

SENA DEVELOPMENT PLC

No. 51/2021
8 April 2021

CORPORATES

| | |
|------------------|--------|
| Company Rating: | BBB |
| Issue Rating: | |
| Senior unsecured | BBB |
| Outlook: | Stable |

Last Review Date: 26/03/20

Company Rating History:

| Date | Rating | Outlook/Alert |
|----------|--------|---------------|
| 21/02/19 | BBB | Stable |
| 11/11/14 | BBB- | Stable |

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RATIONALE

TRIS Rating affirms the company rating on Sena Development PLC (SENA) at “BBB” with a “stable” rating outlook. At the same time, we assign the rating of “BBB” to SENA’s proposed issue of up to THB8 billion in senior unsecured debentures. The proceeds from the new debentures will be used for business expansion, working capital, and debt repayment.

The ratings reflect SENA’s acceptable track record in the middle- to low-income segment of the residential property market, its high income contribution from project management fees and share of profit from investments in joint venture (JV) projects, and favorable profitability. The ratings also take into consideration our concerns over the company’s rapid portfolio expansion, which may lead to higher financial leverage, and the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, which could put more pressure on the demand for residential property.

KEY RATING CONSIDERATIONS

Acceptable track record in the middle- to low-income residential property segment

We view SENA’s track record in the middle- to low-priced residential property segment as acceptable. The transferred value of SENA’s own and JV projects soared to THB7 billion in 2020 from THB4-THB5 billion per annum during 2016-2019, thanks to the strong presales of its JV condominium projects during 2017-2018. Revenue from residential property sales was THB2.9 billion in 2020, lower than the THB3.5 billion in 2019 and the THB4.5 billion recorded annually during 2017-2018 since the company shifted its focus toward more JV projects. SENA reported shared profit from the transfer of JV condominium projects of THB0.4 billion in 2020.

In our base-case forecast, we project revenue from SENA’s residential property projects to stay at around THB3-THB4 billion per annum during 2021-2023, with no growth from prior years. We hold the view that SENA will continue to focus on developing JV condominium projects over the next three years. Thus, the revenue contribution from its own condominium projects may decrease to 40%-50% of residential sales, from 70%-80% during 2018-2020, while the revenue contribution from landed property projects should increase to 50%-60%.

As of December 2020, SENA had 27 existing condominium projects, consisting of 18 owned and nine JV condominium projects, and 16 landed property projects, with total unsold value of THB15.8 billion (including built and un-built units). JV condominium projects comprised around 50% of the total unsold value, while its own condominium projects and landed property projects accounted for around 20% and 30%, respectively. Total backlog was THB8.3 billion, 90% of which came from JV condominium projects.

Income contribution from JV residential property expected to remain high

We forecast SENA’s total operating revenue to remain at THB4-THB5 billion per annum during 2021-2023. Revenue from residential property will likely contribute 75%-80% of total operating revenue. We expect revenue from project management fees through JVs to be in the range of THB0.6-THB0.7 billion per annum, or around 15% of total operating revenue. This is based on

our assumption that SENA will launch new JV condominium projects worth around THB7-THB11 billion per annum over the next three years.

At the end of December 2020, the JV projects had remaining value of THB8.2 billion. The projects were 62% sold and 28% transferred to customers. The backlog under JVs was worth THB7.4 billion. SENA plans to deliver backlog worth THB4.5 billion this year and THB2.9 billion in 2022. We project the share of profit from the transfer of JV residential properties (net of a share loss of newly launched projects) to be THB100-THB200 million annually during 2021-2023. This amount will be topped up by profit sharing from solar farm and office rental businesses.

Expected favorable profitability

We expect SENA to sustain a favorable level of profitability despite intense competition in the residential property market and the lingering impacts of COVID-19. SENA's earnings before interest, tax, depreciation, and amortization (EBITDA) amounted to THB1.5-THB1.8 billion per annum during 2018-2020. Its EBITDA margin was maintained at a level above 25%, higher than the industry average of 20%. SENA reported a net profit margin of 17%-26% of total operating revenue during the past three years, also above the industry average of 10%. The pretax return on permanent capital (ROPC) ratio stayed in the range of 10%-12% during 2018-2020. SENA's ability to secure land plots at favorable prices, control construction costs and selling and administrative expenses helps sustain its high profitability. A greater portion of shared profit from investments in JVs will also boost profitability.

