TRIS RATING
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PRINSIRI PLC

No. 30/2020
19 March 2020

CORPORATES

Company Rating: BBB-
Outlook: Stable

Last Review Date: 13/03/19

Company Rating History:

Date	Rating	Outlook/Alert
13/03/19	BBB-	Stable
21/02/18	BB+	Positive
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 on Prinsiri PLC (PRIN) at "BBB-" with a "stable" outlook. The rating reflects PRIN's small size, moderate financial leverage, and acceptable profitability. The rating also takes into consideration the sluggish demand for residential property given concerns over a slowdown in the domestic economy, the stringent bank lending policies, and recent regulatory changes in the loan-to-value (LTV) rules by the Bank of Thailand (BOT).

KEY RATING CONSIDERATIONS

Small size with limited market segmentation

PRIN is smaller than most property developers rated by TRIS Rating in terms of revenue. Its revenue in 2019 declined by 28% year-on-year (y-o-y) to Bt1.79 billion, ranking 21st out of the 22 developers rated by TRIS Rating. PRIN's revenue was lower than TRIS Rating's prior projection. The sharp drop in revenue was mainly due to fewer new project launches amid concerns over the negative effects of the implementation of new LTV rules by the BOT in April 2019 and the slowdown in the domestic economy. In 2019, PRIN launched only two housing projects and two small low-rise condominium projects, worth only Bt1.5 billion in total, significantly lower than the initial target of Bt3.5 billion.

Moreover, the company's product pricing and targeted market segments are relatively limited. PRIN focuses on detached houses, townhouses (TH), and low-rise condominiums, with unit prices in the Bt2-Bt6 million range. As of December 2019, PRIN had 19 active projects. The remaining value of unsold units (both built and un-built) was around Bt6.1 billion, with 57% in the single detached house (SDH) and semi-detached house segments, 17% in the townhouse (TH) segment, and 26% in the condominium segment. PRIN plans to launch three housing projects in 2020, worth Bt2.8 billion. As a result, we expect PRIN's revenues to recover slightly to Bt2.0-Bt2.4 billion per annum over the next few years.

Moderate financial leverage

TRIS Rating expects PRIN to maintain its financial leverage at a moderate level. Its debt to capitalization ratio is expected to stay below 50% in the short to medium term as the company plans to launch low-rise condominiums and landed properties which require less capital than high-rise condominium projects. In addition, last year the company sold a 30-year leasehold right of Plearnary Mall to Bualuang K.E. Retail Leasehold Real Estate Investment Trust (BKER REIT). We view this transaction as a plus for the company as PRIN will no longer have to shoulder the operating loss and financing costs associated with this community mall project. The proceeds of Bt700 million were used to repay bank loans of Bt331 million and to purchase land for new housing projects.

As a result, PRIN's debt to capitalization ratio at the end of 2019 stood at 44.7%, the same level as in the previous year and down from a peak of 60% in 2014. Under TRIS Rating's base case forecast, PRIN's debt to capitalization ratio is expected to range between 45% and 46% over the next two-three years, taking into account the acquisition of new land plots of around Bt500 million per year and the planned launch of new projects worth around Bt2.5-Bt3.0 billion per annum.

Slight decline in profitability of residential property partly offset by lower SG&A after mall divestiture

PRIN's profitability, as measured by the earnings before interest, taxes, depreciation, and amortization (EBITDA) margin, declined slightly to 23% in 2019, from 24.5% in 2018. The weakened profitability was mainly due to a drop in revenue, while selling and administrative costs remained high from fixed operating expenses.

Going forward, we expect the company to maintain its EBITDA margin at around 21%-22%, based on its target revenue of Bt2.0-Bt2.4 billion per annum. The company's management plans to revise its selling price in some projects and focus more on digital marketing to accelerate sales. The reduction in operating expenses after the company ceased operation of its community mall should help offset the impact of margin cuts in some residential projects.

Tight liquidity yet manageable

TRIS Rating assesses PRIN's liquidity as tight but manageable. As of December 2019, the company had Bt1.4 billion in debt due over the next 12 months, comprising debentures of Bt1.1 billion, project loans of Bt69 million, bills of exchange (B/Es) of Bt200 million, and other short-term loans of Bt10 million. The company has already rolled over the whole amount of the B/Es due, and repaid Bt413 million of bond due in February with Bt334.7 million of three-year senior unsecured bonds and its internal cash flow. PRIN plans to refinance the remaining Bt700 million of debentures due in July 2020 with a new debenture issue. The project loans will be repaid with the cash received from transfers of residential property units to customers.

