TRIS RATING
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CreditNews ข่าวเครดิต

ORIGIN PROPERTY PLC

No. 70/2021
30 April 2021

CORPORATES

Company Rating:	BBB
Outlook:	Positive

Last Review Date: 29/04/20

Company Rating History:

Date	Rating	Outlook/Alert
05/04/19	BBB	Stable
03/08/18	BBB-	Positive
29/09/17	BBB-	Stable
23/05/17	BBB-	Alert Developing
12/09/16	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Origin Property PLC (ORI) at "BBB". At the same time, TRIS Rating revises the company's outlook to "positive" from "stable". The "positive" outlook reflects ORI's improving market position. In addition, ORI is expected to deliver strong operating performance and lower its debt to capitalization ratio to below 60% on a sustained basis.

The rating takes into consideration ORI's above average profitability, the company's relatively high financial leverage as a result of its aggressive expansion in both residential and commercial property segments, and the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, which could put more pressure on the demand for residential property.

KEY RATING CONSIDERATIONS

Improving market position in both condominium and landed property segments

In our view, ORI's market position in both the condominium and landed property segments has been improving over time. Its products cover the entry level to high-end pricing segments. ORI's condominium prices range from THB60,000 to THB200,000 per square meter (sq.m.) while landed property prices range from THB2.5 million to THB50 million per unit. ORI's condominium brands, like "*The Origin*", *"Knightsbridge"*, and *"Park Origin"*, are well-accepted among homebuyers. However, the acceptance of its housing brands, like *"Brighton"*, *"Britania"*, and *"Belgravia"*, is developing over time.

ORI's acceptable brand recognition is reflected by its ability to generate presales and transfers of more than THB10 billion per year over the last three years. Revenue from landed properties grew from almost none in 2017 to THB2.7 billion in 2020. ORI's annual earnings before interest, taxes, depreciation, and amortization (EBITDA) also grew, from less than THB1 billion in 2016 to THB4-THB5 billion in the last three years, while its profitability has maintained above the industry average. The company's EBITDA margin stayed in the range of 33%-35% in 2017 through 2019 then improved to 37.8% in 2020 due to the higher share of profit received from joint-venture (JV) projects. The average EBITDA margin of property developers rated by TRIS Rating was in the range of 20%-25% over the same period.

Sizable backlog to support earnings growth over the next 2-3 years

Despite the resurgence of the COVID-19 pandemic, we expect ORI's annual revenue and EBITDA to stay above THB10 billion and THB3.5 billion, respectively, with an EBITDA margin of around 30% over the next 2-3 years. The earnings forecast is supported by ORI's sizable condominiums backlog and its ability to generate new sales from its existing inventory and new landed property projects.

At the end of 2020, ORI's portfolio comprised 12 landed property projects, 31 owned condominium projects, and 10 condominium projects under 51:49 joint ventures. ORI's backlog was worth around THB36.8 billion, comprising THB14.1 billion of ORI's projects and THB21.8 billion of JV projects. Units from its own projects will be recognized as revenue of around THB7.1 billion in 2021, THB4.5 billion in 2022, and the rest in 2023. Backlog from the JV projects will be transferred to customers over the next 3-4 years. Thus, we expect ORI to realize share profit from JV projects of THB0.3 billion in 2021, and around THB1.0-THB1.2 billion per annum in 2022 and 2023. The remaining units available for sale (both built and un-built) carried a value of around THB36.4 billion, comprising landed property projects (36%), owned condominiums (44%), and JV condominiums (20%).

Marginal contribution from other businesses over the next 2-3 years

In addition to its residential property for sale business, ORI has diversified into hospitality business since 2017. In 2020, the company has completed and started the operations of two hotels: “Holiday Inn Siracha” and “Staybridge Thonglor”. Three more hotels: “Intercontinental Sukhumvit”, “Staybridge Phromphong”, and “Holiday Inn Express Phayathai” will start operations in 2022. The company has five more hotels in the pipeline.

At the beginning of 2021, the company announced plans to enter the warehouse for rent, asset management, and wellness businesses. The company will join hands with experts in each business, for example, JWD Infologistics PLC (JWD) for the warehouse business and Kin and Senizens for the wellness business. ORI’s expansion into these new businesses is still in its initial stage and the success of the investments remains to be seen.

