TRIS RATING
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CreditNews ข่าวเครดิต

PRUKSA REAL ESTATE PLC

No. 77/2019
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CORPORATES

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

Last Review Date: 27/04/18

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
19/06/03	BBB	-
05/02/02	BB+	-

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RATIONALE

TRIS Rating affirms the company rating on Pruksa Real Estate PLC (PS) and the ratings on PS's senior unsecured debentures at "A". The ratings reflect PS's leading position in the residential property market, diversified product portfolio, cost competitiveness, and large backlog partly securing 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 impact from the introduction of new loan-to-value (LTV) rules by the Bank of Thailand (BOT).

KEY RATING CONSIDERATIONS

Leading market position

TRIS Rating expects PS could maintain its strong market position in the residential property market over the next three years. PS's leading market position is underscored by its presales and transfer performance. Presales reached a record high of Bt51,101 million in 2018. Presales from townhouses contributed 45%-50% of total presales during 2016-2018, followed by condominiums (30%) and single-detached houses (SDH) (20%). Presales during the first three months of 2019 decreased by 12% year-on-year (y-o-y) to Bt11,178 million.

PS's total operating revenue has ranked highest among all leading residential property developers in Thailand for the past several years. Its operating revenue was in the range of Bt44,000-Bt47,000 million per annum during 2016-2018. Revenue from townhouse projects was Bt23,000 million per annum and revenue from SDH projects was Bt9,000 million per annum during the past three years. Revenue from condominium was Bt12,000-Bt14,000 million per year during 2016-2018. PS's total operating revenue grew by 42% y-o-y to Bt11,911 million in the first quarter of 2019. Under TRIS Rating's base case scenario, we expect PS's total operating revenue to stay around Bt45,000-Bt55,000 million per annum during 2019-2021. Revenue from PS's real estate business will remain a key contributor to the Group.

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

TRIS Rating views that PS's product portfolio is well-diversified in terms of product types and price ranges. The company offers townhouse, SDH, and condominium units to various segments. Townhouse products cover the low- to middle-end segments, with selling prices ranging around Bt1-Bt5 million per unit. PS's townhouse units mainly focus on the Bt1.5-Bt3 million per unit segment under the Baan Pruksa and Pruksa Ville brands. PS's SDH prices range from Bt3 million to Bt10 million per unit. Most 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 Bt40,000 to Bt280,000 per square meter (sq.m.). The company offers valued condominium projects under the Plum Condo, The Privacy, The Tree, and Ivy brands, with unit prices ranging from Bt1 million to Bt7 million. Its premium condominium projects are developed under the Chapter One, Chapter, and The Reserve brands, targeting the above Bt3 million per unit segment.

TRIS Rating views that PS's broad product range and well-accepted brands benefit the company in having the flexibility to adjust its portfolio to meet market demand and retain market position. As of March 2019, PS's portfolio consisted of around 200 active projects. Total unsold value of these projects was Bt95,000 million (including built and un-built units). Townhouse projects comprised 47% of total remaining value, while SDH and condominium projects constituted 28% and 25%, respectively. PS's backlog was worth Bt32,000 million at the end of March 2019. PS will deliver its backlog to customers, worth Bt18,000 million during the remainder of 2019, Bt7,200 million in 2020, and Bt7,400 million in 2021.

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

TRIS Rating expects that PS will be able to maintain its cost competitiveness from sizable precast production and self-managed construction. PS employs precast and prefabrication technologies to control construction costs and shorten the construction periods for its residential projects. The company also manages the whole construction process for all of its landed property projects and for some condominium projects. With these construction techniques and its large scale production volume, PS has been one of the lowest cost producers in the residential property development industry. Thus, PS can offer residential units at competitive prices while maintaining a favorable operating income.

PS's operating income was 18%-21% during 2016 through the first three months of 2019. The ratio has been higher than the industry average of around 15%. Going forward, PS's profitability may be threatened by the intense competition among large property developers and rising land costs. However, TRIS Rating expects PS to keep operating income at least 15%.

