

SIAMESE ASSET PLC

No. 122/2022
27 July 2022

CORPORATES

Company Rating: BB+
Outlook: Stable

Last Review Date: 27/07/21

Company Rating History:

Date	Rating	Outlook/Alert
14/07/20	BB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Siamese Asset PLC (SA) at “BB+” with a “stable” rating outlook. The rating reflects SA’s small revenue base, favorable profitability, concentrated product portfolio, and moderately high financial leverage. The rating also incorporates our concerns over the relatively high household debt level together with the rising inflation rate which will push up development and funding costs for developers while lowering the purchasing power of homebuyers in the short to medium term.

KEY RATING CONSIDERATIONS

Small revenue base

SA’s revenue base remains relatively small compared with other rated real estate developers with its operating revenue ranging between THB2.0-3.6 billion per annum during 2018-2021. For the first three months of 2022, revenue stood at THB405 million, accounting for 0.7% of the total revenues generated by the 25 developers rated by TRIS Rating. Real estate sales remain the company’s major source of revenue, contributing 89% of total operating revenue in 2021. Revenue contribution from rental and services was around 4%, while other rentals and other operating revenue made up the rest.

To further enhance its recurring income, the company launched a cloud kitchen business in 2021. The company develops commercial buildings to be ready for use as agreed upon with its lessees, earning rent payments per square meter in return. This business should help strengthen its rental and service income. Nonetheless, progress remains in the early stages, and its potential success remains to be seen.

Concentrated product portfolio

SA’s portfolio concentration in the high-rise condominium segment remains a negative factor for its business and financial risk profile. As of June 2022, the company had 12 active condominium projects and two single detached house (SDH) projects, with unsold units totaling THB23.2 billion. High-rise condominiums accounted for 91% of total remaining value, while SDHs made up the rest.

Having narrower product breadth means the company’s earnings are vulnerable to shifts in buyer preferences and changes in the operating environment. During 2021, the company had no new residential projects completed for transfers and mainly relied on releasing its unsold inventories for revenue. Compounded by negative pressure from the protracted pandemic, this saw SA’s revenue dropped in 2021 by 35% year-on-year (y-o-y) from 2020, compared with a 2% drop for the overall market. Its operating revenue for the first quarter of 2022 was also 43% lower than that of the same period last year.

As high-rise condominiums require large investments and long development periods, disruption in any single project could put pressure on the company’s overall performance. Thus, SA aims to increase its proportions of landed property projects to help mitigate the concentration risk and smooth out its earnings. In April 2022, the company launched its new SDH project, “Monsane”, worth around THB2 billion, and plans to launch around THB9 billion of landed property projects in the next two years.

Operating performance to gradually improve

We expect SA's revenue to gradually improve to THB2.5 billion in 2022 and THB5.0-6.7 billion in 2023-2024 in our base-case forecast. Recovery in its revenues in 2023-2024 will be supported by higher contribution from landed property sales, recovery in condominium sales, and the completion of its two condominium projects "Siamese Rama 9" and "Landmark @ TSH Station". At the end of June 2022, the company had around THB3.7 billion of completed units available for sale. SA's backlog stood at THB5.3 billion, around THB800 million of which is expected to be recognized as revenue in 2022 and around THB3.6 billion baht in 2023-2024. Revenues from rental and service business are expected to improve to around THB200-THB400 million per annum, following an increase in the number of rental rooms offered and improvement in occupancy rates following the easing of travel restrictions.

In terms of profitability, we expect SA's profitability to remain healthy over the next three years. As we anticipate the company to sustain the earnings capacity of both real estate sales and the rental and service business, its gross profit margin is expected to hover around 36%-37% in 2022-2024. The earnings before interest, taxes, depreciation, and amortization (EBITDA) margin is likely to stay around 22% in 2022 and improve to 28%-30% in 2023-2024 once revenues from the new condominium and landed property projects begin to materialize.

