

PRE-BUILT PLC

No. 13/2021
22 February 2021

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 21/02/20

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” with a “stable” rating outlook. The rating reflects the company’s competence in the construction of high-rise buildings, and a moderate backlog. The rating also mirrors PREB’s acceptable financial leverage and adequate liquidity to weather the drawn-out period of contraction. However, the rating is held back by PREB’s high reliance on concentrated end-markets, intensifying competition, and the dim outlook of the residential property segment.

KEY RATING CONSIDERATIONS

Competence in high-rise building projects

PREB is best known as a construction contractor with expertise in high-rise buildings in a number of end-use segments, such as residential properties, condominiums, commercial properties, hotels, and industrial projects. However, PREB mainly focuses on condominium projects chiefly in Bangkok and in prime locations outside the metropolitan areas. PREB’s customer base largely comprises leading property developers, most of which are listed on the Stock Exchange of Thailand (SET). The company has a well-established track record in completing various construction projects. Over the past five years, PREB has secured new contracts worth THB3.5-THB4.5 billion per year. Despite the market slowdown, PREB secured THB3.3 billion in new contracts in 2020.

Customer concentration

Despite its strengths, PREB’s business focus on condominium projects makes the company vulnerable to adverse changes in the domestic property market. PREB has remained highly reliant on the construction of condominiums for a small number of clients. At the end of September 2020, PREB’s backlog stood at THB9 billion. Its three biggest clients in the backlog were MQDC Town Royal Place Co., Ltd., Ananda Development PLC (ANAN), and Origin Property PLC (ORI). These clients’ projects accounted for nearly 70% of the total backlog. This level of customer concentration risk is a constrain on the rating although the risk is somewhat alleviated as the major customers are creditworthy.

Worsening profitability

PREB’s operating performance fell short of TRIS Rating’s expectation. For the nine months of 2020, revenue totaled THB3 billion, a slight 2% decline year-over-year (y-o-y). However, its overall gross margin fell considerably to 9.8%. This is compared to the normal range of 13%-15% achieved over the past several years. Earnings before interest, tax, depreciation, and amortization (EBITDA) came in at THB237 million, a hefty 22% drop y-o-y.

PREB’s worsening profitability is due in large part to intensifying competition among construction companies. PREB’s construction business is concentrated in condominium projects. With the backdrop of the sluggish property market, PREB will need to contend with more competitive biddings in securing contracts. Furthermore, PREB endured significant cost overruns in some high-value projects. In effect, PREB’s gross margin for construction plunged to 8.4% for the first nine months of 2020, the lowest level seen in the past five years. In all, we expect PREB will end up with EBITDA of THB260 million in 2020, compared with THB400-THB500 million in each of the past years.

Residential property development business

PREB has made a concerted effort to expand in the property development business with an eye on the long-term growth of revenue and earnings. PREB has engaged in seven residential property projects, with a combined value of around THB15 billion, through joint ventures (JVs) with other property developers. However, only three projects (THB2.7 billion) have been launched with the rest on hold.

Added to that, PREB has also developed residential projects through its wholly-own subsidiary. In mid-2020, PREB launched its own single-detached house (SDH) project, namely “Pannana”, worth around THB1.3 billion. Pannana has received a good response, with 23% sold as of September 2020. The project delivered completed units to its customers worth THB128 million in the last quarter of 2020. Looking ahead, PREB plans to launch a single-detached house (SDH) project worth THB600-THB700 million in mid-2021. Prior to these two SDH projects, PREB bought two land plots located in Sukhumvit 24 and Sukhumvit 26, worth in total THB1.1 billion, to develop condominium projects. Nonetheless, these projects have been put on hold, given the dwindling demand of targeted local and foreign buyers.

Dim outlook of property market

Prior to the Coronavirus Disease 2019 (COVID-19) outbreak, the residential property market in Thailand had already endured a significant slowdown from the weakening domestic economy, heightening household debt, as well as more stringent loan-to-value (LTV) lending rules. COVID-19 has ravaged the overall economy and exacerbated the weak market sentiment. Demand from foreign buyers tumbled due to travel restrictions. For the condominium segment, the market has witnessed a steep decline in new project launches in Bangkok and rampant markdowns by developers to clear unsold inventories. Several property developers shifted away from condominium development to tap real demand in low-rise housing. The hope for market recovery rests on the effectiveness of widespread vaccination worldwide. TRIS Rating does not expect a quick comeback to pre-pandemic levels. In all, we view a drawn-out period of contraction will weigh negatively on PREB’s construction and property businesses.

Operating performance under pressure

In the short term, we view PREB’s operating performance as facing an array of downside risks, including fragile economic recovery, the lingering impact of COVID-19, and a fiercely competitive marketplace. In our base case forecast for 2021-2022, we expect PREB’s revenue from construction to range between THB4.5-THB5 billion per annum, supported by its current backlog. PREB’s backlog will secure a notable portion of construction revenue in the years ahead, or 79% in 2021, and 53% in 2022.

