SC ASSET CORPORATION PLC

No. 121/2017 29 September 2017

Company Rating: BBB+

Issue Ratings:
Senior unsecured BBB+

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
04/08/11	BBB+	Stable

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Rating Rationale

TRIS Rating affirms the company rating and the ratings of senior unsecured debentures of SC Asset Corporation PLC (SC) at "BBB+". The ratings reflect SC's acceptable track record in the middle- to high-end segments of the residential property market, reliable cash flow streams from the rental property segment, and steadily growing revenues. These strengths are partially offset by relatively high financial leverage and a small backlog, which might limit revenue in 2017. The ratings also take into consideration the cyclical and competitive nature of the property development industry, plus concerns over the relatively high household debt level which is a consequence of the current slowdown in the domestic economy.

SC is a property developer established in 1989. The Shinawatra family took over the company in 1995 and entered the rental property segment by developing "Shinawatra Tower 3". In 2003, SC was reorganized to focus on developing residential property. The company was listed on the Stock Exchange of Thailand (SET) in 2003. The Shinawatra family continues to be the company's major shareholders, with a 60% stake as of May 2017. SC offers a number of residential property products, including single detached houses (SDH), townhouses (TH), home offices, and condominiums.

SC's current range of residential property products target middle- to high-income customers, with an average price of Bt8.1 million per unit at the end of June 2017. As of June 2017, SC had 35 active projects. The value of the unsold units remaining in 35 projects was around Bt32,800 million. The backlog was worth around Bt9,330 million. The units in the backlog, which will be delivered to customers, will translate to revenue of around Bt2,600 million in the second half of 2017, Bt2,900 million in 2018, and Bt3,800 million during 2019-2020. SC's backlog is relatively small with respect to future revenue, especially when compared with the current revenue base. During 2014 through the first half of 2017, revenues from the SDH and TH segments accounted for 55% of total revenue, while revenues from the condominium and rental property segments contributed around 40% and 5%, respectively.

SC's presales in 2016 were Bt11,612 million, decreasing by 7% from 2015. Presales in the first half of 2017 were Bt7,493 million, up 44% from the same period last year. Presales in the first half of 2017 were driven by sales of around Bt2,000 million from one large condominium project, "28 Chidlom". SC plans to launch new projects worth Bt11,600 million in the second half of 2017. TRIS Rating expects SC's presales will range from Bt14,000-Bt18,000 million per year during 2017-2020.

Revenues of SC have grown steadily over the past 10 years. Revenue in 2016 was Bt14,434 million, up 3% from Bt14,050 million in 2015. During the first half of 2017, revenue was Bt4,603 million, down 46% from the same period in 2016. The revenue drop was due to a few transfers of condominium projects in this period. Sales of SDH units continue to be the major driver of revenues. The operating margin (operating income before depreciation and amortization as a percentage of revenue) in the first half of 2017 was 11.3%, down from 18.1% in 2016. The total debt to capitalization ratio at the end of June 2017 was 56.3%, decreasing from 52.2% at the end of 2016.

Under TRIS Rating's base case scenario, SC's revenue is expected to range from Bt14,000-Bt19,000 million per annum during 2018-2020. Revenue in 2017 is expected to be around Bt13,000 million because the backlog in condominium projects is quite small. However, TRIS Rating forecasts that SC will realize more revenues from condominium projects in 2018 onwards. The revenue contribution from the rental segment, including the "SC Tower" office building, will be around Bt800-Bt900 million per year. The operating margin is expected to stay around 15%. Marketing and administrative expenses are forecast to rise in order to stimulate demand during the current economic slowdown. The debt to capitalization ratio is expected to stay around 50%-60% for the next three years.

SC's liquidity is considered adequate. At the end of June 2017, the company had Bt912 million in cash and Bt7,391 million in undrawn committed credit facilities. SC will have Bt4,146 million in debt coming due over the next 12 months. Around 71% of the amount due are bond redemptions while 29% are loans from financial institutions. The company plans to repay the bank loans with the cash received from the transfer of completed units to customers. SC plans to refinance most of the maturing bonds with new bonds. Over the next three years, TRIS Rating forecasts the ratio of funds from operations (FFO) to total debt will stay around 10%, while the EBITDA (earnings before interest, tax, depreciation, and amortization) interest coverage ratio is expected to stay at around 3 times.

Rating Outlook

The "stable" outlook reflects the expectation that SC will maintain its competitive position and financial profile in the medium term. The operating margin is expected to stay around 15%, while the debt to capitalization ratio is expected to stay in the range of 50%-60% over the next three years.

The ratings and/or outlook could be lowered if SC's operating performance or financial profile deteriorate significantly from the current levels or if the total debt to capitalization ratio rises above 60% for a sustained period. The ratings or outlook could be revised upward should the FFO to total debt ratio improve to around 15% and the total debt to capitalization ratio stay at around 50%-55% on a sustainable basis.

SC Asset Corporation PLC (SC)

Company Rating:	BBB+
Issue Ratings:	
SC186A: Bt1,700 million senior unsecured debentures due 2018	BBB+
SC191A: Bt1,300 million senior unsecured debentures due 2019	BBB+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Jun 2017	------------------------- Year Ended 31 December --------------------- 2016	2015	2014	2013	2012
Revenues	4,603	14,434	14,050	12,601	10,031	8,358
Finance cost	287	553	594	680	627	492
Net income from operations	340	1,929	1,802	1,493	1,039	1,108
Funds from operations (FFO)	392	1,978	1,941	1,747	998	1,063
Inventory investment (-increase/+decrease)	(2,165)	(1,434)	(713)	(899)	(3,697)	(3,673)
Total assets	36,203	33,487	30,957	28,934	26,993	22,783
Total debts	17,996	15,763	14,279	13,737	13,121	10,715
Total liabilities	22,216	19,046	17,732	17,298	16,466	13,239
Shareholders' equity	13,987	14,441	13,225	11,636	10,527	9,544
Depreciation & amortization	78	130	94	86	82	29
Dividends	794	752	297	445	107	434
Operating income before depreciation and amortization as % of sales	11.30	18.12	17.99	16.90	13.88	16.92
Pretax return on permanent capital (%)	5.03 **	10.63	11.01	9.67	6.88	8.72
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	1.86	4.79	4.32	3.17	2.24	3.01
FFO/total debt (%)	4.86 **	12.55	13.59	12.72	7.60	9.92
Total debt/capitalization (%)	56.27	52.19	51.92	54.14	55.48	52.89

Note: All ratios have been adjusted by operating lease since 2014 onwards

* *Consolidated financial statements*

** *Annualized with trailing 12 months*

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