TRIS RATING
A Strategic Partner of S&P Global

CreditNews ข่าวเครดิต

PRUKSA REAL ESTATE PLC

No. 53/2018
27 April 2018

CORPORATES

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
Outlook:	Stable

Company Rating History:

Date	**Rating**	**Outlook/Alert**
14/08/12	A	Stable
24/11/11	A	Negative
07/05/10	A	Stable
30/06/09	A-	Positive
25/06/08	A-	Stable
18/04/06	BBB+	Positive
12/07/04	BBB	Stable
31/07/03	BBB	
19/06/03	BBB	
05/02/02	BB+	

Contacts:

Jutamas Bunyawanichkul
jutamas@trisrating.com

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Rapeepol Mahapant
rapeepol@trisrating.com

Suchada Pantu, Ph. D.
suchada@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating of Pruksa Real Estate PLC (PS) and the ratings of PS's senior unsecured debentures at "A". The ratings reflect PS's leading position in the residential property market in terms of revenue and profitability, its diversified product portfolio, cost competitiveness, and large backlog, which partly secures the company's future revenue stream. The ratings also take into consideration the company's moderate financial leverage level, the cyclicality and competitive environment in the residential property development business, and the concern over the high level of household debt nationwide which impacts the affordability of homebuyers, especially in the middle- to low-income segments.

KEY RATING CONSIDERATIONS

Leading property developer in terms of revenue and profitability

PS's proven track record is underpinned by its strong operating performance. Presales increased to Bt47,536 million in 2017 from Bt44,414 million in 2016 and Bt42,386 million in 2015, supported by growth in the condominium segment. Presales from condominium projects grew from Bt11,497 million in 2016 to Bt18,093 million in 2017. Presales from townhouse and single detached house (SDH) projects in 2017 decreased by 6% year-on-year (y-o-y) and 20% y-o-y, respectively. Presales during the first three months of 2018 totaled Bt12,696 million, a 5% y-o-y drop.

PS's revenue has ranked highest among all leading property developers in Thailand over the past five years. Its revenue reached a record high of Bt51,240 million in 2015, but declined to Bt46,926 million in 2016 and Bt43,935 million in 2017. The drop was due to lower revenue from the condominium projects. Revenue from landed property projects has been stable at around Bt23,000 million per annum for townhouse projects and around Bt9,000-Bt10,000 million per annum for SDH projects during the past three years. Going forward, PS's revenue over the next three years is expected to stay above Bt45,000 million per annum. The townhouse segment will remain a major contributor of total revenue.

PS's operating profit margin, as measured by operating income before depreciation and amortization as a percentage of sales, stayed at 20%-21% during 2013-2015. Its operating profit margin decreased to 17%-18% during 2016-2017 due to higher spending on advertising and selling expenses to boost presales. However, the ratio remained higher than the industry average of around 15%. Under TRIS Rating's base case scenario, PS's profitability may be threatened by the intense competition among large property developers and rising land costs. Nonetheless, the company should be able to keep its operating profit margin at least 15% over the next three years.

Diversified product portfolio, with well-accepted brands in the middle-to-low priced townhouse segment

PS's product portfolio is well-diversified, covering various product types and price points. Currently, townhouse products cover the low- to middle-end segments, with selling prices ranging from Bt1-Bt5 million per unit. PS's townhouse units mainly focus on the Bt2-Bt3 million per unit segment under the Baan Pruksa and Pruksa Ville brands. PS's SDH unit prices range from Bt3 million to Bt25 million. Most of the SDH projects are developed under the Pruksa Village, Passorn, and The Plant brands, targeting the Bt3-Bt5 million per unit segment. PS's condominium projects cover the low- to high-end segments, with selling prices ranging from Bt30,000 to Bt250,000 per square meter (sq.m.). Its condominium products primarily target the Bt1-Bt3 million per unit segment under the Plum Condo and The Privacy brands and the Bt3-Bt5 million per unit segment under The Tree and Ivy brands. PS is adding more premium condominium projects in order to enlarge its condominium portfolio and meet market demand.

