’s financial leverage remains high despite the consistent and gradual decline of its debt to capitalization ratio over the last five years. The company’s debt to capitalization ratio improved to around 63%-64% in 2020 and the first quarter of 2021, down from 76% in 2017. Adjusted debts (including a proportionate 51% of debt from JVs) at the end March 2021 stood at THB10 billion since the company launched only one condominium project worth only THB580 million in 2020. However, its relatively low profitability coupled with the high interest expenses, has resulted in its EBITDA interest coverage ratio falling below 2 times. MJD’s EBITDA interest coverage ratio stood at 1.8 times in 2020 and 1.4 times in the first quarter of 2021. The ratio of funds from operations (FFO) to debt was 3.6% as of 2020, and only 1.3% in the first quarter of 2021.

TRIS Rating forecasts MJD’s debt level to rise again in 2022-2023 since the company plans to launch more condominium and landed property projects. We project MJD’s debt to capitalization ratio during 2021-2023 to range between 65%-68%, or a debt to equity ratio at around 1.8-2.2 times. According to the company’s loan covenants, MJD is obliged to keep its interest-bearing debt (IBD) to equity ratio below 3.5 times. At the end of March 2021, its IBD to equity ratio was 1.99 times. MJD’s priority debt to total debt ratio was 36.3%. Its priority debt included THB4 billion secured debt. Since MJD’s priority debt ratio was lower than 50%, we view that MJD’s unsecured creditors are not significantly disadvantaged to its priority debt holders.

### Tightening liquidity

MJD’s liquidity remains tight but should be manageable. As of March 2021, MJD had THB4.3 billion of debt due in the remainder of 2021, comprising THB0.2 billion short-term loans, THB0.8 billion long-term project loans, and THB3.3 billion debentures. Its sources of funds comprised cash on hand of THB2.2 billion and undrawn committed credit facilities of around THB0.5 billion at the end of March 2021. FFO over the next 12 months is projected to be THB70-THB100 million. We expect the project loans to be repaid with cash from the transfers of sold property units, and some of maturing debentures to be refinanced with new debenture issuances.

### BASE-CASE ASSUMPTIONS

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

- MJD’s revenue to be THB3.5-THB4.6 billion per annum. Share loss from JV projects to be around THB20-THB30 million in 2021 and share profit to amount to THB250 million per annum in 2022 and 2023.
- EBITDA margin to range between 17%-20%.
- Land acquisition to be around THB1.5 billion yearly.
- MJD to launch residential property projects worth around THB5-THB8 billion per annum during 2021-2023.

### RATING OUTLOOK

The “negative” outlook reflects our concerns over MJD’s weak operating performance in both its residential property and rental businesses while its financial leverage remains high. The slow recovery of both domestic and foreign demands due to the prolonged COVID-19 pandemic could deepen the deterioration in MJD’s operating performance over the next

few years.

## RATING SENSITIVITIES

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TRIS Rating could revise MJD's outlook upward to "stable" if the company's operating performance is better than our base case target, while maintaining its debt to capitalization ratio below 65%. However, we would revise the rating downward should MJD's operating performance and financial leverage deteriorate significantly from our base case forecast.

## COMPANY OVERVIEW

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MJD was established in 1999 by the Poolvorlaks family. The company became public in December 2005 and was listed on the Stock Exchange of Thailand (SET) in November 2007. After the initial public offering (IPO), the Poolvorlaks family continued to be MJD's largest shareholder. As of May 2021, the Poolvorlaks family held a 52% stake in the company.

MJD focuses on the high-end condominium segment. Selling prices across the portfolio are in the range of THB4-THB10 million per unit. Its major brands comprise the M Series and the Maestro. The M Series projects are high-rise condominiums located near mass transit lines. The Maestro projects are low-rise condominiums on smaller land plots in good locations. The company also has signature projects targeting the super-luxury segment.

