PROPERTY PERFECT PLC

No. 134/2022
10 August 2022

CORPORATES

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

Last Review Date: 09/08/21

Company Rating History:

Date	Rating	Outlook/Alert
26/08/20	BB	Stable
09/08/19	BB+	Negative
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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RATIONALE

TRIS Rating affirms the company rating on Property Perfect PLC (PF) at "BB" and also affirms the ratings on PF's unsecured subordinated perpetual debentures (hybrid debentures) at "B", with a "stable" outlook. The ratings reflect PF's weak operating performance in both the residential property and hotel segments due to the impact of the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, as well as the company's high financial leverage and tight liquidity. The ratings also reflect PF's well-accepted brands in the residential property market, its large land bank holdings, and good-quality hotel properties.

The ratings take into consideration the company's plan to divest some land plots and assets, which, if successful, should help bring down its financial leverage and ease liquidity concerns. One other key rating consideration is the concerns over the relatively high household debt level and the rising inflation rate which could impact the purchasing power of homebuyers in the short to medium term while pushing up development and funding costs for developers.

The ratings on the hybrid debentures were notched down by three notches from PF's company rating, reflecting the deep subordination and heightened interest payment deferral risks. The equity content of PF17PA dropped to "nil" (0% equity credit) from "intermediate" (50% equity credit) as its effective maturity is less than 20 years while the equity content of PF18PA remained "intermediate" (50% equity credit).

KEY RATING CONSIDERATIONS

Weaker-than-expected residential sales

PF's residential sales performance was weaker than TRIS Rating's previous forecast due to the adverse impacts of the lingering COVID-19 pandemic on residential demand, especially in the condominium segment. The company's residential sales dropped to THB8.1 billion in 2021, 20% below our previous forecast. PF's revenue from condominiums plunged to THB2.5 billion in 2020 and THB1.5 billion in 2021, from around THB5-THB6 billion per annum in 2017-2019. Revenue from landed property also declined, falling to THB6.6 billion in 2021 from THB7.5-THB8.8 billion per annum in 2017-2020, due partly to the lockdown of construction sites in Bangkok and vicinity in 2021 and the implementation of social-distancing measures which limited sales activities.

Going forward, TRIS Rating expects PF's landed property sales to gradually improve as the COVID-19 situation eases, although condominium sales are anticipated to remain weak. PF's revenue from residential sales is forecast to increase by around 13% year-on-year (y-o-y) in 2022 and 2023. The revenue from landed property projects is expected to recover to around THB7.2-THB8.5 billion per annum during 2022-2024. However, revenue from sales of condominium units is projected to remain weak at around THB2 billion per annum due to sluggish demand and a lack of new project launches in the past three years. As of March 2022, PF had unsold completed condominium units worth THB8.2 billion. We view that it may take a few years to sell these finished condominium units.

Well-accepted housing brands

TRIS Rating holds the view that PF's housing brands remain well-accepted in the middle- to high-income segments. Its residential sales have ranked among the top 10 leading property developers in Thailand for the past several years.

Its housing brands include the "Lake Legend", "Perfect Masterpiece", "Perfect Residence", "Perfect Place", "Perfect Park", "Modi Villa", and "The Metro". The sales value of its landed property projects ranges from around THB7-THB9 billion per annum, accounting for 3%-5% of landed property sales in Bangkok and the vicinity in the last five years.

As of March 2022, PF had 55 active landed property projects and 18 condominium projects, including owned and joint-venture (JV) projects. The total remaining project value (including built and un-built units) was THB55 billion. PF's backlog was worth THB5.5 billion (comprising backlog from owned projects worth THB2.6 billion and JV projects worth THB2.9 billion). PF plans to deliver most of its backlogs to customers in 2022.

Gradual recovery of the hotel segment

We expect PF's hotel performance to gradually recover in 2022 in tandem with the relaxation of travel restrictions, reaching the pre-COVID-19 level by 2024. PF's hotel performance was severely affected by the COVID-19 pandemic. Its hotel revenue per available room (RevPAR) plunged to around 42% of the 2019 level in 2020 and 19% in 2021. Its hotel performance showed signs of improvement in the first quarter of 2022 when the government gradually eased travel restrictions, with RevPAR recovering to around 28% of the 2019 level.

Under our base-case forecast, we project PF's hotel RevPAR in 2022 to reach around 45% of the 2019 level, before increasing to 73% in 2023 and reaching the 2019 level in 2024. However, there remain downside risks to our forecast. The COVID-19 situation remains uncertain and the emergence of more severe variants or fresh outbreaks could hinder the recovery of the hotel business. Added to that risk, the global economic slowdown and ongoing geopolitical conflicts might have significant impacts on the recovery of international travel and tourism.

