TRIS RATING
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CreditNews ข่าวเครดิต

PRINSIRI PLC

No. 18/2018
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CORPORATES

Company Rating:	BB+
Outlook:	Positive

Company Rating History:

Date	Rating	Outlook/Alert
17/03/16	BB+	Stable
03/07/15	BBB-	Alert Developing
29/10/14	BBB-	Negative
21/08/12	BBB-	Stable
24/11/11	BBB-	Negative
24/05/11	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating of Prinsiri PLC (PRIN) at "BB+". At the same time, TRIS Rating revises the rating outlook to "positive" from "stable". The change reflects the recent improvements in the company's operating performance and capital structure. The company reorganized to improve its work processes. It put efforts to increase inventory turnover, cut operating expenses, and reduce debt. The rating continues to reflect the company's acceptable track record in the low-rise segment of the residential property development industry, small revenue base, and volatile operating performance. The rating also takes into consideration the high level of household debt nationwide and an improving economy.

KEY RATING CONSIDERATIONS

Acceptable track record

PRIN has a track record, stretching back over 10 years, of developing residential property projects in Greater Bangkok. The company focuses on four types of residential property projects: single detached house (SDH), semi-detached house (Semi-DH), townhouse (TH), and low-rise condominium. During the past five years, low-rise housing units, rather than condominiums, were the largest source of revenue, constituting more than half of revenue yearly.

As of December 2017, PRIN had 16 active projects. The value of the unsold units in all of its active projects was around Bt8,200 million. About 60% of the value was in the SDH and Semi-DH segments. About 30% was in the TH segment, and 10% was in the condominium segment. The company had a small backlog, worth about Bt70 million, because most of its products are semi-prebuilt or prebuilt low-rise housing projects.

Small revenue base

PRIN is smaller than most of the property developers rated by TRIS Rating. Revenue has ranged from Bt2,000-Bt3,000 million per year over the past few years. The small revenue base means operating leverage is quite high because fixed operating expenses are a significant percentage of revenue. High operating leverage means volatile operating results. A slump in revenue could affect the operating results significantly.

TRIS Rating's base case forecast assumes revenue will increase over the next three years and range between Bt3,000-Bt4,000 million per year. The company plans to launch a number of residential property projects, including condominiums. Due to the small backlog, the company's future revenue stream will be based mainly on its ability to generate new sales.

The lingering high level of household debt nationwide and stringent lending criteria adopted by banks should continue to curb demand for residential properties, particularly in the middle-to-low-income segments. However, an improving economy will help increase the purchasing power of residential property buyers to some extent.

Operating performance was volatile, but showing signs of recovery

Profitability has fluctuated widely. The operating margin, as measured by operating income before depreciation and amortization as a percentage of sales, varied between 5% and 15% during the last few years. Operating costs at PRIN's first community mall were high in 2014 and 2015, the first two years of operations. The high costs kept profits under pressure.

Profitability improved recently. The operating margin rose steadily to 13.3% in 2016 and 14.9% in the first nine months of 2017, from below 10% during 2014 and 2015. PRIN reorganized to improve its work processes. Construction delays at some projects were resolved after it changed a policy to sell finished housing units. The company cut operating expenses and increased the efficiency of budgeting outlays. For example, PRIN focused more on online marketing, instead of trading marketing such as newsletters and billboards. Online marketing was cheaper, but effective. Fewer residential property projects were launched during the last two years. Instead, it focused on selling the units in projects already underway. This action moved the assets off the balance sheet and increased asset efficiency. As a result, operating expenses as a percentage of revenue fell significantly. TRIS Rating believes the operating expenses will rise because PRIN plans to launch more residential property projects in the coming years. However, the operating margin will stay above 12% over the next three years, given the assumptions in TRIS Rating's base-case forecast.

Financial leverage declined

Leverage decreased recently. PRIN purchased fewer land plots during the last two years. Instead, it developed most of the new residential property projects on land plots it already owned. Funding requirements dropped as the investment expenditures fell. As a consequence, the total debt to capitalization ratio fell steadily to 48.7% as of September 2017, from a peak of about 60% in 2014.