Challenging year for residential property amid high household debt, rising inflation

As of December 2021, household debt in Thailand peaked at THB14.58 trillion. The household debt to gross domestic product (GDP) ratio stood at 90.12%, increasing slightly from 89.66% at the end of 2020. The relatively slow economic recovery has caused this ratio to remain at high levels. Thai GDP dropped by 6.2% y-o-y in 2020 and grew by only 1.6% y-o-y in 2021. This year, we expect GDP to grow by 2%-3% y-o-y. Thus, assuming household debt remains at the same level, the household debt to GDP ratio should remain at around 87%-88% in 2022. The relatively high household debt level will impact housing sales, especially in the lower-priced housing segment where bank rejection rates are high. However, SA's focus on the mid- to high-end segment should help alleviate the negative impacts from these risks.

Rising inflation since the last quarter of 2021 poses another threat to both developers and homebuyers. High inflation rates will push up development and funding costs for developers while lowering the purchasing power of homebuyers. Thus, SA's profit margins could decline if it cannot fully pass through the rising costs to homebuyers. Nonetheless, SA's relatively high profit margins and its expertise in the construction business should help the company weather the challenging operating environment.

Financial leverage to remain high

We expect SA's financial leverage to remain high over the next few years with a projected debt to capitalization ratio of around 64%-68% over the forecast period. This is based on our assumption that the company will consistently launch new residential projects over the next three years. The budget for land acquisition and rental and service business is expected to be around THB1-1.6 billion per annum during the forecast period. Due to an expected increase in earnings, SA's funds from operations (FFO) to total debt ratio is likely to revert to 7%-12% in 2023-2024.

The financial covenants on SA's debt obligations require the company to maintain its ratio of interest-bearing debt to equity below 2.5 times. At the end of March 2022, the ratio was 1.9 times. We expect the company to remain compliant with the financial covenants over the next 12 months.

Manageable liquidity

We expect SA's liquidity to remain manageable over the next 12 months. As of March 2022, the company had maturing debt over the next 12 months totaling THB526.8 million, comprising THB33.5 million in project loans and THB493.3 million in debentures. As of March 2022, the company's sources of liquidity included cash on hand of THB362 million, a fixed deposit of THB3.7 million, and undrawn committed credit facilities of around THB120 million. We forecast the company's FFO to be around THB75 million in 2022. We expect the project loans to be repaid with the proceeds from the underlying projects' unit transfers, and maturing debentures to be refinanced with new debenture issuances.

At the end of March 2022, SA had total debt excluding lease liabilities of THB8.2 billion. The company's priority debt, including the secured debts of the company and its subsidiaries, was THB6.4 billion, which translates to a priority debt to total debt ratio of 79%. As this ratio exceeds the 50% threshold according to TRIS Rating's "Issue Rating Criteria", we view that the company's unsecured creditors as being significantly disadvantaged to its priority debt holders with respect to the priority of claims against the company's assets.

BASE-CASE ASSUMPTIONS

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

- SA to launch new residential projects worth around THB5-8 billion per annum during 2022-2024.
- Revenue forecast of around THB2.5 billion in 2022 and THB5-THB6.7 billion per annum during 2023-2024.
- Land acquisition budget of around THB1-THB1.5 billion per year.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectations that SA will deliver its operating performance and its financial profile as targeted. We expect the company to maintain its EBITDA margin at around 20% and debt to capitalization ratio at around 65% on average.

RATING SENSITIVITIES

TRIS Rating could revise SA's rating or outlook upward if the company's revenue base and cash flow increase, and its debt to capitalization ratio declines to around 60% on a sustained basis. On the other hand, we would revise the rating and/or outlook downward should SA's operating performance, and its financial leverage fall short of our base-case target.

COMPANY OVERVIEW

SA was established in 2010 by Mr. Kajonsit Singsansern to develop residential property projects in Bangkok. Mr. Singsansern holds the position of managing director and has been the major shareholder since the company's inception. The company was listed on the SET in December 2020. After the IPO, Mr. Singsansern continued to be SA's largest shareholder, holding a 45.7% stake in the company as of April 2021.

SA focuses on the middle- to high-end condominium segments. Its product portfolio covers a price range of THB3-THB14 million per unit. SA's condominium projects are located near mass transit line stations in the Sukhumvit Road and Rama 9-Ratchada areas. SA also has land in the Ramindra area to develop landed property projects.