In our view, SENA's profitability over the next three years could be pressured by sluggish demand and intense competition among large developers. SENA could be pressured to accept lower profit margins to bolster sales. However, we expect SENA to keep its EBITDA in the THB1.2-THB1.4 billion range annually and its EBITDA margin at above 25% during 2021-2023. Its ROPC ratio is expected to remain above 5% over the forecast period.

Rapid portfolio expansion may push financial leverage higher

SENA's aggressive condominium portfolio expansion through its own and JV projects caused its debt burden to increase during the past three years. The company's debt to capitalization ratio increased to 53%-57% during 2018-2020, from below 50% during 2016-2017. The ratio of funds from operations (FFO) to total debt also dropped to 11%-15% during 2018-2020, from 20% in 2017 and 31% in 2016.

In our base-case scenario, we assume that SENA will launch new condominium projects worth THB8-THB13 billion annually over the next three years. We expect the value of JV projects to constitute 80%-85% of the total value of new launches. SENA intends to enlarge its landed property portfolio to achieve a revenue target of THB3 billion by 2023. Thus, the company plans to launch new landed property projects worth THB3-THB4 billion per annum for its owned projects and THB1 billion per annum for JV projects. The land acquisition budget for its own projects is projected to be THB0.6-THB1 billion while the budget for JV projects (SENA's portion) to be around THB1 billion per annum. Despite its ongoing project expansion, we expect SENA to keep its debt to capitalization ratio below 55% and FFO to total debt ratio at around 10% over the forecast period.

Acceptable liquidity profile

We assess SENA's liquidity to be adequate over the next 12 months. As of December 2020, SENA's sources of funds consisted of THB3 billion in cash on hand plus THB0.5 billion in marketable securities, THB1.9 billion in undrawn committed project loan facilities, and THB3.6 billion in undrawn uncommitted short-term loan facilities. SENA's FFO over the next 12 months is expected to be THB0.8 billion. Debts due over the next 12 months will amount to THB3.6 billion, comprising THB2.1 billion in short-term promissory notes (P/Ns) and bills of exchange (B/Es), and THB1.5 billion in debentures. SENA plans to convert short-term bridging P/Ns for land purchases into long-term project loans thereafter. Short-term B/Es will be rolled over or repaid. SENA repaid the THB1.5 billion in debentures (SENA213A) due on 22 March 2021 by internal cash flow.

The financial covenants on SENA's debentures and bank loans require the company's total liabilities to total equity ratio to remain below 2.5 times and 1.75 times, respectively. As of December 2020, SENA's total liabilities to total equity ratio was 1.5 times. We believe that SENA 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 2021-2023:

- SENA to launch new residential projects inclusive of its own and JV projects worth THB8-THB13 billion per annum for condominium projects and THB4-THB5 billion per annum for landed property projects
- Annual budget for land acquisition for its own projects to be THB0.6-THB1 billion and for JV projects to be THB1 billion
- Total operating revenue to stay in the THB4-THB5 billion per annum range and shared profit from its investments in all JVs to be THB100-THB200 million per annum

RATING OUTLOOK

The "stable" outlook reflects our expectation that SENA will be able to deliver its operating performance as targeted. We expect the company to sustain its FFO to total debt ratio at around 10% and ROPC ratio above 5% over the forecast period. Despite its aggressive portfolio expansion, we expect SENA's debt to capitalization ratio to stay below 55%.

RATING SENSITIVITIES

SENA's ratings and/or outlook could be revised downward should its operating performance and/or financial profile significantly deteriorate from the targeted levels. The ratings could also be downgraded should its debt to capitalization ratio stay above 60% without commensurate returns on a sustained basis. A credit upside for SENA could emerge if its market position further strengthens and/or financial profile considerably improves, such that its FFO to total debt ratio stays above 20% for a sustained period.

