PRE-BUILT PLC

No. 20/2023
27 February 2023

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 23/02/22

Company Rating History:

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

Contacts:

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Bundit Pommata
bundit@trisrating.com

Parat Mahuttano
parat@trisrating.com

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

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 well-established track record in the construction of high-rise buildings, steady operating performance, and higher contribution from the residential property development business, which will support its revenues and earnings growth in the short to medium term. However, these strengths are weighed down by low backlog value, the expected rise in leverage amid its residential property business expansion, as well as the cyclical nature and stiff competition of the engineering and construction (E&C) industry. The rating also takes into consideration our concerns over rising interest rates which could impact the funding costs of the company in the short to medium term.

KEY RATING CONSIDERATIONS

Well-established track record with steady performance

PREB's business profile reflects its strong track record in the construction of high-rise buildings in various segments, including residential properties, commercial properties, hotels, and industrial projects. PREB's major customers are leading property developers, most of which are listed on the Stock Exchange of Thailand (SET). Despite the slowdown in the condominium segment, the company has been able to maintain its top line at around THB4.0-THB4.5 billion per year. In addition, the company has been awarded contracts from several repeat customers.

PREB's operating performance has been relatively consistent over the years. During the past five years, the company's revenues were in the range of THB4.0-THB4.5 billion per annum while the margin of earnings before interest, taxes, depreciation, and amortization (EBITDA) ranged from around 8%-13%. PREB's revenue in the first nine months of 2022 was THB4.4 billion, up 49% year-over-year (y-o-y), and better than our forecast. Its EBITDA margin also improved to 11.1%, from 10.1% in 2021, causing its EBITDA to jump by 59% y-o-y to THB493 million.

Expanding into residential development will drive revenue growth

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. The company's revenue from residential property projects grew to THB748 million in the first nine months of 2022 from THB489 million in 2021.

PREB has developed residential projects through its wholly owned subsidiary, Pre-Built Development Co., Ltd. The company also set up joint ventures (JVs) with various developers to undertake residential property projects. However, the contribution from these projects remains minimal.

Currently, PREB has three single-detached house (SDH) projects developed under the "Pannana" and "Pimnara" brands, worth THB2.6 billion. The company also has one townhouse project under the "Pre Village" brand, worth THB0.7 billion. In the second half of 2023, PREB plans to launch two SDH projects with project value of THB1.3-THB1.4 billion in total. Besides housing projects, PREB has two land plots located on Sukhumvit 24 Road and Sukhumvit 26 Road, worth a total of THB1.1 billion, to develop condominium projects. Nonetheless, these projects have been put on hold, given the excess supply and dwindling demand for condominiums in those areas.

Going forward, PREB plans to launch residential property projects worth THB1.2-THB1.5 billion yearly. We forecast PREB's annual revenue from its property development business will gradually increase from THB870 million in 2022 to more than THB1,000 million in 2024. Although the greater contribution from residential properties will help bolster revenues and operating margins, the company's debt level is also likely to increase. We expect the company to balance the returns and funding needs for its property business such that its debt to EBITDA ratio does not change much from the current level.

Low backlog value

PREB's backlog at the end of September 2022 stood at THB4.7 billion, decreasing from around THB7 billion at the end of 2021. The lingering Coronavirus Disease 2019 (COVID-19) pandemic and the slowdown in the condominium market prompted most developers to postpone their new project launches. PREB signed new contracts worth only THB1.6 billion in 2022, a relatively small amount compared with the THB2.5-THB4.5 billion per year in new contracts signed annually in the past. However, the easing of COVID-19 and the reopening of many countries, especially China, has prompted several listed property developers to launch more new condominium projects from 2023 onwards. Thus, PREB expects the value of new contracts to bounce back to around THB3.5-THB4.0 billion per annum in the next 2-3 years.

In our base-case forecast for the next three years, we project PREB's revenue from the construction business to range from THB3.5-THB4.0 billion per annum. PREB's backlog will likely secure a crucial portion of construction revenue in the years ahead, equivalent to 80% in 2023 and 30% in 2024. Revenue from residential property projects is forecast to be THB870 million to THB1 billion per annum, while revenue from construction material sales to be THB500-THB550 million per annum. Overall, we project PREB's total revenue to be THB5.1-THB5.4 billion yearly during 2022-2024. Although the company's profitability will remain under pressure, given the increasing material prices and rising interest rates, we expect PREB to maintain its EBITDA margin at 10%-11%. We expect its EBITDA to be around THB530-THB570 million per annum while funds from operations (FFO) should range from THB380-THB400 million per year over the next three years.