Plans to launch a number of condominiums in the next three years will not raise the gearing significantly. The new condominiums are low-rise projects and rather small. TRIS Rating assumes the total debt to capitalization ratio will climb, but stay below 55% throughout the next three years. The forecast assumes PRIN will spend less than Bt800 million per year to acquire new land plots. As of September 2017, the company had land held for development worth almost Bt1,300 million. This allows PRIN to keep its land acquisition budget low over the near term.

Improving cash flow protection

Cash flow protection improved recently as profits rose and debts fell. The funds from operation (FFO) to total debt ratio increased to 9.2% in the first nine months of 2017, from a bottom of 1.3% in 2014. The earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio climbed to 2.9 times in the first nine months of 2017, from below 1 times in 2014. TRIS Rating's base case forecast assumes the former ratio will range from 5%-9% and the latter ratio will range from 2-3 times over the next three years.

Refinancing risk remained, but should be manageable

PRIN is exposed to refinancing risk. The company has debts, worth nearly Bt1,400 million, coming due in 2018. The debts comprise Bt1,100 million in debentures, Bt220 million in project loans, and an Bt80 million promissory note (P/N) used as a bridge loan for a land purchase. Debentures, worth Bt500 million and due in February 2018, were redeemed for cash. As a result, the outstanding debt obligations due in 2018 amount to about Bt900 million. FFO in 2018 is forecast to reach Bt300 million. After the debentures were redeemed for Bt500 million, the company had undrawn credit facilities of Bt320 million, plus cash on hand of about Bt130 million. These two balances, plus FFO, mean sources of cash will total Bt750 million. PRIN may have to refinance a shortfall of about Bt150 million. TRIS Rating expects PRIN will manage its liquidity prudently, given the recent improvements in its financial profile. As of September 2017, PRIN had unpledged land held for development worth approximately Bt750 million as another source of liquidity.

Key financial covenant in PRIN's debentures requires the interest-bearing debt to equity ratio to stay below two times. The ratio at the end of September 2017 was 0.95 times. Thus, the company was in compliance with this key financial covenant. TRIS Rating believes that the company will stay in compliance easily for the next 12 to 18 months.

RATING OUTLOOK

The "positive" outlook reflects the expectation that the improvements in the operating performance will continue. Strategic policy changes should help sustain profitability over the long-term.

RATING SENSITIVITIES

PRIN's rating and/or outlook will be revised upward if the reorganization enhances internal operations and operating performance, and pushes the company to achieve the target levels in TRIS Rating's forecast. Over the next three years, PRIN is expected to keep the FFO to total debt ratio at above 5% and keep the EBITDA interest coverage ratio at about 2 times.

PRIN's credit downside scenario could materialize if its financial profile, particularly cash flow protection, deteriorates significantly from expectations.

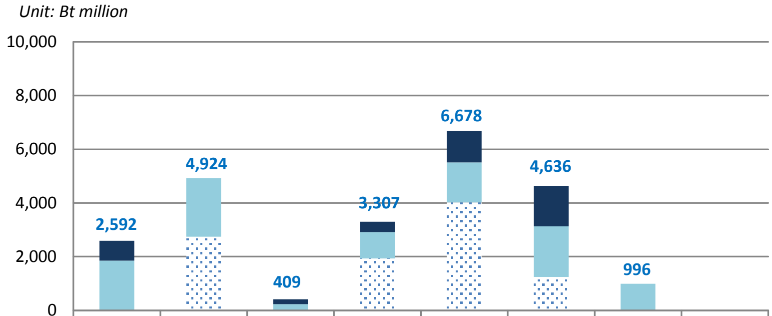
COMPANY OVERVIEW

PRIN was established in 2000 by the Kovitchindachai family and listed on the Stock Exchange of Thailand (SET) in 2005. The Kovitchindachai family continues to be the company's largest shareholder, with a combined 35% stake at the end of December 2017. PRIN focuses on developing low-rise housing projects and targets the middle-income segment in the Greater Bangkok area. The company expanded into the development of shopping malls in 2014. It developed a community mall, Plearnary Mall, located on Watcharaphol road. The mall, with about 20,000 square meters (sq.m.) in rental space, opened in October 2014. It suffered losses for the first two years of operations before turning profitable since 2016. Revenue from tenants at Plearnary Mall comprised about 4% of total revenue in the first nine months of 2017. The residential property development segment remains the centerpiece of PRIN.

