

# PRINSIRI PLC

 No. 40/2022  
 25 March 2022

## CORPORATES

**Company Rating:** BBB-  
**Outlook:** Stable

**Last Review Date:** 25/03/21

### 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” rating outlook. The rating reflects PRIN’s relatively small revenue base, satisfactory profitability, rising financial leverage, and adequate liquidity. The rating also takes into consideration our concerns over the relatively high household debt levels and rising inflation rates which could impact the purchasing power of homebuyers in the medium term.

## KEY RATING CONSIDERATIONS

### Small revenue base

PRIN’s revenue base is relatively small compared with other rated property developers. Its revenue swung in the THB1.8-THB2.5 billion per annum range during 2018-2021, accounting for 1% of the total revenues generated by the 24 developers rated by TRIS Rating. The resurgence of the Coronavirus Disease 2019 (COVID-19) pandemic and the lockdown of construction sites in Bangkok and vicinity in 2021 also caused PRIN to delay its new project launches and housing transfers to homebuyers. Thus, PRIN’s revenues in 2021 dropped by 4.6% year-on-year (y-o-y) to THB2.28 billion. The company also launched only two townhouse projects worth THB1.9 billion, lower than its initial target of THB2.6 billion.

Our base-case forecast projects PRIN’s revenue to increase gradually to around THB2.4 billion in 2022 and THB2.8-THB3.2 billion per annum in 2023-2024. This is based on our assumptions that the company will launch more projects, worth around THB3.7-THB5 billion per annum during the next three years. Its new projects will still mainly be landed properties, with prices ranging between THB2-THB4 million per unit for townhouses (THs) and THB4-THB7 million per unit for single detached houses (SDHs) and semi-detached houses (semi-DHs).

As of December 2021, PRIN had 18 active projects. The value of unsold units (including built and un-built units) was worth THB7.43 billion, comprising SDHs and semi-DHs (46%), THs (34%), and low-rise condominiums (20%). PRIN’s backlog at the end of 2021 was only THB229 million. Consequently, revenue from residential sales depends largely on the company’s ability to generate new sales and transfers each year.

### Satisfactory profitability

TRIS Rating expects PRIN’s profitability to remain satisfactory over the next three years. Despite a decline in revenue in 2021, PRIN’s profitability remained favorable, mainly from better construction cost control and low land cost in some housing projects. Gross profit margin in 2021 increased to 37.5%, up from 32%-35% during 2018-2020. The company’s earnings before interest, taxes, depreciation, and amortization (EBITDA) margin also rose to 29% in 2021, from 23%-27% in 2018-2020.

Looking forward, we view PRIN’s profitability to soften but it should remain in line with the industry. The on-going intense competition in the industry and rising building material prices are expected to cause its gross profit margin and EBITDA margin during 2022-2024 to hover around 32% and 24%, respectively. As a result, its EBITDA is expected to range between THB550-THB780 million per annum over the same period.

## Challenging year for residential property industry

TRIS Rating expects the demand for residential properties in 2022 to grow by 5%-10% from the previous year, supported by improving economic prospects as the impacts of COVID-19 show signs of abating. In addition, the extended relaxation of the loan-to-value (LTV) limit to 100% from 70%-90% for all housing units and the reduction in the transfer and mortgage registration fees for homes priced below THB3 million until the end of 2022 should help support the growth in demand for housing this year.

However, there remain several key challenges to property developers in the short to medium term. Competition among residential property developers remains intense, especially in the affordably priced segment. The company needs to constantly update its products to match demand in order to maintain its competitive position in the market. Besides, the relatively high household debt level and rising inflation rates could weaken the purchasing power of homebuyers, especially in the middle- to low-income segments. Stringent bank lending policies are also a challenge for all residential property developers.

