TRIS RATING
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PRE-BUILT PLC

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CORPORATES

Company Rating:	BBB
Outlook:	Stable

Last Review Date: 20/02/18

Company Rating History:

Date	Rating	Outlook/Alert
11/04/17	BBB	Stable
30/06/14	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Pre-Built PLC (PREB) at "BBB". The rating reflects the company's well-built track record of constructing high-rise buildings, robust profitability, and ample financial flexibility. Conversely, these strengths are weighed down by the high concentration risk in the end-markets PREB serves, as well as the cyclical nature and stiff competition of the engineering and construction (E&C) industry. The rating also incorporates PREB's tremendous expansion in the property development business, which causes a spike in financial leverage and exposes PREB to execution risks.

KEY RATING CONSIDERATIONS

Well-built track record

PREB's business profile is acceptable, backed by its highly regarded track record. PREB is best known for the construction of high-rise buildings in a number of end-use segments, such as residential properties, condominiums, commercial properties, hotels, and industrial projects.

PREB constructs condominium projects chiefly in Bangkok and in prime locations outside the metropolitan areas. PREB's customer base largely comprises reputable property developers, most of which are listed on the Stock Exchange of Thailand (SET).

As property developers launch a significant number of new condominium projects each year, PREB has been awarded construction contracts from several property developers. The value of new contracts awarded ranged between Bt4-Bt8 billion per year during 2012-2017. In 2018, PREB racked up around Bt3.8 billion in new contracts.

Robust profitability

PREB uses pre-cast concrete system technology in its building projects. By using this technology, PREB can control construction costs and project timelines, two crucial factors for success. PREB generally stays away from price-matching strategies in luring new construction contracts to scale up revenue. Instead, the company is cost-conscious and focuses more on profits. PREB has maintained strong profitability over the past several years, consistently achieving double-digit gross profit margins.

PREB's operating performance in 2018 beat TRIS Rating's forecast, albeit with lower than expected revenue. Revenue in 2018 was Bt3.9 billion, down 13% from the previous year. However, gross profit margin surged to 18% in 2018, up from 14%-15% during 2015-2017. PREB's gross profit margin remained relatively higher than its listed contractor peers. This led to a robust EBITDA (earnings before interest, tax, depreciation, and amortization) of Bt510 million in 2018.

High concentration risk

Most of PREB's construction projects are condominium projects. PREB is highly reliant on a few large customers. For the past three years, four clients, Ananda Development PLC (ANAN), a Pra Dhammakaya-related foundation, Raimon Land PLC (RML), and SC Asset Corporation PLC (SC) were PREB's largest customers. Each client accounted for 20%-35% of PREB's total revenue each year.

At the end of 2018, PREB's backlog stood at Bt8.1 billion. Its biggest clients were ANAN and KKP Tower Co., Ltd. The projects for these two large clients made up about 66% of the value of PREB's project backlog. This level of customer concentration risk keeps a lid on the rating. However, the risk is somewhat alleviated because the major customers are creditworthy. Payment risk is acceptable.

In addition, the rating is also constrained by the cyclical nature of the E&C industry. The industry cycles are in large part derived from the property market. A long dismal property market could undermine the sustainability of the company's revenue streams. Stiff competition in the E&C industry also poses a downside risk.

Tremendous expansion into property development business

PREB reentered the property development segment after the divestiture of Built Land PLC, its previous core subsidiary. PREB set up Pre-Built Holding Co., Ltd. (PBH), a wholly-owned investment vehicle, to develop residential property projects through joint ventures (JV) with other property developers. In addition, PREB has established Is Am Are Co., Ltd. (IAA) to develop its own property projects.

