

MAJOR DEVELOPMENT PLC

No. 126/2023
7 July 2023

CORPORATES

Company Rating: BB
Outlook: Stable

Last Review Date: 27/07/22

Company Rating History:

Date	Rating	Outlook/Alert
27/07/22	BB	Stable
09/07/21	BB+	Negative
02/08/18	BB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Major Development PLC (MJD) at “BB” with a “stable” outlook. The rating reflects MJD’s relatively weak and volatile operating performance, high financial leverage, and relatively strong brand recognition in the high-priced condominium segment. The rating also takes into consideration our concerns over the reimposition of the loan-to-value (LTV) rules and potential interest rate hikes, which could negatively impact demand for housing and the funding costs of developers.

KEY RATING CONSIDERATIONS

Weak performance constrains the rating

TRIS Rating views MJD’s operating performance as weak. A slow recovery in the condominium market, coupled with delays in transfers of the company’s housing projects, caused a further decline in its revenues. In 2022, its revenue dropped by 35% year-on-year (y-o-y) to THB2.8 billion. Revenue from its hotels and offices also remained modest, accounting for less than 10% of total revenues. MJD’s lower revenues, combined with relatively high selling and administrative expenses, caused its earnings before interest, taxes, depreciation, and amortization (EBITDA) margin to drop below 10% in 2022.

MJD’s presales in 2022, including presales from joint ventures (JVs), improved to THB3.8 billion. However, the presales were still lower than the pre-COVID-19 levels of more than THB4 billion per annum. This is primarily due to the concentration of MJD’s products in the high-priced condominium segment, whose demand remains sluggish. Additionally, the company launched only three projects worth THB6.1 billion in the past three years. The lower presales resulted in a further decline in the company’s backlog. As of May 2023, MJD’s backlog was only THB2.7 billion, including THB2.4 billion from its own projects and THB0.3 billion from JVs. Most of the JVs’ backlog is expected to be transferred this year. Around THB1 billion of its own backlog is expected to be transferred in the remainder of 2023, and the rest in 2025.

Diversification towards housing projects should help smooth earnings

MJD aims to balance its portfolio by launching more landed property projects. This year, the company plans to launch five housing projects worth THB6.2 billion and two condominium projects worth THB8.8 billion. Diversifying toward landed property products should help shorten development time and generate revenues in periods when no new condominium projects are completed. However, the company continues to focus on the high-priced and luxury housing segments. In TRIS Rating’s view, MJD’s diversification toward the landed property segment, if successful, should help stabilize its revenues and earnings.

Based on the company’s plan to launch more projects and the expected recovery in demand for condominiums, we project MJD’s revenues to improve to THB3.7-THB4.9 billion per annum during 2023-2025. Revenue from the hotel and office businesses is expected to be only THB0.4-THB0.5 billion per annum during 2023-2025. The higher revenue base should help increase MJD’s EBITDA margin to around 15%-18% over the next three years. In addition, MJD’s bottom line is expected to improve and turn positive no later than 2024.

Financial leverage remains high

MJD's financial leverage remains high. Due to its weak performance, MJD's debt to capitalization ratio has remained in the 63%-66% range over the past three years. The funds from operations (FFO) to debt ratio was negative 4.4% in 2022, and negative 5.1% in the first quarter of 2023. With the plan to launch more projects, MJD's debt to capitalization ratio will likely remain at high levels. We expect the company to keep the ratio below 70% for the rating to remain at the current level.

Our base case assumes the company will launch new projects worth around THB15 billion in 2023 and around THB4.0-THB6.0 billion per annum during 2024-2025. The budget for land acquisitions is set at THB2 billion in 2023 and THB1 billion per year in 2024-2025. According to the company's loan covenants, MJD has to maintain its net interest-bearing debt (IBD) to equity ratio below 3.5 times. At the end of March 2023, the ratio was 1.9 times. MJD's priority debt to total debt ratio was 38%.

Well-accepted brand name in the high-priced condominium segment

TRIS Rating views that MJD's brands are relatively strong in the high-end residential property segment, especially for condominium products. The company's competitive edge in the high-end condominium segment is underpinned by its well-accepted product quality, functional unit sizes, and prime locations. Most of MJD's projects are located in downtown areas close to the mass transit lines. MJD develops its condominium projects under various brands, including "Muniq", "M Series", "Maru", "Metris", and "Maestro". These projects are priced within the range of THB120,000-THB280,000 per square meter.

The company has also developed landed property projects under the "Malton" and "Mavista" brands, targeting the high-end and luxury segments with starting prices from THB50 million per unit. The "Mayfield" brand caters to the middle to high segments, with prices ranging from THB12-THB20 million per unit. However, the number of landed property projects is still limited. As of May 2023, the company had just three landed property projects out of a total of 17 residential projects (including two JV condominium projects). About 65% of the unsold value was priced above THB12 million per unit. The value of remaining landed property units available for sale was THB2.6 billion, accounting for around 28% of the total remaining units available for sale.

