

# SUPALAI PLC

No. 191/2022  
25 October 2022

## CORPORATES

**Company Rating:** A  
**Outlook:** Stable

**Last Review Date:** 12/10/21

### Company Rating History:

Date	Rating	Outlook/Alert
18/07/14	A	Stable
07/06/13	A-	Positive
20/05/10	A-	Stable
03/03/06	BBB+	Stable
29/10/04	BBB	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Supalai PLC (SPALI) at “A” with a “stable” rating outlook. The rating reflects the company’s solid market presence, strong operating performance with significant backlog on hand, well-diversified portfolio, and low financial leverage. The rating also incorporates our concerns over the relatively high household debt level and rising inflation which could impact the purchasing power of homebuyers in the short- to medium-term while pushing up development and funding costs for developers.

## KEY RATING CONSIDERATIONS

### Strong market position

TRIS Rating expects SPALI to maintain its solid market position in the residential property market, especially in the middle-income segment, over the forecast period. SPALI’s strong market presence has been reflected by its ability to generate presales and transfers above THB20 billion per annum since 2015. The company has ranked as one of the top five property developers in terms of revenue from 2015 up to the present. SPALI’s presales in 2021 stood at THB24.07 billion, near the same level as 2020. Revenue from residential sales in 2021 rose by 42% year-on-year (y-o-y) to reach a peak of THB28.94 billion, mainly from SPALI’s substantial number of condominium transfers and growing revenue base in the landed property segment.

Despite recent COVID-19 outbreaks and intense competition in the industry, SPALI’s presales have continued to drive growth momentum rising to THB18 billion in the first half of 2022, up 40% from the same period in the previous year. The strong growth was mainly due to consistently rising sales in landed residential projects coupled with the recovery in condominium sales. Based on this, we forecast the company’s presales in 2022 continue to grow by almost 20% y-o-y. SPALI launched new residential property projects worth THB21 billion in the first half of 2022. The company plans to launch residential property projects, mostly landed properties, worth THB19 billion in the second half of the year.

### Diversified portfolio

SPALI’s portfolio is well diversified in terms of product types, price ranges, and locations. The company offers single-detached houses (SDH), semi-detached houses (semi-DHs), townhouses (TH), and condominiums, covering almost all of the segments in the residential property market. In addition, SPALI has diversified its portfolio and steadily increased its market base in upcountry areas. The revenue contribution from upcountry projects accounted for 26% of the total in 2021 and 27% in the first half of 2022. In our view, the diversity of its products and locations gives the company flexibility to adjust its portfolio in response to changes in market conditions.

As of June 2022, SPALI had 42 existing condominium projects and 140 landed property projects, with total remaining project value of THB90.78 billion (including built and un-built units). Of the unsold value, 61% was made up of landed property projects while condominium projects made up the remainder. Around 46% of total unsold value was in upcountry areas, with landed property projects accounting for 93% of that amount.

### Increasing investment in Australia

SPALI has also diversified its portfolio by increasing investment in Australia, with a target investment size not exceeding 20% of total assets. Currently, SPALI has joined hands with several Australian partners, including Stockland Corporation Ltd. and Mirvac Group, for 12 land development projects mainly in Melbourne and Brisbane. As of June 2022, SPALI's overseas investments amounted to THB6.7 billion, accounting for 8% of total assets. The company recently joined with Mirvac Group, one of the leading property developers in Australia, to set up a joint venture (JV) for the development of land in Clyde North, Melbourne. SPALI holds a 50% stake in the JV with an initial investment cost of THB3.5 billion. The revenue contribution from three projects in Australia was THB738 million in 2021 and THB463 million during the first half in 2022, accounting for 3% of total residential property sales. The share of profit from its joint investment in eight property projects in Australia stood at THB533 million and THB140 million in 2021 and during the first six months in 2022, respectively.

Going forwards, the company plans to invest more in Australia. The investment budget is set at around THB4-THB4.4 billion per annum in 2022-2024. We expect the revenue contribution from the overseas business will grow significantly to around THB3-THB4 billion per annum from 2023 onwards, supported by revenue recognition from the project in Clyde North. We forecast its share of profit to hover around THB470 million annually over the next couple of years. In our view, the investments in Australia help strengthen SPALI's portfolio in the long run.