As of December 2017, PRIN had a few legal disputes. One of those was the case concerned that one building of the existing condominium project obstructed the sidewalk. The Court First Instance ordered the company to remove the building. However, PRIN believed the construction complied with the related laws, and it filed a petition with the Court of Appeals. As the damages have not yet been clearly assessed, the company may not have to record a provision for the damages in the fourth quarter of 2017. TRIS Rating expects this civil case will take quite some time to conclude.

KEY OPERATING PERFORMANCE

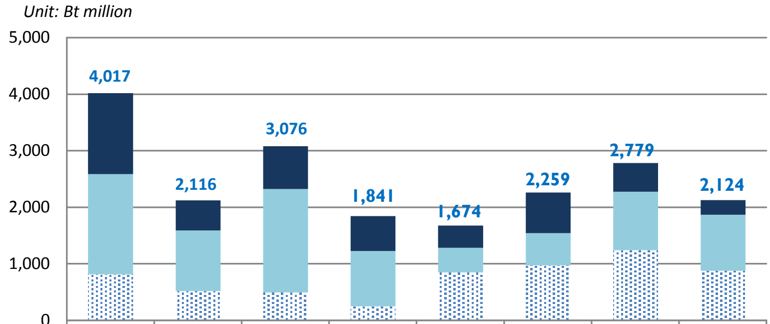
New Project Launches



	2010	2011	2012	2013	2014	2015	2016	2017
Condominium	743	-	181	385	1,171	1,511	-	-
Townhouse	1,849	2,175	229	991	1,484	1,884	996	-
SDH	-	2,749	-	1,931	4,023	1,241	-	-

Source: PRIN

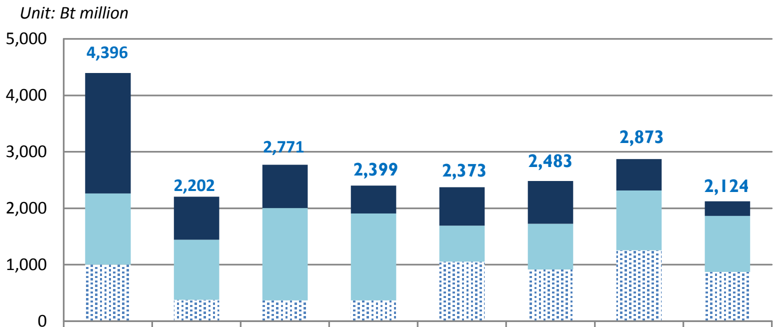
Presales



	2010	2011	2012	2013	2014	2015	2016	9M17
Condominium	1,434	531	759	619	397	722	507	263
Townhouse	1,777	1,075	1,831	979	435	572	1,035	991
SDH	806	510	486	244	841	965	1,237	871

Source: PRIN

Transfers



	2010	2011	2012	2013	2014	2015	2016	9M17
Condominium	2,134	760	766	494	680	760	557	263
Townhouse	1,261	1,064	1,639	1,537	638	808	1,061	991
SDH	1,002	378	365	369	1,054	915	1,255	871

Source: PRIN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		------------- Year Ended 31 December -----------			
	Jan-Sep 2017	2016	2015	2014	2013
Revenue	2,230	3,018	2,639	2,459	2,456
Gross interest expense	166	262	309	291	206
Net income from operations	202	216	66	74	192
Funds from operations (FFO)	241	279	140	77	228
Inventory investment	785	1,034	717	(404)	(914)
Total assets	8,374	9,035	9,842	10,435	9,076
Total debts	3,860	4,475	5,369	5,824	4,706
Shareholders' equity	4,068	3,977	3,895	3,890	3,839
Operating income before depreciation and amortization as % of sales	14.91	13.26	8.54	5.69	11.56
Pretax return on permanent capital (%)	5.17	3.94	1.76	1.53	3.44
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	2.91	2.15	1.12	0.86	1.73
FFO/total debt (%)	9.17	6.24	2.60	1.32	4.84
Total debt/capitalization (%)	48.68	52.95	57.95	59.96	55.07

* *Consolidated financial statements*

Prinsiri PLC (PRIN)

Company Rating:	BB+
Rating Outlook:	Positive

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