SA's condominium brands include: "Blossom", "Siamese", "Siamese Exclusive", and "The Collection". "The Collection" is a high-end condominium brand with selling prices of THB230,000-THB300,000 per sq.m. The "Siamese Exclusive" brand has selling prices of THB150,000-THB230,000 per sq.m. The "Siamese" brand sets prices at THB100,000-THB150,000 per sq.m. and the "Blossom" brand was introduced to capture the middle-income segment, with selling prices from THB80,000-THB100,000 per sq.m. Most of the condominium projects are located in Bangkok. The company's SDH brand "Siamese KIN" carries a price range of THB5-THB22 million per unit.

SA intends to expand its business to generate more recurring income. The company plans to retain ownership of some units in its condominium projects situated in good locations by developing them as hotels, serviced residences, or commercial spaces for rent. SA has also bought land and a building under construction named "Above 39" on Sukhumvit 39 to redesign and renovate for development as a hotel or serviced residence. However, due to concerns over the negative impacts of the COVID-19 pandemic, SA may postpone investments in its recurring income projects.

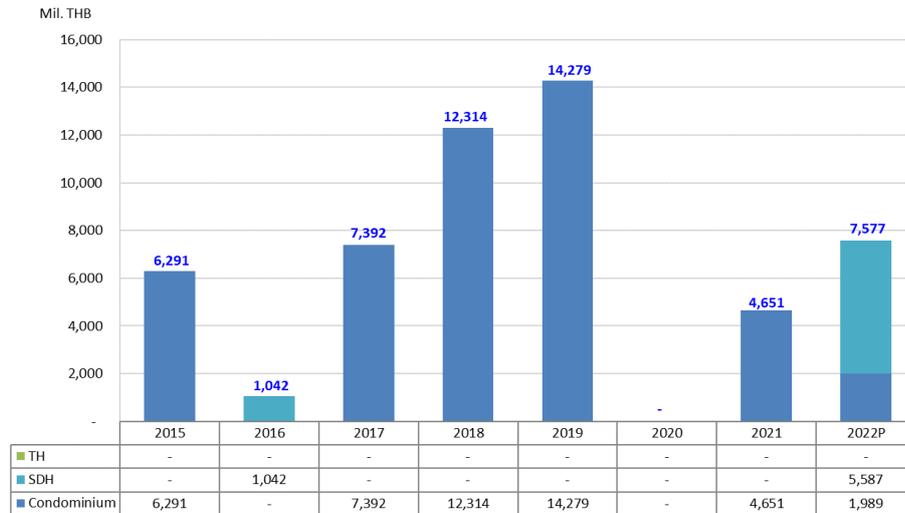
In 2020, the company rebranded 4 of its condominium projects as branded-residence projects that also offer hotel-like services. The rebranded projects are Wyndham Residence (formerly Siamese Exclusive Queens), Wyndham Garden Residence (formerly Siamese Exclusive 42), Ramada Plaza Residence (formerly Ramada Plaza Residence), and Ramada Residence (formerly Siamese Sukhumvit 87).

In July 2021, SA established the subsidiary, "Siamese Wellness Co., Ltd.", to expand into the health and wellness business. The paid-up capital was THB1 million, and SA holds a 51% stake in the company. In September 2021, the company set up Siamese Technology Co., Ltd. as a subsidiary with a paid-up capital of THB10 million, the company also launched its air ventilator called "Air of Life". SA holds a 99% stake in the company. In November, SA established the new subsidiary, "Siamese and Wealth Asset Management Co., Ltd.", with a paid-up capital of THB25 million with the intention to explore the asset management business. SA hold a 70% stake in the company. In December 2021, SA entered a joint venture with KSS Land Co., Ltd., with SA holding a 1.11% stake. The joint venture was later renamed Siamese Rangsit Co., Ltd. with a paid-up capital of THB405 million.

In 2022, the company established the new subsidiary, "Hybrid Kitchen Co., Ltd.", to operate the rental business of commercial buildings. The company had a registered capital of THB25 million with SA holding a 99.99% stake in the company.

