

SC ASSET CORPORATION PLC

No. 192/2022
25 October 2022

CORPORATES

| | |
|------------------------|--------|
| Company Rating: | BBB+ |
| Issue Rating: | |
| Senior unsecured | BBB+ |
| Outlook: | Stable |

Last Review Date: 17/06/22

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on SC Asset Corporation PLC (SC) and the rating on SC's outstanding senior unsecured debenture at "BBB+" with a "stable" rating outlook. The ratings reflect SC's strong position in the mid- to high-end segments of the residential property market and satisfactory operating performance with continued revenue growth.

However, the ratings are constrained by SC's anticipated rise in financial leverage, resulting from the increasing amount of new project launches and the expansion toward recurring income assets. The ratings also incorporate our concerns over the persistently high household debt level and rising inflation which could impact the purchasing power of homebuyers and development costs of property developers in the short to medium term.

KEY RATING CONSIDERATIONS

Strong position in mid- to high-priced housing

TRIS Rating views SC as holding a strong market position, especially in the mid- to high-priced housing segment with unit prices above THB10 million. Its revenue share in 2021 was 7.2% of total revenues from the real estate sales of 25 property developers rated by TRIS Rating, an increase from 4.2% in the previous five years. SC's revenue in 2021 was THB19.5 billion, up 2.5% from 2020. During the first half of 2022, revenue stood at THB9.1 billion, up 3.9% compared with the same period last year. SC has a leading market position in the landed property segment for unit prices of more than THB10 million. Revenues from this segment accounted for more than 53% of SC's total revenues in 2021 and the first half of 2022.

Since 2018, SC has expanded its property development portfolio to increase product offerings in the lower-priced segment, with prices ranging between THB3-THB6 million per unit. The company has received a good market response for this product segment. The management views the lower-priced segment is a large segment with robust growth potential, despite the typically higher rejection rate in mortgage loan applications. Expansion toward the lower-end segment will help support the company's revenue growth in the medium term. However, we view the company as needing to focus more on its customer screening process given the high rejections for mortgages.

Satisfactory operating performance, continued revenue growth

We expect SC's revenue growth to continue, with annual revenue increasing to the THB20-THB25 billion range over the next three years. SC's revenue base has ranged between THB16-THB19 billion per annum since 2018. We expect revenues from landed property sales to continue representing the majority portion, accounting for around 75% of its total revenues, followed by condominiums sales of 20%, and rental and service revenues of 5%. We expect the earnings before interest, taxes, depreciation, and amortization as a percentage of revenue (EBITDA margin) to hold at 17%-20% over the next three years.

SC's strong market position in the landed property segment and moderate backlog should help the company achieve its target revenues. As of June 2022, its backlog stood at THB11.9 billion, comprising landed property units worth THB5.9 billion and condominium units worth THB6 billion. The housing units in backlog will be recognized as revenue in the second half of 2022. The

condominium units in backlog are expected to be recognized as revenue of around THB3.5 billion in the remainder of 2022, THB1.5 billion in 2023, and the rest in 2024.

Investment more in rental properties

SC's rental assets portfolio consists of office buildings, apartments, and hotels. The company aims to increase its rental income to around 10% of total revenues. Currently, SC's rental properties comprise six office buildings in Thailand and four apartments in the United States (US). Most of its rental income comes from its four office buildings: "Shinawatra Tower 1, 2, and 3" and "SC Tower". SC manages a total combined rentable area of around 120,000 square meters (sq.m.). As of June 2022, the overall occupancy rate (OR) of rentable area was 93%. The rental income from its existing rental properties has been around THB800-THB850 million per annum, or around 4%-6% of its total revenues in the past five years.

To enlarge its rental and service income, the company plans to invest more in various types of assets, including apartment buildings, hotels, and warehouses. The company has set an investment budget of around THB2.3 billion to invest in apartments in the US during 2022-2023, with a strategy to earn capital gains from selling its apartments in the US after holding these assets for a certain period. The investment budget for its hotel business is set at THB3.5 billion during 2022-2024. Its first 78-key midscale hotel, "YANH Ratchawat", will open in 2023. In addition, SC is collaborating with Flash Express (Thailand) Co., Ltd., the leading delivery service provider in Thailand, to develop warehouses for rent. Its investment budget to develop 50,000 sq.m. of leasable area is set at THB900 million during 2022-2024. In our view, the investments in rental properties should help strengthen SC's portfolio and improve its earnings stability in the long run. However, SC's leverage may remain at a high level during the investment period.