As of March 2018, PS had a large project portfolio, with around 200 existing projects. Landed property projects (including townhouse and SDH projects) accounted for around 70% of the total portfolio value, while condominium projects accounted for the remainder. The value of the remaining unsold units (including built and un-built units) across PS's portfolio was around Bt97,000 million. The total backlog was valued at around Bt31,000 million and partly secures PS's future revenue stream during the remainder of 2018 through 2020.

Cost competitiveness from large precast production volumes and self-managed construction

PS employs precast and prefabrication technologies to control its construction costs and shorten the construction periods for its projects. By coupling these construction technologies with its sizable production volume, PS has been one of the low-cost producers in the residential property development industry. The company can offer residential units at competitive prices and increase its production turnover. PS uses precast materials for its townhouse, SDH, and condominium projects. The company manages the whole construction process for its townhouse projects by using in-house construction teams. PS uses in-house construction teams for SDH projects in the Bt3-Bt5 million price range, the demand of which is cost sensitive. The company outsources contractors to develop SDH projects in the Bt5-Bt10 million price range in order to lower overhead costs and selling, general, and administration (SG&A) expenses of in-house teams. For condominium projects, PS both employs in-house construction teams and outsources contractors to develop the projects.

Aggressive business expansion while keeping financial leverage below 50%

In 2017, PS spent Bt14,000 million to acquire land plots and launch 56 residential projects worth Bt59,000 million. PS's budget for land acquisition will be Bt16,000 million in 2018. The company plans to launch 77 new projects worth Bt67,800 million this year, a record high for the company. Around 60% of the new projects will be townhouse products. PS will build more ready-to-move townhouse units in order to lower backlog and rejection rates from banks. The company plans to expand its townhouse portfolio to the segment above Bt5 million under The Connect and Patio brands this year. In addition, PS expects to generate more revenue from SDH projects as the company plans to open 21 new SDH projects in 2018, more than double from last year. PS will employ its prebuilt strategy for the Bt3-Bt5 million segment in SDH projects to shorten the booking-to-transfer period and decrease cancellation rates from homebuyers. The company will also offer more SDH units with the unit price range of Bt5-Bt10 million to capture demand in this market. PS plans to consistently launch condominium projects over the next three years in order to stabilize revenue recognition from its condominium portfolio.

Despite its aggressive project expansion, PS's need for capital to pursue its growth plan remains moderate as around 70% of its total project portfolio is landed property projects, which require lower capital investments and have faster business cycle times than condominium projects. As of December 2017, PS's debt to capitalization ratio was 43%. Over the next three years, TRIS Rating expects the company to remain the debt to capitalization ratio below 50%.

Exposed to cyclicality 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. Slow recovery in the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the affordability of homebuyers, especially in the middle- to low-income segments. Thus, several property developers have shifted their focus toward the higher-income segment, making competition in this segment more intense due to more supply in the market. PS also plans to launch more landed property and condominium projects in the high-end segments in order to enlarge its market share in this segment.

Acceptable liquidity profile

PS's liquidity is acceptable. At the end of December 2017, the company had Bt1,309 million in cash plus undrawn committed credit facilities from financial institutions of around Bt10,000 million. Funds from operations (FFO) over the next 12 months are forecast at a minimum of Bt5,000 million. Debt due over the next 12 months amounts to Bt11,970 million, comprising Bt6,000 million in debentures, Bt4,498 million in short-term loans from banks, and Bt1,472 million in short-term loans from the holding company.

After the reorganization of the Group, Pruksa Holding PLC (PSH) will be responsible for the investments and financial management of the whole group. As a result, subsequent debentures will be issued by the holding company and lent to its subsidiaries. Going forward, PS's bonds coming due will be refinanced by new bonds issued by the holding company. Short-term loans will either be rolled over or repaid. PS normally uses short-term loans in order to lower cost of funds. However, PS intends to have back-up facilities and cash flow from operations to cover all short-term debt repayments.

According to the key financial covenants on its debentures, PS has to maintain its interest-bearing debt to equity ratio lower than 2 times. The ratio at the end of December 2017 was 0.8 times. Thus, the company was in compliance with its financial covenants. TRIS Rating believes that PS should have no problem complying with its financial covenant over the next 12 to 18 months.

