TRIS RATING
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MAJOR DEVELOPMENT PLC

No. 112/2019
19 July 2019

CORPORATES

Company Rating:	BB+
Outlook:	Stable

Last Review Date: 02/08/18

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+" with "stable" outlook. The rating reflects MJD's relatively volatile operating performance, high financial leverage, and the concentration of its products in the high-end condominium segment. The rating also takes into consideration its well-accepted brand name in the luxury condominium segment, as well as its relatively large backlog which should partly secure its earnings and cash flow in the next few years. However, the cyclical and competitive nature of the residential property development industry and the implementation of the new loan-to-value (LTV) lending rules by the Bank of Thailand (BOT) in April 2019 may negatively affect the housing demand in the short to medium term.

KEY RATING CONSIDERATIONS

Concentration in high-rise condominiums, but gradually increasing low-rise condominium and landed property projects

MJD's portfolio is quite concentrated in the high-rise condominium segment. At the end of March 2019, the company had 26 condominium projects worth Bt12,759 million available for sale. Almost 70% of the value of its unsold units was in high-rise projects. In addition, MJD has undertaken three condominium projects through a joint venture (JV). At the end of March 2019, the JV projects were 84% sold and had Bt2,265 million worth of units available for sale.

High-rise condominium projects have a relatively high project value and require a longer development period than low-rise projects. With its concentration in high-rise projects, MJD's revenue recognition swing a lot from year to year, depending on the number of projects completed each year. Whereas, its selling and administrative expenses (SG&A) were consistently on the high side. Thus, MJD's operating margins (operating income before depreciation and amortization as a percentage of revenue) were volatile in the past, jumping from 12.2% in 2015 to 21.5% in 2016 and then dropping to 5.6% in 2017. This ratio held at around 10%-11% during 2018 through the first quarter of 2019. The operating performance in 2018 was in line with TRIS Rating's expectation and continued improving in the first quarter of 2019.

MJD is trying to mitigate the portfolio concentration risk by developing more low-rise condominium projects under the "Maestro" brand. However, its target customers are still in the high-end segment. The company also plans to add new products, such as townhomes and single detached houses, into its portfolio. MJD plans to launch housing projects worth around Bt2,500-Bt3,000 million this year. These housing projects should take a shorter time to develop and transfer to customers.

Large backlog should help secure revenues and lower earnings volatility

In TRIS Rating's view, MJD's operating performance should be less volatile over the next 2-3 years. The company's relatively large backlog should help secure and smooth its revenue and profitability. At the end of March 2019, MJD's condominium backlog comprised Bt8,647 million of its own projects and Bt5,344 million under JV. MJD's backlog is expected to be recognized as revenue of around Bt2,300 million in the remainder of 2019, Bt4,000 million in 2020, and the rest in 2021. The backlog under JV projects will be recognized as revenue of around Bt380 million by this year, Bt1,880 million in 2020, and the rest in 2021.

Based on its backlog and completed units available for sale, MJD's revenue is expected to improve to around Bt6,500-Bt7,500 million per annum during 2019-2021. The operating margin should improve and hold around 12%-15% during 2019-2021, supported by sizable condominium backlog expected to be transferred during this period. Going forward, the consistency of its new project launches and transfers should help alleviate the concern over the volatility of its earnings and cash flow that the company faced in the past.

High level of financial leverage

MJD's leverage is high, compared with other property developers rated by TRIS Rating. The company develops only condominium projects, which are capital intensive and have lengthy project completion timeframes. The slow selling rates and long development periods will cause its financial leverage to remain at high level. The debt to capitalization ratio of MJD stayed in a range of 70%-76% over the past three years. This ratio was 67% at the end of March 2019, due to the improvements in its operating performance and large amount of share profit from the JV projects. With many condominium projects in progress plus plans to invest in both condominium and new recurring-income projects, we expect MJD's leverage to remain high this year then gradually decline in 2020 and 2021. However, the company has to keep the interest-bearing debt to equity ratio below 3.5 times in order to comply with its loan covenants.

At the end of March 2019, the ratio of interest-bearing debt to equity was 1.95 times. MJD mainly finances land acquisition and construction costs with project loans from banks and debenture issuances. At the end of March 2019, total debt (including a proportionate 51% of debt from the JV projects) was Bt10,888 million. Around 41% of the outstanding debts were long-term project loans, 52% were debentures, and the rest were short-term loans.