Anticipated rise in financial leverage

In our view, SC's leverage will likely remain elevated in the short to medium term. Based on its plan to launch more residential projects and invest in rental properties, we project SC's debt to capitalization ratio to range between 55%-60% and its funds from operations (FFO) to debt ratio to range around 8%-10% over the next three years. In our base-case forecast, we assume the company will launch new residential property projects worth THB41.7 billion in 2022 and THB20-THB30 billion per annum in 2023-2024. The company has set a budget for land acquisitions of THB12 billion in 2022 and THB8-THB9 billion per annum during 2023-2024. The investment budget for recurring income assets is around THB2.0-THB2.6 billion per annum over the next three years.

SC's bank loans and debentures contain a key financial covenant requiring the company to maintain its interest-bearing debt to equity ratio below 2 times. As of June 2022, the ratio was 1.26 times. We expect the company to be able to comply with this covenant in the next 12-18 months. Its priority debt to total debt ratio at the end of June 2022 was 34.2%.

Manageable liquidity

We assess SC's liquidity should be manageable over the next 12 months. At the end of June 2022, SC had THB15.3 billion in maturing debts over the following 12 months, comprising THB3.0 billion short-term bills of exchange (B/E), THB4.8 billion promissory notes (P/N), THB1.5 billion debentures, and THB6.0 billion project loans. Most of its P/N are used for land purchases and will be converted to project loans afterwards. The company plans to repay the project loans with cash received from the transfer of completed units to customers and to refinance most of the maturing debentures with issuances of new debentures.

Its sources of funds comprised cash on hand of THB2.3 billion, short-term investments of THB0.6 billion, and THB6.7 billion in undrawn committed credit facilities. SC's FFO over the next 12 months is projected to reach THB2.3-THB2.6 billion. Moreover, the company also had unencumbered assets of around THB8.4 billion as an alternative source of liquidity, if needed. Due to its relatively large short-term debt, we expect the company to carefully manage its liquidity.

BASE-CASE ASSUMPTIONS

- SC to launch residential property projects worth THB41.7 billion in 2022, comprising condominium projects worth THB6.5 billion and new landed property launches worth THB35.2 billion. Going forward, the company expects to launch new residential projects worth THB20-THB30 billion per annum.
- Revenue continues to increase from THB20 billion in 2022 to THB25 billion in 2024.
- Land acquisition to be THB12 billion in 2022 and THB8-THB9 billion yearly during 2023-2024.
- Capital expenditures on its rental assets to be THB2.0-THB2.6 billion per annum over the next three years.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SC will maintain its competitive position and financial profile in the medium term, with the FFO to debt ratio maintained at 8%-10%. Despite its aggressive business expansion plan, we expect SC to keep its debt to capitalization ratio in the 55%-60% range over the next three years.

RATING SENSITIVITIES

We could revise SC's rating and/or outlook downward should its operating performance or financial profile deteriorate significantly from current levels, causing its debt to capitalization ratio to rise above 60% and/or FFO to debt ratio to drop below 5% over a sustained period. In contrast, we could revise the ratings upward if its revenue base grows as targeted while FFO to debt ratio improves to around 10%-15% and the debt to capitalization ratio stays around 50%-55% on a sustainable basis.