COMPANY OVERVIEW

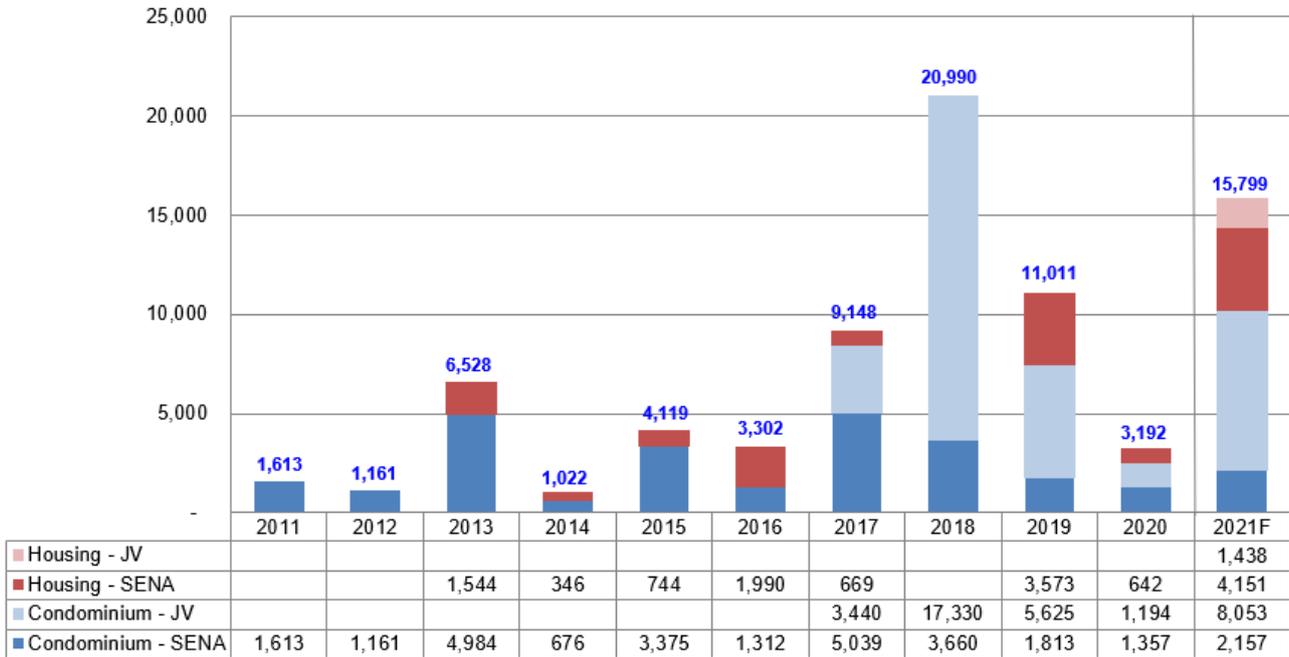
SENA was established by Mr. Theerawat Thanyalakphark in 1993 and listed on the Stock Exchange of Thailand (SET) in 2009. As of March 2021, the Thanyalakphark family continued to be the company's largest shareholder, owning a 56.57% stake. SENA focuses on the residential property development business. Its products cover condominiums, single-detached houses (SDH), twin houses, townhouses, and commercial units. SENA's products mainly target the middle- to low-income segment, with selling prices ranging from THB30,000 to THB200,000 per sq.m. for condominiums and an average price per unit of THB4 million for landed properties. Its products comprise condominium projects, sold under the PITI, The Niche Pride, Sena-AZU, The Niche Mono, The Niche ID, The Kith, and SENA Kith brands; and landed property projects under the Sena Park Grand, Sena Grand Home, Sena Ville, Viva, Sena Shophouse, Sena Avenue, and Sena Town brands.

SENA's total operating revenue is mainly derived from condominium products. Revenue from condominium projects constituted 55%-65% of total operating revenue during 2017-2019. The revenue contribution from condominium projects decreased to 50% in 2020. Revenue from landed property projects contributed 12%-18% of total operating revenue during the past five years. The revenue contribution from project management fees through JV projects increased to 20% of total operating revenue during 2019-2020, from 9% in 2018. Revenue from other rental and service income as well as the solar business remained negligible.

