TRIS RATING
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SC ASSET CORPORATION PLC

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CORPORATES

Company Rating: BBB+

Outlook: Stable

Last Review Date: 28/09/18

Company Rating History:

Date	Rating	Outlook/Alert
04/08/11	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on SC Asset Corporation PLC (SC) at "BBB+" with a "stable" outlook. The rating reflects SC's satisfactory market position in the residential property market, moderate growth in revenue, and the expected rise in SC's financial leverage, resulting from the increasing value of new project launches, and the expansion toward recurring income assets. The rating also takes into consideration SC's concentration in high-priced condominium projects, the cyclicality of the property segment, and the impact from the implementation of new loan-to-value (LTV) rules by the Bank of Thailand (BOT).

KEY RATING CONSIDERATIONS

Satisfactory market position in the middle- to high-priced housing segment

TRIS Rating believes that SC holds a satisfactory market position, especially in the middle- to high-priced housing segments. Its revenue share is around 4%-5% of total revenues from the real estate sales of 22 property developers rated by TRIS Rating. Revenue in 2018 was Bt15.6 billion, up 25% from Bt12.5 billion in 2017. During the first half of 2019, revenue was Bt6.7 billion, relatively flat compared with the same period last year. Revenues from sale of housing unit price of more than Bt8 million accounted for more than 45% of total revenues in 2018 and in the first half of 2019.

Going forward, SC plans to increase its product offerings in the lower-priced segment, with a price range of Bt3-Bt5 million per unit. The management views the lower-priced segment as quite large and its growth potential remains robust, despite the higher bank rejection rate. The expansion toward the lower-end segment will help support the company's revenue growth in the medium term. However, the company will need to focus more on the customer screening process.

Moderate growth in revenue

We expect SC's revenue will improve moderately over the next three years due to the high base and concerns over the slowdown of the domestic economy. In TRIS Rating's base case forecast, SC's revenue is expected to be in the range of Bt17-Bt19 billion per annum during 2019-2022. Revenues from landed property sales will compose the major portion, accounting for more than 65% of total revenues, followed by condominium sales with 30% of revenues, and rental and service revenues accounting for 5%. The operating income before depreciation and amortization as a percentage of revenue (operating margin) is expected to hold at 15%-18%.

SC's strong revenue base in its landed property segment and moderate amount of backlog should help support its growth. As of June 2019, the value of the backlog stood at Bt10.6 billion, comprising landed property units worth Bt2.1 billion and condominium units worth Bt8.5 billion. The housing units in backlog will be recognized as revenue in 2019. The condominium units in backlog are expected to be recognized as revenue of around Bt3.9 billion in the remainder of 2019, Bt3.2 billion in 2020, and Bt1.4 billion in 2022.

Concentration in high-priced condominium projects

SC's product portfolio is concentrated in the high-end segment, especially in condominium projects. Since most of its condominium projects are located in prime areas, the investment cost of each project is quite high. Added to this, condominium projects require a considerable time to bring to completion. Therefore, a slow selling rate may cause SC's leverage to remain at a high level for a longer period.

As of June 2019, SC had 48 projects on hand. The value of the remaining unsold units was around Bt41.8 billion, with an average unit price of Bt11.8 million per unit. This included the 10 condominium projects worth Bt16.3 billion, with an average unit price of Bt16.8 million per unit. Four out of 10 projects ("Saladaeng One", "BEATNIQ", "28 Chidlom", and "SCOPE Langsuan") comprise 88% of the remaining value, with an average unit price of Bt28 million per unit.

SC also plans to launch two high-end condominium projects, with a combined project value amounting to Bt5-Bt5.5 billion, during 2019-2020. In addition, SC will join Nishi-Nippon Railroad Co., Ltd. (NNR) to launch a condominium project: "The Crest Park Residences", worth Bt3.5 billion this year. SC holds a 55% stake in the joint venture while NNR holds 45%.

Leverage to hang at a high level

TRIS Rating holds the view that SC's leverage will remain high in the short to medium term. SC's leverage has increased continuously over the past three years. The company has purchased more land plots and launched more landed property and high-priced condominium projects. As a result, SC's debt to capitalization ratio at the end of June 2019 rose to 58.2%, from 53.9% at the end of 2018. Over the next three years, the company has set a budget for land acquisition of around Bt5 billion per annum. The company plans to launch new projects worth around Bt18-Bt22 billion per annum, increasing from an average of Bt15 billion per annum in the last five years.

