PRUKSA REAL ESTATE PLC

No. 114/2022
18 July 2022

CORPORATES

Company Rating:	A
Outlook:	Negative

Last Review Date: 06/07/21

Company Rating History:

Date	Rating	Outlook/Alert
14/08/12	A	Stable
24/11/11	A	Negative
07/05/10	A	Stable
30/06/09	A-	Positive
25/06/08	A-	Stable
18/04/06	BBB+	Positive
12/07/04	BBB	Stable
19/06/03	BBB	-
05/02/02	BB+	-

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RATIONALE

TRIS Rating affirms the company rating on Pruksa Real Estate PLC (PS) at "A". At the same time, TRIS Rating revises the company's rating outlook to "negative" from "stable". The "negative" outlook reflects PS's weaker-than-expected operating performance and concerns over its ability to sustain its competitive edge in the residential property market. The rating continues to reflect PS's status as a "core" subsidiary of Pruksa Holding PLC (PSH), its diversified product portfolio, and its relatively low financial leverage. The rating also incorporates our concerns over the relatively high household debt level and the rising inflation rate which could impact the purchasing power of homebuyers and raise the costs of property developers in the short to medium term.

KEY RATING CONSIDERATIONS

Core subsidiary of PSH

We assess PS as a core subsidiary of PSH. After the completion of the tender offer and delisting of PS from the Stock Exchange of Thailand (SET) in 2016, PSH became the major shareholder of PS. Currently, PSH holds a 98.23% stake in PS. PS is the major contributor to PSH's total revenues and earnings, contributing around 99% of PSH's total operating revenue and around 96% of PSH's total earnings before interest taxes, depreciation, and amortization (EBITDA) in 2021. PS's assets accounted for 80% of PSH's total assets while more than 79% of PS's debt is made up of loans from PSH.

Looking forward, we expect PS will remain a core subsidiary of PSH, given its significant earnings contribution to the group. We expect revenues and earnings from the healthcare business and other investments of PSH to remain minimal over the next three years.

Weaker-than-expected operating results

With sluggish demand in the residential property industry since the beginning of the COVID-19 pandemic, PS has slowed down its new project launches from 2020 until this year. Intense competition from leading property developers also contributed to the deterioration in PS's operating performance. PS reported total operating revenue of THB28.2 billion in 2021, 10% lower than our previous target. Its total operating revenue was only THB5.7 billion during the first three months of 2022, far below our previous full-year revenue forecast of THB38 billion.

PS resorted to price campaigns for several completed projects in order to speed up sales and clear inventory. As a result, the company's gross profit margin shrank to 29% in 2021 before improving to 31% in the first quarter of 2022. However, this was still much lower than the 33% recorded in 2020 and 36% during 2017-2019. Its EBITDA declined to THB4.7 billion in 2021 from THB5 billion in 2020. PS reported EBITDA of only THB1 billion in the first quarter of 2022, significantly deviating from our previous full-year target of THB7 billion. Its bottom line reached only THB0.6 billion in the first three months of 2022, equivalent to 14% of our previous whole-year target of THB4.6 billion.

Revenue and earnings to come under pressure

We view PS's operating performance to continue to come under pressure over the forecast period due to unfavorable market sentiment, a slowdown in new project launches, and lower backlog. An adverse economic environment caused by the prolonged pandemic and the Russia-Ukraine war coupled with rising inflation rates could weaken the purchasing power of homebuyers, especially in the middle- to low-income segments which is the majority customer base of PS.

PS has focused on clearing its inventory and launched fewer new projects during the past two years. The company launched residential property projects worth only THB15.8 billion in 2020 and THB21.1 billion in 2021, a decline from THB40-THB60 billion per annum during 2015-2019. As demand for residential units has shifted to landed property projects since the beginning of the pandemic, PS opened only a few condominium projects during 2020-2021. In 2022, the company plans to launch new residential projects worth THB16.3 billion, comprising landed property projects worth THB12.8 billion and condominium projects worth THB3.5 billion.

Fewer condominium project launches caused a drop in condominium presales during 2020-2022 and led to smaller backlog. PS's backlog stood at THB20 billion at the end of April 2022. Around 90% of total backlog is expected to be transferred to customers during the remainder of 2022, and the rest during 2023-2025. Thus, we view that PS's revenue over the next couple of years will depend largely on the company's ability to generate new residential property sales each year. Our base-case scenario forecasts PS's total operating revenue to revive to around THB30 billion per annum during 2022-2024. Its profitability is expected to improve but remain below than the pre-COVID-19 level, owing to rising inflationary pressure and ongoing intense competition among residential property developers. Our projection assumes PS's gross profit margin to hover around 30% and its EBITDA margin to stay in the 16%-18% range over the forecast period.