Exposure to cyclical and highly competitive residential property business

The residential property market closely follows the domestic economy. However, the volatility in this market is much more pronounced than in the overall economy. Slow recovery in the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the affordability of middle- to low-income homebuyers. In addition, the implementation of the new LTV rules by the BOT should impact the sales of condominium units in the short term. Under the new LTV rules, homebuyers can borrow up to 70%-80% of the collateral value, down from 90%-100%, for their second and subsequent mortgage loans. Therefore, PS may have to lengthen the down payment period for some homebuyers. The delay in transfer may impact the company's revenue recognition in the second half of 2019. However, we expect the lower LTV ratio for the second and subsequent mortgage loans should benefit developers in the long run.

The slow growth in the domestic market has driven the company to expand its foreign customer base. PS's sales to foreign buyers were around 30% of total condominium sales in 2018. Most foreign buyers are Chinese. However, slower growth in the Chinese economy and concerns over the global trade tension may negatively affect demand from foreign buyers. Thus, PS has to carefully manage new project launches to match the demand in each segment.

Moderate financial leverage

TRIS Rating forecasts that PS's debt to capitalization ratio may increase during 2019-2021 from business expansion in the residential property business. We assume the company to launch new landed property projects worth Bt30,000-Bt35,000 million per annum during 2019-2021. The company is expected to open new condominium projects worth Bt29,000 million in 2019 and Bt20,000 million per annum during 2020-2021. The budget for land acquisition is forecast to be Bt8,000 million in 2019 and Bt12,000 million per year during 2020-2021.

Despite its continued aggressive expansion, TRIS Rating expects PS to keep the debt to capitalization ratio below 50%, or the interest-bearing debt to equity ratio below 1 times over the next three years. As of March 2019, PS's debt to capitalization ratio was 40% and its interest-bearing debt to equity ratio was 0.66 times.

Adequate liquidity

PS's liquidity is adequate. At the end of March 2019, the company had Bt2,697 million in cash plus undrawn unconditional committed credit facilities from financial institutions of around Bt7,000 million. Funds from operations (FFO) over the next 12 months are forecast at Bt6,500 million. Debt due over the next 12 months will comprise Bt6,606 million in short-term loans from banks and Bt4,100 million in debentures. The company also has Bt9,790 million in short-term loans from the parent 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 reported interest-bearing debt to equity ratio at lower than 2 times. The ratio as of March 2019 was 0.71 times. Thus, the company was in compliance with its financial covenants. TRIS Rating believes that PS should have no problem complying with its financial covenants over the next 12 to 18 months.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base case forecast:

- PS will launch new landed property projects worth Bt30,000-Bt35,000 million per annum over the next three years as well as new condominium projects worth Bt29,000 million in 2019 and Bt20,000 million per annum during 2020-2021.
- Land acquisition is budgeted at Bt8,000 million in 2019 and Bt12,000 million per year during 2020-2021.
- Total operating revenue will stay above Bt45,000 million per annum, and the operating income is forecast to be at least 15%.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that PS will be able to sustain its operating performance during 2019-2021. 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, TRIS Rating expects PS to keep its operating income at least 15%. The company should maintain the debt to capitalization ratio below 50%.

RATING SENSITIVITIES

PS's future outlook will depend not only on its operating performance but also on the financial position of the Group. A successful diversification of the holding company into new businesses will be positive for the Group. On the contrary, the ratings on PS will be negatively affected if the investments in new businesses by its holding company drag 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 2019, the Vijitpongpun family was PSH's largest shareholder, owning a 75% stake. PSH holds a 98.23% stake in PS.