KEY OPERATING PERFORMANCE

Chart 1: New Residential Project Launches

Unit: Mil. THB

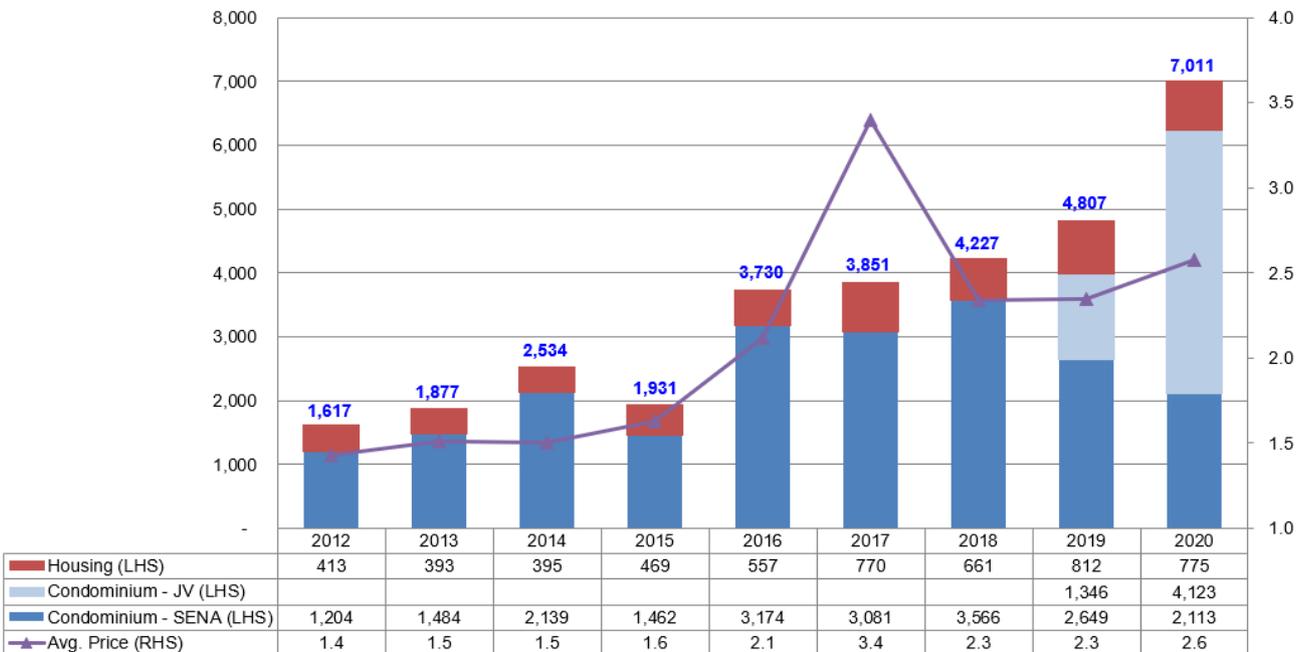


Source: SENA

Chart 2: Transfer Performance

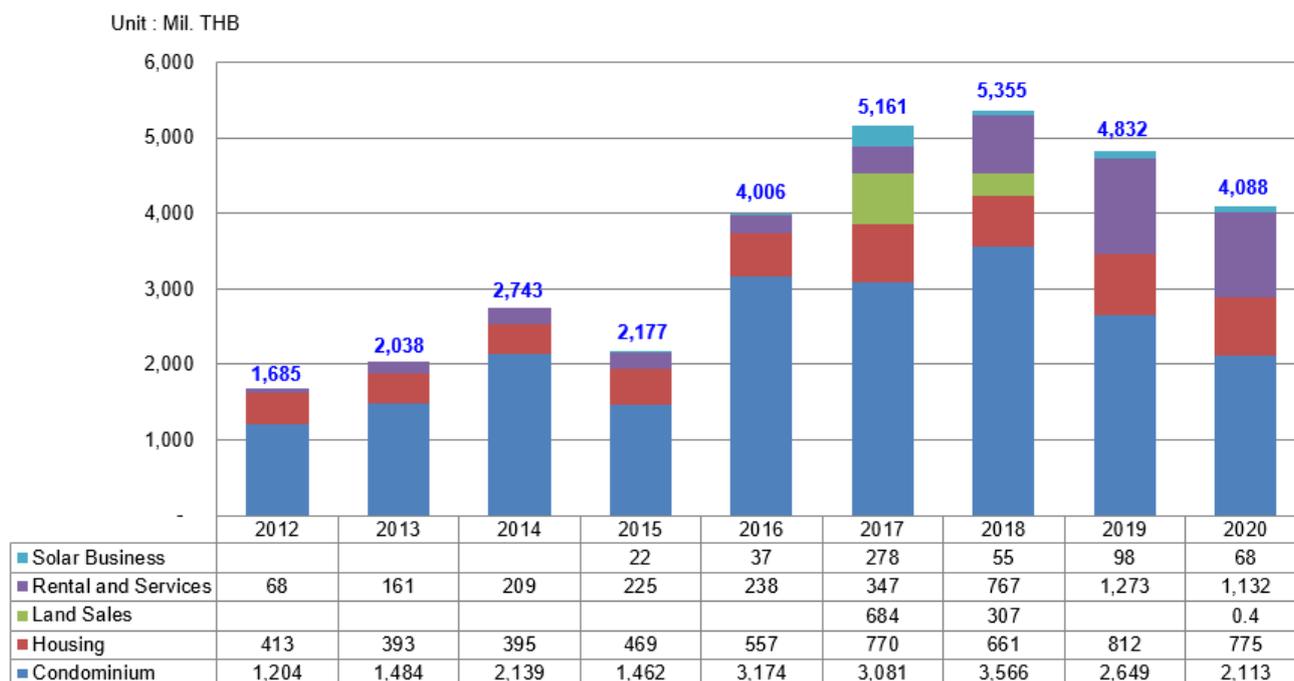
Unit: Mil. THB

Unit: Mil. THB/Unit



Source: SENA

Chart 3: Revenue from Sales and Services Breakdown



Source: SENA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

| | -----Year Ended 31 December ----- | | | | |
|--|-----------------------------------|--------|--------|--------|-------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| Total operating revenues | 4,228 | 4,989 | 5,540 | 5,221 | 4,059 |
| Earnings before interest and taxes (EBIT) | 1,681 | 1,478 | 1,433 | 1,145 | 1,148 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 1,788 | 1,577 | 1,558 | 1,206 | 1,155 |
| Funds from operations (FFO) | 1,236 | 972 | 1,019 | 821 | 836 |
| Adjusted interest expense | 355 | 315 | 234 | 159 | 130 |
| Real estate development investments | 7,910 | 8,052 | 7,726 | 6,372 | 4,726 |