The company also plans to increase its recurring income contribution from rental properties to 7%-10% of its total revenues. Currently, SC's income from rental properties, mainly from four office buildings, is around Bt800-Bt850 million per annum, or around 5% of total revenues. To enlarge its recurring income base, the company plans to invest in apartment buildings for rent in the United States (US) with a budget amounting to Bt3 billion over the next three years. In addition, SC plans to enter the hotel business, with an investment budget of Bt3 billion over the next three years.

In TRIS Rating's view, the investments in rental properties will help fulfill SC's portfolio and smooth its earnings in the long run. However, SC's leverage may hang at a high level during the investment period. In TRIS Rating's base case forecast, SC's debt to capitalization ratio is expected to range between 50%-60% over the next three years, taking into account the company's plans to launch new residential property projects worth Bt18-Bt22 billion per annum and invest in recurring income assets at around Bt1.5-Bt1.8 billion per annum.

Exposure to cyclical and highly competitive residential property business

The residential property market closely follows trends in the overall economy. However, the volatility in this market is much more pronounced than in the general 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 the new LTV rules by the BOT could impact sales of residential properties in the short term. Under the new LTV rules, homebuyers can borrow up to 70%-80% of the collateral value, down from 90%-100%, for their second and subsequent mortgage loans.

In TRIS Rating's view, the implementation of the new LTV rules may not significantly impact SC's operating performance as SC focuses mainly on the middle- to high-end segments where demand is quite resilient. However, competition is becoming more intense as more developers are moving towards this segment. Thus, SC has to carefully manage its new project launches to match the demand in each area. SC is trying to diversify its products toward the lower-priced housing segment where demand is still robust. However, the bank rejection rate for homebuyers in this segment is quite high. Thus, the company has to focus more on the screening process of potential customers.

Manageable liquidity

SC's liquidity should be manageable. At the end of June 2019, SC had Bt13.3 billion in debt coming due over the next 12 months, comprising Bt3.8 billion in short-term bills of exchange (B/E), Bt4.8 billion in promissory notes (P/N), Bt2.5 billion in bonds, and Bt2.2 billion in project loans. Most of its P/N are used for land purchases and will be converted to project loans. The company plans to repay the project loans with cash received from the transfer of completed units to customers and plans to refinance most of the maturing bonds with new bonds.

Its sources of funds comprised cash on hand of Bt1.3 billion and Bt5.2 billion in undrawn committed credit facilities. SC's funds from operations (FFO) over the next 12 months would be around Bt1.7-Bt2.0 billion. Due to its relatively large amount of short-term debt, we expect the company to carefully manage its liquidity. Over the next three years, we forecast the ratio of FFO to debt will stay around 7%-10%, while the earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio is expected to stay above 3.5 times.

According to the key financial covenants of bank loans and debentures, SC has to maintain its interest-bearing debt to equity ratio below 2 times. The ratio at the end of June 2019 was 1.46 times.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base case forecast:

- SC will launch residential property projects in 2019 worth Bt22 billion, comprising condominium projects worth Bt14.3 billion and new landed property launches worth Bt7.7 billion. Going forward, the company is expected to launch new residential projects worth Bt15-Bt20 billion per annum.
- SC's revenue is forecast at around Bt17-Bt19 billion per annum during 2019-2022. Revenue from the residential segment will comprise 95% of total revenues, while the rest will come from rental and service income.
- Land acquisition will be budgeted at Bt5 billion yearly.
- Capital expenditures on its rental assets will be set at Bt1.5-Bt1.8 billion per annum over the next three years.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectations that SC will maintain its competitive position and financial profile in the medium term. The operating margin is expected to stay around 15%. Despite its aggressive business expansion plan, SC should keep its debt to capitalization ratio below 60% over the next three years.

RATING SENSITIVITIES

TRIS Rating would revise SC's ratings and/or outlook downward should its operating performance or financial profile deteriorate significantly from the current levels or if the debt to capitalization ratio rises above 60% for a sustained period. In contrast, we would revise the ratings upward if the FFO to debt ratio improves to around 12%-15% and the debt to capitalization ratio stays around 50% on a sustainable basis.

