PROPERTY PERFECT PLC

No. 76/2017 | 3 July 2017

Company Rating:	BB+
Issue Rating:	
Hybrid	B+
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
20/05/15	BB+	Stable
19/06/14	BB+	Developing
06/12/13	BB+	Stable
18/11/11	BBB-	Negative
18/09/09	BBB-	Stable

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Rating Rationale

TRIS Rating affirms the company rating of Property Perfect PLC (PF) at "BB+" and also affirms the ratings of PF's outstanding unsecured subordinated perpetual debentures (hybrid debentures) with a proposed amount of up to Bt552.3 million at "B+". The hybrid debentures have been notched down by three notches from PF's company rating, two notches for subordination and one notch for an option to defer the coupon payment at the discretion of the issuer. The two-notch differential for subordination reflects the low recovery of principal of hybrid debentures issued by a non-investment grade issuer.

The ratings of PF reflect the company's proven track record in the housing market, accepted brand name in the middle- to high-income segments, and expected higher recurring income after the acquisition of Thai Property PLC (TPROP) and its subsidiary, Grande Asset Hotels and Property PLC (GRAND), in mid-2015. These strengths are partially offset by PF's weak financial profile resulting from its relatively high financial leverage, low profitability, and concerns over the diversification into several unfamiliar businesses. The ratings also take into consideration concerns over the high level of household debts nationwide, coupled with the current slowdown in the domestic economy, which may impact the demand in the residential property market in the short to medium term.

Presently, the company has three business segments: residential property development, hotel, and retail businesses. The residential property segment has been the largest source of revenue, accounting for more than 65% of PF's total revenue during the past five years. As of March 2017, PF had 65 existing residential property projects, worth Bt120,000 million in total. PF's project portfolio consists of housing (60% of the total portfolio value) and condominium (40%) projects. The average unit price was Bt4.9 million for a housing unit and Bt3.1 million for a condominium unit. At the end of March 2017, PF had unsold units worth Bt44,000 million available for sale (including built and un-built units) and a backlog worth Bt5,400 million.

PF's presales was around Bt10,000 million per annum during 2015-2016. Presales during the first quarter of 2017 dropped by 9% year-on-year (y-o-y) to Bt2,384 million. Around 70% of presales came from housing projects, while the rest was from condominium projects. PF's total revenue increased by 25% y-o-y to Bt15,109 million in 2016 because a higher number of condominium units was transferred to customers. Housing projects constantly generated revenue of around Bt6,000-Bt7,000 million per annum. Revenue during the first three months of 2017 decreased by 31% y-o-y to Bt2,977 million. After acquiring TPROP and GRAND in mid-2015, revenue from hotel operations and rental assets comprised 15% of total revenue in 2015 and 17% in 2016. Over the next three years, TRIS Rating expects PF's total revenue to stay around Bt14,000-Bt16,000 million per annum, supported by revenue base from housing units, higher revenue from a transfer of condominium units, and more recurring income from hotel operations and rental assets.

In TRIS Rating's view, PF's financial profile is considered weak. Its operating profit margin (as measured by operating income before depreciation and amortization as a percentage of revenue) improved to 13% in 2016 and 16% in the first quarter of 2017 from 5%-8% during 2013-2015. However, PF's net profit margin during 2012 through the first three months of 2017 was very thin at 1%-3% of total revenue, much lower than the industry average of 10%. Over the next three years, TRIS Rating forecasts PF's operating profit margin should stay between 10%-12%. The net profit margin should not further deteriorate from the current level. A further decline in its profitability will negatively affect the ratings.

The company's debt to capitalization ratio deteriorated to 68%-69% as of December 2016 and March 2017, from 65% as of December 2015. Going forward, PF's large investments needed for residential projects and its expansion into several joint venture (JV) projects may push financial leverage higher than the current level. TRIS Rating expects that PF will be able to keep its debt to capitalization ratio at around 65%, or interest-bearing debt to equity ratio at around 2 times in order to satisfy the current ratings.

PF's liquidity profile during the past five years weakened due mainly to its low profitability and high financial leverage. The ratio of funds from operations (FFO) to total debt was only 1%-4% during 2012 through the first three months of 2017. The earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio was only 1-2 times during the past five years. PF's financial flexibility is tight as the company had cash on hand (net of all obligations) of Bt2,300 million as of March 2017 and undrawn unconditional credit facilities from long-term project loans of Bt2,200 million as of June 2017. FFO is expected to be around Bt1,000-Bt1,500 million per annum. In addition, PF received cash from capital increase of Bt1,000 million in the first quarter of 2017 and cash from issuing hybrid debentures of Bt447.7 million in the second quarter of 2017. As of March 2017, PF had short-term borrowings worth Bt2,608 million and long-term debentures worth Bt5,155 million coming due in the next 12 months. PF plans to use cash flow from operations to repay most of short-term borrowings and some maturing debentures, and to refinance the maturing debentures of around Bt3,500 million by issuing new debentures. In addition, its land bank, worth around Bt6,000 million (at book value), could be pledged as collateral for bank loans in case of liquidity shortage.

Rating Outlook

The "stable" outlook reflects the expectation that PF will sustain its financial position during aggressive expansion. PF's debt to capitalization ratio should stay at around 65% and its operating profit margin should be 10%-12%. Also, PF has to find adequate sources of funds in order to mitigate liquidity risk.

PF's ratings and/or outlook could be revised downward if the financial profile falls below expectations. If the debt to capitalization ratio remains above 65% on sustainable basis and there is more pressure on liquidity risk, this will lead to a downward revision. On the contrary, the ratings and/or outlook would be upgraded if its financial profile improves, as defined by the debt to capitalization ratio staying below 65% for a sustainable period and less concern on liquidity risk.

Property Perfect PLC (PF)

Company Rating:	BB+
Issue Ratings:	
PF17PA: Bt447.7 million subordinated capital debentures	B+
Up to Bt552.3 million subordinated capital debentures	B+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Mar 2017	------------------- Year Ended 31 December ------------------- 2016	2015	2014	2013	2012
Revenue	2,977	15,109	12,049	12,445	11,011	9,094
Gross interest expense	393	1,448	1,280	1,151	1,022	861
Net income from operations	45	281	(169)	322	83	353
Funds from operations (FFO)	289	1,121	195	649	300	392
Inventory investment	(7)	(3,425)	(2,633)	1,800	(1,703)	(2,659)
Total assets	48,910	48,790	43,277	31,406	30,668	26,176
Total debts	30,972	31,003	25,442	19,933	19,509	16,363
Shareholders' equity	14,664	13,937	13,664	8,972	8,646	8,631
Operating income before depreciation and amortization as % of sales	15.54	12.78	5.00	7.99	6.01	8.74
Pretax return on permanent capital (%)	2.18 **	3.41	1.27	3.95	2.77	3.85
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	1.47	1.66	0.81	1.22	0.99	1.19
FFO/total debt (%)	2.41 **	3.64	0.77	3.26	1.54	2.40
Total debt/capitalization (%)	67.87	68.99	65.06	68.96	69.29	65.47
Total debt/capitalization (%) ***	67.05	68.19	64.40	68.23	68.34	64.17

Note: Operating lease has been adjusted since 2012.
* *Consolidated financial statements*
** *Annualized with trailing 12 months*
*** *Excluding capitalized annual leases*

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