In our view, the residential property business will likely remain the major driver of ORI’s earnings, contributing more than 80% of total earnings over the next few years. However, the diversification into other businesses, if successful, will broaden ORI’s business mix and enhance stability in its earnings in the long run.

Debt to capitalization to stay below 60% on a sustained basis

We expect ORI’s debt to capitalization ratio to drop below 60% over the next three years, despite its plans to invest in the residential property business and other businesses. In our base-case forecast, we project ORI to invest around THB20 billion per annum in new residential property projects, on its own and through JVs. The company plans to balance the investment between both landed property and condominium projects. This year, the company aims to launch landed property projects worth THB10.4 billion, up from THB6.2 billion in 2020. Thus, revenue contribution from landed property projects is expected to rise to 30%-40% of total revenue over the next three years.

ORI also plans to invest around THB300 million per annum in commercial properties such as hotels and offices. The investment budget for the new businesses, including warehouses for rent, an asset management company (AMC), and wellness, is set at THB1.0-THB1.5 billion in total over the next three years. The company plans to invest in these businesses mostly through JVs, which will help lessen the amount of capital needed.

Concerns over the prolonged COVID-19 pandemic

TRIS Rating expects the demand for residential properties in 2021 to grow slightly from 2020, supported by low interest rates and improved economic recovery prospects following the rollout of vaccination programs. In addition, the extended stimulus measures and reduction in the transfer and mortgage registration fees for homes priced below THB3 million should help boost demand. Added to this, there remains a significant risk to the recovery and earnings prospects of developers, which is not helped by the slow progress of vaccination rollouts. Moreover, the rise in non-performing mortgage loans has prompted banks to tighten their lending policies. The weak purchasing power of homebuyers combined with stringent bank lending policies will continue suppressing demand for housing, especially in the middle- to low-income segments, which are the main target customers of the company.

Due to the softening demand in the condominium segment among both local and foreign homebuyers, several developers have shifted their focus to landed property projects, especially in the middle- and low-price housing segments, the main target groups of ORI. The intense competition in these segments could pressure the company’s profit margin in the short to medium term. Nonetheless, we expect ORI to maintain its EBITDA margin above 30% over the next three years.

Liquidity is manageable

We assess ORI’s liquidity to be manageable. ORI’s sources of funds comprised cash on hand of THB0.8 billion and available credit facilities of THB5.4 billion at the end of 2020. ORI’s funds from operations (FFO) is forecast to be THB2.0-THB2.5 billion per annum. Debts due over the next 12 months amount to THB9.2 billion, comprising THB1.6 billion in short-term loans, THB5.3 billion in project loans, and THB2.3 billion in debentures. Short-term loans are mostly for working capital and bridging loans for land purchases which are expected to be converted to project loans over time. We expect project loans to be repaid with internally generated cash from the transfers of residential units.

We expect ORI to be able to comply with the financial covenants on its debt obligations over the next 12 to 18 months. The financial covenants on its bank loans and debentures require ORI to maintain its interest-bearing debt to equity ratio below 2.5 times. The ratio at the end of December 2020 was 1.35 times.

BASE-CASE ASSUMPTIONS

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

- Residential property project launches of THB19.7 billion in 2021, comprising THB10.4 billion of landed housing projects, THB6 billion of its own condominium projects, and THB3.3 billion of JV projects. Going forward, the company plans to launch new residential projects worth around THB16-THB17 billion per annum.
- Revenue is forecast to be THB11 billion in 2021, and to increase to THB13-THB15 billion per annum during 2022-2023, as the large backlog is scheduled for transfers to customers.
- Land acquisition, including land for JV projects, is budgeted at THB4.5-THB6 billion yearly over the next three years.
- Capital expenditures for commercial properties and other business investments are set at THB2-THB2.5 billion in total during 2021-2023.

RATING OUTLOOK

The "positive" outlook reflects TRIS Rating's expectation that ORI will continue to improve its market position and grow as planned. The outlook is also based on the expectation that ORI will maintain good operating performance and keep its debt to capitalization ratio at around 60% over the next three years, despite the sluggish demand coupled with the economic fallout from the COVID-19 pandemic.

RATING SENSITIVITIES

The rating could be revised upward if the company's revenue base and cash flow continue to grow as planned while its FFO to debt ratio is maintained at the 10%-15% level and the debt to capitalization ratio stays below 60% on a sustained basis. On the other hand, the rating and/or outlook could be revised downward should operating performance or financial leverage deteriorate significantly from the current levels.