## Rising financial leverage

We expect PRIN's financial leverage to increase slightly but should remain below 50% over the next three years. This is based on our assumption that the company will launch more residential projects. The budget for land acquisition is set at around THB1 billion per annum. In addition, PRIN recently set up PrinInvest Inc. to seek investment opportunities in overseas tech companies. The initial investment in 2022 is set at THB100 million. Based on its capital expenditure (capex) plans, we expect PRIN's debt to capitalization ratio in 2022-2024 to climb to 48%-49%, from 45% at the end of 2021. Due to softening earnings and rising leverage, PRIN's funds from operations (FFO) to debt ratio could decline to the 5%-7% range over the forecast period.

At the end of December 2021, PRIN had debts of THB5.27 billion, comprising THB190 million in bills of exchange (B/Es), THB1.73 billion in project loans, and THB3.35 billion in debentures. Around THB1.73 billion of its total debt was considered priority debt. Since PRIN's priority debt to total debt ratio was 33%, less than the 50% threshold according to TRIS Rating's "Issue Rating Criteria", we view that PRIN's unsecured creditors are not significantly disadvantaged to its priority debt holders with respect to the priority of claims against the company's assets.

## Adequate liquidity

We assess PRIN to have adequate liquidity to cover its debt repayments until the end of 2022. At the end of December 2021, its sources of liquidity included cash on hand of THB566 million, investments in fixed-income fund of THB931 million, and undrawn committed credit facilities of around THB175 million. We forecast FFO of around THB240 million over the next 12 months. PRIN also has unencumbered assets at cost worth THB2.62 billion, which can be pledged as collateral for new credit facilities, if needed. The company had debts of THB1.01 billion coming due in the next 12 months, comprising THB190 million in B/Es, and THB821 million in debentures. The company already refinanced THB500 million of debentures due in January 2022 and the whole amount of the B/Es with new debenture issues. PRIN plans to refinance the remaining maturing debentures with new debenture issues.

The financial covenants on PRIN's debt obligations require the company to keep both the interest-bearing debt to equity (IBD/E) ratio and the total liabilities to total equity (D/E) ratio below 2 times. The ratios at the end of December 2021 were 1.1 times and 1.3 times, respectively. We believe the company should comfortably comply with the financial covenants over the next 12 months.

## BASE-CASE ASSUMPTIONS

- Operating revenues to range from THB2.4-THB3.2 billion per annum over the next three years.
- Gross profit margin to hover around 32% and EBITDA margin hover around 24% during 2022-2024.
- New project launches of THB3.7-THB5 billion per annum with budget for land acquisition of THB1 billion per annum over the next three years.
- Overseas investments of THB100 million in 2022.

## RATING OUTLOOK

The "stable" outlook reflects our expectation that PRIN to maintain its operating performance and financial position as targeted. We expect PRIN's revenues to stay in the THB2.4-THB3.2 billion range with the EBITDA margin hovering around 24% during 2022-2024. We also expect the company to keep the debt to capitalization ratio below 50% and the FFO to debt ratio above 5% over the forecast period.

**RATING SENSITIVITIES**

We could revise PRIN’s rating or outlook upward if the company can significantly enlarge its revenue and earnings base, while maintaining its financial profile at the current level. In contrast, we would revise the rating and/or outlook downward if its operating performance and/or financial profile deteriorate materially from our base-case forecast.