### Strong operating performance expected to continue

We expect SPALI to deliver strong operating performance over the next three years. Despite the adverse economic conditions caused by rising inflation and high household debt, we project SPALI's annual revenue to reach THB30 billion in 2022, then jump to THB34-THB35 billion per annum in 2023-2024. The growth in revenues should come from its plan to launch a substantial number of new residential projects worth THB38-THB40 billion per annum together with the significant amount of backlog on hand and the growing revenue contribution from new projects in Australia as mentioned earlier. At the end of June 2022, SPALI's backlog was THB27.96 billion, comprising THB10.23 billion in landed properties and THB17.74 billion in condominium projects. The backlog should be recognized as revenues of around THB13.7 billion in the second half of 2022, THB10.24 billion in 2023 and THB4.03 billion in 2024. As the company plans to focus more on landed residential property projects, the revenue contributions from landed properties (excluding revenue from Australian projects) is expected to range around 55%-60% in 2022-2024.

SPALI's profitability has been comparatively higher than the industry average, given its cost competitiveness. Its gross profit margin ranged between 37%-40% and earnings before interest, taxes, depreciation, and amortization (EBITDA) margin stayed in the 31%-34% range from 2015 up to the present. Looking forward, we consider that SPALI's profitability could be increasingly challenged by ongoing intense competition among residential property developers as well as rising land, construction material, and labor costs. Nonetheless, we view that the company could partly pass through the rising costs to homebuyers. Overall, we expect the company to maintain its gross profit margin in the 36%-38% range and EBITDA margin of around 28%-32% over the next three years.

### Leverage to remain low

SPALI's debt to capitalization ratio as of June 2022 was 36.7%, rising from 29.9% in 2021 and higher than our previous forecast at 27%. This was due to its increased foreign investment, the pause of its plan to sell "Supalai Grand Tower" to a real estate investment trust, and the delay in sales of treasury stock. However, despite no further reselling of stock from the share repurchase project, we expect its debt to capitalization ratio to decline to around 30% over the next three years, given its strong operating performance in the landed property segment and the transfers of several large condominium projects in the pipeline. This is based on our assumption that SPALI will launch new landed property projects worth around THB35 billion in 2022 and THB30 billion per annum during 2023-2024. New condominium project launches are forecast to be worth THB5 billion this year and THB8 billion per annum in 2023-2024. The annual budget for land acquisition is THB8-THB10 billion and foreign investment is set to be THB4-THB4.4 billion per annum over the next three years.

At the end of June 2022, SPALI had total consolidated debts of THB28.7 billion, including THB6 billion of priority debt. This means the ratio of SPALI's priority debt to total debt was 21%.

### Adequate liquidity

We assess SPALI to have adequate liquidity to cover its debt repayments over the next 12 months. As of June 2022, the company had debts of THB24.6 billion coming due in the next 12 months, comprising THB8 billion debentures, THB4 billion bills of exchange (B/E), THB11.1 billion promissory notes (P/N), and THB1.5 billion short-term loans from financial institutions. The company already repaid the debentures due in the third quarter of 2022 with new debentures issuances and rolled over THB2 billion of B/E. SPALI plans to refinance the remaining maturing debentures with new debenture issues, and to roll over the outstanding B/E. The maturing P/N and short-term loans will be repaid with cash received from the transfers of residential property units to customers.

SPALI's sources of liquidity at the end of June 2022 comprised cash on hand of THB465 million and undrawn committed bank loan facilities of THB6.6 billion. We forecast SPALI's funds from operations (FFO) to hover around THB7.5 billion per annum. We expect SPALI's cash flow protection to remain strong over the next three years, with an FFO to debt ratio in the 36%-40% range, and an EBITDA interest coverage ratio of not less than 15 times. The financial covenant on SPALI's debt obligations requires the company to maintain its total liabilities to equity (D/E) ratio below 2 times. The ratio at the end of June 2022 was 0.8 times. We believe the company should have no problems complying with the financial covenant over the next 12 months.