PREB has exhibited tremendous expansion in this business, transcending TRIS Rating's expectation. At the end of 2018, PBH invested in three condominium projects and one single-detached house (SDH) project, with a combined value of around Bt5.2 billion. This year, IAA plans to launch two condominium projects and one SDH project, with a combined value of around Bt4.3 billion. Currently, PREB's largest and most anticipated project is a high-rise condominium located in Sukhumvit 24, worth around Bt2.5 billion. Over the next three years, IAA also plans to launch residential property projects worth Bt3-Bt4 billion per annum, with a budget for land acquisition of around Bt1 billion per annum.

TRIS Rating views that the property development could help enlarge PREB's revenue base and uplift profitability. Given PREB's strengths in construction, the company would secure new construction contracts from the property projects in which it invests. Moreover, PREB will earn profit from the property sales on top of the profit from construction. Looking ahead, PREB's revenue from the property development segment will remain small in 2019, but will surpass Bt1 billion per annum in 2020 onward.

Exposure to execution risks and spike in financial leverage

On the opposite end, the execution risks drag on the rating. PREB could come up against several downside risks, such as a glut in condominiums, more stringent regulations on residential financing, and softer-than-expected demand in the up-market segment. Given its lesser-known brand, TRIS Rating views that PREB would need to offer products more compelling to customers, potentially by offering more competitive prices. Given the fiercely competitive marketplace, PREB could be hurt by slow-selling properties.

PREB's high growth is built at the expense of mounting debt. The ratio of debt to capitalization sharply rose to 20.6% as of 2018, due in large part to the sizable amount of land acquisitions. As PREB is forging ahead with its plan to grow considerably in the next few years, TRIS Rating expects PREB's financial leverage to rise.

In assessing financial leverage, TRIS Rating also includes the debt of associated companies proportionate to PREB's respective guarantee obligations to mirror the company's potential indebtedness. In TRIS Rating's base case, adjusted debt would soar to around Bt3.0-Bt3.5 billion over the next three years from Bt587 million as of 2018. The ratio of debt to capitalization could surge to 55% in 2020 but should gradually decrease after PREB recognizes sizable revenue from property sales.

Ample financial flexibility

Despite a multitude of debt, TRIS Rating expects PREB to generate larger cash flow to weather the heavier debt loads. In our forecast for 2019-2021, the property segment will greatly increase PREB's operating cash flow. Over the forecast period, revenue from construction will remain the centerpiece. However, growth in revenue and cash flow will be driven by property sales. EBITDA will jump, particularly after its largest condominium project starts to recognize revenue. In our base case, EBITDA will soar to Bt1.1 billion in 2021. Funds from operations (FFO) will range around Bt300-Bt800 million per year.

TRIS Rating expects the level of PREB's cash flow against financial obligations will decline in 2019 and 2020 but will recover in 2021. In all, the ratio of FFO to debt will range between 12%-24% while the EBITDA interest coverage ratio is expected to stay above 5 times.

PREB's liquidity profile is strong. As of December 2018, the company had Bt749 million in cash and short-term investments. FFO over the next 12 months is forecast at around Bt300 million. At the end of 2018, PREB had Bt748 million in short-term loans for land purchases coming due over the next 12 months. The company plans to convert short-term loans to long-term project loans thereafter.

BASE-CASE ASSUMPTIONS

- Under TRIS Rating's base-case assumptions, we assume that PREB will generate revenue around Bt4.5 billion to Bt7.0 billion during 2019-2021.
- We expect PREB's gross profit margin will stay in a range of 13%-19% and its operating margin (operating income before depreciation and amortization as a percentage of sales) will stay around 8%-14% over the next three years.
- PREB could secure new contracts of construction projects of around Bt3.5 billion per year.
- PREB will launch new residential projects worth Bt3-Bt4 billion per year during 2019-2021.
- The debt to capitalization ratio (including the amount of debt incurred by associated companies with respect to the portion PREB has guaranteed) is expected to stay below 55% over the next three years.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that PREB will sustain its competitive edge in its core construction business. Profitability remains strong and meets expectations. PREB is intent on further expanding in the fiercely-competitive property development business, causing an upsurge in financial leverage and heightened execution risks. TRIS Rating expects that PREB will generate sizable cash flow from its property segment as planned. As such, leverage will stay manageable and PREB's financial resilience will remain satisfactory.

