TRIS RATING
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UNIVENTURES PLC

CORPORATES

Company Rating:	BBB
Outlook:	Stable

Last Review Date: 24/09/19

Company Rating History:

Date	Rating	Outlook/Alert
24/09/19	BBB	Stable
01/03/19	BBB+	Alert Negative
08/09/16	BBB+	Stable
01/12/14	BBB	Positive
10/09/13	BBB	Stable
11/09/12	BBB	Alert Developing
17/10/08	BBB	Stable
13/06/07	BBB	Alert Developing
03/11/05	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Univentures PLC (UV) at "BBB" with a "stable" rating outlook. The rating reflects UV's smaller business scale after divesting its shareholdings in Golden Land Property Development PLC (GOLD). The ratings also reflect its acceptable track record in the condominium segment and exposure to the volatile and lower profitability of its zinc oxide and property for sale businesses. UV's leverage also dropped sharply after the divestment of GOLD. However, we expect UV's debt to capitalization ratio to rise again in fiscal year (FY) 2021 (October2020-September2021) as the company plans to launch more condominium projects and invest in rental assets. We expect the company to keep its debt to capitalization ratio below 45%.

The rating also takes into consideration our concerns over the adverse effects of the Coronavirus Disease 2019 (COVID-19), which could put more pressure on the domestic economy and demand for condominiums in the short to medium term.

KEY RATING CONSIDERATIONS

Smaller business scale, less diversified business portfolio

UV's business scale contracted after divesting GOLD. Also, UV's business portfolio became less diversified, as GOLD's portfolio covers landed properties for sale, three office buildings for rent, three hotels, and one joint venture mixed-use project. Without GOLD, UV's revenue will be derived mainly from the sales of condominiums and zinc oxide business. During FY2017-FY2019, revenues from condominium sales were around THB3-THB3.5 billion per annum while revenues from the zinc oxide business were around THB1.2-THB2 billion per annum. Rental income from commercial properties will come from only one hotel, "Modena by Fraser" in Buriram, which is expected to generate revenue of around THB60 million per annum if not affected by the pandemic.

In our base case scenario, we expect the company to launch new condominium projects worth THB6 billion in FY2020, THB12 billion in FY2021, and THB7 billion in FY2022. UV's total operating revenues are expected to be THB4-THB5.8 billion per annum during FY2020-FY2022, down from around THB19 billion in FY2019. UV's earnings before interest, tax, depreciation, and amortization (EBITDA) is expected to drop to around THB400-THB600 million yearly during FY2020-FY2022 from around THB3.7 billion in FY2019.

Acceptable track record in condominium segment

We view UV's track record in the condominium segment as acceptable. Previously, UV's products focused on the middle-income condominium segment, with a unit price of THB2-THB4 million. Since FY2018 UV has launched several new projects under new brands and is expanding its condominium segment to cover a wider price range. Currently, the company has developed condominium projects under the new brands of "BLUE", "DENIM", "CIELA", "MAZARINE", and "ANIL". The selling prices range from THB80,000 per square metre (sq.m.) in the low-end segment to above THB200,000 per sq.m. in the high-end segment.

UV's condominium presales in FY2018 were THB4.7 billion, an increase from THB2 billion per annum on average over the past several years. However, due to a slowdown in domestic demand and the negative impacts of the COVID-19 pandemic, its presales dropped to THB2.9 billion in FY2019 and THB3 billion in the first nine months of FY2020. Revenue from its condominium projects was THB2.8-THB3.5 billion per annum during FY2017-FY2019. As of September 2020, UV had 11 existing condominium projects, with an unsold project value (including built and un-built units) of THB7.9 billion and total backlog of THB3.3 billion. UV will deliver its backlog worth THB900 million in FY2021 and THB2.4 billion in FY2022. We forecast UV's revenue from residential sales, mostly from ready to move condominium projects, will be around THB2.8-THB4 billion per annum during FY2020-FY2022. We assume UV's residential sales will remain a major contributor accounting for 65%-75% of total operating revenue.