Negative impact from reimposition of LTV rules and interest rate hikes

The reimposition of LTV rules and rising interest rates could dampen housing demand in the short to medium term. Starting from January 2023, banks are required to cap LTV at 80%-90% for second-mortgage loans and at 70% for third-mortgage loans. In our view, the stringent LTV rules will generally have a greater impact on the mid- to high-end housing segments since these buyers may have more than one mortgage. However, the impact of LTV measures on MJD may not be significant, as the company's target customers in the high-priced residential segment tend to be cash buyers.

In addition to the tighter LTV rules, the rising policy rate set by the Bank of Thailand (BOT) is expected to have a negative impact on MJD. The BOT has already increased the policy rate three times this year, in January, March, and May. Due to its relatively high leverage, interest rate hikes will impact the funding costs of MJD to some extent. Given its relatively low profitability and high interest expenses, MJD's EBITDA interest coverage ratio could drop below 1 times. The ratio stood at 0.37 times in 2022 and 0.45 times in the first quarter of 2023.

Tightening liquidity

We assess MJD to have tight liquidity. As of March 2023, MJD had THB3.5 billion of debt due over the next 12 months, comprising THB0.2 billion short-term loans, THB0.6 billion long-term project loans, and THB2.7 billion debentures. Its sources of liquidity at the end of March 2023 consisted of THB1.8 billion of cash on-hand and THB550 million of undrawn committed credit facilities. The company plans to refinance most of its maturing debentures with new debenture issuances, while its project loans will be repaid with cash from the transfers of sold property units. The company also has unencumbered land and housing units worth around THB2.5-THB2.8 billion, which can be pledged as collateral for bank loans if needed.

BASE-CASE ASSUMPTIONS

- MJD to launch residential property projects worth THB15 billion in 2023 and THB4-THB6 billion per annum in 2024-2025.
- MJD's revenue to be THB3.7-THB4.9 billion per annum during 2023-2025.
- Share profit from JV projects to be around THB50-THB70 million per annum.
- Land acquisition to be around THB1.0-THB2.0 billion yearly.

RATING OUTLOOK

The "stable" outlook reflects our expectation that MJD should be able to sustain its operating performance as targeted and deliver the units in its backlog as scheduled. Based on its business plans, we expect the company's debt to capitalization ratio to stay below 70% over the forecast period, and its EBITDA margin to be maintained at around 15%.

RATING SENSITIVITIES

TRIS Rating could revise MJD's rating or outlook upward if the company can improve its operating performance and lower 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 financial leverage deteriorate significantly from our base-case levels. A decline in EBITDA margin to below 15% and/or the debt to capitalization ratio staying above 70% for a sustained period may also lead to a rating downgrade.

COMPANY OVERVIEW

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 March 2023, the Poolvorlaks family held a 48% 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.

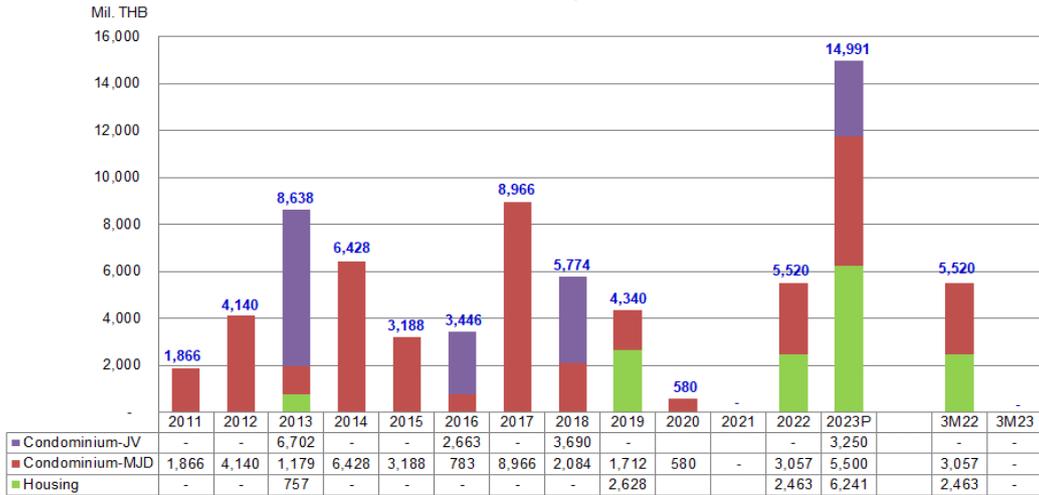
In 2013, MJD invested 51% in a JV with private equity funds, including Must International Trading Pte. Ltd. (22%), GMM Singapore Real Estate Pte. Ltd. (22%), and GRG Global Investments Ltd. (5%). The JV developed two condominium projects: "Marque Sukhumvit", launched in 2013, and "Muniq Sukhumvit 23", 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 three hotels, "Marrakesh Hua Hin Resort and Spa" in 2011, "Centra Maris Resort Jomtien" in 2016, 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.