RATING OUTLOOK

The "stable" outlook reflects the expectation that PS will be able to sustain its operating performance over the next three years. The company should be able to deliver a large number of the units in its backlog as scheduled. Despite more intense competition in the residential property market, PS is expected to keep its operating profit margin of at least 15%. The total debt to capitalization ratios of PS and PSH should stay below 50%.

RATING SENSITIVITIES

PS's future outlook will depend not only on its performance but also on the financial position of the Group. A successful diversification into new businesses will be positive for the Group. On the contrary, the ratings of PS will be negatively affected if the investment in new businesses by the holding company drags down the financial position of the Group.

COMPANY OVERVIEW

PS was founded in 1993 by Mr. Thongma Vijitpongpun and listed on the Stock Exchange of Thailand (SET) in December 2005. After the completion of the tender offer following the restructuring plan in November 2016, PSH became the major shareholder of PS. On 1 December 2016, PSH's securities were listed on the SET in place of PS's shares, whose securities were delisted from the SET simultaneously. As of March 2018, the Vijitpongpun family was PSH's largest shareholder, owning a 75% stake. PSH holds a 98.23% stake in PS.

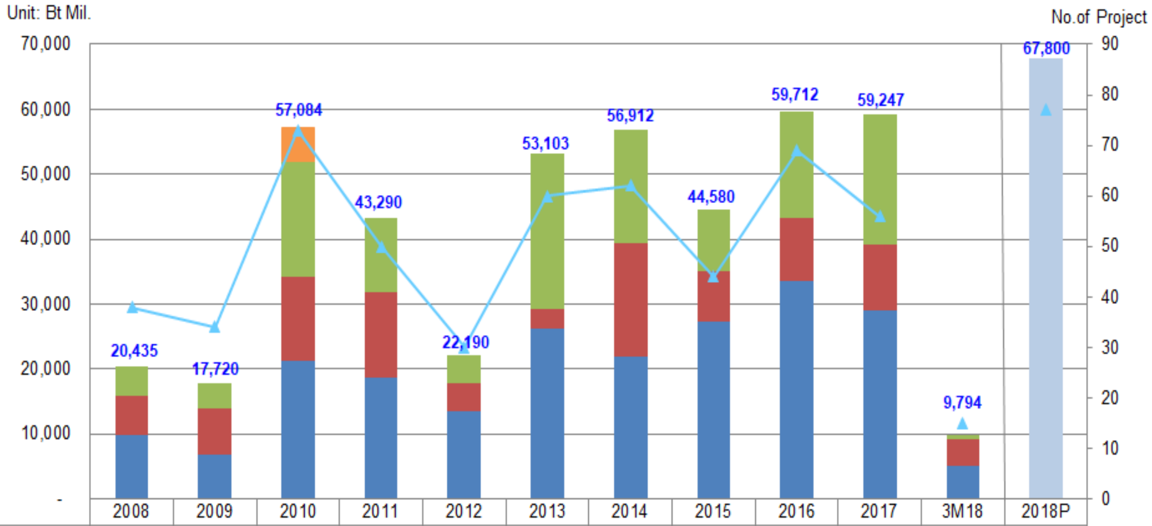
After the reorganization, PS retained its focus on residential real estate for sale. All operating assets and key members of the management team remain intact. Since the residential property business will continue to be the major revenue contributor to the Group over the next several years, PS is considered as a "core" subsidiary of the Group. Thus, the issuer ratings of PS and the Group will be equivalent. The new structure under PSH will provide more flexibility for the Group to expand into new businesses and facilitate alliances with strategic partners.

PS is the leader in employing precast and prefabrication techniques for constructing its residential projects. The company owns precast factories and manages the construction of most residential projects by itself. PS's main focus is the middle-to low-end segment of the residential property market. Furthermore, PS is expanding its product portfolio into the high-end segment, the demand of which remains healthy.