## BASE-CASE ASSUMPTIONS

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

- Total operating revenue in the THB30-THB35 billion per annum range with an EBITDA margin of around 28%-32%.
- SPALI to launch new residential property projects in 2022 worth THB40 billion, comprising new landed property projects worth THB35 billion and condominium projects worth THB5 billion. During 2023-2024, SPALI to launch new residential property projects worth THB38 billion annually.
- Annual budget for land acquisition to be THB8-THB10 billion.
- Foreign Investment is set to be THB4-THB4.4 billion per annum.
- No further reselling of stock from the share repurchase project.

## RATING OUTLOOK

The "stable" outlook reflects our expectation that SPALI to deliver strong operating performance and solid financial profile as targeted. We expect SPALI to keep its debt to capitalization ratio below 50% and the FFO to debt ratio above 20% over the forecast period.

## RATING SENSITIVITIES

The rating and/or outlook could be revised upward if the company's operating performance and financial profile improve significantly, such that its EBITDA stays above THB10 billion and/or FFO to debt ratio stays above 40% for a sustained period. Larger revenue contributions from recurring-income assets will be a plus for the ratings or outlook. On the contrary, a rating and/or outlook downward revision could occur if the company's profitability and/or capital structure deteriorates considerably from our base-case forecast.

## COMPANY OVERVIEW

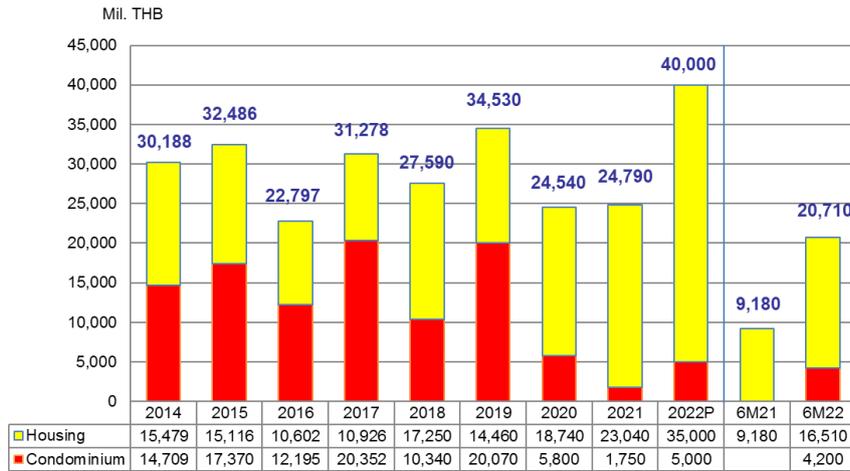
Established by the Tangmatitham family in 1989, SPALI is one of Thailand's leading property developers. As of August 2022, the Tangmatitham family, the largest shareholder, held a 32% stake in SPALI. The company offers a wide range of residential property products including single detached houses (SDHs), semi-detached houses (semi-DHs), townhouses, and condominiums. Its products, which target the middle-income segment, are located in a number of major cities in Thailand.

SPALI has explored investment opportunities abroad since 2013. It is currently investing in joint ventures with local residential property developers in Australia. However, SPALI's foreign investments account for only 8% of total assets. The shares of profits and losses from foreign investments also play a minor role in SPALI's overall performance.

As of June 2022, SPALI had more than a hundred active projects. The value of unsold units was approximately THB90.78 billion. About 61% of the value was in housing projects and the remainder in condominium projects. The backlog was sizable, standing at about THB28 billion.