Expected rise in financial leverage amid property business expansion

We forecast PREB's debt to capitalization ratio (including JV debts on a proportionate basis) will range from around 30%-35% over the next three years. The ratio at the end of September 2022 was 34.2%, up from 26.7% in 2021, since the company launched more residential property projects in 2022. Based on the company's three-year business plan, PREB aims to launch new residential projects worth around THB1.2-THB1.5 billion per annum. The budget for land acquisition is set at around THB500 million per annum. Under TRIS Rating's base case, PREB's debt to EBITDA ratio is expected to stay at around 2.5-3.0 times while the FFO to debt ratio should range from 25%-30% over the next three years.

According to the key financial covenants on its bank loans, PREB is obliged to maintain its total liabilities to equity ratio below 2.5 times. The ratio at the end of September 2022 was 1.5 times. We believe the company should be able to comply with the financial covenant on its debt obligations over the next 12-18 months. PREB's total debt at the end of September 2022 stood at THB1.7 billion, most of which was secured. PREB's priority debt to total debt ratio was 56%, higher than our threshold of 50%. In our view, the high level of priority debt puts PREB's unsecured creditors at a disadvantage with respect to the priority of claims against the company's assets.

Adequate liquidity

We assess PREB's liquidity as adequate over the next 12 months. At the end of September 2022, PREB's sources of funds included THB701 million in cash on hand. FFO are forecast at THB350-THB400 million per annum. PREB's liquidity uses over the next 12 months will include debt repayments amounting to THB87 million, capital expenditures of THB80-THB100 million, working capital requirements of THB300-THB400 million, and dividend payments of around THB120 million. On the whole, PREB's sources of funds should be sufficient to cover its uses of funds over the next 12 months.

BASE-CASE ASSUMPTIONS

- New signed construction contracts worth THB3.5-THB4.0 billion per year during 2022-2024.
- Total revenues in the range of THB5.1-THB5.4 billion yearly.
- Residential property sales gradually increase from THB850 million in 2022 to THB1 billion in 2024.
- Construction material sales of THB500-THB550 million per year.
- EBITDA margin in the range of 10%-11%.
- Land acquisition budgeted at THB500 million yearly over the next three years.

RATING OUTLOOK

The "stable" rating outlook embeds our expectation that PREB will sustain its competitive edge in the E&C business. We expect PREB's operating performance and financial leverage to remain in line with our forecasts, with the debt to EBITDA ratio remaining below 3.5 times, and the debt to capitalization ratio staying in the 30%-35% range over the next three years.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term. However, it could materialize if PREB significantly enlarges its revenues and earnings while maintaining leverage at the current level. Conversely, the rating and/or outlook could be lowered if PREB's operating performance is significantly worse than our forecast or if its investments in residential property projects cause the debt to EBITDA ratio to exceed 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 May 2022, the founding Charoentra family was the company's largest group of shareholders, owning 26.3% of the total 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.

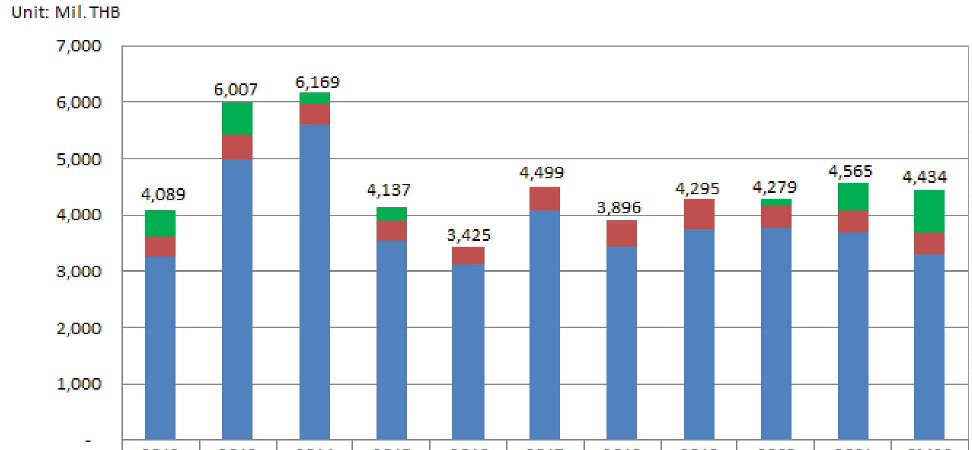
PREB expanded into the production and distribution of construction materials in 2004, through a wholly owned subsidiary, PCM Construction Material Co., Ltd. (PCM), under the "PCM" brand. PCM produces precast concrete. In 2009, PREB established a wholly owned subsidiary, Built Land Co., Ltd., to develop residential properties 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 developments comprise two condominium projects in the Sukhumvit area and four SDH projects, with a combined value of around THB5-THB6 billion. The construction segment has contributed more than 80% of PREB's total revenue over the past five years.