Well-accepted brand name in the high-end segment

MJD's brands are widely accepted in the high-end residential property segment. MJD's condominium projects were developed under the "Muniq", "M Series", "Maru", "Metris", and "Maestro" brands. Its brand recognition was quite strong in the high-priced condominium segment, especially condominium projects with prices ranging between Bt120,000-Bt170,000 per square metre (sq.m.).

The company's competitive edge in the high-end condominium segment comes from high-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 diversified its products toward smaller projects such as 8-floor condominium projects and detached houses in order to shorten the construction period but still target high-income homebuyers.

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. Slow recovery in the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the affordability of middle- to low-income homebuyers. MJD's strategy is to focus mainly on the high-end housing segment where demand is quite resilient. However, competition in this segment is becoming more intense as more players are moving towards this segment. Thus, MJD has to carefully manage new project launches to match the demand in each segment.

In addition, the implementation of the new LTV rules by the BOT in April 2019 may impact the demand from domestic investors. Under the new LTV rules, homebuyers can borrow up to 70%-80% of the collateral value, down from 90%-100% of the collateral value, for their second and subsequent mortgage loans. Therefore, developers may have to lengthen the down payment period for some homebuyers. We expect the lower LTV ratio for the second and subsequent mortgage loans will help reduce speculative demand and help strengthen the property market in the long run.

Liquidity remains tight

MJD's liquidity is tight. MJD's debt due over the next 12 months (excluding project loans) will be Bt3,645 million. Its sources of funds comprised cash on hand of Bt386 million and undrawn committed credit facilities of around Bt2,377 million at the end of March 2019. TRIS Rating forecasts the funds from operations (FFO) of MJD over the next 12 months will be around Bt400-Bt500 million. MJD plans to refinance most of the maturing bonds with new bond issues. MJD needs to manage its liquidity carefully.

Under TRIS Rating's base-case, we expect MJD's FFO to total debt ratio will range at 3%-5% over the next three years, while the earnings before interest, taxes, depreciation, and amortization (EBITDA) interest coverage ratio is expected to stay around 1.5-2.5 times.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base case forecast:

- MJD will launch residential property projects in 2019 worth Bt4,638 million, comprising condominium projects worth Bt2,013 million and new landed property launches worth Bt2,625 million. Going forward, the company is expected to launch new residential projects worth Bt3,000 million per annum.
- MJD's revenue is forecast at around Bt6,500-Bt7,500 million per annum during 2019-2021. The share profit from the JV projects is expected to be around Bt150-Bt200 million per annum during 2019-2021.
- Land acquisition is budgeted at Bt1,000-Bt1,500 million yearly.
- Capital expenditures on its rental assets is set at Bt600 million in 2019 and Bt150 million in 2020.

RATING OUTLOOK

The "stable" outlook reflects our expectation that MJD will deliver its condominium units in the backlog as scheduled. Backed by the projected backlog units delivered during 2019-2021, MJD's financial profile should improve over the next two years. However, as MJD plans substantial future investments in both new condominium projects and recurring-income assets, we expect its financial leverage will remain high this year then gradually decline in 2020 and 2021. The operating margin is expected to be 12%-15%. MJD's debt to capitalization ratio (including a proportionate 51% of debt from the JV) is expected to stay in the range of 65%-70%.

RATING SENSITIVITIES

TRIS Rating could revise MJD's rating or outlook upward if the company delivers its projects as planned and lowers its debt to capitalization ratio to 60%-65% on a sustainable basis. However, we would revise the rating and/or outlook downward should MJD's operating performance and its financial leverage deteriorate significantly from the current levels. A decline in operating margin to below 10% and/or the debt to capitalization ratio staying at around 75% for a sustained period may also lead to a rating downgrade.

COMPANY OVERVIEW

MJD was established in 1999 by the Poolvoralaks family. The company became a public company in December 2005 and was listed on the Stock Exchange of Thailand (SET) in November 2007. After the initial public offering (IPO), the Poolvoralaks family continued to be MJD's largest shareholder. As of April 2019, the Poolvoralaks family held a 63% stake in the company.