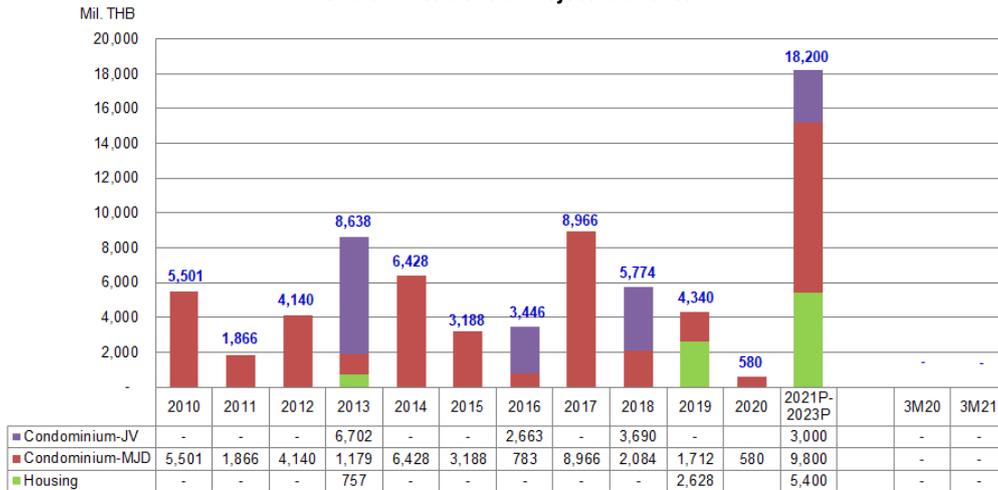
In 2013, MJD invested 51% in a JV with private equity funds, including Must International Trading Pte. Ltd. (22%), GMM Singapore Real Estate Pte. Ltd. (22%), and GRG Global Investments Ltd. (5%). The JV developed two condominium projects: "Marque Sukhumvit", launched in 2013, and "Muniq Sukhumvit 23", launched in 2016, with a combined project value of THB9.4 billion. The JV also launched "Muniq Langsuan" in 2018, with a project value of THB3.7 billion.

In 2017, MJD launched two new condominium brands, including Metris, with prices ranging from THB4-THB6 million per unit, and Maru, with prices ranging from THB6-THB8 million per unit, to capture the lower-priced segment. In addition, the company also launched housing projects under the "Malton" and "Mavista" brands in 2019.

MJD has expanded its business to generate more recurring income. The company developed four hotels, "Marrakesh Hua Hin Resort and Spa" in 2011, "Centra Maris Resort Jomtien" in 2016, "Maven Stylish Hotel Bangkok" in 2018, and "Maven Stylish Hotel Hua Hin" in 2020. MJD commenced operation of its first office building, "Major Tower Thonglor 10", in 2015. The second office building, "Major Tower Rama 9-Ramkumhang", commenced operation in 2020. These rental assets generate revenue of around THB350-THB450 million per annum.

