TRIS RATING
A Strategic Partner of S&P Global

CreditNews ข่าวเครดิต

RAIMON LAND PLC

No. 216/2019
27 December 2019

CORPORATES

Company Rating:	BBB-
Outlook:	Stable

Last Review Date: 27/12/18

Company Rating History:

Date	Rating	Outlook/Alert
30/06/15	BBB-	Stable

Contacts:

Tulyawat Chatkam
tulyawat@trisrating.com

Jutamas Bunyawanichkul
jutamas@trisrating.com

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Hattayanee Pitakpatapee
hattayanee@trisrating.com

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

WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Raimon Land PLC (RML) at "BBB-" with a "stable" outlook. The Rating reflects the company's well-accepted brand name in the high-end segment of the condominium market. The rating is weighed down by RML's volatile operating performance due to its limited number of projects and high debt level. Its financial leverage is on the rise but the company is expected to keep its debt-to-capitalization ratio lower than 60%. The rating also takes into consideration the cyclical and highly competitive nature of the residential property industry.

KEY RATING CONSIDERATIONS

Well-accepted brand name in high-end condominium segment

RML's products are well-accepted in the high-end condominium segment. The company's competitive edge in the luxury condominium market comes from its unique designs, high-quality materials, and prime locations. Most of its projects are located close to mass transit stations in prime areas of Bangkok, like Sukhumvit, Sathorn, and Silom.

Most of RML's condominium projects have been developed under the "Lofts" brand, with the average price per unit ranging from Bt14-Bt20 million. As of September 2019, RML had 11 active condominium projects and one active housing project. The remaining value available for sale in these projects (including built and unbuilt units) was Bt7.2 billion, while the total backlog was Bt3.7 billion. The backlog is scheduled to be recognized as revenues of Bt670 million in the fourth quarter of 2019, Bt2.5 billion in 2020, Bt170 million in 2021, and Bt290 million in 2022.

Recently, the company partnered with one of the leading Japanese property developers "Tokyo Tatemono" to launch two condominium projects, namely "Tait 12" and "The Estelle". The total value of both projects is around Bt9.4 billion. The joint ventures (JVs) are focused on the high-end segment, with average unit prices of around Bt20 million for "Tait 12" and Bt40 million for "The Estelle". The total backlog for both projects stood at Bt4.45 billion at the end of September 2019. The backlog is scheduled to be transferred from 2022 onwards.

Volatile operating performance

In TRIS Rating's view, RML's operating performance is rather volatile as the company has a limited number of projects on hand. Over the past five years, the company has focused on closing ownership transfers for a significant amount of backlog carried over from the previous management team. During the same period, the company launched only three condominium projects and one housing project, worth around Bt11 billion. Thus, its backlog and finished inventories have gradually been depleted.

RML's revenues dropped to around Bt3 billion per annum during 2017-2018, declining from Bt5-Bt6 billion per annum during 2014-2016. Revenue in the first nine months of 2019 was Bt3.2 billion, rising mainly because of the transfer of The Lofts Asoke project and the sale of a land plot for Bt594 million. RML's profitability, as measured by the earnings before interest, taxes, depreciation, and amortization (EBITDA) margin, declined to 17% in 2017 and 10% in 2018 from 27%-32% during 2014-2016. The weakened profitability was mainly due to a sharp decrease in revenue while selling and administrative costs remained high.

Going forward, TRIS Rating expects RML's revenue to be in the Bt3-Bt4 billion per annum range during 2019-2021. Its profitability, measured by its EBITDA margin, is expected to recover to 14%-19% during 2019-2021 and further improve to around 28% in 2022 when three condominium projects (including 2 joint-venture projects) will be completed and ready to transfer to customers. EBITDA is expected to be in the range of Bt500-Bt600 million per annum during 2019-2021 and around Bt900 million in 2022, compared with EBITDA of around Bt300 million in 2018.

