TRIS RATING
A Strategic Partner of S&P Global

CreditNews ข่าวเครดิต

SENA DEVELOPMENT PLC

No. 37/2020
26 March 2020

CORPORATES

Company Rating:	BBB
Outlook:	Stable

Last Review Date: 21/02/19

Company Rating History:

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

Contacts:

Jutamas Bunyawanichkul

jutamas@trisrating.com

Auyporn Vachirakanjanaporn

auyporn@trisrating.com

Hattayanee Pitakpatapee

hattayanee@trisrating.com

Tulyawat Chatkam

tulyawat@trisrating.com

Suchada Pantu, Ph. D.

suchada@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Sena Development PLC (SENA) at “BBB” with a “stable” rating outlook. The rating reflects SENA’s acceptable track record in the middle-to-low- income segment of the residential property market, its expected higher income contribution from joint ventures (JVs), and its relatively high profitability. However, the rating is weighed down by the company’s rising financial leverage resulting from its rapid business expansion over the past two years and concerns over the unprecedented risk from the coronavirus (COVID-19) outbreak which will put more pressure on the domestic economy and demand for residential properties.

KEY RATING CONSIDERATIONS

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

TRIS Rating believes that SENA will be able to sustain its acceptable track record in the middle-to-low-income residential property segment. SENA’s revenue from residential property sales has improved to Bt3.7-Bt4.2 billion per annum over the past four years, increasing from Bt1.5-Bt2.5 billion per annum in prior years. The company has also been able to launch more high-value condominium projects after joining with Hankyu Group in 2017. As a result, SENA’s condominium presales (including the presales of JVs) has improved significantly in the past three years. Its condominium presales ranged Bt5.4-Bt9.5 billion per annum during 2017-2019, increasing from Bt2.4-Bt3.8 billion per annum during 2013-2016.

Revenue from landed properties has also increased gradually to Bt0.7-Bt0.9 billion per annum in the past three years, from Bt0.4-Bt0.5 billion per annum in prior years. Going forward, SENA plans to launch more landed property projects to compensate for the slowdown in the condominium segment. Thus, revenue contribution from landed property projects is expected to rise to 20%-30% of total operating revenue over the next three years, from 12%-16% during 2017-2019.

Expected higher income contribution from JV residential property sales

Under TRIS Rating’s base-case scenario, we forecast SENA’s total operating revenue to stay in the range of Bt4-Bt5 billion per annum during 2020-2022. Since SENA will focus more on JV projects rather than its own projects, SENA’s total operating revenue on a consolidated basis will not grow much. However, the income contribution from JVs will become more significant. At the end of December 2019, SENA had nine existing condominium projects under JVs, with total remaining value of Bt16.3 billion. The JV projects were 43% sold and 5% transferred to customers. The backlog under JVs was worth Bt10.7 billion, representing 90% of SENA’s total backlog. The JV backlog will be delivered to customers during 2020-2022.

TRIS Rating expects SENA to realize share profit of Bt0.3-Bt0.4 billion per annum from JVs over the next three years. SENA plans to launch three condominium projects per year under JVs as well as jointly develop landed property projects worth Bt5-Bt6 billion per year with Hankyu Group. The more JV projects SENA manages, the more revenue from project management fees the company receives. In TRIS Rating’s base-case scenario, we expect SENA’s revenue from project management fees through JVs to be Bt0.8-Bt1 billion per annum over the next three years.

Revenue contribution from other businesses remains minimal

Apart from residential properties for sale, SENA has diversified its businesses into rental properties and solar farms. Its rental and service revenue amounted to Bt0.2-Bt0.3 billion per annum during 2015-2017 and increased to Bt0.8 billion in 2018 and Bt1.3 billion in 2019. Recently, SENA joined with Aira Property Co., Ltd. and Sangfah Construction Co., Ltd. to construct a grade-A office building; named "Spring Tower", on Phayathai road. The project was completed and started operations in January 2020. The occupancy rate is currently around 50%. We expect this JV to generate share profit of around Bt10 million per annum from 2020 onwards.