COMPANY OVERVIEW

ORI was established in 2009 by the Jaroon-ek family. The company became a public company in November 2014 and was listed on the Stock Exchange of Thailand (SET) in October 2015. After the initial public offering, the Jaroon-ek family continued to be ORI's largest shareholder. As of March 2021, the Jaroon-ek family held a 60% stake in the company.

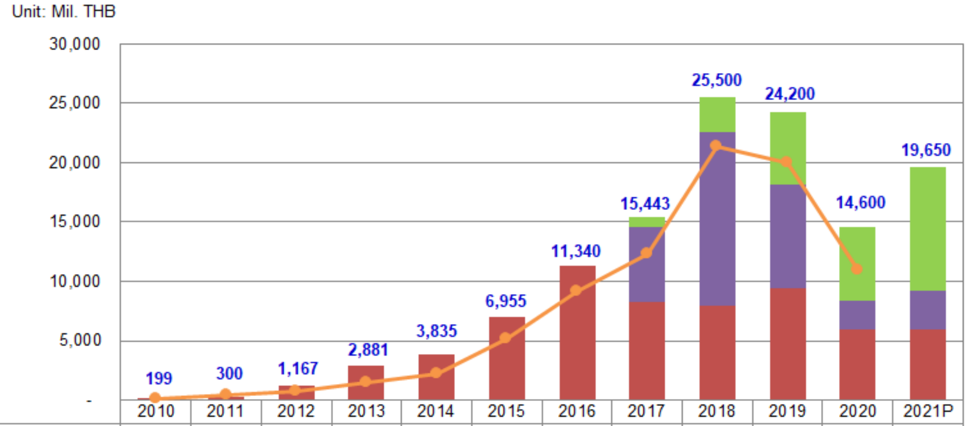
ORI focuses on the residential property development business. The company's condominium projects are developed under the "Park Origin", "KnightsBridge", and "The Origin" brands. Its condominium products cover the low- to high-end segments, with selling prices ranging from THB60,000 to THB300,000 per square meter. Most of its condominium projects are located in the suburbs of Bangkok, especially along the Skytrain route from Bearing to Samut Prakan and the route from the Kasetsart University intersection to Saphan Mai. The company recently expanded into Sri Racha and Laem Chabang districts in Chonburi province.

ORI began diversification into the landed property segment in 2017. ORI's single detached house (SDH) brands include: "Britania", "Grand Britania", and "Belgravia", with unit prices from THB4 million to THB50 million. Its townhouse projects are developed under brand names like "Brighton", with selling prices of THB2.5-THB4 million per unit.

ORI has expanded launches of condominiums and commercial property projects by joining hands with strategic partners in 51:49 JVs. The company has developed eight condominium projects and two commercial properties in partnership with Nomura Real Estate Development Co., Ltd. (NRED) a Japanese property developer. At the end of 2020, 10 condominium projects, with a combined project value of THB34.3 billion, and three commercial properties had been developed under JVs.

KEY OPERATING PERFORMANCE

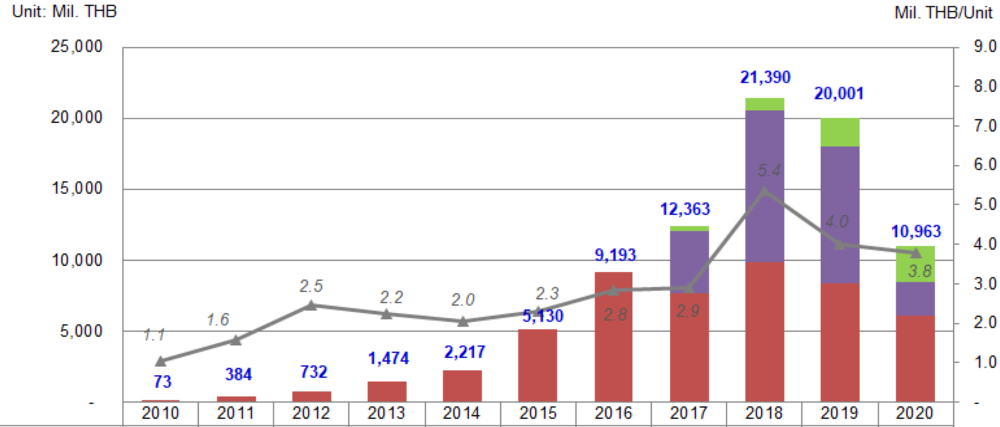
Chart 1: Residential Project Launches



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021P
Housing								859	2,900	6,000	6,200	10,400
Condominium-JV								6,334	14,700	8,800	2,400	3,300
Condominium-ORI	199	300	1,167	2,881	3,835	6,955	11,340	8,250	7,900	9,400	6,000	5,950
Presales	73	384	732	1,474	2,217	5,130	9,193	12,363	21,390	20,001	10,963	