Exposure to cyclical and highly competitive residential property business

The residential property market closely follows trends in the economy. However, volatility in this market is much more pronounced than in the overall economy. A sluggish domestic economy and a high level of household debt nationwide have raised concerns over the purchasing power of middle- to low-income homebuyers. In addition, the implementation of new loan-to-value (LTV) rules by the Bank of Thailand, will likely impact sales of residential units in the short term. Under the new rules, homebuyers can borrow up to 70%-80% of the collateral value, down from 90%-100%, for their second and subsequent mortgage loans.

TRIS Rating does not expect the implementation of the new LTV rules to significantly affect RML's operating performance as its main customers are in the high-end segment where demand is quite resilient. In addition, RML's policy requiring a 20%-30% down payment for most of its condominium projects partly offsets the impact of the new LTV rules. However, several other developers have been moving toward the high-end residential property segment to avoid the problem of high bank mortgage rejection rates among customers in the low-priced segment. Thus, competition in the high-end segment is intensifying as the number of customers who can afford high-end residential products in the domestic market is quite limited. Demand from foreign buyers is also being affected by international trade tensions and the global economic slowdown. Thus, RML has to carefully manage its new project launches to match demand.

Investments in recurring-income assets are pushing up leverage

TRIS Rating expects RML's financial leverage to rise as the company plans to add more recurring-income assets to its portfolio in order to secure more diversified and stable revenue streams. In May 2019, the company entered into a joint-venture agreement with Mitsubishi Estate Asia to jointly develop an office building "One City Centre", on Ploenchit Road. RML holds a 60% stake in the joint venture while Mitsubishi Estate Asia holds 40%. Construction for the project is expected to span four years during 2019-2022 and cost around Bt6 billion. Apart from the office building project, the company plans to develop a 212-key hotel on a Sukhumvit 19 land plot acquired from KPN Land. The company aims to seek a partner to co-develop this project. The construction cost for the project is expected to be around Bt1.1 billion. TRIS Rating expects these projects to provide more stable sources of income for RML in the future. However, the benefits will not be fully realized until the projects commence operations, in late 2022 for the "One City Centre" project and in 2024 for the hotel project.

We expect the company's adjusted debt to capitalization ratio (including the proportionate debt from the JVs) to increase from 56% in 2019 to 58% in 2021, then drop to 56% in 2022 when two joint-venture condominium projects are completed and ready for transfer. Despite its plan to invest more in recurring income assets, TRIS Rating does not expect RML's debt-to-capitalization ratio to rise significantly more than 60% on a sustained basis. According to the management, the company's strategy is to jointly develop most of its residential and commercial properties with partners in order to lower its funding needs and keep its leverage at target levels.

Tight but manageable liquidity

TRIS Rating assesses RML's liquidity as tight but manageable. RML's cash flow protection has become weaker as investments in new projects have caused debt to rise while the projects themselves have not yet generated returns. RML's adjusted debt to EBITDA is expected to stay at around 12-14 times during 2019-2021. The EBITDA interest coverage ratio is expected to stay at 1.3-1.4 times.

As of September 2019, the company had Bt2.53 billion of debt coming due over the next 12 months, including debentures of Bt712 million, project loans of Bt1.07 billion, and other loans of Bt755 million. RML plans to refinance the maturing debentures with a new debenture issuance. The project loans will be repaid with cash received from transfers of residential units to customers. Other sources of funds include cash and marketable securities of Bt381 million and undrawn committed credit facilities of around Bt383 million.

The key financial covenants for its bank loans and debentures require RML to maintain its reported interest-bearing debt to equity ratio below 1.75 times and 2.5 times, respectively. The ratio at the end of September 2019 was 0.89 times, in compliance with the financial covenants. TRIS Rating expects RML to prudently manage its capital structure as it expands in order to comply with the financial covenants at all times.

BASE-CASE ASSUMPTIONS

- Total operating revenues of Bt3.8 billion in 2019, Bt3.2 billion in 2020, Bt4.4 billion in 2021, and Bt3.2 billion in 2022.
- EBITDA margin in the 14%-19% range during 2019-2021 and around 28% in 2022.
- Residential project launches (under joint ventures) worth around Bt7 billion per annum during 2020-2022.
- Capital injections in joint-venture projects (including residential projects, an office building project, and a hotel project) of Bt600 million-Bt1.1 billion per annum during 2020-2022.