SENA started the commercial operation of solar farms in late 2015. The company sold around 70 million kilowatts (KW) per year of electricity to the Provincial Electricity Authority (PEA) during 2016-2019. The solar farms generated revenue of around Bt0.4 billion per annum and earnings before interest, tax, depreciation, and amortization (EBITDA) of around Bt0.3 billion per annum over the past four years. SENA's share profit from the solar farms was Bt50-Bt60 million per annum during 2016-2019. In TRIS Rating's view, the revenue contribution from SENA's other businesses will continue to be lower than 30% of total operating revenue over the next 2-3 years.

Satisfactory level of profitability

TRIS Rating expects SENA to maintain its above-industry-average profitability over the next 2-3 years. SENA's EBITDA was Bt1.2-Bt1.5 billion per annum during 2016-2019. EBITDA margin has been in the range of 23%-30% during the past four years, higher than the industry average of 15%. SENA's net profit margin was 14%-19% of total operating revenue during 2016-2019, also above the industry average of 10%. The pretax return on permanent capital (ROPC) ratio stayed at 10%-16% during the past four years. SENA's ability to control construction costs and secure land plots at favorable prices helps sustain its high profitability. The expected greater portion of share profit from investments in JVs will also help increase profitability.

In TRIS Rating's view, SENA's profitability may come under pressure from the slowdown in the domestic economy resulting from severe drought and the COVID-19 pandemic in 2020. Its profitability may decline slightly during this period as the company may have to spend more on marketing and promotions to accelerate sales. However, the higher share profit from the transfers of JV projects should help maintain the company's net profit margin at around 15% and ROPC ratio at 6%-9% during 2020-2022.

Higher financial leverage, resulting from the rapid expansion in the past couple years

The rapid expansion of its condominium portfolio through JVs and its own projects during 2017-2019 has resulted in a higher debt level than in the past. SENA's debt to capitalization ratio has increased steadily to 53% in 2018 and 57% in 2019 from 46% in 2017. The ratio of funds from operations (FFO) to total debt has also dropped, to 15% in 2018 and 12% in 2019 from 20% in 2017. However, since more JV projects will be transferred during 2020-2022, SENA's leverage and cash flow protection should not significantly deteriorate from the current level.

Under TRIS Rating's base case, SENA's debt to capitalization ratio is expected to stay at 52%-55% over the next 2-3 years. The FFO to total debt ratio is expected to range 9%-11%. Due to the stagnant demand from both local and foreign homebuyers, we expect SENA to expand its businesses cautiously in order to control capital structure and manage cash flow at the target levels. We assume the company will launch new condominium projects worth Bt4 billion in 2020 and Bt10 billion per annum during 2021-2022. The value of its own projects will be around 25%-30% of the total value of new launches. We also expect SENA to launch more landed property projects than in the past several years through JVs and under its own projects, with total new project value of Bt5 billion per annum. The annual budget for land acquisition for SENA's own projects will be Bt0.8-Bt0.9 billion over the next 2-3 years, while the annual budget for land under JV projects will be Bt1.5- Bt1.8 billion.

Concerns over softening demand and impacts of the COVID-19 pandemic

The residential property market closely follows trends in the domestic economy. However, volatility in this market is much more pronounced than in the overall economy. The slowdown of the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the affordability of local homebuyers. Negative impacts from the global trade war and appreciation of the Thai baht have also caused a drop in demand from foreign homebuyers, especially Chinese buyers, since 2019.

This year, the unprecedented risk from the outbreak of the COVID-19 may disrupt market demand. Most developers are adopting a wait-and-see approach as demand from local and foreign buyers may come to a halt during the first half of 2020. In addition, due to the travel restrictions in several countries, especially China, SENA has had to postpone the transfers of foreign-buyer residential units for 3-4 months. SENA's condominium units sold to foreign buyers accounted for 22% of total backlog as of December 2019. The backlog of units sold to foreign buyers which are ready to transfer this year will be around Bt1.2 billion, or 17% of total backlog to be transferred this year.