COMPANY OVERVIEW

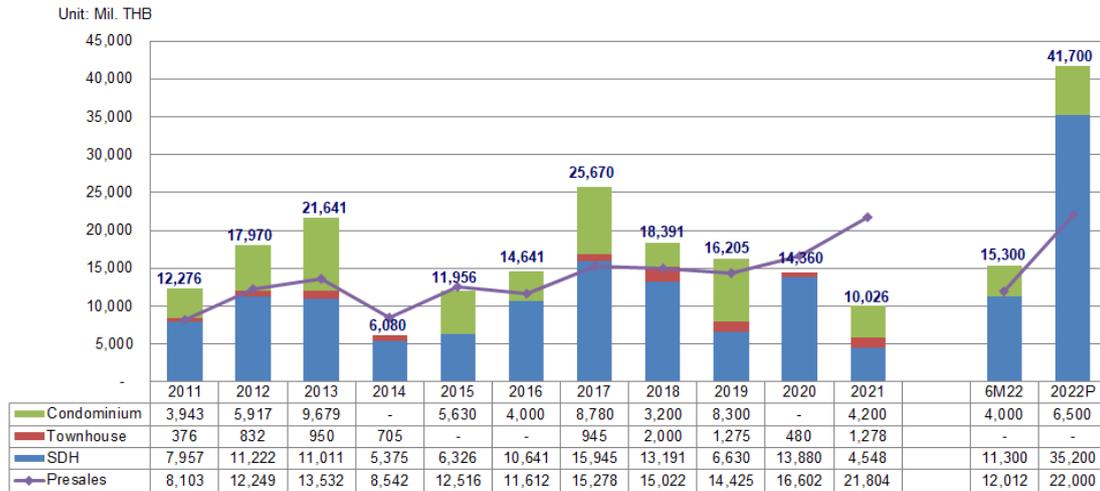
SC is a property developer established in 1989. The Shinawatra family took over the company in 1995 and entered the rental property segment by developing "Shinawatra Tower 3". In 2003, SC was reorganized to focus on developing residential properties. The company was listed on the Stock Exchange of Thailand (SET) in 2003. The Shinawatra family continues to be the company's major shareholder, with a 60% stake as of May 2022.

SC focuses on the mid- to high-income segments in the Bangkok metropolitan area. Its products comprise single detached houses (SDH), townhouses (TH), home offices, and condominiums. The SDH projects are sold under the brands of "Granada", "Grand Bangkok Boulevard", "The Gentry", "Headquarter", "Bangkok Boulevard", "Venue", "V Compound", and "Pave", with prices ranging from around THB4-THB100 million per unit. TH projects are sold under the "Vista" and "Verve" brands, with selling prices of THB2-THB5 million per unit. SC also offers a home office under the "Work Place" brand, with prices between THB8-THB15 million per unit. SC has four condominium brands: "The Crest", "Centric", "Reference", and "Chambers". Projects under The Crest brand offer condominium units with selling prices of THB200,000-THB300,000 per sq.m., Centric and Reference projects offer condominium units with selling prices of THB120,000-THB200,000 per sq.m., while Chambers projects target the lower-income segment with selling prices of THB60,000-THB120,000 per sq.m. SC also targets the luxury condominium segment with selling prices above THB280,000 per sq.m. under the signature brands: "Saladaeng One", "BEATNIQ", "28 Chidlom", and "SCOPE Langsuan".

SC's revenue base has remained at around THB15-THB19 billion per annum in the past four years. The residential property development segment has been the company's largest source of revenue, constituting about 95%-96% of total revenue during 2018 through the first half of 2022. Revenue from the rental and service income segment comprised about 4%-5%.

