TRIS RATING
A Strategic Partner of S&P Global

CreditNews ข่าวเครดิต

ORIGIN PROPERTY PLC

No. 62/2020
29 April 2020

CORPORATES

Company Rating:	BBB
Outlook:	Stable

Last Review Date: 05/04/19

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

Contacts:

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Jutamas Bunyawanichkul
jutamas@trisrating.com

Hattayanee Pitakpatapee
hattayanee@trisrating.com

Tulyawat Chatkam
tulyawat@trisrating.com

Suchada Pantu, Ph. D.
suchada@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Origin Property PLC (ORI) at "BBB" with a "stable" rating outlook. The rating reflects ORI's improving market position in the condominium and landed property segment. It also takes into account the company's satisfactory operating performance supported by higher-than-average profitability and a sizeable backlog, which secures a portion of future revenues. However, the rating is constrained by ORI's relatively high financial leverage as a result of the aggressive expansion in both the residential and commercial property segments. The rating also takes into consideration the slowdown in demand for residential property in the medium term due to the economic fallout from the COVID-19 pandemic, which has added more pressure to the already weak economy.

KEY RATING CONSIDERATIONS

Improving market position

In TRIS Rating's view, ORI's market position in the condominium and landed property segment has improved over time. Revenues and presales have grown significantly since the company's inception, with presales doubling in the past three years. Presales increased from Bt9.2 billion in 2016 to Bt12.4 billion in 2017, then jumped to a level above Bt20 billion in 2018 and 2019. Presales in 2019 comprised presales of ORI's owned projects of Bt10.4 billion and presales from joint-venture (JV) projects of Bt9.6 billion.

ORI expanded its product line to encompass landed property in 2017. The company's landed property projects have also received a good reception from customers. Revenue from landed properties has increased gradually to Bt1.6 billion in 2019 from Bt0.5 billion in 2018. Going forward, ORI plans to launch more landed property projects to balance its product portfolio between condominiums and landed properties. This year, the company aims to launch landed property projects worth Bt8-Bt12 billion, up from Bt6 billion in 2018. Thus, revenue contribution from landed property projects is expected to rise to 30%-40% of total revenue over the next three years.

As of December 2019, ORI had 45 projects with a total project value of around Bt98 billion, comprising six landed property projects, 31 owned condominium projects, and eight condominium projects under 51:49 joint ventures. The average selling price across the entire portfolio was Bt4.3 million per unit. The value of the remaining units available for sale was Bt26.7 billion, including Bt21.6 billion of ORI's owned projects and Bt5.1 billion of JV projects.

Satisfactory operating performance

ORI's operating performance in 2019 was slightly better than TRIS Rating's expectation, albeit 9% off the forecast revenue. Revenue in 2019 stood at Bt13.7 billion, down 15% from a record high of Bt16 billion in 2018. Revenue fell in 2019 due to some of the condominium backlog transfers slipping into early 2020. Presales in 2019 dropped by only 6.5% year-on-year (y-o-y) to Bt20 billion amid the implementation of the new loan-to-value rules by the Bank of Thailand (BOT). Due to the strong presales in the past few years, ORI's backlog had risen to Bt41.4 billion at the end of 2019, comprising Bt16.7 billion of its own backlog and Bt24.7 billion of backlog under JVs.

Due to its sizeable backlog, we expect ORI's revenue to stay at around Bt10-Bt11 billion in 2020 despite concerns over the pandemic impact. ORI's annual revenue should recover to the Bt13-Bt15 billion range during 2021-2022. Units from its own backlog will be recognized as revenue of around Bt4.9 billion in 2020, Bt5.2 billion in 2021, Bt4.9 billion in 2022, and the rest in 2023. Backlog from the JV projects will be transferred to customers from this year onwards. Thus, ORI will realize share profit from JV projects of Bt0.2 billion in 2020, Bt0.4 billion in 2021, and Bt1.1 billion in 2022.