Acceptable liquidity profile

We assess SENA's liquidity to be acceptable over the next 12 months. As of December 2019, SENA's sources of funds consisted of Bt1.2 billion in cash on hand plus available credit facilities which can be drawn without prior conditions of Bt4.1 billion. SENA's FFO over the next 12 months is expected to be Bt0.9 billion. The company also has unencumbered assets, including land banks at book value worth Bt0.9 billion and remaining units in completed projects at selling price worth Bt1.8 billion. Debts due over the next 12 months will amount to Bt2.4 billion, comprising Bt1.5 billion in short-term obligations, Bt0.95 billion in debentures, and Bt5 million in long-term loans.

SENA has to maintain its total liabilities to total equity ratio at a level lower than 2.5 times and 2 times, in order to comply with the financial covenants on its bonds and bank loans, respectively. As of December 2019, SENA's total liabilities to total equity ratio was 1.32 times. TRIS Rating believes 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 2020-2022:

- SENA to launch new JV and own condominium projects worth Bt4 billion in 2020 and Bt10 billion per annum during 2021-2022.
- SENA to launch new JV and own landed property projects worth Bt5 billion per annum.
- Annual budget for land acquisition for its own projects is forecast to be Bt0.8-Bt0.9 billion and for JV projects is forecast to be Bt1.5-Bt1.8 billion.
- Total operating revenues to be Bt4-Bt5 billion per annum and share profit from JVs to be Bt0.1-Bt0.2 billion per annum during 2021-2022.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that SENA will be able to deliver its operating performance as targeted. Despite stagnant demand from both domestic and foreign homebuyers coupled with the unprecedented risk from the coronavirus, we expect SENA to sustain its EBITDA margin above 25%. SENA's debt to capitalization ratio is expected to stay around 52%-55% over the next 2-3 years. The FFO to total debt ratio is expected to be in the range of 9%-11%.

RATING SENSITIVITIES

SENA's rating and/or outlook could be revised downward should its operating performance and/or financial profile significantly deviate from the targeted levels for a certain period. The rating could be downgraded should its debt to capitalization ratio stay above 60% without commensurate returns on a sustained basis. On the contrary, a significant improvement in SENA's market position and/or financial profile from the targeted levels will be positive for SENA's rating.