MJD focuses on the high-end condominium segment. The selling price across the portfolio was in the range of Bt4-Bt10 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 in good locations on smaller land plots. The company also has signature projects targeting the super-luxury segment.

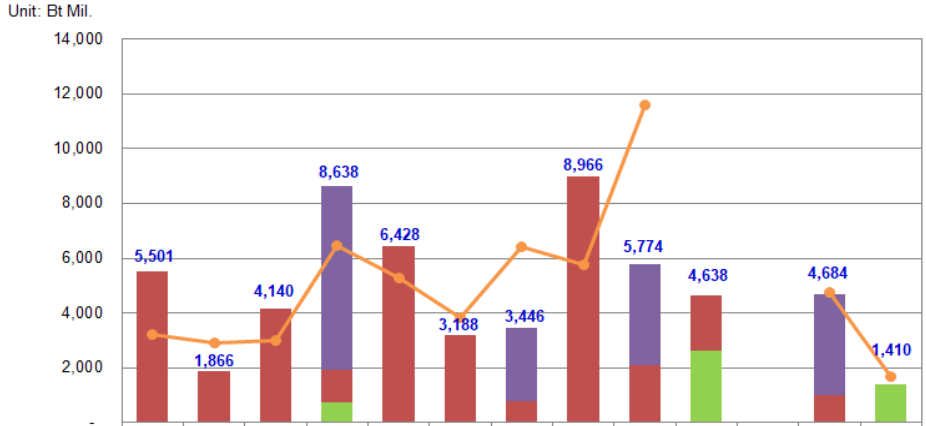
In 2013, MJD invested 51% in a JV with private equity funds, including Must International Trading Pte. Ltd. (22%), GMM Singapore Real Estate Pte. Ltd. (22%), and Lionpath Ltd. (5%). The JV developed two condominium projects: "Marque", launched in 2013, and "Muniq Sukhumvit", launched in 2016, with combined project value of Bt9,365 million. The JV also launched "Muniq Langsuan" in 2018, with project value of Bt3,690 million.

In 2017, MJD launched two new condominium brands, including Metris, with an average price of Bt4-Bt6 million per unit, and Maru, with an average price of Bt6-Bt8 million per unit, to capture the lower-priced segment. In addition, the company plans to launch housing projects under the brands "Malton" and "Mavista" this year.

Moreover, MJD expanded its business to generate more recurring income. MJD developed three hotels, "Marrakesh Hua Hin Resort and Spa" in 2011, "Centra Maris Resort Jomtien" in 2016, and "Maven Stylish Hotel Bangkok" in 2018. In addition, MJD operated its first office building, "Major Tower Thonglor 10", in 2015. The second office building "Major Tower Rama 9 - Ramkumhang", is under construction and will be in operation in 2020. These rental assets generate revenue of around Bt350-Bt450 million per annum.

KEY OPERATING PERFORMANCE

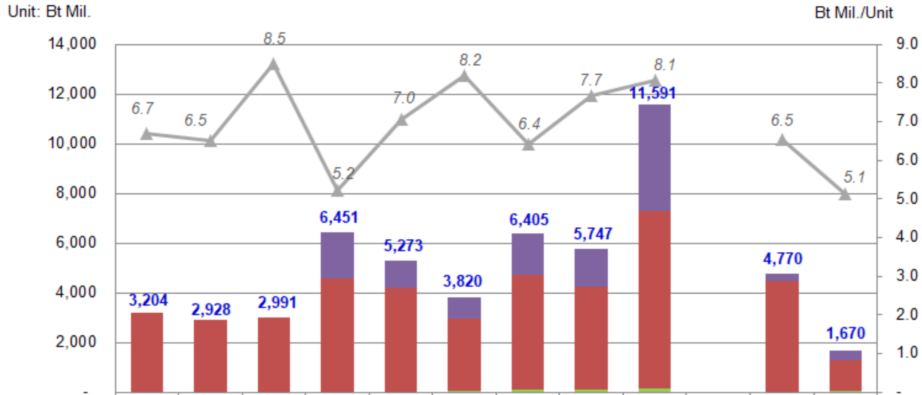
Chart 1: Residential Project Launches



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019P		3M18	3M19
Condominium-JV				6,702			2,663		3,690			3,690	
Condominium-MJD	5,501	1,866	4,140	1,179	6,428	3,188	783	8,966	2,084	2,013		994	-
Housing				757						2,625			1,410
Presales	3,204	2,928	2,991	6,451	5,273	3,820	6,405	5,747	11,591			4,770	1,670