COMPANY OVERVIEW

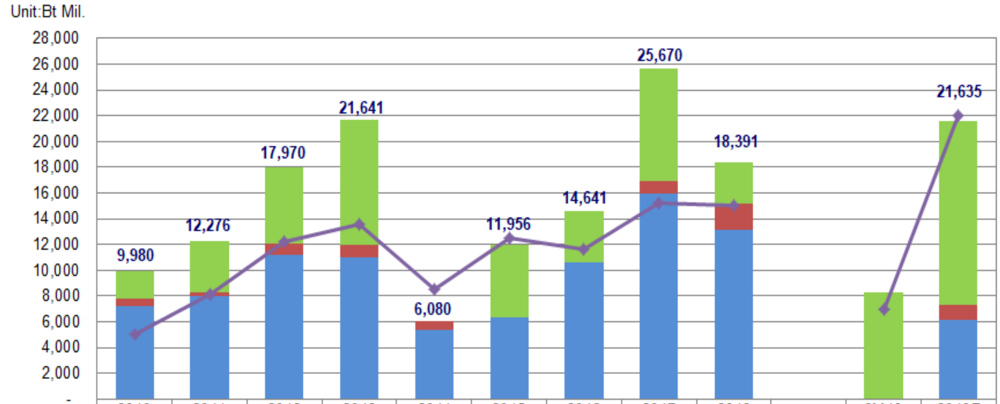
SC is a property developer established in 1989. The Shinawatra family took over the company in 1995 and entered the rental property segment by developing "Shinawatra Tower 3". In 2003, SC was reorganized to focus on developing residential properties. The company was listed on the Stock Exchange of Thailand (SET) in 2003. The Shinawatra family continues to be the company's major shareholder, with a 60% stake as of May 2019.

SC focuses on the middle- to high-income segments in the Bangkok Metropolitan Area (BMA). Its products comprise single detached houses (SDH), townhouses (TH), home offices, and condominiums. The SDH projects are sold under the "Granada", "Grand Bangkok Boulevard", "The Gentry", "Headquarter", "Bangkok Boulevard", "Life Bangkok Boulevard", "Venue", "V Compound", and "Pave" brands, with prices ranging around Bt4-Bt100 million per unit. Townhouse projects are sold under the "Vista" and "Verve" brands, with selling prices of Bt2-Bt5 million per unit. SC also offers a home office under the "Work Place" brand, with unit prices between Bt8-Bt15 million. SC has three condominium brands: "The Crest", "Centric", and "Chambers". Projects under The Crest brand offer condominium units with selling prices of Bt200,000-Bt300,000 per square meter (sq.m.), Centric projects offer condominium units with selling prices of Bt120,000-Bt200,000 per sq.m., while Chambers projects target the lower-income segment with selling prices of Bt60,000-Bt120,000 per sq.m. SC also targets the luxury condominium segment with selling prices above Bt280,000 per sq.m. under the signature brands: Saladaeng One, BEATNIQ, 28 Chidlom, and SCOPE Langsuan.

SC's revenue base has stayed around Bt12-Bt15 billion per annum in the past five years. The residential property development segment has been the company's largest source of revenue, constituting about 93%-95% of total revenue during 2014 through the first half of 2019. Revenue from the rental and service income segment comprised about 5%-7%.

KEY OPERATING PERFORMANCE

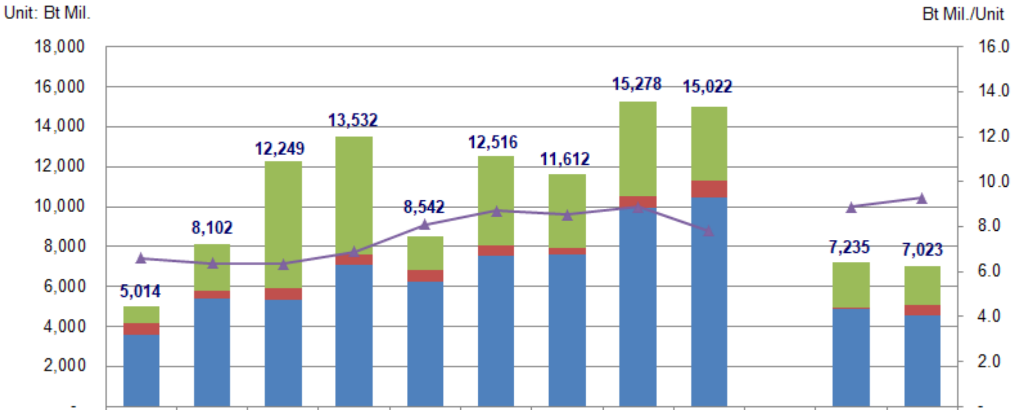
Chart 1: Residential Project Launches



	2010	2011	2012	2013	2014	2015	2016	2017	2018		6M19	2019P
Condominium	2,143	3,943	5,917	9,679	-	5,630	4,000	8,780	3,200		8,300	14,300
Townhouse	618	376	832	950	705	-	-	945	2,000			1,145
SDH	7,219	7,957	11,222	11,011	5,375	6,326	10,641	15,945	13,191			6,190
Presales	5,014	8,103	12,249	13,532	8,542	12,516	11,612	15,278	15,022		7,023	22,000