ORI's profitability is relatively high compared with its rated peers, reflecting its ability to control costs and adjust selling prices. ORI generated earnings before interest, tax, depreciation, and amortization (EBITDA) of Bt3.2-Bt5.4 billion per annum during 2017-2019. The EBITDA margin stayed in the range of 33%-34% in 2017 through 2018. This ratio improved to 35.5% in 2019. The average EBITDA margin of property developers rated by TRIS Rating was in the range of 18%-20%. Under TRIS Rating's base case, ORI should be able to maintain its EBITDA margin above 28% during 2020-2022.

High financial leverage resulting from aggressive expansion

TRIS Rating expects ORI's leverage to remain at a relatively high level over the next two years. Under ORI's business plan, the company plans to invest in both residential and commercial property. Due to the slowdown in demand, ORI has scaled back new owned and JV residential project launches to Bt15-Bt18 billion per annum, from around Bt20 billion per annum previously. ORI also plans to invest in commercial properties such as hotels, serviced apartments, and offices. Previously, the company planned to develop both its own projects and projects under JVs. However, due to concerns over the negative impacts of the COVID-19 pandemic on the economy, ORI has cut the investments in its own projects and is focusing only on the JV projects.

Under TRIS Rating's base case, ORI's debt to capitalization ratio is forecast to stand at 63%-66% during 2020-2021 and drop to below 60% in 2022 once its large condominium projects are completed and transferred. The company has revised its expenditure budget for commercial property projects to only Bt2.5-Bt3 billion in total during 2020-2022. The joint ventures will alleviate some of the need for new capital. In our view, the diversification into the landed property segment and commercial property development will broaden ORI's product portfolio and smooth earnings in the long run. However, ORI's improving business position is expected to be matched by increasing financial risk in the short term. The ratio of funds from operations (FFO) to debt is expected to fall in the range of 8%-10% during 2020-2021 and rise to a level above 15% in 2022 once most of its commercial property projects commence operations.

Concerns over softening demand and impacts of COVID-19

The residential property market closely follows trends in the domestic economy. However, volatility in this market is much more pronounced than in the overall economy. The slowdown of the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the purchasing power of local homebuyers. Negative impacts from the global trade war and appreciation of the Thai baht have also caused a drop in demand from foreign homebuyers, especially Chinese buyers, since 2019.

This year, the economic fallout from the COVID-19 pandemic is going to further suppress market demand. Most developers are adopting a wait-and-see approach as demand from local and foreign buyers dries up during the first half of 2020. In addition, due to the travel restrictions in several countries, ORI has had to postpone the transfers of foreign-buyer residential units for two-three months. However, its backlog of units sold to foreign buyers which are ready for transfer this year will be around Bt0.6 billion, or only 5% of total backlog to be transferred this year. Thus, the delay in transfers should not significantly impact the company's revenue recognition this year.

Liquidity is manageable

We assess ORI's liquidity to be manageable over the next 12 months. Debts scheduled for repayment over the next 12 months amount to Bt6.3 billion, comprising Bt0.3 billion in short-term bills of exchange (B/Es), Bt0.8 billion in short-term promissory notes (P/Ns) for working capital, Bt0.9 billion in bridging loans for land purchases and will be converted to project loans, Bt2.4 billion in project loans, and Bt2 billion in debentures. Project loans will be repaid with cash from the transfers of residential units. ORI's sources of funds comprised cash on hand of Bt1.1 billion and available credit facilities of Bt0.5 billion at the end of March 2020. ORI's FFO per annum is forecast at around Bt1.8-Bt2 billion. The company also has unencumbered assets, including land banks at book value worth Bt4.8 billion and remaining units in its own debt-free projects worth Bt6.7 billion at selling price. Due to the liquidity crunch in the bond market, ORI may need to turn to banks for credit facilities. Based on the company's strong operating performance, we expect the company should have no problems sourcing bank loans.