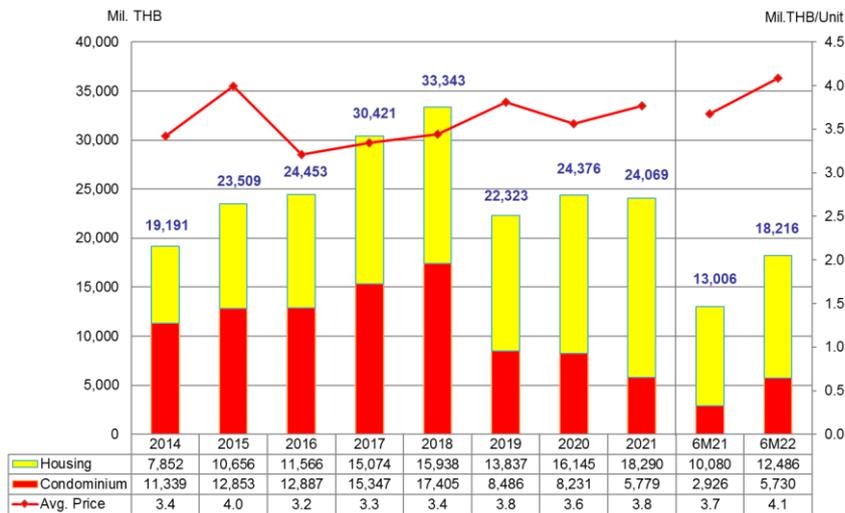
**KEY OPERATING PERFORMANCE**

**Chart 1: New Residential Project Launches**



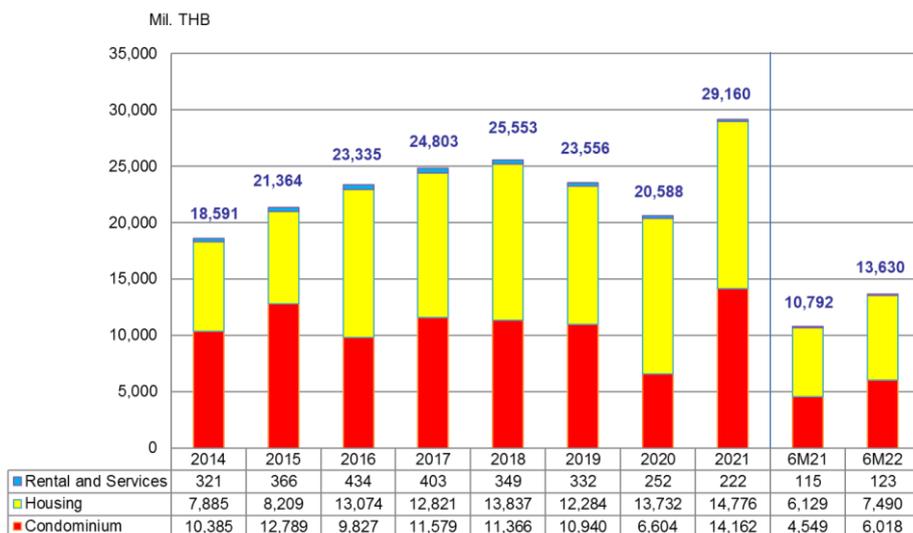
Source: SPALI

**Chart 2: Presales Performance**



Source: SPALI

**Chart 3: Revenue Breakdown**



Source: SPALI

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	13,630	29,160	20,588	23,557	25,553
Earnings before interest and taxes (EBIT)	4,657	10,090	6,331	7,659	8,231
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,661	10,037	6,501	7,615	8,100
Funds from operations (FFO)	3,617	7,816	4,848	5,921	6,327
Adjusted interest expense	120	308	462	355	426
Real estate development investments	66,318	62,104	59,945	53,535	50,543
Total assets	81,085	71,432	68,207	60,511	57,704
Adjusted debt	25,609	18,286	20,005	12,737	13,450
Adjusted equity	44,152	42,926	37,396	37,849	34,722
<b>Adjusted Ratios</b>					
EBITDA margin (%)	34.19	34.42	31.58	32.32	31.70
Pretax return on permanent capital (%)	16.08 **	16.54	11.44	15.10	16.77
EBITDA interest coverage (times)	38.75	32.59	14.07	21.46	19.00
Debt to EBITDA (times)	2.30 **	1.82	3.08	1.67	1.66
FFO to debt (%)	34.35 **	42.74	24.23	46.49	47.04
Debt to capitalization (%)	36.71	29.87	34.85	25.18	27.92

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

## RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

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**Supalai PLC (SPALI)**

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<b>Company Rating:</b>	A
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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