| Total assets | 17,927 | 15,098 | 13,698 | 10,732 | 7,633 |
| Adjusted debt | 8,227 | 8,536 | 6,607 | 4,028 | 2,669 |
| Adjusted equity | 7,167 | 6,502 | 5,903 | 4,778 | 4,048 |
| Adjusted Ratios | | | | | |
| EBITDA margin (%) | 42.30 | 31.62 | 28.13 | 23.10 | 28.46 |
| Pretax return on permanent capital (%) | 9.53 | 9.95 | 12.41 | 13.62 | 15.69 |
| EBITDA interest coverage (times) | 5.03 | 5.01 | 6.67 | 7.61 | 8.85 |
| Debt to EBITDA (times) | 4.60 | 5.41 | 4.24 | 3.34 | 2.31 |
| FFO to debt (%) | 15.02 | 11.39 | 15.42 | 20.38 | 31.32 |
| Debt to capitalization (%) | 53.44 | 56.76 | 52.81 | 45.74 | 39.74 |

* Consolidated financial statements

RELATED CRITERIA

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

Sena Development PLC (SENA)

| | |
|---|--------|
| Company Rating: | BBB |
| Issue Rating: | |
| Up to THB8,000 million senior unsecured debentures due within 5 years | BBB |
| Rating Outlook: | Stable |

TRIS Rating Co., Ltd.

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