As of March 2018, PS had a sizable project portfolio worth around Bt200,000 million with 58% sold. Townhouse projects accounted for 45% of the total portfolio, followed by SDH units (28%) and condominiums (27%). The average price per unit, across the entire portfolio, was Bt2.8 million. Townhouse units are the largest source of revenue, constituting around half of total revenue for the past several years. Revenue from condominium and SDH units contributed around 30% and 20%, respectively, of revenue during the past three years.

KEY OPERATING PERFORMANCE

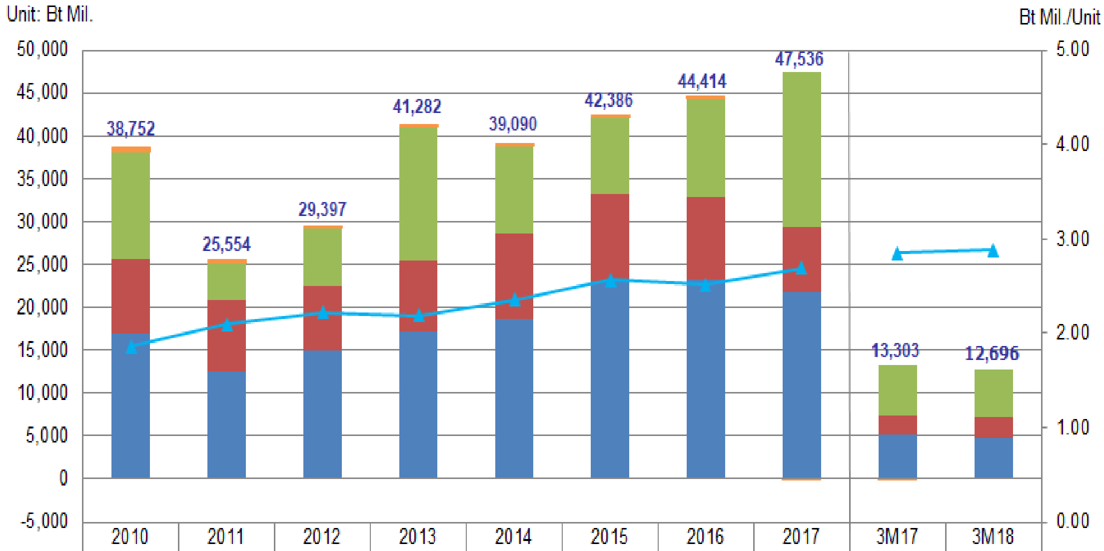
Chart 1: New Residential Project Launches



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	3M18	2018P
International (LHS)			5,170									
Condominium (LHS)	4,652	3,819	17,703	11,418	4,435	23,897	17,481	9,611	16,363	20,125	509	
SDH (LHS)	5,915	7,103	12,910	13,200	4,322	2,996	17,509	7,598	9,763	10,180	4,233	
Townhouse (LHS)	9,868	6,798	21,301	18,672	13,433	26,210	21,922	27,371	33,586	28,942	5,053	
No. of project (RHS)	38	34	73	50	30	60	62	44	69	56	15	77