At the same time, PREB plans to launch landed property projects worth THB1.5-THB1.7 billion and set a budget for land acquisition of around THB600-THB800 million. We forecast PREB’s revenue from its property development business to be THB500-THB700 million per annum. This will help uplift total revenue and operating margins significantly. On the whole, we project PREB’s total revenue to gradually increase from THB4.2 billion in 2020 to THB6.5 billion in 2022. However, we expect the company’s profitability to remain under pressure given the stiff competition, and remain at 10%-12%. We expect EBITDA to recover to THB400-THB500 million per year in 2021-2022 while funds from operations (FFO) are expected to range between THB300-THB350 million per year.

Acceptable level of financial leverage

The rating affirmation embeds our expectation that PREB will prudently manage its financial leverage in the face of the uncertain business outlook. In assessing PREB’s financial leverage, we include the debt of associated companies proportionate to PREB’s respective guarantee obligations to mirror the company’s potential indebtedness. In our base-case forecast, adjusted debt will increase to around THB1.6-THB1.8 billion over the forecast period, up from THB947 million as of September 2020. We forecast the debt to capitalization ratio to stay at around 40% during 2021-2022, which is assessed as acceptable. As for cash flow protection, we expect the ratio of debt to EBITDA to stay at around 3.5 times, with the FFO to debt ratio to be 18%-20%.

Adequate liquidity

The affirmation of rating also reflects PREB’s adequate liquidity to withstand unfavorable market conditions. As of September 2020, PREB’s liquidity source was THB1.3 billion in cash and short-term investments. We forecast PREB’s FFO over the next 12 months to be around THB240 million. At the same time, PREB had THB630 million in short-term loans for land purchases. The company plans to convert its short-term loans to long-term project loans thereafter. According to the key financial covenants on its bank loans, PREB is obliged to maintain its total liability to equity ratio at below 2.5 times. The ratio at the end of September 2020 was 1.78 times.

BASE-CASE ASSUMPTIONS

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

- Potential new contracts for construction projects to be around THB3.5 billion per year.
- Residential property project launches to be worth THB700 million in 2021.
- Construction material sales will be in the range of THB450-THB500 million per year.
- Total revenue will be THB5.4 billion in 2021, and THB6.5 billion in 2022.
- Overall gross profit margin will stay in the range of 10%-12%.
- EBITDA margin will be 7%-8%.

RATING OUTLOOK

The "stable" rating outlook embeds our expectation that PREB will sustain its competitive edge in its core construction business. PREB's operating performance and financial leverage should stay in line with our expectation. We also expect PREB will prudently manage its liquidity and avert unnecessary debt load amidst a lingering downturn in the property market. Despite a potential surge in debt to support ongoing projects, we expect its cash flow protection to stay at the projected levels.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term. However, it could materialize if PREB is able to lift revenue and profitability materially from current levels for a sustained period while its leverage remains at an acceptable level.

On the other hand, the rating and/or outlook could be lowered if PREB loses its competitiveness and its profitability drastically for a sustained period. Downward rating pressure could also emerge if PREB's operating performance is significantly worse than our expectation or if PREB engages in aggressive investments in residential property projects, which considerably weakens its capital structure and cash flow protection. For instance, the debt to EBITDA ratio exceeds 5 times on a sustained basis.

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 June 2020, 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 Co., Ltd., to develop residential property including condominium and townhouse projects. PREB's expansion into the property development segment was a strategic move aimed at ramping up revenue and profitability.

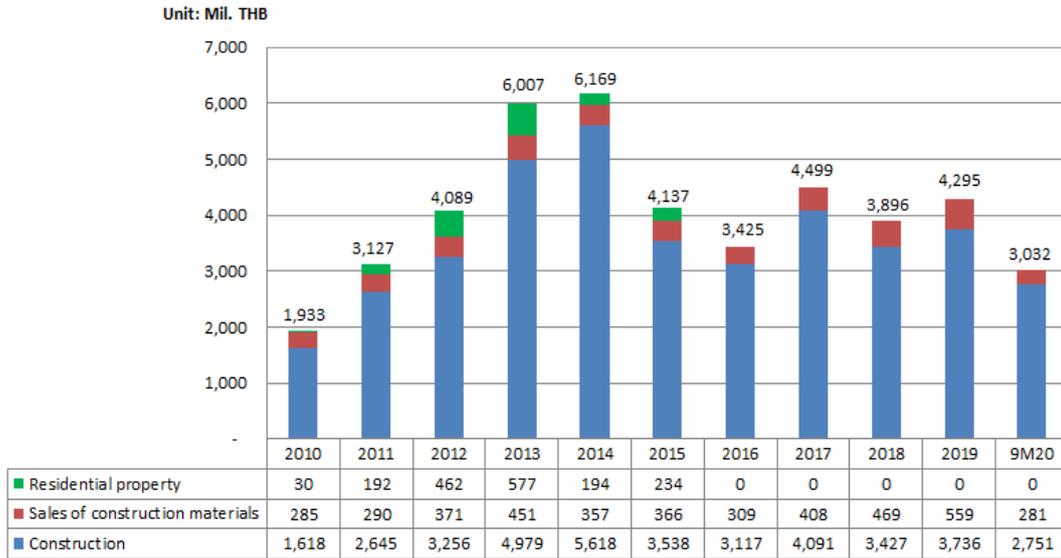
In 2017, PREB made a significant change in strategy by divesting Built Land for around THB900 million. PREB recorded a gain of THB289 million from the divestiture, leaving the company with a debt-free balance sheet and a considerable amount of cash.