Diversified product portfolio and well-accepted brands, especially in the middle- to low-end segments

PS's product portfolio is well-diversified in terms of various product type and price range. The company offers townhouses, single-detached houses (SDH), and condominiums to homebuyers across different market segments. PS's townhouse products cover the low- to middle-income segments, with selling prices ranging from THB2-THB5 million per unit. SDH products are priced from THB3-THB12 million per unit. PS's condominium portfolio covers the low- to high-end segments, with selling prices ranging from THB50,000-THB260,000 per square meter (sq.m.).

In our view, PS's well-accepted brand recognition and diversified product portfolio should give the company the flexibility to adjust its products to match market demand in a timely manner and maintain its competitive position. However, a further decline in market share could lead to a downward revision on its rating. PS aims to develop more landed property products as well as add more middle- to high-end townhouse and SDH projects in order to improve its sales performance. As of April 2022, PS had around 170 existing projects with total unsold value of THB73.2 billion (including built and unbuilt units). Townhouse projects accounted for 49% of total remaining value, SDHs 31%, and condominiums 20%.

Lower financial leverage expected

As PS has slowed down land purchases and lessen new residential project launches since 2020, its debt to capitalization ratio has declined to 22% as of March 2022, from above 40% during 2017-2019. Over the next three years, we expect PS will cautiously acquire new land plots and carefully launch new projects. Our base-case scenario assumes PS to launch new landed property projects worth around THB13 billion in 2022 and THB15-THB22 billion per annum during 2023-2024. We forecast new condominium project launches worth THB3.5 billion this year and THB5-THB8 billion per annum in 2023-2024. The budget for land acquisition is forecast to be THB6-THB8 billion per annum over the next three years. Consequently, we expect PS's debt to capitalization ratio to be in the 17%-20% range and the debt to EBITDA ratio to stay below 3 times in 2022-2024.

The holding company of the PS Group, PSH, is responsible for the investment and financial management of the whole group. PSH mainly finances its investments in both residential property and healthcare businesses by debenture issuance. As of March 2022, PS had total debt of THB12.2 billion, consisting of THB9.7 billion inter-company loans from PSH, THB1.75 billion short-term loans, and THB757 million long-term loans from banks. PS's priority debt, including secured debts at the company, was THB2.5 billion. This translates to a priority debt to total debt ratio of 20.5%.

Manageable liquidity

We assess PS's liquidity to be manageable over the next 12 months. As of March 2022, PS's maturing debts over the next 12 months amounted toTHB12 billion, comprising THB9.7 billion short-term loans from the parent company, THB1.8 billion short-term bank borrowings, THB400 million long-term bank loans, and THB111 million lease liability. PS's sources of liquidity as of March 2022 comprised cash on hand of THB828 million, undrawn committed credit facilities of THB6.7 billion, and undrawn uncommitted short-term facilities of around THB15 billion. We forecast PS's FFO to be THB4.3 billion in 2022. PS also has unencumbered land at book value of THB10.6 billion, which can be sold or pledged as collateral for new credit facilities, if needed.

The financial covenants on PS's bank loans require the company to maintain its interest-bearing debt to equity ratio below 2 times. As of March 2022, the ratio was 0.29 times. We believe that PS should have no problems complying with the financial covenants over the next 12 to 18 months.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base case forecast for PS's operations during 2022-2024:

- PS to launch new landed property projects worth around THB13 billion in 2022 and THB15-THB22 billion annually in 2023-2024.
- PS to launch new condominium projects worth THB3.5 billion in 2022 and THB5-THB8 billion per annum during 2023-2024.
- Annual budget for land acquisition to be THB6-THB8 billion.
- Total operating revenue should stand at around THB30 billion per annum, with an EBITDA margin of around 16%-18%

RATING OUTLOOK

The "negative" outlook reflects our concerns over PS's weaker-than-expected operating performance and its ability to retain a competitive edge in residential property. Intense competition amid sluggish demand for residential property coupled with rising inflation could lead to further deterioration in PS's operating performance. Since PS is the "core" subsidiary and the key earnings contributor of the group, a decline in its operating performance will hurt the overall performance of the group.

RATING SENSITIVITIES

We could revise PS's outlook to "stable" if it records a recovery in its operations and profitability such that its earnings are comparable with peers in the same rating category while the operating performance of other subsidiaries should not hurt the overall financial profile of the group. On the contrary, the rating downward revision could occur if PS's operating performance falls short of the target level causing the overall performance of the group to further deteriorate. In addition, PS's rating could be downgraded if PSH's rating is downgraded.