Source: PS

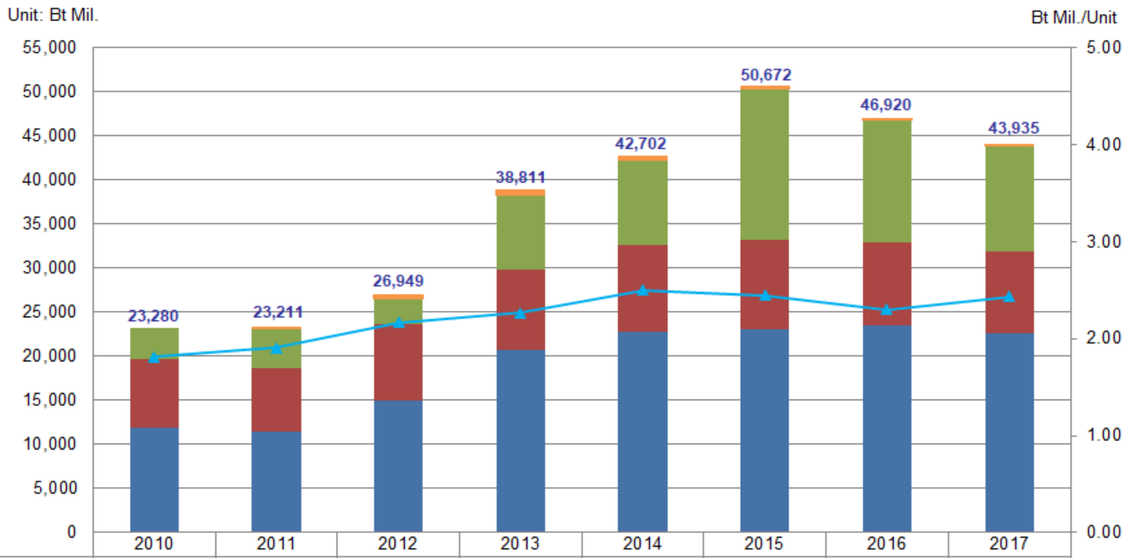
Chart 2: Presales Performance



	2010	2011	2012	2013	2014	2015	2016	2017	3M17	3M18
International (LHS)	698	378	116	227	232	241	72	(1)	-1	
Condominium (LHS)	12,340	4,265	6,730	15,502	10,190	8,950	11,497	18,093	5,943	5,450
SDH (LHS)	8,682	8,435	7,655	8,355	10,039	10,119	9,643	7,693	2,214	2,459
Townhouse (LHS)	17,032	12,476	14,896	17,198	18,630	23,075	23,202	21,751	5,146	4,787
Avg. Price (RHS)	1.9	2.1	2.2	2.2	2.4	2.6	2.5	2.7	2.9	2.9

Source: PS

Chart 3: Transfer Performance



	2010	2011	2012	2013	2014	2015	2016	2017
International (LHS)		81	429	497	441	278	129	13
Condominium (LHS)	3,608	4,487	2,837	8,450	9,694	17,236	13,849	12,068
SDH (LHS)	7,723	7,140	8,775	9,195	9,776	10,135	9,413	9,159
Townhouse (LHS)	11,948	11,503	14,908	20,669	22,791	23,023	23,529	22,694
Avg. Price (RHS)	1.8	1.9	2.2	2.3	2.5	2.4	2.3	2.4

Source: PS

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	----------------------- Year Ended 31 December -----------------------				
	2017	2016	2015	2014	2013
Revenue	43,935	46,926	51,240	42,781	38,848
Gross interest expense	765	803	1,039	1,105	1,090
Net income from operations	5,605	6,108	7,680	6,655	5,802
Funds from operations (FFO)	6,046	6,449	8,317	7,287	6,333
Inventory investment	(3,785)	(1,770)	(2,976)	(4,491)	(10,649)
Total assets	71,228	66,382	65,309	61,029	56,194
Total debts	27,470	23,548	24,783	24,395	24,160
Shareholders' equity	36,155	36,203	34,218	29,707	24,933
Operating income before depreciation and amortization as % of sales	17.53	17.22	19.56	20.93	20.07
Pretax return on permanent capital (%)	12.73	14.06	18.34	18.30	18.92
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	10.88	10.96	10.40	8.86	7.91
FFO/total debt (%)	22.01	27.39	33.56	29.87	26.21
Total debt/capitalization (%)	43.17	39.41	42.00	45.09	49.21

* *Consolidated financial statements*

Pruksa Real Estate PLC (PS)

Company Rating:	A
Issue Ratings:	
PS185A: Bt3,000 million senior unsecured debentures due 2018	A
PS18NA: Bt1,000 million senior unsecured debentures due 2018	A
PS193A: Bt2,300 million senior unsecured debentures due 2019	A
PS199A: Bt1,700 million senior unsecured debentures due 2019	A
PS19NA: Bt2,400 million senior unsecured debentures due 2019	A
PS205A: Bt2,000 million senior unsecured debentures due 2020	A
PS207A: Bt2,600 million senior unsecured debentures due 2020	A
PS20NA: Bt2,500 million senior unsecured debentures due 2020	A
PS213A: Bt2,000 million senior unsecured debentures due 2021	A
Rating Outlook:	Stable

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