RATING SENSITIVITIES

A rating upgrade is unlikely in the 12-18 months. Two positive factors for the rating are: rises in revenue and profitability for a sustained period and leverage remaining prudent.

In contrast, the rating and/or outlook could be lowered if the company's competitive position slips. A downgrade would be possible if revenue and profitability decline or if the investments in the property development segment cause the debt level to rise and the capital structure to deteriorate considerably.

COMPANY OVERVIEW

PREB was established in 1995 by the Charoentra family, AP (Thailand) PLC (AP), and the Quest Capital Group. The company is a general contractor focusing on the construction of high-rise buildings for private sector clients. PREB was listed on the SET in 2005. As of May 2018, the founding Charoentra family was the company's largest group of shareholders, owning 26.3% of the total number of shares.

PREB also has the capability to build industrial plants and public works (infrastructure projects) as well as take on system and design work. However, the company remains focused on the construction of residential property projects. PREB's customer base largely comprises reputable property developers, most of which are listed on the SET.

PREB expanded into the production and distribution of construction materials in 2004, through a wholly-owned subsidiary, PCM Construction Material Co., Ltd. (PCM), under the "PCM" brand. PCM produces precast concrete. In 2009, PREB established a wholly-owned subsidiary, Built Land, to develop residential property projects. Built Land develops condominium and townhouse projects. The largest project was TEMPO Grand Sathorn-Wuttakard, worth Bt2.6 billion. PREB expanded into the property development segment, a strategic aim at ramping up its revenue and profitability.

In 2017, PREB made a significant change in strategy by divesting Built Land for around Bt900 million. PREB recorded a gain of Bt289 million from the divestiture, leaving the company with a debt-free balance sheet and a considerable amount of cash.

PREB reentered the property development business. In March 2017, PREB set up PBH, a wholly-owned investment vehicle, to develop residential property projects through JVs with other property developers. PBH started developing residential property projects in mid-2017.

PBH, in collaboration with Premium Place Group Co., Ltd., a property developer, has started to develop a low-rise condominium project located near the BTS Green Line (Sena Nikhom station). The project is worth about Bt1.5 billion. P&P Asset Group Co., Ltd., the developer, is 49% owned by Pre-Built Holding and 51% by the Premium Place Group. PREB is the contractor for the project. At the end of 2018, PBH invested in three condominium projects and one SDH project, with a combined value of around Bt5.2 billion.

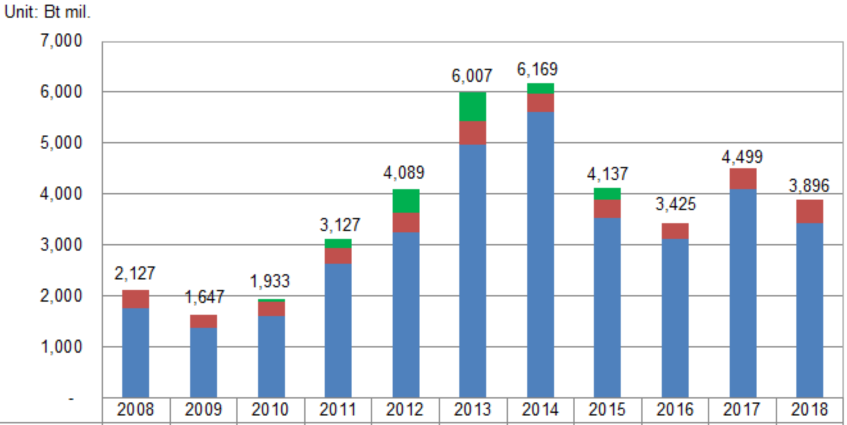
In the meantime, PREB has set up IAA to develop its own property projects. IAA's current projects comprise two condominium projects in Sukhumvit area, and one SDH project, with a combined value of around Bt4.3 billion.