RATING OUTLOOK

The “stable” outlook reflects our expectation that RML will be able to transfer its backlog and sell its remaining units at a reasonable speed. TRIS Rating expects the company to find strategic partners, divest its undeveloped land plot, or raise capital to lighten its debt burden. We expect RML to keep its debt to capitalization ratio below 60%.

RATING SENSITIVITIES

The rating and/or outlook could be revised downward if RML’s operating performance deteriorates further or the financial leverage measured as the debt to capitalization ratio increases significantly higher than 60% for a sustained period. The company’s credit upside is limited in the near term due to its rising financial leverage from investments in rental properties.

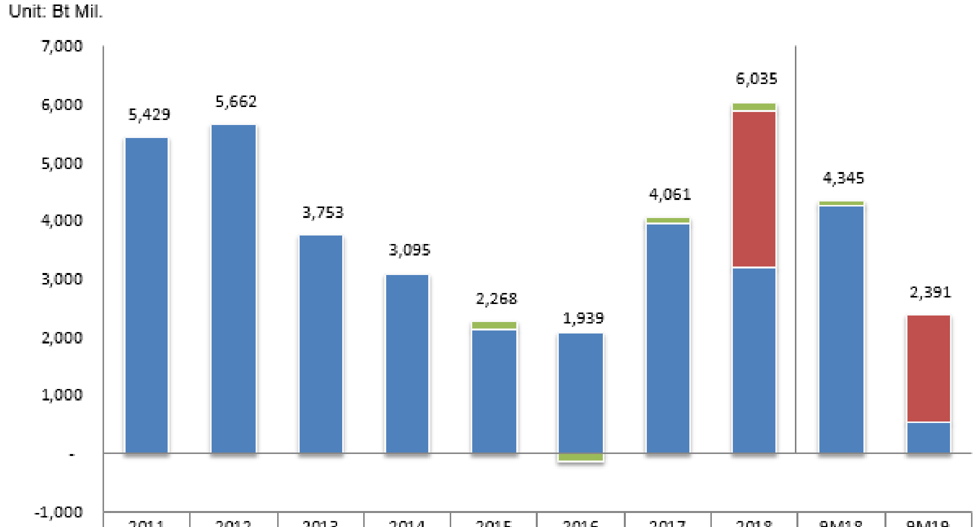
COMPANY OVERVIEW

RML was established by Ms. Jurairat E. Bonithern in 1987 and listed on the Stock Exchange of Thailand in 1994. The major shareholders have changed several times. In February 2013, JS Asset Management Pte., Ltd. (JS Asset) purchased a 24.98% stake in RML, and became the major shareholder. JS Asset is a Singaporean investment holding company, owned entirely by Mr. Lee Chye Tek Lionel. Mr. Lee is also the owner and director of Jit Sun Investments (Jit Sun), whose businesses include offshore oil and gas services, engineering and ship construction for the offshore and marine industries, a boutique hotel, and food & beverage. In late 2018, RML invested in the assets of KPN Land (KPNL). The company has acquired two subsidiaries of KPNL plus the sold and unsold units of the Diplomat39 project and the Diplomat Sathorn project. As a result of these transactions, the shareholding of JS Asset, the major shareholder of RML, was diluted to 21% from 25%. JS Asset has remained the major shareholder of RML. KPNL became the second-largest shareholder, with a 20% stake and two seats on RML’s board of directors.

RML focuses on the high-end condominium segment, with an average selling price above Bt10 million per unit. As of September 2019, RML had nine active condominium projects, one housing project, and two projects from KPNL. The value of the remaining unsold units, built and un-built, was Bt7.2 billion. Around 41% of the unsold units were finished and ready to transfer to customers. The total backlog was worth Bt3.67 billion as of September 2019. In addition, the company had 2 joint-venture condominium projects with the remaining unsold value of Bt5 billion and the total backlog value of Bt4.45 billion as of September 2019. Apart from the core property development business, the company has recurring income assets and engages in the food & beverage business. However, these businesses contributed less than 3% of total revenue in the first nine months of 2019.