COMPANY OVERVIEW

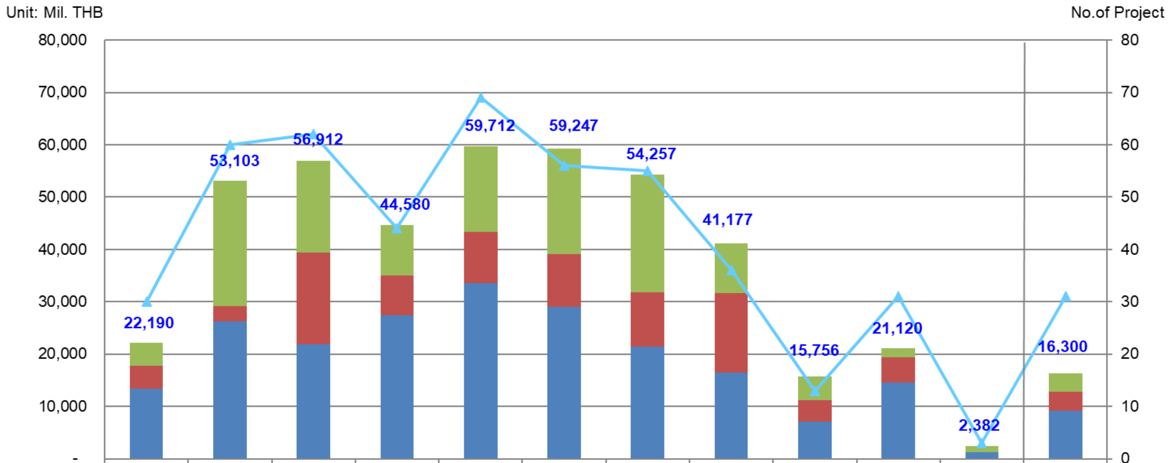
PS was founded in 1993 by Mr. Thongma Vijitpongpun and listed on the Stock Exchange of Thailand (SET) in December 2005. After the completion of the tender offer following a restructuring plan in November 2016, PSH became the major shareholder of PS. On 1 December 2016, PSH's securities were listed on the SET in place of PS's shares, whose securities were simultaneously delisted. As of March 2022, the Vijitpongpun family was PSH's largest shareholder, owning a 76% stake. PSH holds a 98.23% stake in PS.

After the reorganization, PS has retained its concentration on residential properties for sale. PS is considered as a "core" subsidiary of PSH since the residential property business is likely to remain a key contributor to the revenue and earnings of the group over the next several years. Thus, the issuer ratings on PS and the group are equivalent. The organizational structure under PSH will provide more flexibility for the group to expand into new businesses and facilitate alliances with strategic partners.

PS's property portfolio is well-diversified. Its products cover townhouses, SDHs, and condominiums across various price ranges. PS's main products target the middle- to low-end segments of the residential property market. As of April 2022, PS had a sizable project portfolio worth THB190.5 billion in total project value. The portfolio was 62% sold and 51% transferred. Townhouses remain the largest source of income, constituting around half of total operating revenue for the past several years. Revenue from condominiums and SDHs contributed around 30% and 20%, respectively, during the past five years.

KEY OPERATING PERFORMANCE

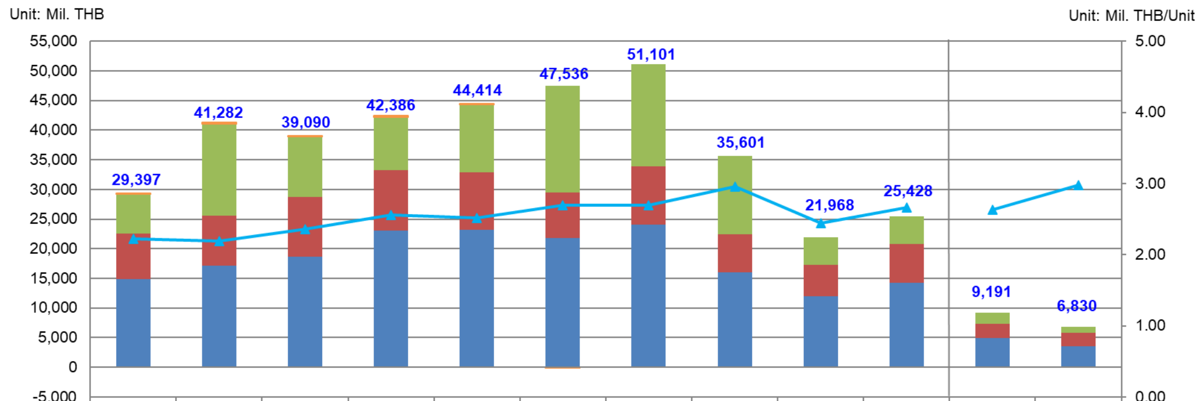
Chart 1: New Residential Project Launches



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	4M22	2022F
Condominium (LHS)	4,435	23,897	17,481	9,611	16,363	20,125	22,486	9,573	4,507	1,688	1,110	3,500
SDH (LHS)	4,322	2,996	17,509	7,598	9,763	10,180	10,311	15,090	4,166	4,943		3,600
Townhouse (LHS)	13,433	26,210	21,922	27,371	33,586	28,942	21,460	16,514	7,083	14,489	1,271	9,200
No. of project (RHS)	30	60	62	44	69	56	55	36	13	31	3	31