Source: ORI

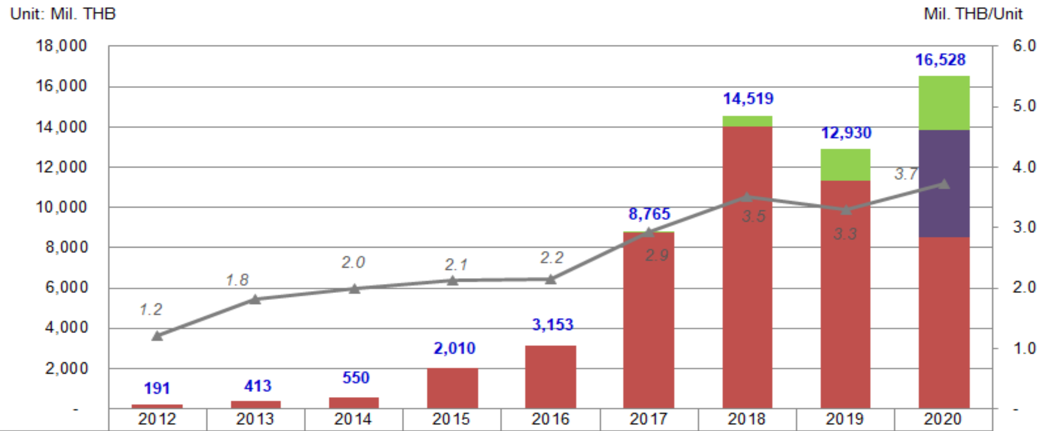
Chart 2: Presales Performance



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Housing								347	808	1,978	2,485
Condominium-JV								4,387	10,702	9,637	2,418
Condominium-ORI	73	384	732	1,474	2,217	5,130	9,193	7,629	9,879	8,386	6,059
Avg. Price	1.1	1.6	2.5	2.2	2.0	2.3	2.8	2.9	5.4	4.0	3.8

Source: ORI

Chart 3: Transfer Performance



	2012	2013	2014	2015	2016	2017	2018	2019	2020
Housing						11	514	1,627	2,662
Condominium-JV									5,372
Condominium	191	413	550	2,010	3,153	8,753	14,006	11,303	8,494
Avg. Price	1.2	1.8	2.0	2.1	2.2	2.9	3.5	3.3	3.7

Source: ORI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	----------------------Year Ended 31 December -------------------				
	2020	**2019**	**2018**	**2017**	**2016**
Total operating revenues	10,917	13,663	16,011	9,347	3,199
Earnings before interest and taxes (EBIT)	3,924	4,624	5,219	3,026	871
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,129	4,850	5,353	3,185	912
Funds from operations (FFO)	2,610	3,296	3,709	2,244	642
Adjusted interest expense	958	706	663	358	108
Real estate development investments	23,458	22,610	20,180	18,206	4,525
Total assets	33,694	32,079	27,203	22,925	6,758
Adjusted debt	19,332	19,607	15,436	10,826	2,845
Adjusted equity	11,373	9,657	7,437	5,123	2,193
Adjusted Ratios					
EBITDA margin (%)	37.82	35.50	33.43	34.08	28.52
Pretax return on permanent capital (%)	12.62	16.72	25.17	27.01	21.54
EBITDA interest coverage (times)	4.31	6.87	8.07	8.89	8.42
Debt to EBITDA (times)	4.68	4.04	2.88	3.40	3.12
FFO to debt (%)	13.50	16.81	24.03	20.73	22.56
Debt to capitalization (%)	62.96	67.00	67.49	67.88	56.46

* *Consolidated financial statements*

RELATED CRITERIA

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

Origin Property PLC (ORI)

Company Rating:	BBB
Rating Outlook:	Positive

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