KEY OPERATING PERFORMANCE

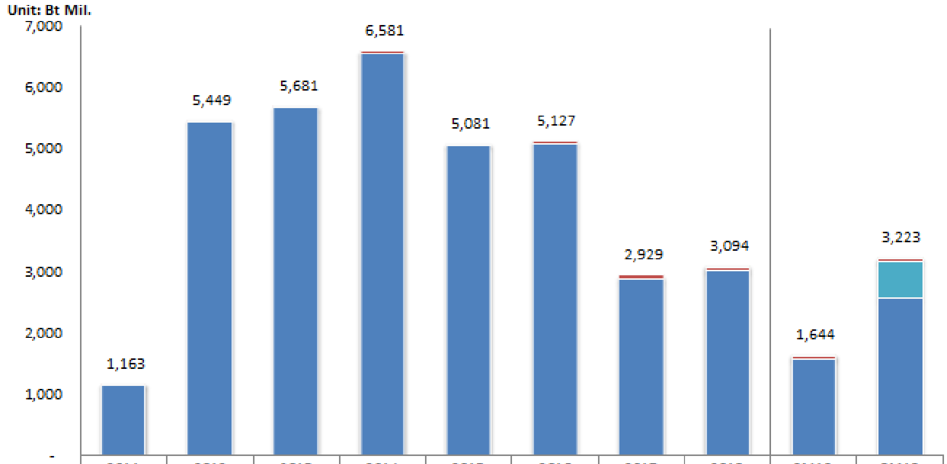
Chart 1: Presales



	2011	2012	2013	2014	2015	2016	2017	2018	9M18	9M19
Housing					145	-145	110	148	94	
Condominium - JV								2,700		1,852
Condominium - RML	5,429	5,662	3,753	3,095	2,123	2,084	3,951	3,187	4,251	539
Presales Value (MB.)	5,429	5,662	3,753	3,095	2,268	1,939	4,061	6,035	4,345	2,391

Source: RML

Chart 2: Revenue



	2011	2012	2013	2014	2015	2016	2017	2018	9M18	9M19
Food & beverages sale								29	20	34
Rental & service income	12	14	25	34	39	54	63	64	46	38
Land plot sales										594
Real estate sales	1,151	5,435	5,656	6,547	5,042	5,074	2,866	3,000	1,578	2,557
Total revenue	1,163	5,449	5,681	6,581	5,081	5,127	2,929	3,094	1,644	3,223

Source: RML

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

			----------Year Ended 31 December ----------			
	Jan-Sep 2019		2018	2017	2016	2015
Total operating revenues	3,223	**	3,094	2,929	5,127	5,081
Earnings before interest and taxes (EBIT)	447		208	439	1,317	1,558
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	534		298	508	1,381	1,624
Funds from operations (FFO)	100		(77)	302	1,036	1,216
Adjusted interest expense	332		316	146	120	162
Capital expenditures	428		1,324	42	323	16
Total assets	12,192		14,330	10,458	9,700	9,947
Adjusted debt	7,465		7,166	3,168	1,843	2,393
Adjusted equity	5,860		5,722	5,067	5,108	4,451
Adjusted Ratios						
EBITDA margin (%)	16.56		9.62	17.33	26.94	31.95
Pretax return on permanent capital (%)	4.27	***	1.79	5.07	17.06	21.58
EBITDA interest coverage (times)	1.61		0.94	3.47	11.48	10.02
Debt to EBITDA (times)	11.52	***	24.07	6.24	1.33	1.47
FFO to debt (%)	1.27	***	(1.08)	9.54	56.22	50.81
Debt to capitalization (%)	56.02		55.60	38.47	26.51	34.96

* *Consolidated financial statements*
** *Including sales of a land plot of Bt594 million*
*** *Annualized with trailing 12 months*

RELATED CRITERIA

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

Raimon Land PLC (RML)

Company Rating:	BBB-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000