PREB re-entered the property development business in March 2017 with the establishment of Pre-Built Holding Co., Ltd. (PBH), a wholly-owned investment vehicle. PBH develops residential property projects through JVs with other property developers. PBH started developing residential property projects in mid-2017. In the meantime, PREB has set up Prebuilt Development Co., Ltd. (PBD) to develop its own property projects. PBD's current projects comprise two condominium projects in the Sukhumvit area, and two SDH projects, with a combined value of around THB5 billion.

The construction segment has contributed more than 85% of PREB's total revenue over the past five years.

KEY OPERATING PERFORMANCE

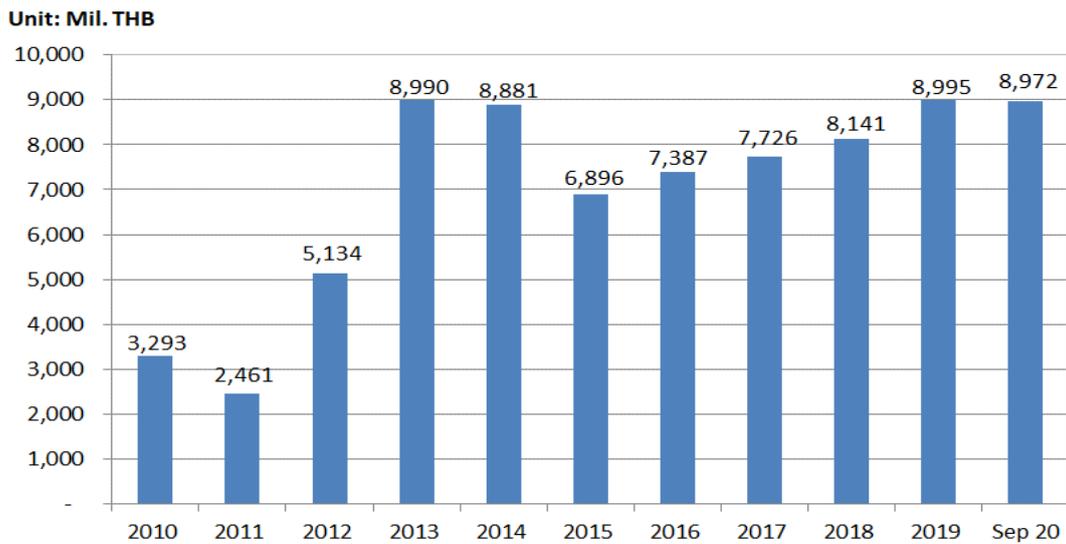
Chart 1: Revenue Breakdown



Source: PREB

Note: Restated in 2016 and 2017

Chart 2: Backlog as of Sep 2020



Source: PREB

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

	Jan-Sep 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	3,040	4,304	3,903	4,505	3,444
Earnings before interest and taxes (EBIT)	156	348	477	428	352
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	237	388	510	472	403
Funds from operations (FFO)	165	267	407	257	236
Adjusted interest expense	46	57	6	5	43
Capital expenditures	30	47	55	17	26
Total assets	5,929	5,948	5,030	4,326	5,056
Adjusted debt	947	1,123	587	0	0
Adjusted equity	2,134	2,205	2,264	2,128	2,040
Adjusted Ratios					
EBITDA margin (%)	7.81	9.03	13.07	10.47	11.69
Pretax return on permanent capital (%)	5.16 **	8.72	15.79	18.43	15.41
EBITDA interest coverage (times)	5.20	6.83	84.14	101.84	9.28
Debt to EBITDA (times)	2.94 **	2.89	1.15	0.00	0.00
FFO to debt (%)	23.79 **	23.76	69.37	n.a.	n.a.
Debt to capitalization (%)	30.72	33.74	20.60	0.00	0.00

* Consolidated financial statements

** Annualized with trailing 12 months

n.a. Not available

RELATED CRITERIA

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

Pre-Built PLC (PREB)

Company Rating:	BBB
Rating Outlook:	Stable

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