Profitability expected to recover with improving hotel performance

PF's profitability, as measured by earnings before interest, taxes, depreciation, and amortization (EBITDA) margin, dropped to 7% in 2020 and 9% in 2021, from 15%-18% in 2017-2019. The deterioration in profitability was due mainly to the severe impacts of the COVID-19 on the hotel segment coupled with weaker margins on condominium sales. PF had to lower the prices of its condominium units to stimulate sales during 2020-2021, causing the gross profit margin on its condominium sales to shrink to around 23%-25%, from more than 33% in the prior years.

Going forward, we expect PF's profitability to improve thanks to the recovery in the hotel segment and no more significant losses from the "Kiroro Hotel" in Japan following its divestment in 2021. The profit margin from the residential property segment is expected to remain flat or contract slightly this year amid concerns over rising development costs and intense competition. However, the company should be able to pass-through the rising costs to its customers in the following years. Thus, we expect PF's EBITDA margin to improve to the 10%-16% range in 2022-2024.

Financial leverage to improve but remain high

PF's weak operating performance in the last two years drove the company's already high financial leverage even higher. PF's ratio of funds from operations (FFO) to total debt was negative at around -5% in 2020 through the first three months of 2022. However, its debt to capitalization ratio slightly improved to 70% in 2021, from 72% in 2020, thanks to the divestment of Kiroro Hotel. The debt to capitalization ratio improved further to 67% as of March 2022 due mainly to an increase in equity following a change in the method used to record the price of its land, from historical cost to fair market value. The key financial covenants on PF's bank loans and debentures require the company to maintain its net interest-bearing debt to equity ratio below 2.5 times. The ratio at the end of 2021 was 1.63 times.

Going forward, we expect PF's financial leverage to improve but remain high as its operating performance gradually recovers and the company sells some of its land plots and assets. The FFO to total debt ratio is forecast to improve but remain negative in 2022-2023, turning positive at around 3%-4% in 2024. We also expect the debt to capitalization ratio to trend downward toward 60% during 2022-2024. PF plans to launch only landed property projects in 2022-2023 while focusing on selling its condominium inventory, which should help reduce funding needs. We expect PF to launch owned projects worth around THB7 billion and JV projects worth THB10 billion in 2022. The budget for land acquisition is expected to be THB1 billion in 2022 and THB2 billion per annum in 2023-2024.

Ongoing asset divestments should improve capital structure and alleviate liquidity concerns

PF is continuing with its plan to lower its debt burden and improve its liquidity by selling land plots and divesting some of its investments. In late 2021, the company sold Kiroro Hotel in Japan to a foreign investor for around THB4.4 billion. The divestment not only lowered the debt burden of the group but also helped reduce losses from hotel operations. PF plans to sell some more freehold and leasehold land plots and other assets over the next two years. In TRIS Rating's view, the divestment of these assets, if successful, should help improve PF's capital structure and ease its liquidity concerns.

As of March 2022, PF's debt coming due over the next 12 months amounted to THB8.7 billion, consisting of THB8.5 billion in debentures and around THB140 million in short-term borrowings and project loans. PF's sources of liquidity comprised cash on hand of THB2.8 billion and undrawn unconditional committed credit facilities of around THB500 million. PF had unencumbered land plots worth THB1.2 billion at book value and remaining stock units worth THB1.4 billion in debt-free projects, which can be used as collaterals for new loans, if needed. PF plans to issue new debentures to replace debentures coming due in the second half of 2022.

At the end of March 2022, PF's priority debt to total debt ratio was 67%. Its priority debt included secured debt of THB15 billion and unsecured debt at the subsidiary level of THB1.4 billion. As its priority debt ratio was above our trigger level of 50%, we view that PF's senior unsecured creditors could be at a significantly disadvantaged position to its priority debt holders with respect to claims against the company's assets.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for PF's operations during 2022-2024:

- PF to launch new landed property projects, both owned and under JVs, worth THB17 billion in 2022.
- Budget for land acquisition to range from THB1-THB2 billion per annum.
- Total operating revenues to increase to THB12 billion in 2022 and then THB13-THB14 billion per annum during 2023-2024.
- Gross profit margin of 28%-34% and EBITDA margin of 10%-16%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that PF's financial profile will not deteriorate further from its current level. We expect the company's operating performance to gradually recover over the next two years.

RATING SENSITIVITIES

PF's ratings and/or outlook could be revised downward should there be clear signs that lead us to believe the company's operating performance and/or financial profile are heading for a deeper deterioration than expected. We could also lower the ratings if PF's liquidity depletes faster than anticipated. On the contrary, the credit upside would materialize if the company's operating performance recovers to the pre-COVID-19 level and its financial profile improves, such that the debt to capitalization ratio stays below 65% and the FFO to total debt ratio stays above 3%, on a sustained basis.