Source: SC

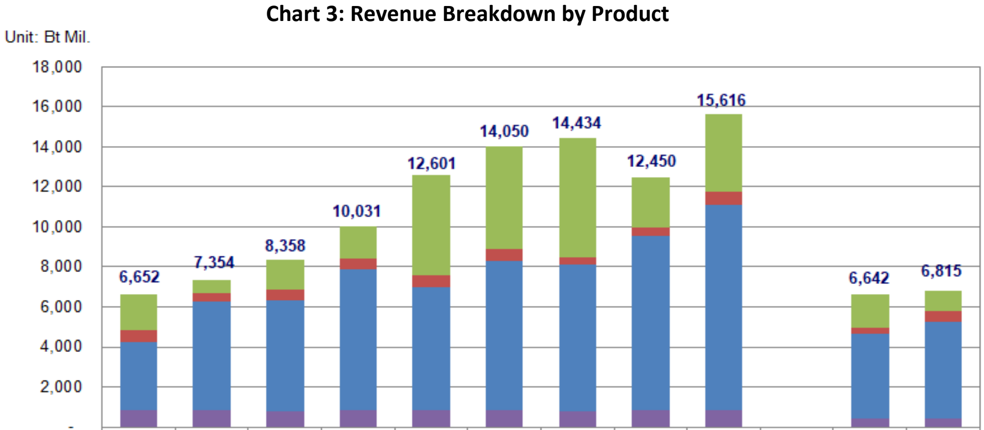
Chart 2: Presales Performance



	2010	2011	2012	2013	2014	2015	2016	2017	2018		6M18	6M19
Condominium	846	2,336	6,354	5,933	1,712	4,442	3,658	4,731	3,705		2,319	1,923
Townhouse	611	350	593	535	618	534	341	586	830		41	514
SDH	3,558	5,416	5,303	7,064	6,212	7,541	7,612	9,962	10,487		4,876	4,586
Avg. Price	6.6	6.4	6.3	6.9	8.1	8.7	8.5	8.9	7.8		8.9	9.3

Source: SC

Chart 3: Revenue Breakdown by Product



	2010	2011	2012	2013	2014	2015	2016	2017	2018		6M18	6M19
Condominium	1,791	675	1,490	1,603	5,022	5,180	5,967	2,508	3,860		1,701	1,048
Townhouse	614	421	569	549	580	568	346	364	661		255	528
SDH	3,418	5,431	5,496	7,048	6,148	7,488	7,364	8,729	10,262		4,267	4,801
Rental & Service	829	828	803	830	851	814	756	850	833		419	438

Source: SC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		---------------Year Ended 31 December ---------			
	Jan-Jun 2019	2018	2017	2016	2015
Total operating revenues	6,698	15,639	12,469	14,465	14,089
Operating income	906	2,503	1,915	2,666	2,584
Earnings before interest and taxes (EBIT)	1,015	2,819	2,092	2,999	2,918
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,101	2,963	2,236	3,132	3,016
Funds from operations (FFO)	570	1,793	1,260	2,066	1,923
Adjusted interest expense	360	692	646	568	608
Real estate development investments	34,521	32,420	28,468	24,591	21,806
Total assets	45,150	42,574	38,498	33,487	30,957
Adjusted debt	22,527	18,912	18,061	15,046	13,312
Adjusted equity	16,166	16,205	14,915	14,441	13,225
Adjusted Ratios					
Operating income as % of total operating revenues (%)	13.52	16.01	15.36	18.43	18.34
Pretax return on permanent capital (%)	7.18 **	7.99	6.48	10.33	10.98
EBITDA interest coverage (times)	3.06	4.28	3.46	5.51	4.96
Debt to EBITDA (times)	7.84 **	6.38	8.08	4.80	4.41
FFO to debt (%)	7.55 **	9.48	6.98	13.73	14.44
Debt to capitalization (%)	58.22	53.85	54.77	51.03	50.16

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

RELATED CRITERIA

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

SC Asset Corporation PLC (SC)

Company Rating:	BBB+
Rating Outlook:	Stable

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