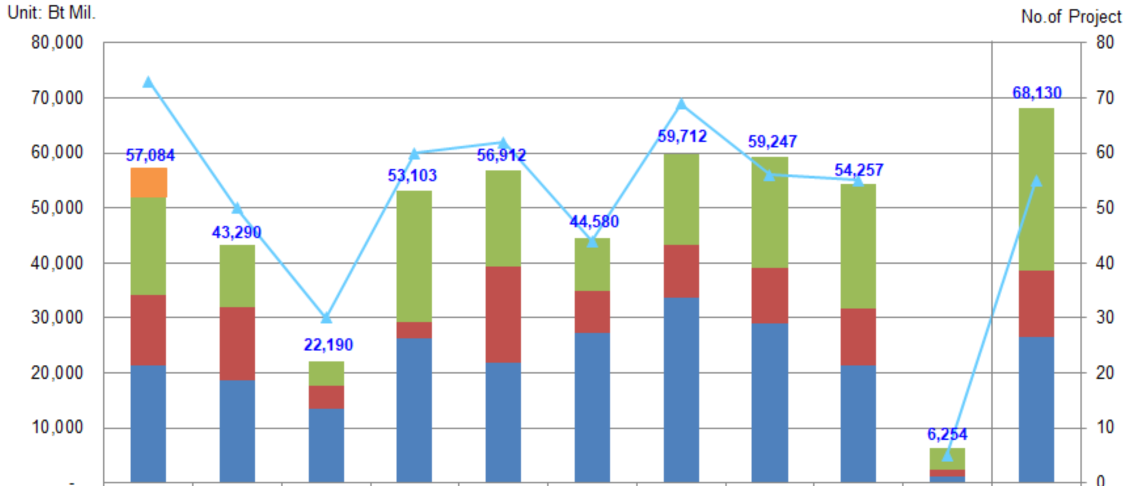
After the reorganization, PS retained its focus on residential real estate for sale. All operating assets and key members of the management team remain intact. Since the residential property business will continue to be the major revenue contributor to the Group over the next several years, PS is considered as a "core" subsidiary of the Group. Thus, the company ratings on PS and the Group are equivalent. The organizational 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.

As of March 2019, PS had a sizable project portfolio worth Bt230,000 million in total project value. Total project portfolio was 59% sold and 45% transferred. Townhouses remain the largest source of its income, constituting around half of total operating revenue for the past several years. Revenue from condominium and SDH contributed around 30% and 20%, respectively, during the past four years.

KEY OPERATING PERFORMANCE

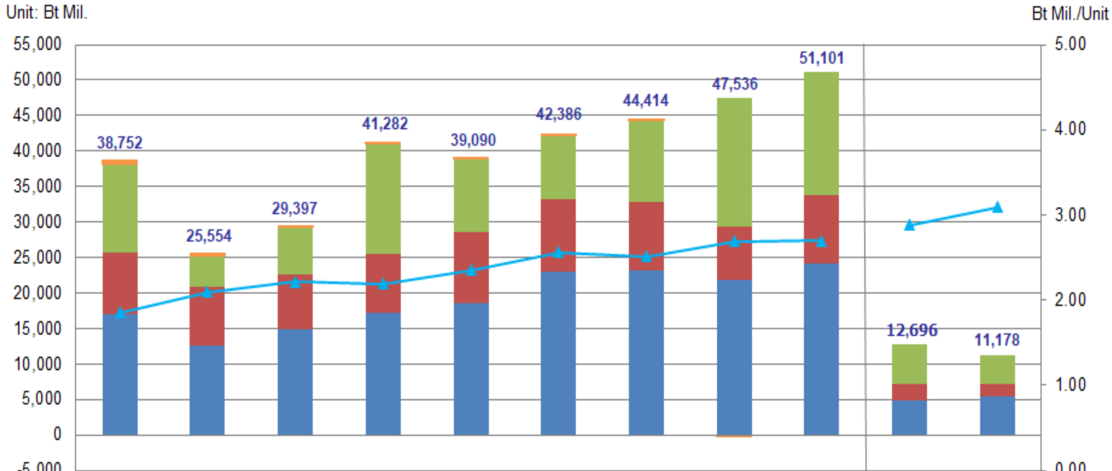
Chart 1: New Residential Project Launches



	2010	2011	2012	2013	2014	2015	2016	2017	2018	3M19	2019P
International (LHS)	5,170										
Condominium (LHS)	17,703	11,418	4,435	23,897	17,481	9,611	16,363	20,125	22,486	3,976	29,500
SDH (LHS)	12,910	13,200	4,322	2,996	17,509	7,598	9,763	10,180	10,311	1,176	12,100
Townhouse (LHS)	21,301	18,672	13,433	26,210	21,922	27,371	33,586	28,942	21,460	1,101	26,530
No. of project (RHS)	73	50	30	60	62	44	69	56	55	5	55