KEY OPERATING PERFORMANCE

Chart 1: Revenue Breakdown

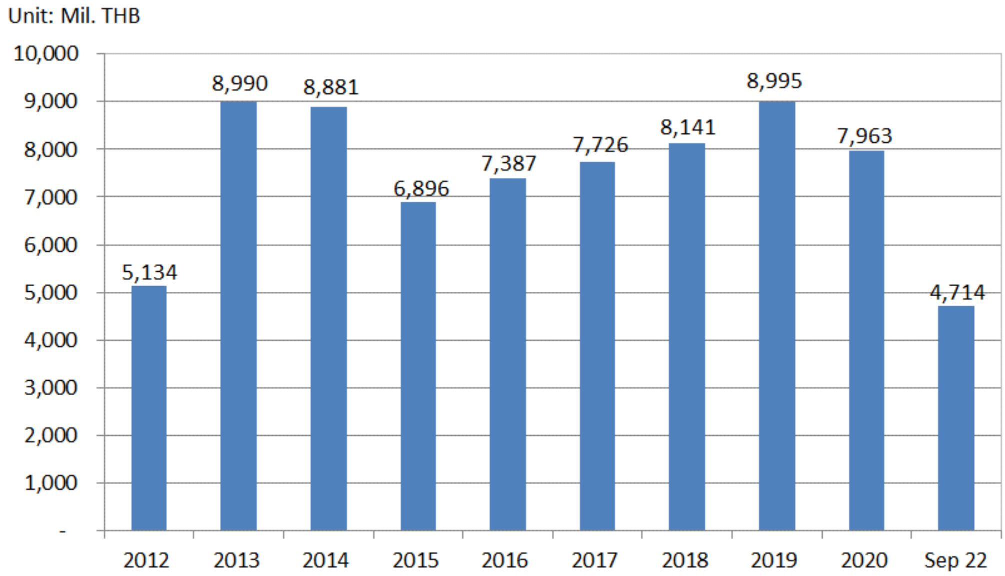


	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	9M22
Residential property	462	577	194	234	0	0	0	0	128	489	748
Sales of construction materials	371	451	357	366	309	408	469	559	392	389	390
Construction	3,256	4,979	5,618	3,538	3,117	4,091	3,427	3,736	3,759	3,687	3,296

Source: PREB

Note: Restated in 2016 and 2017

Chart 2: Backlog as of Sep 2022



Source: PREB

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

		-------------Year Ended 31 December ------------			
	Jan-Sep 2022	2021	2020	2019	2018
Total operating revenues	4,447	4,580	4,294	4,304	3,903
Earnings before interest and taxes (EBIT)	429	362	242	348	477
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	493	460	350	388	510
Funds from operations (FFO)	384	311	248	308	416
Adjusted interest expense	31	53	60	56	1
Capital expenditures	39	25	35	47	55
Total assets	6,278	6,191	5,936	5,948	5,030
Adjusted debt	1,291	841	895	1,123	587
Adjusted equity	2,485	2,309	2,191	2,205	2,264
Adjusted Ratios					
EBITDA margin (%)	11.08	10.05	8.15	9.03	13.07
Pretax return on permanent capital (%)	12.35**	8.35	5.57	8.72	15.79
EBITDA interest coverage (times)	16.09	8.73	5.84	6.88	386.18
Debt to EBITDA (times)	2.01**	1.83	2.56	2.89	1.15
FFO to debt (%)	36.40**	36.99	27.69	27.42	70.84
Debt to capitalization (%)	34.19	26.69	29.00	33.74	20.60

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

RELATED CRITERIA

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

Company Rating:	BBB
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000