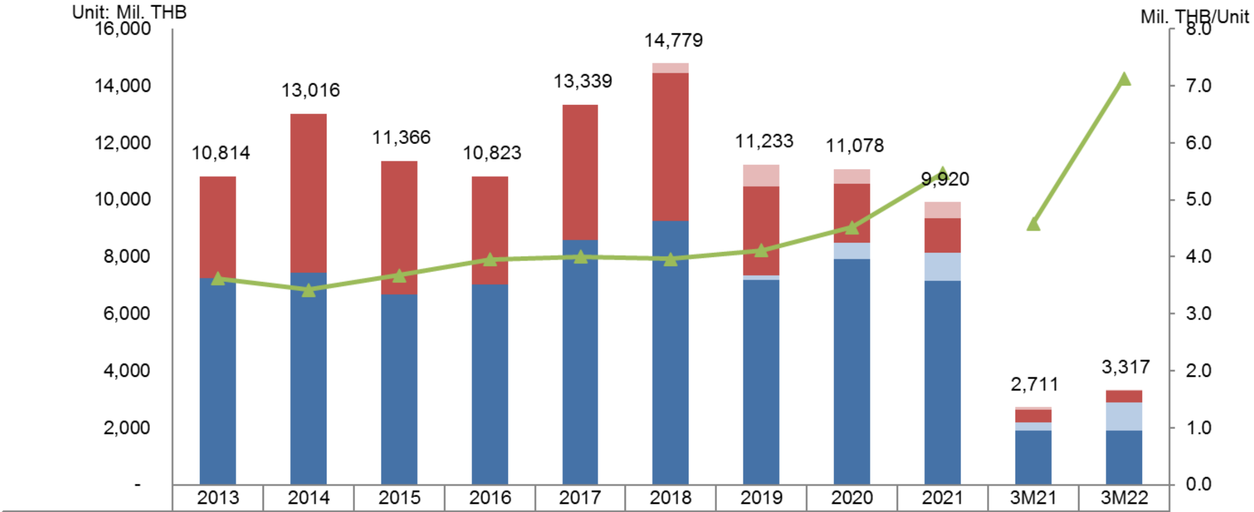
COMPANY OVERVIEW

PF was founded in 1985 by Mr. Sanith Adhyanasakul, and listed on the Stock Exchange of Thailand (SET) in 1993. The company focuses on the middle- to high-income segments of the residential property market in the Bangkok suburbs. PF offers landed property units under the "Lake Legend", "Perfect Masterpiece", "Perfect Residence", "Perfect Place", "Perfect Park", "Modi Villa", and "The Metro" brands. Its landed property products range in price from THB2-THB80 million per unit. Condominium units are sold under the "Hyde", "Yu Kiroro", "The Sky", "Metro Sky", "Metro Luxe", "Metro Park", "Bella Costa", "I Condo", and "Yu Ruay" brands, with selling prices ranging from THB40,000 to THB400,000 per square meter (sq.m.). In 2018, PF set up several JVs with partners; HKL Thai Development Co., Ltd., Sekisui Chemical Co., Ltd., and Sumitomo Forestry Co., Ltd., to enlarge its residential portfolio. Apart from its core business, PF operates five hotels in Thailand, and one community mall.

Revenue from the residential property business (including landed properties, condominiums, and land plot sales) contributed around 80% of the company's total revenue from sales and services during 2016-2019, rising to 86% in 2020 and 90% in 2021. The revenue contribution from the hotel business fell to around 12% in 2020 and 7% in 2021, from 18% in 2019, due to the impacts of the COVID-19 pandemic. The revenue contribution from the rental and service segment remained negligible.