Source: PS

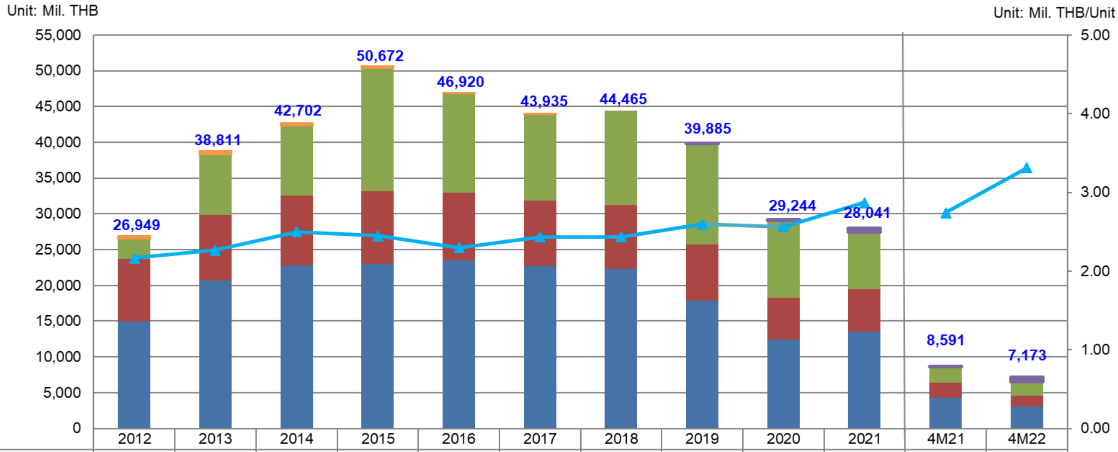
Chart 2: Presales Performance



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	4M21	4M22
International (LHS)	116	227	232	241	72	(1)						
Condominium (LHS)	6,730	15,502	10,190	8,950	11,497	18,093	17,228	13,164	4,704	4,626	1,915	1,002
SDH (LHS)	7,655	8,355	10,039	10,119	9,643	7,693	9,756	6,447	5,340	6,563	2,303	2,243
Townhouse (LHS)	14,896	17,198	18,630	23,075	23,202	21,751	24,118	15,990	11,924	14,238	4,973	3,584
Avg. Price (RHS)	2.2	2.2	2.4	2.6	2.5	2.7	2.7	3.0	2.4	2.7	2.6	3.0

Source: PS

Chart 3: Transfer Performance



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	4M21	4M22
Land sales (LHS)								85	181	638	0.13	643
International (LHS)	429	497	441	278	129	13						
Condominium (LHS)	2,837	8,450	9,694	17,236	13,849	12,068	13,250	14,137	10,769	7,916	2,203	1,923
SDH (LHS)	8,775	9,195	9,776	10,135	9,413	9,159	8,879	7,783	5,869	5,925	2,060	1,484
Townhouse (LHS)	14,908	20,669	22,791	23,023	23,529	22,694	22,336	17,880	12,426	13,562	4,328	3,123
Avg. Price (RHS)	2.2	2.3	2.5	2.4	2.3	2.4	2.4	2.6	2.6	2.9	2.7	3.3

Source: PS

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2022	-------------Year Ended 31 December ------------ 2021	2020	2019	2018
Total operating revenues	5,730	28,155	29,528	40,156	45,075
Earnings before interest and taxes (EBIT)	956	4,319	4,668	7,893	8,453
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,046	4,712	5,114	8,649	9,158
Funds from operations (FFO)	812	3,219	3,694	6,133	6,710
Adjusted interest expense	67	734	612	1,013	903
Real estate development investments	56,024	57,463	67,380	76,464	71,960
Total assets	64,096	67,953	75,930	85,075	80,503
Adjusted debt	12,260	14,534	24,570	31,964	29,624
Adjusted equity	43,361	42,728	42,254	42,066	40,208
Adjusted Ratios					
EBITDA margin (%)	18.26	16.74	17.32	21.54	20.32
Pretax return on permanent capital (%)	7.20 **	6.72	6.49	10.74	12.45
EBITDA interest coverage (times)	15.55	6.42	8.36	8.54	10.15
Debt to EBITDA (times)	2.57 **	3.08	4.80	3.70	3.23
FFO to debt (%)	26.99 **	22.15	15.03	19.19	22.65
Debt to capitalization (%)	22.04	25.38	36.77	43.18	42.42

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

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Group Rating Methodology, 13 January 2021

Pruksa Real Estate PLC (PS)

Company Rating:	A
Rating Outlook:	Negative

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