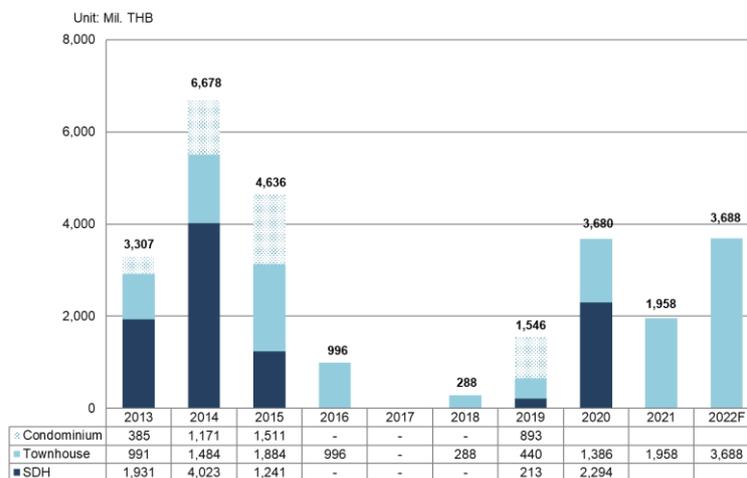
**COMPANY OVERVIEW**

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 37% stake as of December 2021. PRIN focuses on developing low-rise housing projects and targets the middle-income segment in the Greater Bangkok area. The company offers a wide range of residential property products, including SDHs, semi-DHs, THs, and low-rise condominiums. Most of its products have average selling prices in the THB2-THB7 million per unit range.

As of December 2021, PRIN had 18 active projects. The remaining value of unsold units (both built and un-built) was around THB7.43 billion, comprising SDHs and semi-DHs(46%), THs (34%), and low-rise condominiums (20%). PRIN’s revenue was mainly derived from landed property projects, contributing 91% of the total revenue in 2021.

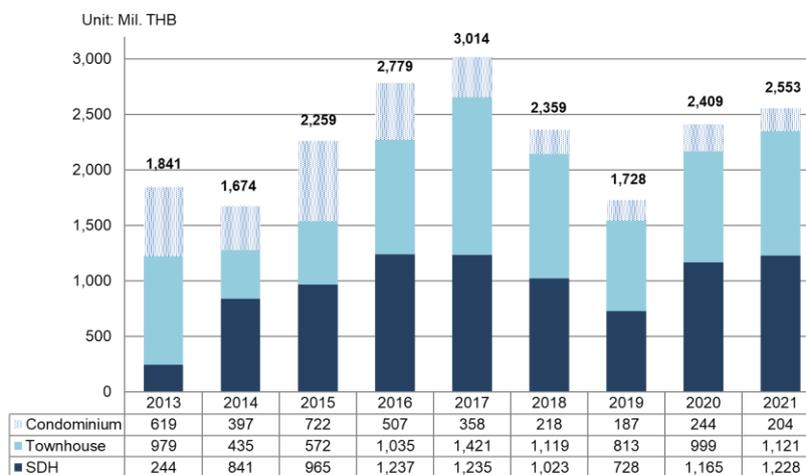
**KEY OPERATING PERFORMANCE**

**Chart 1: New Project Launches**



Source: PRIN

**Chart 2: Presales**



Source: PRIN

**Chart 3: Transfers**


Source: PRIN

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	-----Year Ended 31 December-----				
	2021	2020	2019	2018	2017
Total operating revenues	2,279	2,390	1,793	2,487	3,155
Earnings before interest and taxes (EBIT)	602	581	359	547	642
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	660	639	418	608	702
Funds from operations (FFO)	393	340	140	341	401
Adjusted interest expense	193	206	235	195	220
Real estate development investments	8,564	7,458	7,720	6,708	6,614
Total assets	11,304	9,243	9,458	8,422	8,431
Adjusted debt	4,034	3,193	3,580	3,430	3,263
Adjusted equity	4,852	4,634	4,387	4,264	4,147
<b>Adjusted Ratios</b>					
EBITDA margin (%)	28.96	26.73	23.28	24.45	22.24
Pretax return on permanent capital (%)	6.60	7.04	4.38	6.86	7.82
EBITDA interest coverage (times)	3.42	3.10	1.78	3.12	3.19
Debt to EBITDA (times)	6.11	5.00	8.57	5.64	4.65
FFO to debt (%)	9.75	10.66	3.92	9.94	12.28
Debt to capitalization (%)	45.40	40.80	44.93	44.58	44.04

\* Consolidated financial statements

## RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology – Corporate, 26 July 2019

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**Prinsiri PLC (PRIN)**

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<b>Company Rating:</b>	BBB-
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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