The construction segment has accounted for the vast majority of PREB's total revenue over the past several years.

Revenue has been contributed from construction segment of more than 85% over the past five years.

KEY OPERATING PERFORMANCE

Chart 1: Revenue Breakdown

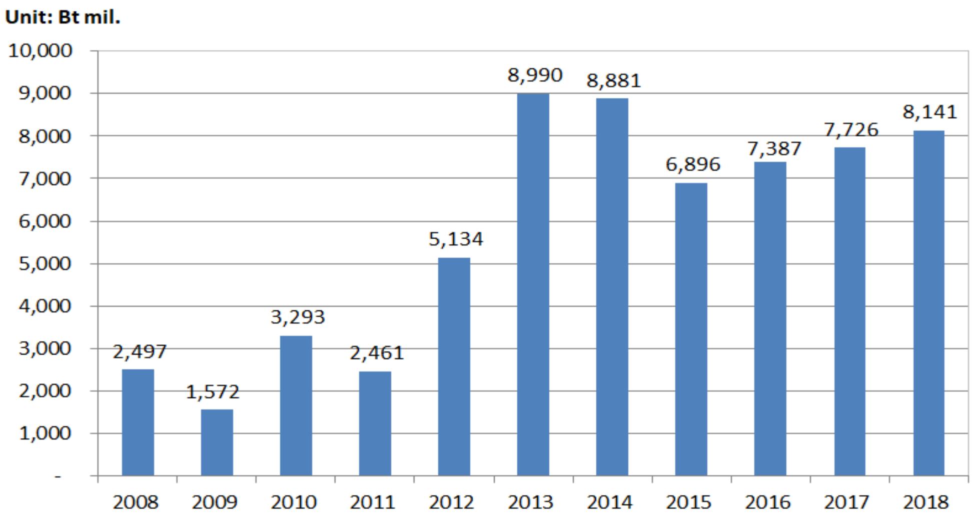


	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Residential property	0	0	30	192	462	577	194	234	0	0	0
Sales of construction materials	372	256	285	290	371	451	357	366	309	408	469
Construction	1,756	1,391	1,618	2,645	3,256	4,979	5,618	3,538	3,117	4,091	3,427

Source: PREB

Note: Restated in 2016 and 2017

Chart 2: Backlog at Year End



Source: PREB

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	----------------------Year Ended 31 December ----------------				
	2018	**2017**	**2016**	**2015**	**2014**
Total operating revenues	3,903	4,505	3,444	4,158	6,190
Operating income	510	459	392	408	395
Earnings before interest and taxes (EBIT)	477	428	352	381	387
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	510	472	403	433	436
Funds from operations (FFO)	412	260	262	326	348
Adjusted interest expense	1	1	18	22	5
Capital expenditures	55	17	26	21	46
Total assets	5,030	4,326	5,056	5,253	4,744
Adjusted debt	587	0	0	0	0
Adjusted equity	2,264	2,128	2,040	1,409	1,291
Adjusted Ratios					
Operating income as % of total operating revenues (%)	13.07	10.19	11.37	9.82	6.37
Pretax return on permanent capital (%)	15.79	18.43	15.41	18.59	25.15
EBITDA interest coverage (times)	386.18	401.57	22.04	20.08	79.86
Debt to EBITDA (times)	1.15	0.00	0.00	0.00	0.00
FFO to debt (%)	70.18	n.a.	n.a.	n.a.	n.a.
Debt to capitalization (%)	20.60	0.00	0.00	0.00	0.00

* *Consolidated financial statements*

n.a. *Not available*

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Pre-Built PLC (PREB)

Company Rating:	BBB
Rating Outlook:	Stable

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