Exposure to volatile, lower profit margins of zinc oxide and property businesses

After divesting GOLD, revenue from the zinc oxide business will constitute the significant proportion of UV's total operating revenues. TRIS Rating forecasts revenue from zinc oxide sales to stay in the range of THB1-THB1.5 billion per annum during FY2020-FY2022, or around 25%-30% of total operating revenues. However, the operating performance of the zinc oxide business can fluctuate depending on the demand-supply balance in the industry and the selling price. Revenue from zinc oxide sales peaked at THB2 billion in FY2018, up from THB1.1-THB1.3 billion per annum during FY2014-FY2017. However, the global trade tensions in 2019 and the COVID-19 pandemic during the first nine months of FY2020 caused the revenue to fall to THB1.5 billion and THB0.8 billion, respectively. The gross profit margin also fluctuated, ranging from 3%-14% based on the zinc price on the London Metal Exchange (LME) market, while the gross profit margin in FY2020 is expected to be around 1.5%-2%.

UV's EBITDA margin was 17%-19% during FY2017-FY2019, supported by high EBITDA margin of 20% made by GOLD, which remained above the industry average of 15%. Going forward, UV's profitability is expected to be lower than the past several years due to the lower profit margins from both condominium and zinc oxide businesses. UV's profitability could be pressured by rising land costs and more intense competition in the condominium segment as well as the price volatility of zinc oxide. However, we expect UV can maintain its EBITDA margin at around 10% during FY2020-FY2022.

Concerns over softening demand and impacts of COVID-19

The residential property market closely follows trends in the domestic economy. However, the volatility in this market is much more pronounced than in the overall economy. A prolonged outbreak of the COVID-19 could cause a severe economic downturn and further suppress market demand. In addition, the number of non-performing mortgage loans (NPL) could rise further. The weakening purchasing power of homebuyers and stringent bank lending policies have been the key factors affecting the demand for residential properties, especially among UV's main customers in the middle- to low-income segments. With this backdrop, UV needs to be more cautious in launching new projects as well as screening its customers.

Temporary drop in debt level

We project UV's leverage to drop temporarily after the divestment of 39.2% of shareholding in GOLD. Proceeds from sales amounted to THB7.7 billion and UV has recorded a gain on its divestment of THB1.3 billion in the last quarter of FY2019. Proceeds from the divestment were used to pay dividend and repay some debts. As of June 2020, the company's adjusted net debt (net of excess cash) was THB2.49 billion. Its debt to capitalization was 21.1%. However, the company's leverage is expected to rise again as it plans to launch more condominium projects and invest in other businesses.

During FY2020-FY2022, UV plans to invest in a new office for rent in Thonglor and to expand its zinc oxide factory. However, due to the COVID-19, the expand factory project have been postponed. Despite its expansion plan, TRIS Rating expects UV to keep its debt to capitalization ratio below 45% over the next three years. UV is on process to invest in new businesses. However, the type of business, investment size, and timing will be determined later. In the case that the new business acquisition succeeds, UV's business and financial profiles may significantly differ from the projection. Thus, TRIS Rating will have to reassess the credit risk profile of the company once the acquisition has been executed.

Adequate liquidity

We assess UV to have adequate liquidity over the next 12 months. As of June 2020, UV's sources of funds consisted of THB2.9 billion in cash on hand plus undrawn short-term loans of THB2.1 billion. We forecast UV's funds from operations (FFO) over the next 12 months to be around THB200-TH300 million. Debts due over the next 12 months will amount to THB2.8 billion, comprising THB2.5 billion in short-term loans and THB0.3 billion in project loans. We expect UV to be able to roll over short-term loans or repay them within the next 12 months. Project loans will be repaid with cash flow from the transfers of condominium units.

UV has to keep its total liability to total equity ratio (excluding deferred income) below 2 times in order to comply with the financial covenants on its bank loans and bonds. As of June 2020, this ratio was 0.6 times. We believe that UV should have no problems complying with the financial covenants over the next 12-18 months.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for 2020-2022:

- UV to launch new condominium projects worth THB6 billion in FY2020, THB12 billion in FY2021, and THB7 billion in FY2022.
- Total operating revenue to be THB4-THB4.3 billion per annum during FY2020-FY2021 and THB5.8 billion in FY2022.
- Budget for land acquisition forecast to be THB443 million in FY2020 and THB1.5-THB2 billion per annum during FY2021-FY2022.
- Capital expenditures for rental property and zinc oxide businesses to be around THB1 billion during FY2020-FY2022.