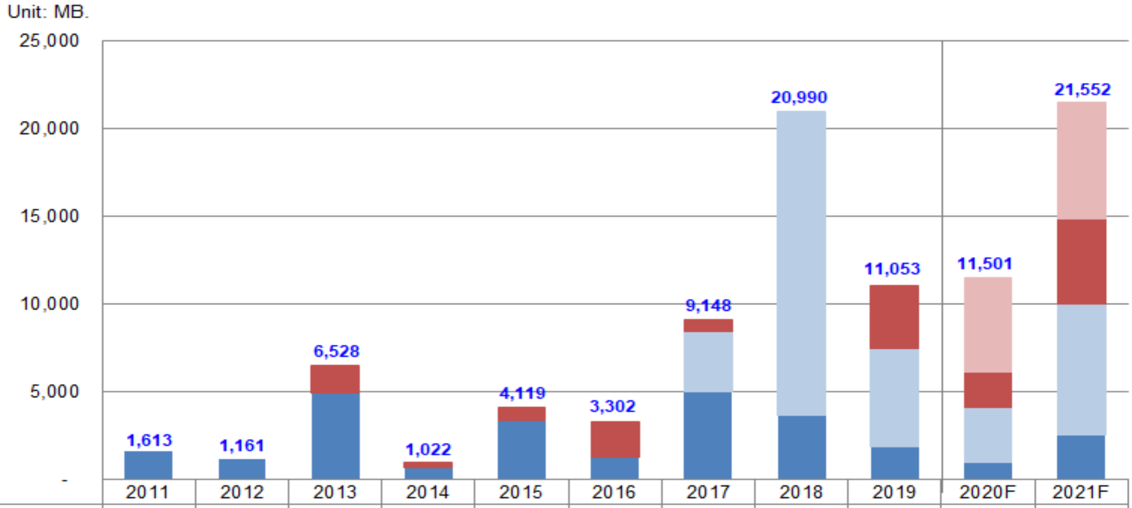
COMPANY OVERVIEW

SENA was established by Mr. Theerawat Thanyalakphark in 1993 and listed on the Stock Exchange of Thailand (SET) in 2009. As of August 2019, the Thanyalakphark family continued to be the company's largest shareholder, owning a 49.5% 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 Bt60,000 to Bt200,000 per sq.m. for condominiums and an average price per unit of Bt4 million for landed properties. Its products comprise condominium projects, sold under the PITI, The Niche Pride, The Niche Mono, Sena-AZU, Slash, and The Kith brands; and landed property projects under the Sena Park Grand, Sena Grand Home, Sena Ville, Sena Shophouse, Sena Village, Sena Avenue, Sena Town, Sena Vela, and Sena Viva brands.

SENA's total operating revenues mainly derive from condominium projects. Revenue from condominiums constituted 55%-65% of total operating revenues during 2017-2019. The revenue contribution from landed properties has been in the 12%-16% range over the past three years. Revenue contribution from project management fees through JV projects increased to 18% of the total in 2019 from 9% in 2018. Revenue from land sales, other rental and service income, and the solar business remained minimal.

KEY OPERATING PERFORMANCE

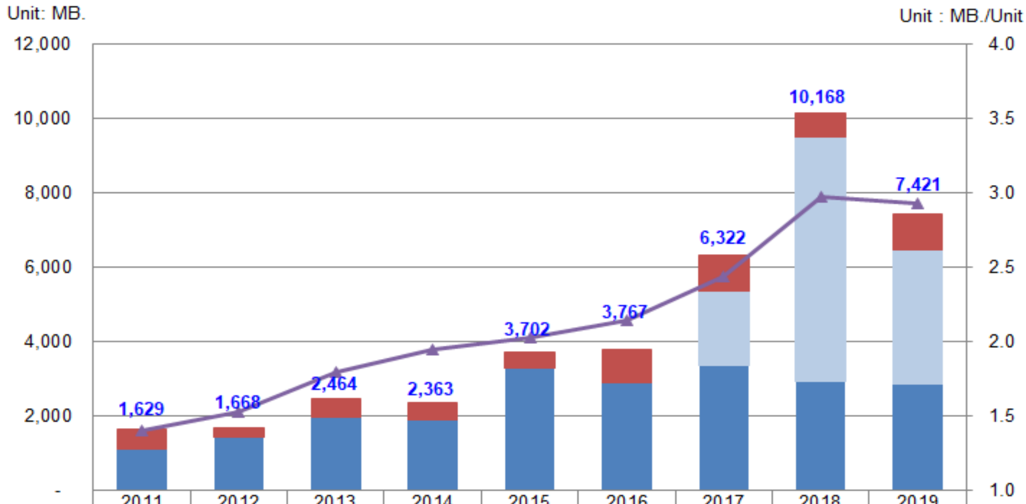
Chart 1: New Residential Project Launches



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020F	2021F
Housing - JV										5,332	6,666
Housing - SENA			1,544	346	744	1,990	669		3,567	2,052	4,866
Condominium - JV							3,440	17,330	5,624	3,114	7,459
Condominium - SENA	1,613	1,161	4,984	676	3,375	1,312	5,039	3,660	1,862	1,003	2,561