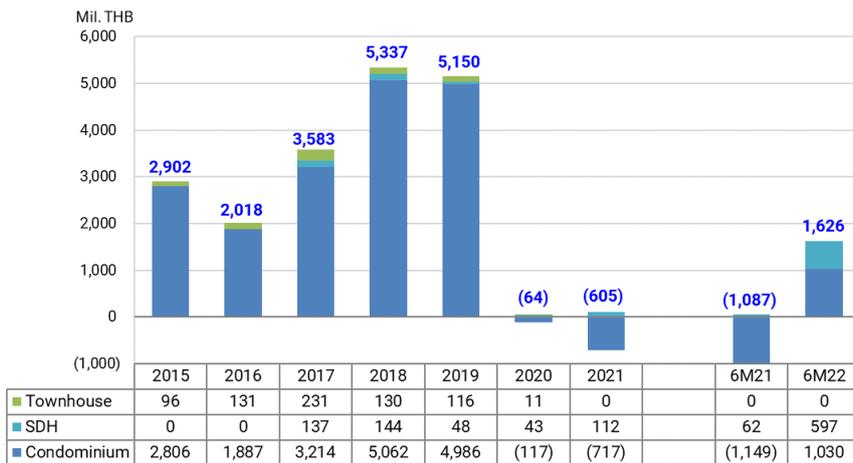
KEY OPERATING PERFORMANCE

Chart 1: Residential Project Launches



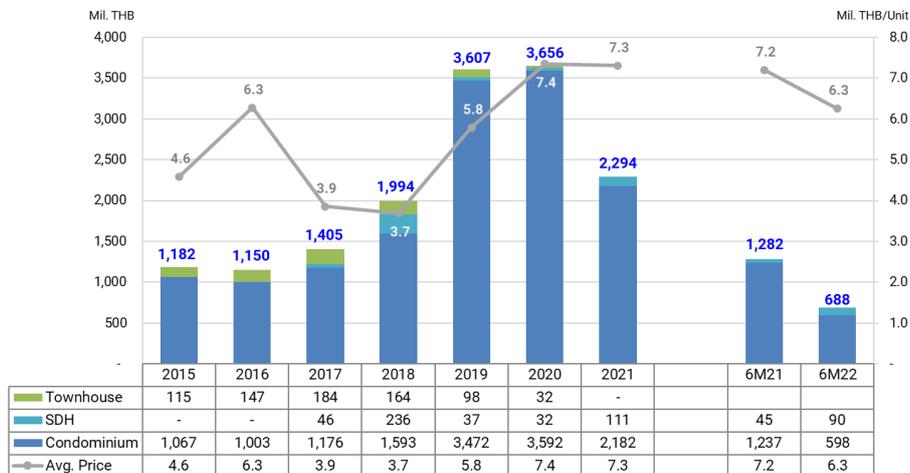
Source: SA

Chart 2: Presales Performance



Source: SA

Chart 3: Transfer Performance



Source: SA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

	Jan-Mar 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	405	2,346	3,606	3,520	2,077
Earnings before interest and taxes (EBIT)	65	423	1,059	1,019	317
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	112	513	1,125	1,066	343
Funds from operations (FFO)	6	70	608	520	(13)
Adjusted interest expense	100	375	353	361	304
Real estate development investments	8,965	8,547	8,241	9,286	9,492
Total assets	14,730	14,154	13,009	13,047	12,431
Adjusted debt	7,929	7,192	5,691	6,485	6,755
Adjusted equity	4,403	4,370	4,032	2,515	1,772
Adjusted Ratios					
EBITDA margin (%)	27.76	21.87	31.20	30.28	16.51
Pretax return on permanent capital (%)	3.21 **	3.78	10.80	11.20	4.37
EBITDA interest coverage (times)	1.12	1.37	3.19	2.95	1.13
Debt to EBITDA (times)	16.24 **	14.02	5.06	6.08	19.70
FFO to debt (%)	0.58 **	0.98	10.69	8.02	(0.19)
Debt to capitalization (%)	64.30	62.20	58.54	72.05	79.22

* 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

Siamese Asset PLC (SA)

Company Rating:	BB+
Rating Outlook:	Stable

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