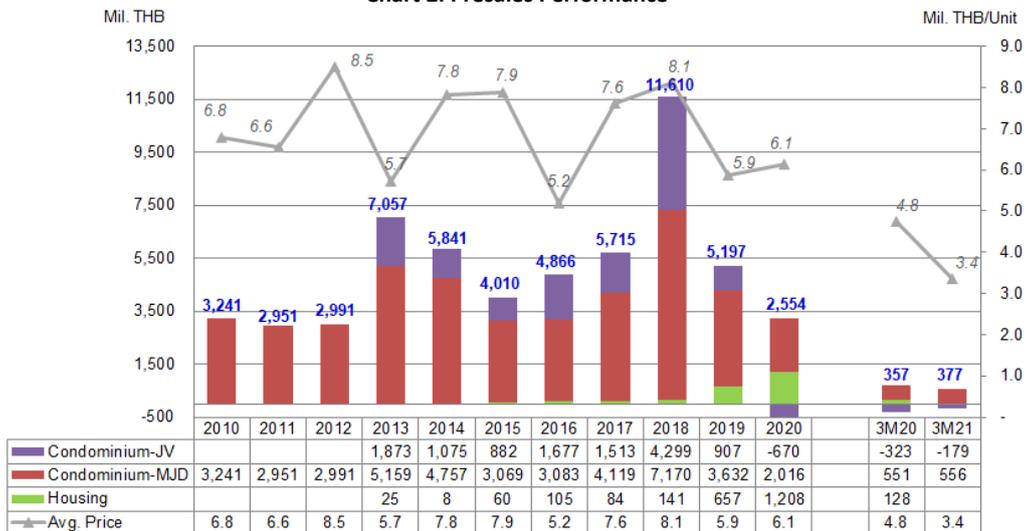
**KEY OPERATING PERFORMANCE**

**Chart 1: Residential Project Launches**



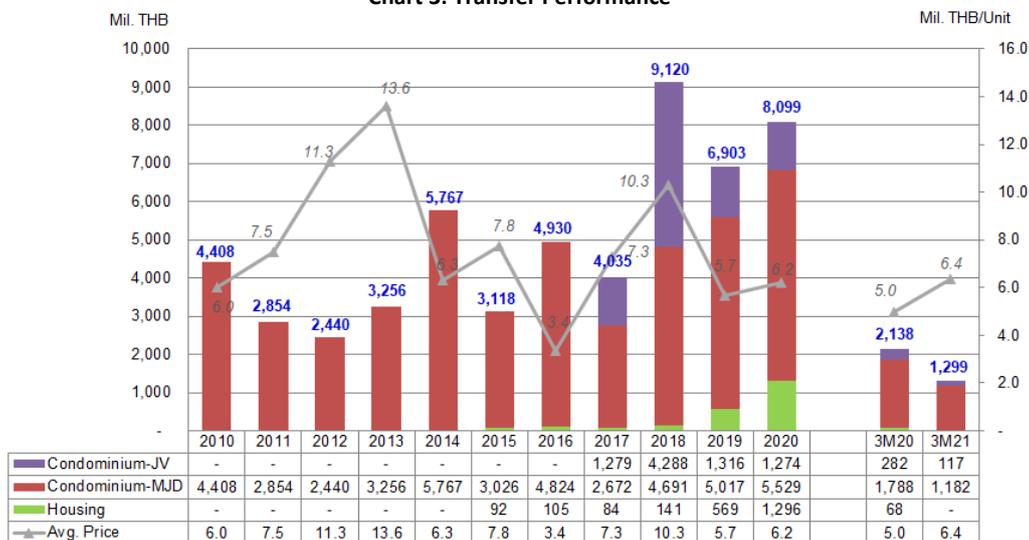
Source: MJD

**Chart 2: Presales Performance**



Source: MJD

**Chart 3: Transfer Performance**



Source: MJD

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

	Jan-Mar 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	1,254	7,335	6,028	5,306	3,300
Earnings before interest and taxes (EBIT)	204	953	925	1,873	338
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	237	1,087	1,072	2,018	436
Funds from operations (FFO)	46	352	311	1,189	(98)
Adjusted interest expense	169	619	725	647	556
Real estate development investments	7,966	8,445	10,502	11,121	12,263
Total assets	18,838	18,763	19,593	19,807	19,493
Adjusted debt	10,010	9,749	11,002	10,462	12,489
Adjusted equity	5,626	5,654	5,456	5,086	3,785
<b>Adjusted Ratios</b>					
EBITDA margin (%)	18.92	14.83	17.78	38.02	13.20
Pretax return on permanent capital (%)	4.06 **	5.62	5.55	11.21	2.14
EBITDA interest coverage (times)	1.40	1.76	1.48	3.12	0.78
Debt to EBITDA (times)	11.76 **	8.97	10.26	5.19	28.67
FFO to debt (%)	1.32 **	3.62	2.82	11.37	(0.79)
Debt to capitalization (%)	64.02	63.30	66.85	67.29	76.74

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

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

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**Major Development PLC (MJD)**

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<b>Company Rating:</b>	BB+
<b>Rating Outlook:</b>	Negative

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**TRIS Rating Co., Ltd.**

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