Source: SENA

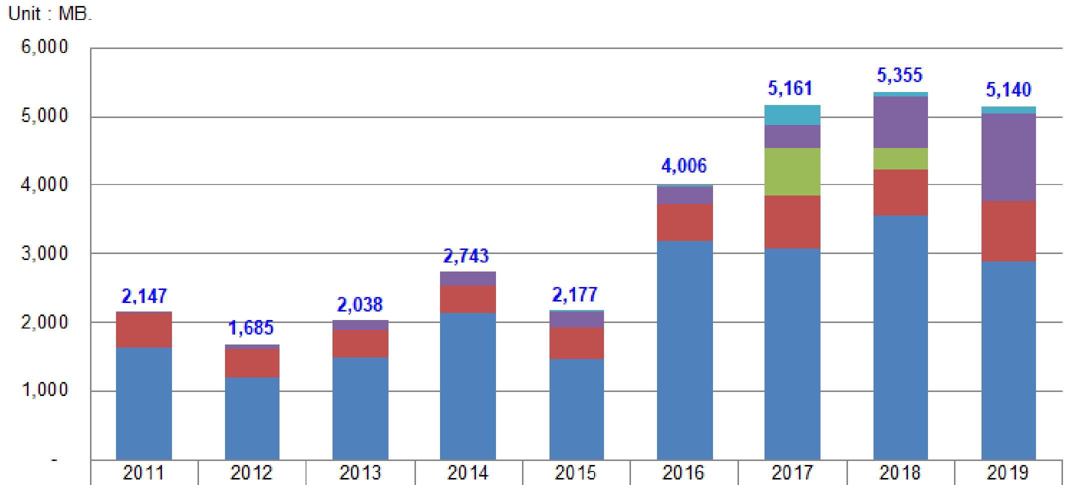
Chart 2: Presales Performance



	2011	2012	2013	2014	2015	2016	2017	2018	2019
Housing (LHS)	538	238	512	460	423	871	947	660	960
Condominium - JV (LHS)							2,014	6,578	3,623
Condominium - SENA (LHS)	1,091	1,430	1,952	1,903	3,280	2,896	3,361	2,930	2,838
Avg. Price (RHS)	1.4	1.5	1.8	1.9	2.0	2.1	2.4	3.0	2.9

Source: SENA

Chart 3: Revenue Breakdown



	2011	2012	2013	2014	2015	2016	2017	2018	2019
Solar Business					22	37	278	55	98
Rental and Services	19	68	161	209	225	238	347	767	1,273
Land Sales							684	307	
Housing	491	413	393	395	469	557	770	661	874
Condominium	1,636	1,204	1,484	2,139	1,462	3,174	3,081	3,566	2,896

Source: SENA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	-----------------------Year Ended 31 December ------------------				
	2019	**2018**	**2017**	**2016**	**2015**
Total operating revenues	5,298	5,540	5,221	4,059	2,219
Earnings before interest and taxes (EBIT)	1,498	1,433	1,145	1,148	403
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,598	1,558	1,206	1,155	483
Funds from operations (FFO)	992	1,019	821	836	302
Adjusted interest expense	315	234	159	130	138
Real estate development investments	8,052	7,726	6,372	4,726	5,463
Total assets	15,098	13,698	10,732	7,633	8,136
Adjusted debt	8,536	6,607	4,028	2,669	3,664
Adjusted equity	6,502	5,903	4,778	4,048	3,541
Adjusted Ratios					
EBITDA margin (%)	30.16	28.13	23.10	28.46	21.74
Pretax return on permanent capital (%)	10.08	12.41	13.62	15.69	5.85
EBITDA interest coverage (times)	5.08	6.67	7.61	8.85	3.50
Debt to EBITDA (times)	5.34	4.24	3.34	2.31	7.59
FFO to debt (%)	11.63	15.42	20.38	31.32	8.25
Debt to capitalization (%)	56.76	52.81	45.74	39.74	50.85

* *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
Rating Outlook:	Stable

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