Source: MJD

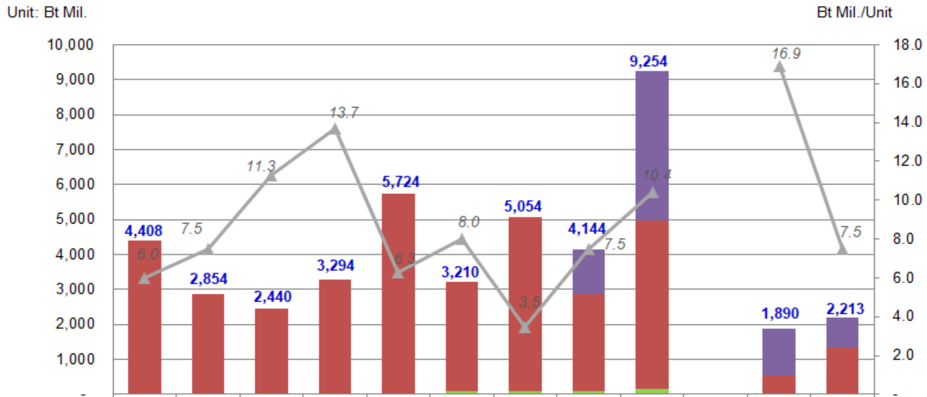
Chart 2: Presales Performance



	2010	2011	2012	2013	2014	2015	2016	2017	2018		3M18	3M19
Condominium-JV				1,873	1,075	882	1,677	1,513	4,299		289	380
Condominium-MJD	3,204	2,928	2,991	4,552	4,189	2,879	4,622	4,151	7,151		4,463	1,253
Housing				25	8	60	105	84	141		18	37
Avg. Price	6.7	6.5	8.5	5.2	7.0	8.2	6.4	7.7	8.1		6.5	5.1

Source: MJD

Chart 3: Transfer Performance



	2010	2011	2012	2013	2014	2015	2016	2017	2018		3M18	3M19
Condominium-JV	-	-	-	-	-	-	-	1,279	4,288		1,347	870
Condominium-MJD	4,408	2,854	2,440	3,294	5,724	3,118	4,949	2,782	4,825		524	1,316
Housing	-	-	-	-	-	92	105	84	141		18	26
Avg. Price	6.0	7.5	11.3	13.7	6.3	8.0	3.5	7.5	10.4		16.9	7.5

Source: MJD

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2019	---------------Year Ended 31 December 2018	2017	2016	2015 ----------
Total operating revenues	1,458	5,341	3,300	5,357	3,413
Operating income	151	584	185	1,150	415
Earnings before interest and taxes (EBIT)	298	1,418	338	1,139	485
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	340	1,563	436	1,238	551
Funds from operations (FFO)	148	824	(98)	614	89
Adjusted interest expense	183	647	556	400	419
Real estate development investments	10,879	11,121	12,263	8,925	9,131
Total assets	19,138	19,174	19,493	15,895	14,890
Adjusted debt	10,485	10,462	12,489	9,803	9,015
Adjusted equity	5,237	4,571	3,785	3,963	3,537
Adjusted Ratios					
Operating income as % of total operating revenues (%)	10.37	10.94	5.61	21.47	12.17
Pretax return on permanent capital (%)	8.41 **	8.62	2.14	8.32	4.41
EBITDA interest coverage (times)	1.85	2.42	0.78	3.10	1.32
Debt to EBITDA (times)	6.74 **	6.70	28.67	7.92	16.35
FFO to debt (%)	7.61 **	7.88	(0.79)	6.26	0.99
Debt to capitalization (%)	66.69	69.59	76.74	71.21	71.82

* *Consolidated financial statements*

** *Annualized with trailing 12 months*

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Major Development PLC (MJD)

Company Rating:	BB+
Rating Outlook:	Stable

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