RATING OUTLOOK

The "stable" outlook reflects our expectation that UV will be able to sustain its operating performance as targeted. Despite more intense competition and slow market demand in the condominium segment, we expect UV to keep its EBITDA margin around 10% during FY2020-FY2022. UV's debt to capitalization ratio is expected to stay below 45% over the next three years.

RATING SENSITIVITIES

UV's rating and/or outlook could be revised downward should its operating performance and/or financial profile significantly deteriorate from the target levels. UV's ratings and/or outlook could be negatively impacted by its aggressive expansion, should its debt to capitalization ratio rise above 55% on a sustained basis. Conversely, UV's future outlook could be revised upward if the company's business scale becomes significantly larger while its leverage does not significantly deviate from the target level.

COMPANY OVERVIEW

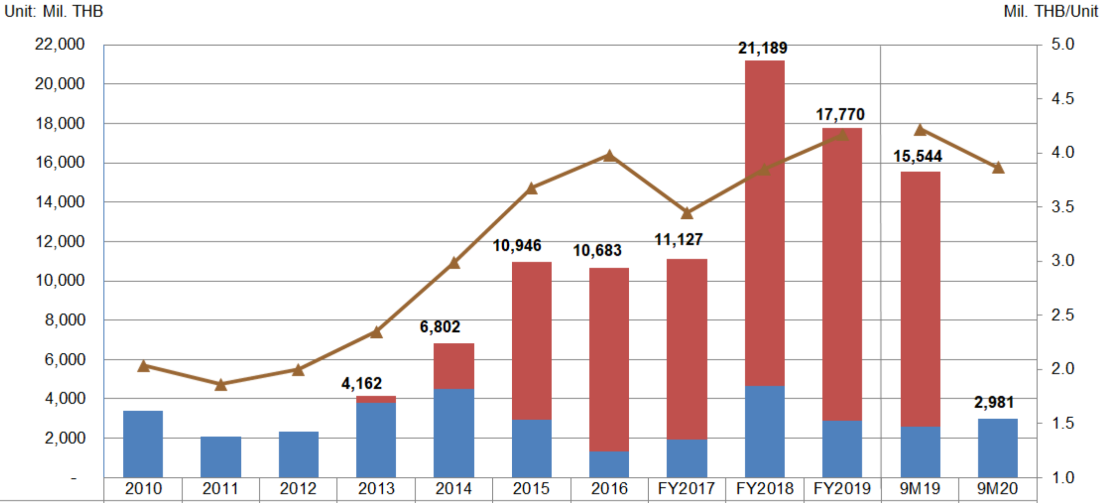
UV was founded in August 1980 to manufacture and distribute zinc oxide products. The company was listed on the Stock Exchange of Thailand (SET), in the petrochemical and chemical sector, in December 1988. UV shifted its business focus to property development and moved to the SET property development sector in September 2006. In mid-2007, Adelfos Co., Ltd. acquired 51.6% of UV's shares and became the controlling shareholder. Adelfos is owned by members of the Sirivadhanabhakdi family, which owns the TCC Group, a leading Thai conglomerate. As of June 2020, Adelfos held a 54% stake in UV together with Siribhakditham Co., Ltd. held a 12%. In total, Sirivadhanabhakdi family held 66% in UV's stake.

After the change of its major shareholder, UV increased its stake in Grand Unity Co., Ltd., UV's investment arm in the condominium segment. UV continued to expand its residential property portfolio to the landed property segment by acquiring a 50.64% stake in GOLD in late 2012 and buying all stakes of Krungthep Land PLC (KLAND) in 2014. In 2016, GOLD increased capital via private placement to Frasers Property Holdings (Thailand) Co., Ltd. (FPHT) in the amount of THB5 billion, with UV's stake in GOLD diluted to 39.2%. At the beginning of August 2019, UV divested its stake in GOLD to Frasers Property (Thailand) PLC (FPT). UV is now a holding company. Its existing portfolio comprises condominiums for sale, one hotel, its zinc oxide business, and other businesses.

Based on our assumption, UV's revenue contribution from condominium projects will be 65%-75% of total operating revenue over the next three years. Revenue contribution from the zinc oxide business will be 20%-30%. Revenue from other businesses will be negligible.