TRIS Rating believes that ORI should be able to comply with its financial covenants over the next 12 to 18 months. Under the financial covenants on its bank loans and bonds, ORI has to keep its net interest-bearing debt to equity ratio below 2.0 times. The ratio at the end of December 2019 was 1.34 times.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for 2020-2022:

- Residential property project launches of Bt15 billion in 2020, comprising Bt7.1 billion of landed housing projects, Bt2.3 billion of its own condominium projects, and Bt5.6 billion of JV projects. Going forward, the company plans to launch new residential projects worth around Bt17-Bt18 billion per annum.
- Revenue is forecast at around Bt10 billion in 2020. Revenue is expected to increase to Bt13-Bt15 billion per annum during 2021-2022, as the large backlog is scheduled for transfer to customers.
- Land acquisition is budgeted at Bt2.5-Bt3.5 billion yearly over the next three years.
- Capital expenditures on commercial properties are set at Bt2.5-Bt3.0 billion in total during 2020-2022.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that ORI's operating performance will meet target levels. We expect the company's EBITDA margin to hold in the range of 28%-32%, despite the sluggish demand from both domestic and foreign homebuyers coupled with the economic fallout from the COVID-19 pandemic. Given the aggressive expansion plan, the debt to capitalization ratio is expected to stay at around 63%-66% before declining to below 60% in 2022. The FFO to debt ratio is expected to be in the range of 8%-10% in 2020 through 2021 before improving to around 15%-20%.

RATING SENSITIVITIES

The rating could be revised upward if the revenue base and cash flow continue to grow, as long as 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 2020, the Jaroon-ek family held a 60% stake in the company.

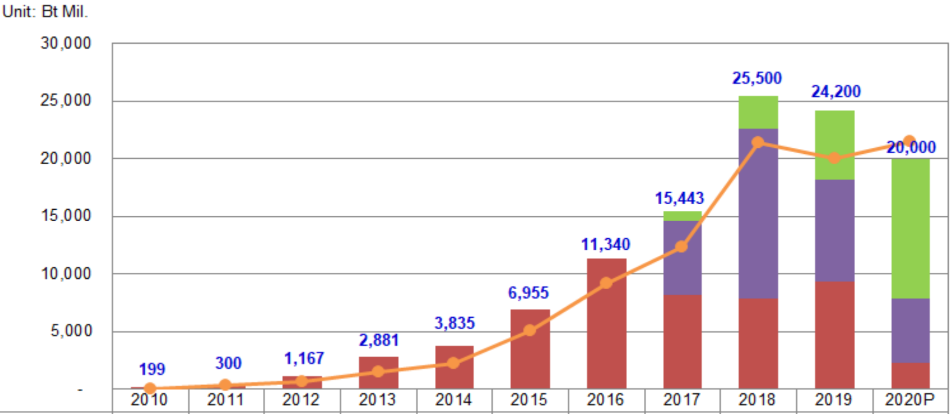
ORI focuses on the residential property development business. ORI's condominium projects are developed under the "Park Origin", "KnightsBridge", and "The Origin" brands. Its condominium products cover the low- to high-end segment, with selling prices ranging from Bt55,000 to Bt285,000 per square meter. 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 Bt3 million to Bt35 million. Its townhouse projects are developed under brand names like "Brighton", with selling prices of Bt2-Bt5 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 seven condominium projects and three commercial properties in partnership with Nomura Real Estate Development Co., Ltd. (NRED) a Japanese property developer. At the end of 2019, eight condominium projects, with a combined project value of Bt29.8 billion, and four commercial properties have been developed under JVs.