As of February 2020, PRIN's sources of liquidity included cash on hand of Bt187 million and undrawn committed credit facilities of around Bt220 million. The FFO are expected to be around Bt150-Bt200 million per annum during 2020-2022. The company also had unencumbered land held for sale and development with book value of around Bt3.8 billion as an alternative source of liquidity, if needed. Moreover, the company has prepared back-up facilities of Bt300 million with a financial institution as a contingency measure. The FFO to debt ratio is forecast at 4%-6% while the EBITDA interest coverage ratio is forecast to stay above 2 times over the next three years.

According to its financial covenants, PRIN has to keep the interest-bearing debt to equity ratio below 2 times and total liabilities to total equity (D/E) below 2 times. The ratios at the end of December 2019 were 0.9 times and 1.2 times, respectively. TRIS Rating believes the company should have no problem complying with these financial covenants over the next 12 months.

Increasing volatility amid concerns over COVID-19 and severe drought

The residential property market closely follows trends in the domestic economy. However, volatility in this market is much more pronounced than in the overall economy. A prolonged outbreak of COVID-19 both inside and outside China, could severely hurt the Thai economy. Demand for residential properties from both Thai and foreign buyers could slump significantly and the number of non-performing mortgage loans could rise further. The weak purchasing power of homebuyers combined with stringent bank lending policies will adversely affect demand for housing in the middle- to low-income segments, which are PRIN's main customer groups.

However, we expect the government to launch several stimulus measures to boost the economy. Recently the BOT relaxed the LTV regulations by allowing the mortgage for first homebuyers to take out a top-up of 10% on their housing loans, constituting 110% for the mortgage bundled with the top-up. Another measure is a cut in housing transfer and mortgage fees to 0.01% for homes priced below Bt3 million, effective till the end of December 2020. PRIN believes these new measures should help encourage and attract potential homebuyers, especially in the middle- to low-income segments. Nonetheless, with the current market situation, many developers have shifted their focus toward landed property projects, particularly in the middle- to low-income segments, which has relatively high demand. As a result, competition in this market segment seems to have intensified.

BASE-CASE ASSUMPTIONS

- Under the base-case scenario, TRIS Rating assumes that operating revenue to be in the range of Bt2.0-Bt2.4 billion per annum during 2020-2022.
- Gross profit margin to hover around 31% and EBITDA margin to range between 21%-22% over the next three years.
- Budget for land acquisition is expected to be Bt500 million per annum in 2020-2022.

RATING OUTLOOK

The "stable" outlook reflects the expectation that PRIN will be able to sustain its operating performance as its target, plus the ability to maintain its financial position at the current levels. TRIS rating expects PRIN's revenue should be in the range of Bt2.0-Bt2.4 billion over the next three years, while maintaining the debt to capitalization ratio lower than 50%. The operating margin should stay above 10%.

RATING SENSITIVITIES

The rating and/or outlook of PRIN could be under downward pressure if its operating performance and/or financial profile further deteriorate from the target levels. The rating upgrades are unlikely in the near term.