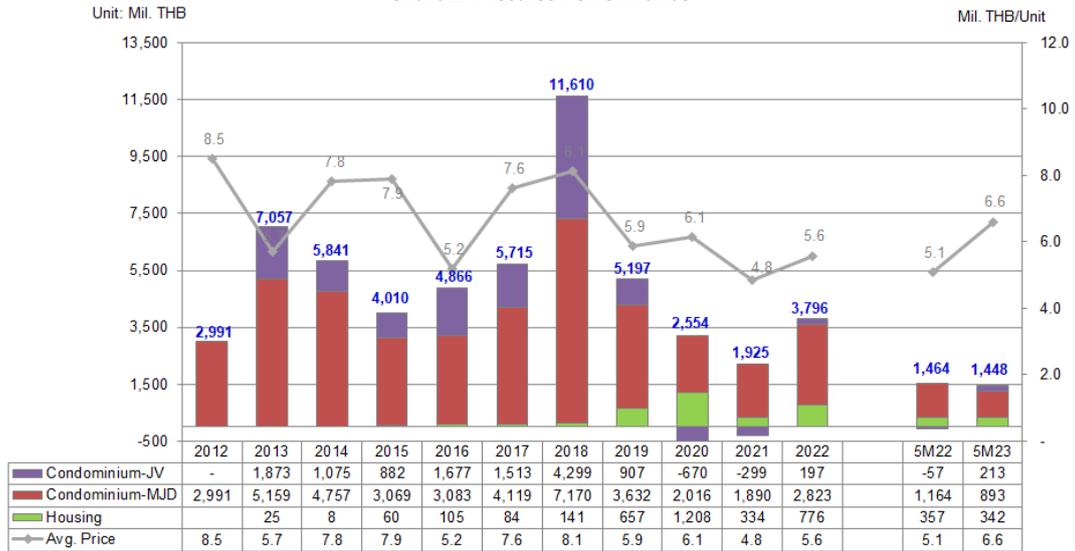
KEY OPERATING PERFORMANCE

Chart 1: Residential Project Launches



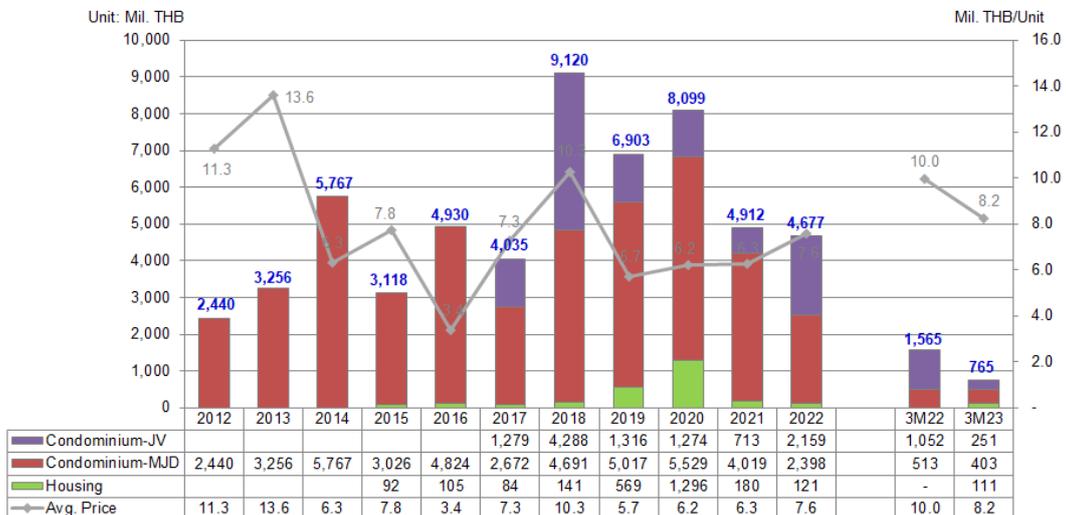
Source: MJD

Chart 2: Presales Performance



Source: MJD

Chart 3: Transfer Performance



Source: MJD

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	645	2,847	4,404	7,335	6,028
Earnings before interest and taxes (EBIT)	50	111	388	953	925
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	75	219	511	1,087	1,072
Funds from operations (FFO)	(99)	(414)	(193)	357	248
Adjusted interest expense	166	594	678	619	725
Real estate development investments	6,600	6,677	7,030	8,445	10,502
Total assets	17,246	16,467	15,967	18,763	19,593
Adjusted debt	9,547	9,498	9,648	9,749	11,002
Adjusted equity	4,882	4,960	5,310	5,654	5,456
Adjusted Ratios					
EBITDA margin (%)	11.63	7.68	11.60	14.83	17.78
Pretax return on permanent capital (%)	0.51 **	0.72	2.39	5.62	5.55
EBITDA interest coverage (times)	0.45	0.37	0.75	1.76	1.48
Debt to EBITDA (times)	51.33 **	43.41	18.89	8.97	10.26
FFO to debt (%)	(5.10) **	(4.36)	(2.00)	3.66	2.26
Debt to capitalization (%)	66.16	65.69	64.50	63.30	66.85

* 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
- Issue Rating Criteria, 15 June 2021

Major Development PLC (MJD)

Company Rating:	BB
Rating Outlook:	Stable

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