KEY OPERATING PERFORMANCE

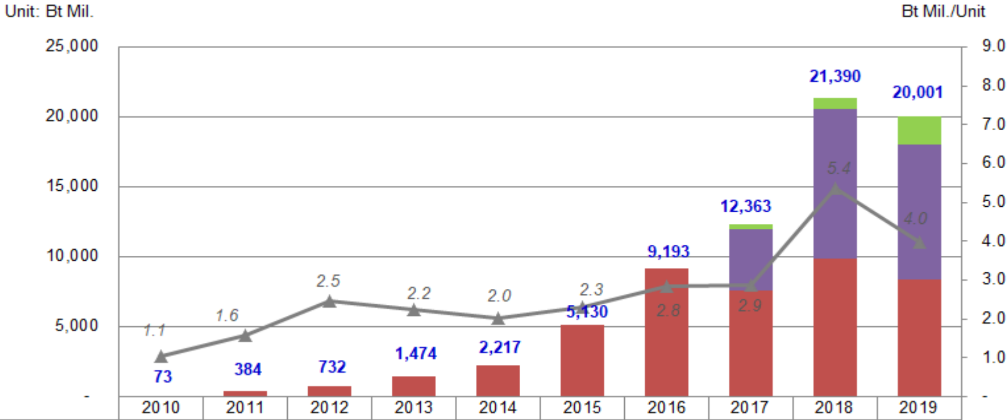
Chart 1: Residential Project Launches



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020P
Housing								859	2,900	6,000	12,100
Condominium-JV								6,334	14,700	8,800	5,600
Condominium-ORI	199	300	1,167	2,881	3,835	6,955	11,340	8,250	7,900	9,400	2,300
Presales	73	384	732	1,474	2,217	5,130	9,193	12,363	21,390	20,001	21,500

Source: ORI

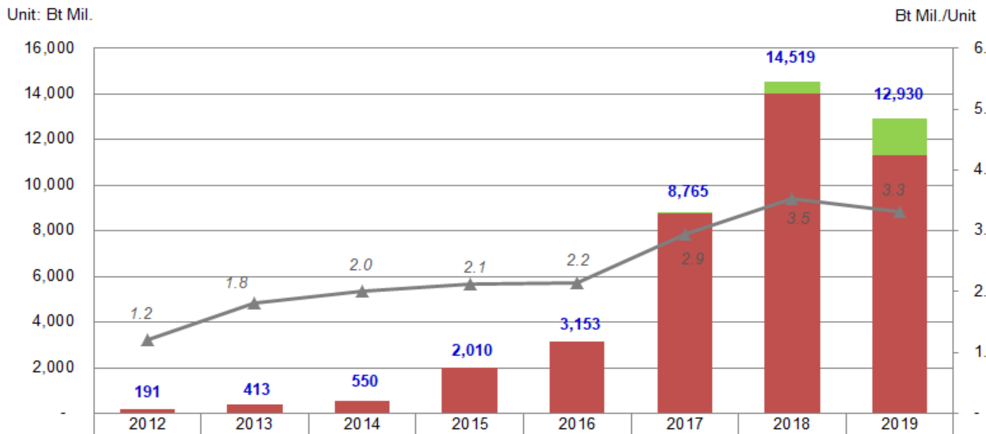
Chart 2: Presales Performance



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

Source: ORI

Chart 3: Transfer Performance



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

Source: ORI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	----------------------Year Ended 31 December -------------------				
	2019	**2018**	**2017**	**2016**	**2015**
Total operating revenues	13,663	16,011	9,347	3,199	2,055
Earnings before interest and taxes (EBIT)	4,624	5,219	3,026	871	539
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,850	5,353	3,185	912	573
Funds from operations (FFO)	3,296	3,709	2,244	642	386
Adjusted interest expense	706	663	358	108	88
Real estate development investments	22,610	20,180	18,206	4,525	2,537
Total assets	32,079	27,203	22,925	6,758	3,347
Adjusted debt	19,607	15,436	10,826	2,845	408
Adjusted equity	9,657	7,437	5,123	2,193	1,748
Adjusted Ratios					
EBITDA margin (%)	35.50	33.43	34.08	28.52	27.87
Pretax return on permanent capital (%)	16.72	25.17	27.01	21.54	28.53
EBITDA interest coverage (times)	6.87	8.07	8.89	8.42	6.50
Debt to EBITDA (times)	4.04	2.88	3.40	3.12	0.71
FFO to debt (%)	16.81	24.03	20.73	22.56	94.64
Debt to capitalization (%)	67.00	67.49	67.88	56.46	18.93

* *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:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000