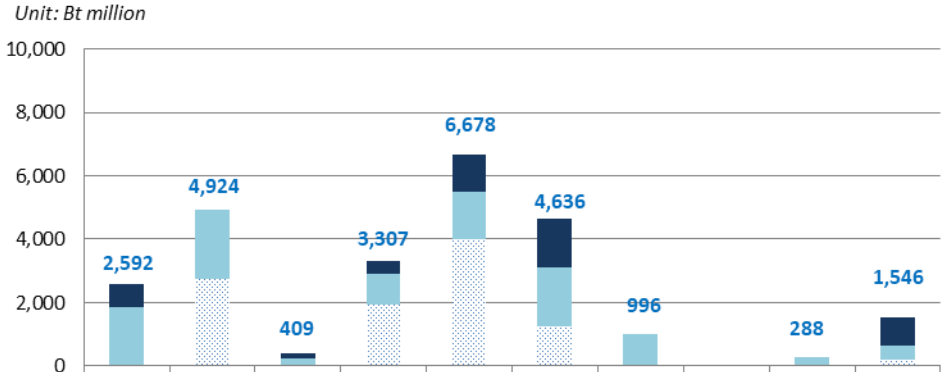
COMPANY OVERVIEW

PRIN was established by the Kovitchindachai family in 2000 and listed on the Stock Exchange of Thailand (SET) in 2005. The Kovitchindachai family has been the company's major shareholder since its inception, owning a 35% stake as of December 2019. PRIN focuses on developing low-rise housing projects and targets the middle-income segment in the Greater Bangkok area, with an average selling price of Bt4 million per unit. The company offers a wide range of residential property products, including SDH, semi-detached houses (Semi-DH), townhouses, and low-rise condominiums. PRIN's revenue from residential sales is mainly derived from landed property, which constituted 90% of the total in 2019. Revenue from condominiums contributed 10% in 2019.

As of December 2017, PRIN had a few legal disputes. One of those cases concerned a building of an existing condominium project obstructing the public sidewalk. The Court of First Instance ordered the company to remove the building. PRIN believed the construction complied with the relevant laws and filed a petition with the Court of Appeals. At the end of November 2018, the Court of Appeals decided to dismiss the petition. However, the counterparty filed an appeal with the Supreme Court. TRIS Rating expects this civil case will take quite some time to conclude. However, the company expects no significant damage to the company.

KEY OPERATING PERFORMANCE

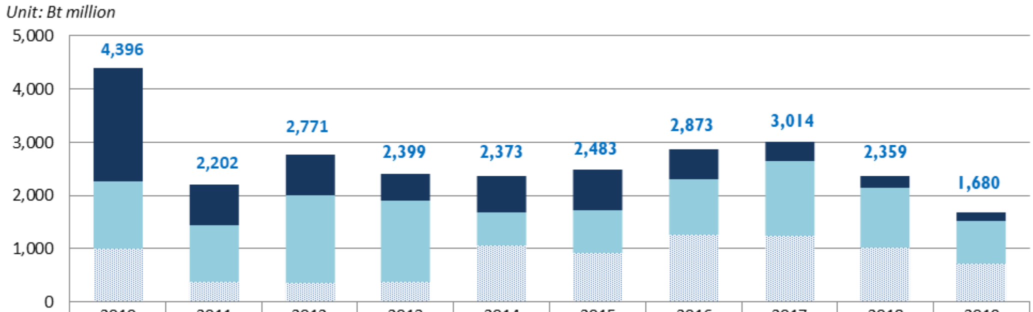
Chart 1: New Project Launches



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Condominium	743	-	181	385	1,171	1,511	-	-	-	893
Townhouse	1,849	2,175	229	991	1,484	1,884	996	-	288	440
SDH	-	2,749	-	1,931	4,023	1,241	-	-	-	213

Source: PRIN

Chart 2: Revenue Breakdown by Product



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Condominium	2,134	760	766	494	680	760	557	358	218	161
Townhouse	1,261	1,064	1,639	1,537	638	808	1,061	1,421	1,119	810
SDH	1,002	378	365	369	1,054	915	1,255	1,235	1,023	709

Source: PRIN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	---------------------Year Ended 31 December ------------------				
	2019	**2018**	**2017**	**2016**	**2015**
Total operating revenues	1,793	2,487	3,155	3,018	2,639
Earnings before interest and taxes (EBIT)	236	397	642	521	295
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	295	459	702	577	350
Funds from operations (FFO)	179	309	395	247	(4)
Adjusted interest expense	71	73	220	262	309
Real estate development investments	7,720	6,708	6,614	7,215	7,977
Total assets	9,458	8,422	8,431	9,035	9,842
Adjusted debt	3,547	3,430	3,263	3,978	4,855
Adjusted equity	4,387	4,264	4,147	3,977	3,895
Adjusted Ratios					
EBITDA margin (%)	16.43	18.44	22.24	19.13	13.26
Pretax return on permanent capital (%)	2.89	4.98	7.82	5.87	3.10
EBITDA interest coverage (times)	4.18	6.31	3.19	2.20	1.13
Debt to EBITDA (times)	12.04	7.48	4.65	6.89	13.87
FFO to debt (%)	5.05	9.00	12.10	6.21	(0.08)
Debt to capitalization (%)	44.71	44.58	44.04	50.01	55.49

* *Consolidated financial statements*

RELATED CRITERIA

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

Prinsiri PLC (PRIN)

Company Rating:	BBB-
Rating Outlook:	Stable

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