Source: PS

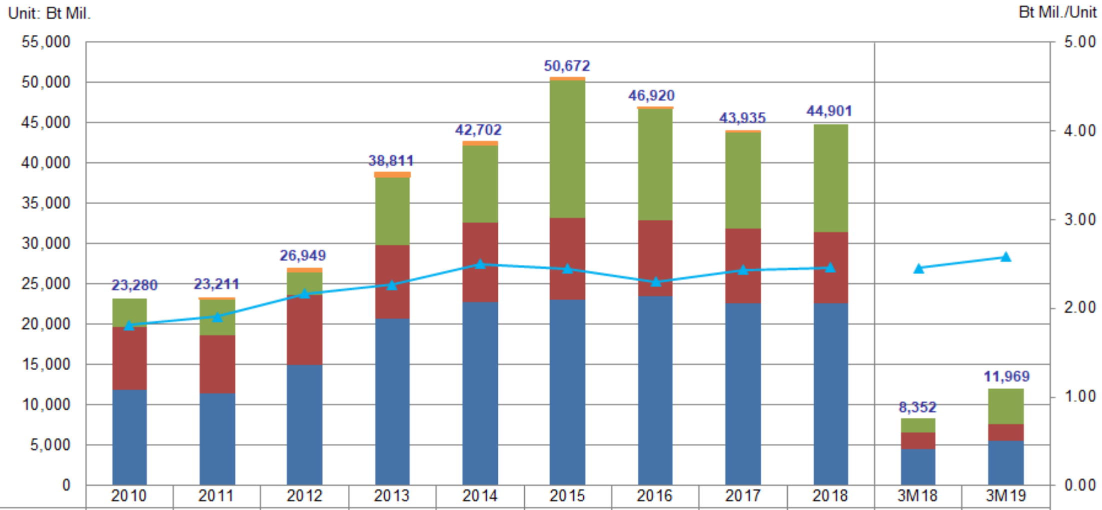
Chart 2: Presales Performance



	2010	2011	2012	2013	2014	2015	2016	2017	2018	3M18	3M19
International (LHS)	698	378	116	227	232	241	72	(1)			
Condominium (LHS)	12,340	4,265	6,730	15,502	10,190	8,950	11,497	18,093	17,228	5,450	3,959
SDH (LHS)	8,682	8,435	7,655	8,355	10,039	10,119	9,643	7,693	9,756	2,459	1,792
Townhouse (LHS)	17,032	12,476	14,896	17,198	18,630	23,075	23,202	21,751	24,118	4,787	5,428
Avg. Price (RHS)	1.9	2.1	2.2	2.2	2.4	2.6	2.5	2.7	2.7	2.9	3.1

Source: PS

Chart 3: Transfer Performance



	2010	2011	2012	2013	2014	2015	2016	2017	2018	3M18	3M19
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	13,411	1,817	4,276
SDH (LHS)	7,723	7,140	8,775	9,195	9,776	10,135	9,413	9,159	8,924	1,988	2,183
Townhouse (LHS)	11,948	11,503	14,908	20,669	22,791	23,023	23,529	22,694	22,566	4,547	5,510
Avg. Price (RHS)	1.8	1.9	2.2	2.3	2.5	2.4	2.3	2.4	2.5	2.5	2.6

Source: PS

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2019	--------------Year Ended 31 December ----------- 2018	2017	2016	2015
Total operating revenues	11,911	45,076	44,129	47,172	51,421
Operating income	2,515	8,642	7,964	8,456	10,502
Earnings before interest and taxes (EBIT)	2,454	8,453	7,887	8,361	10,517
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,652	9,158	8,395	8,930	11,077
Funds from operations (FFO)	1,942	6,706	6,019	6,634	8,222
Adjusted interest expense	212	902	794	818	1,058
Real estate development investments	72,094	71,960	63,791	59,838	57,590
Total assets	82,182	80,503	71,228	66,382	65,309
Adjusted debt	27,764	29,665	27,083	23,189	23,646
Adjusted equity	41,967	40,208	36,155	36,203	34,218
Adjusted Ratios					
Operating income as % of total operating revenues (%)	21.12	19.17	18.05	17.93	20.42
Pretax return on permanent capital (%)	13.61 **	12.45	12.65	13.98	18.45
EBITDA interest coverage (times)	12.51	10.15	10.58	10.92	10.47
Debt to EBITDA (times)	2.68 **	3.24	3.23	2.60	2.13
FFO to debt (%)	27.49 **	22.61	22.22	28.61	34.77
Debt to capitalization (%)	39.82	42.46	42.83	39.04	40.86

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015
- Rating Methodology – Corporate, 31 October 2007

Pruksa Real Estate PLC (PS)

Company Rating:	A
Issue Ratings:	
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

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