KEY OPERATING PERFORMANCE

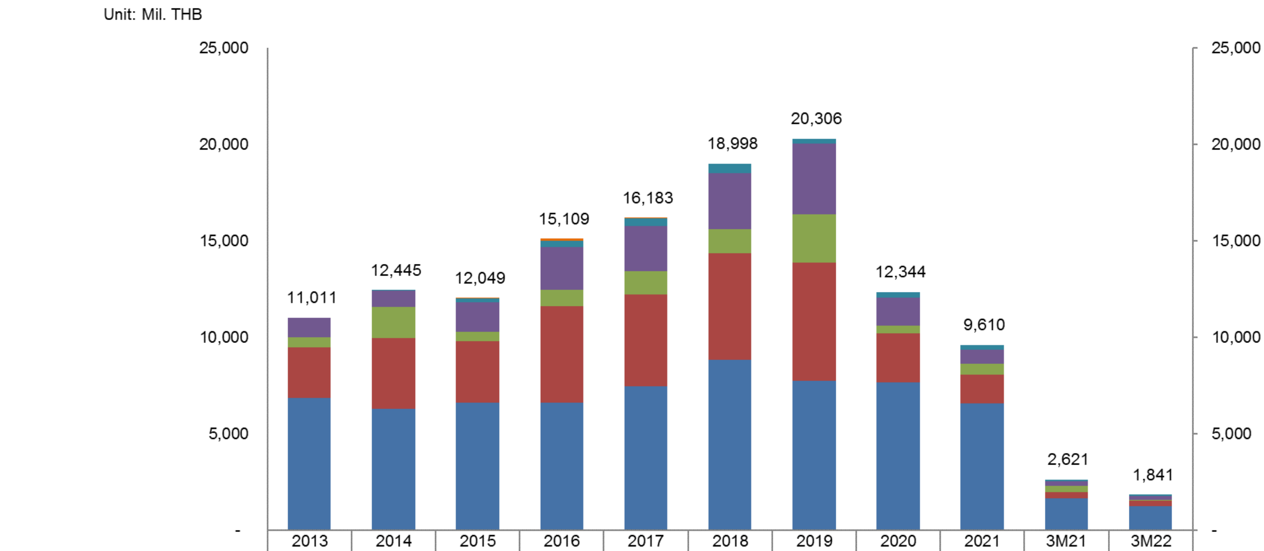
Chart 1: Presales Performance



	2013	2014	2015	2016	2017	2018	2019	2020	2021	3M21	3M22
Condo - JV						336	760	517	572	92	35
Condo	3,582	5,591	4,700	3,800	4,747	5,179	3,143	2,082	1,211	436	388
Housing - JV							149	570	992	283	991
Housing	7,232	7,425	6,666	7,023	8,593	9,265	7,180	7,908	7,145	1,901	1,903
Total presales	10,814	13,016	11,366	10,823	13,339	14,779	11,233	11,078	9,920	2,711	3,317
Avg. Price	3.6	3.4	3.7	3.9	4.0	4.0	4.1	4.5	5.5	4.6	7.1

Source: PF

Chart 2: Revenue from Sales and Services Breakdown



	2013	2014	2015	2016	2017	2018	2019	2020	2021	3M21	3M22
Construction Services			15	89	32						
Rental and Services		28	225	361	381	496	269	278	271	69	81
Hotel operations	1,018	845	1,524	2,194	2,323	2,915	3,670	1,470	696	261	190
Land plots	530	1,629	501	864	1,225	1,233	2,500	391	587	326	30
Condo	2,626	3,667	3,160	4,988	4,766	5,535	6,141	2,549	1,484	339	280
Housing	6,836	6,276	6,624	6,614	7,455	8,818	7,726	7,656	6,572	1,626	1,260
Revenue from Sales and Services	11,011	12,445	12,049	15,109	16,183	18,998	20,306	12,344	9,610	2,621	1,841

Source: PF

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

		-----------------Year Ended 31 December			-------------
	Jan-Mar 2022	2021	2020	2019	2018
Total operating revenues	1,966	9,895	12,730	20,828	19,290
Earnings before interest and taxes (EBIT)	(138)	(86)	(345)	2,923	2,127
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	61	857	883	3,815	3,018
Funds from operations (FFO)	(246)	(1,570)	(1,601)	715	530
Adjusted interest expense	481	2,191	2,303	2,460	1,902
Real estate development investments	27,194	27,429	29,604	31,822	32,780
Total assets	52,890	52,023	53,390	59,065	57,566
Adjusted debt	32,023	31,657	34,908	35,559	35,187
Adjusted equity	15,520	13,321	13,700	15,688	15,474
Adjusted Ratios					
EBITDA margin (%)	3.11	8.67	6.94	18.32	15.64
Pretax return on permanent capital (%)	(0.52)**	(0.17)	(0.64)	5.19	4.15
EBITDA interest coverage (times)	0.13	0.39	0.38	1.55	1.59
Debt to EBITDA (times)	50.99**	36.92	39.53	9.32	11.66
FFO to debt (%)	(4.95)**	(4.96)	(4.59)	2.01	1.51
Debt to capitalization (%)	67.36	70.38	71.82	69.39	69.46

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

RELATED CRITERIA

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Hybrid Securities Rating Criteria, 28 June 2021
- Issue Rating Criteria, 15 June 2021

Property Perfect PLC (PF)

Company Rating:	BB
Issue Ratings:	
PF17PA: THB447.7 million subordinated capital debentures	B
PF18PA: THB60.3 million subordinated capital debentures	B
Rating Outlook:	Stable

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