KEY OPERATING PERFORMANCE

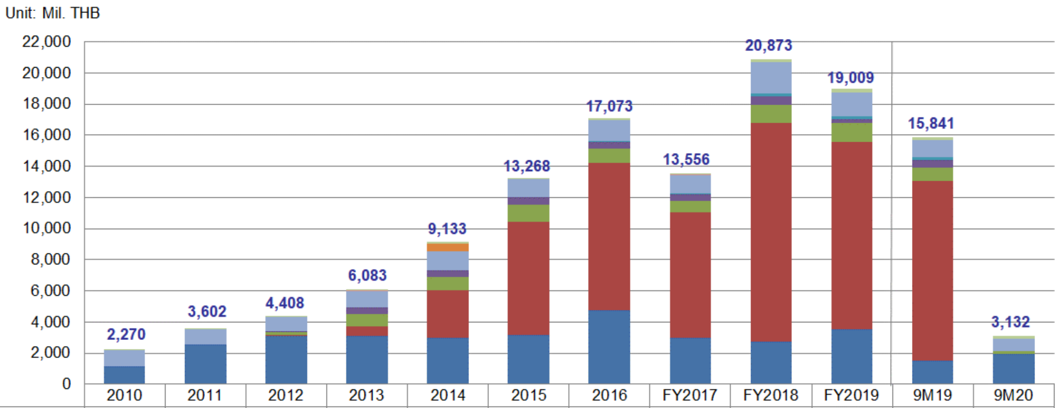
Chart 1: Presales Performance



	2010	2011	2012	2013	2014	2015	2016	FY2017	FY2018	FY2019	9M19	9M20
Housing (LHS)				382	2,301	8,003	9,369	9,210	16,513	14,865	12,954	-
Condominium (LHS)	3,395	2,077	2,338	3,779	4,501	2,944	1,313	1,916	4,676	2,906	2,589	2,981
Avg. Price (RHS)	2.0	1.9	2.0	2.3	3.0	3.7	4.0	3.4	3.9	4.2	4.2	3.9

Source: UV

Chart 2: Revenue Breakdown



	2010	2011	2012	2013	2014	2015	2016	FY2017	FY2018	FY2019	9M19	9M20
Others	72	58	63	59	105	102	116	97	182	253	152	204
Golf Course Operation			2	22	19	17	21	17	27	27	25	-
Land Plot Sale					443							
Zinc Oxide	1,059	986	961	1,057	1,242	1,142	1,291	1,161	2,004	1,493	1,095	787
Management Fee Income							91	92	161	209	181	14
Serviced Apt. & Hotel			40	420	408	479	449	394	551	217	460	24
Office		13	200	781	873	1,067	868	767	1,136	1,266	844	130
Housing			29	622	3,072	7,305	9,479	8,070	14,053	12,042	11,591	-
Condominium	1,139	2,545	3,113	3,123	2,971	3,157	4,757	2,957	2,759	3,502	1,493	1,972

Source: UV

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Oct. 2019- Jun. 2020	-------------Year Ended 30 Sep --------- FY2019	FY2018	FY2017	31 Dec 2016
Total operating revenues	3,222	19,207	20,929	13,637	17,204
Earnings before interest and taxes (EBIT)	258	2,778	2,812	1,846	2,325
Earnings before interest, tax, depreciation, and amortization (EBITDA)	463	3,741	3,563	2,497	3,042
Funds from operations (FFO)	261	2,090	2,491	1,949	2,284
Adjusted interest expense	164	682	478	218	374
Real estate development investments	9,945	10,230	30,375	20,964	19,415
Total assets	17,896	19,515	51,794	41,650	38,897
Adjusted debt	2,493	129	17,685	9,316	8,144
Adjusted equity	9,324	11,152	19,889	18,278	17,518
Adjusted Ratios					
EBITDA margin (%)	14.38	19.48	17.03	18.31	17.68
Pretax return on permanent capital (%)	2.74 **	10.19	8.24	6.64 **	8.48
EBITDA interest coverage (times)	2.83	5.48	7.45	11.47	8.14
Debt to EBITDA (times)	1.77 **	0.03	4.96	3.73 **	2.68
FFO to debt (%)	25.51 **	1,623.95	14.08	20.93 **	28.04
Debt to capitalization (%)	21.10	1.14	47.07	33.76	31.74

* *Consolidated financial statements*
** *Annualized*

RELATED CRITERIA

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

Univentures PLC (UV)

Company Rating:	BBB
Rating Outlook:	Stable

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