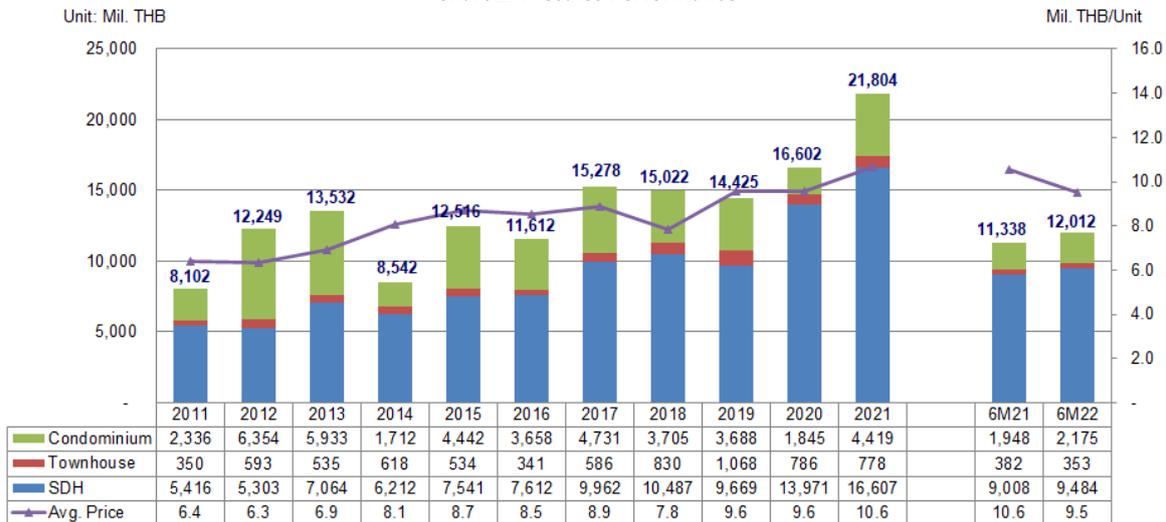
KEY OPERATING PERFORMANCE

Chart 1: Residential Project Launches



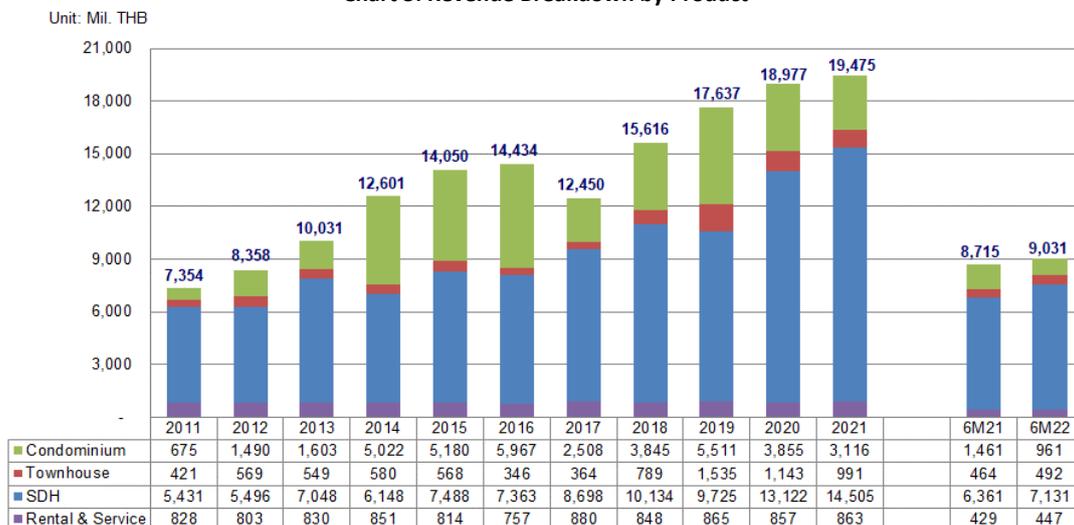
Source: SC

Chart 2: Presales Performance



Source: SC

Chart 3: Revenue Breakdown by Product



Source: SC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

| | Jan-Jun 2022 | -----Year Ended 31 December ----- | | | |
|---|-----------------|-----------------------------------|--------|--------|--------|
| | | 2021 | 2020 | 2019 | 2018 |
| Total operating revenues | 9,068 | 19,507 | 19,039 | 17,669 | 15,470 |
| Earnings before interest and taxes (EBIT) | 1,474 | 3,229 | 3,124 | 3,113 | 2,841 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 1,553 | 3,395 | 3,287 | 3,262 | 2,986 |
| Funds from operations (FFO) | 925 | 2,099 | 2,002 | 1,899 | 1,839 |
| Adjusted interest expense | 364 | 742 | 771 | 823 | 692 |
| Real estate development investments | 38,234 | 33,462 | 30,537 | 34,276 | 32,420 |
| Total assets | 51,773 | 49,754 | 44,319 | 45,276 | 42,620 |
| Adjusted debt | 23,391 | 18,824 | 17,718 | 22,155 | 18,912 |
| Adjusted equity | 20,308 | 20,054 | 18,643 | 17,547 | 16,239 |
| Adjusted Ratios | | | | | |
| EBITDA margin (%) | 17.13 | 17.41 | 17.26 | 18.46 | 19.30 |
| Pretax return on permanent capital (%) | 7.19 ** | 7.57 | 7.72 | 8.08 | 8.05 |
| EBITDA interest coverage (times) | 4.27 | 4.58 | 4.26 | 3.96 | 4.32 |
| Debt to EBITDA (times) | 6.95 ** | 5.54 | 5.39 | 6.79 | 6.33 |
| FFO to debt (%) | 8.65 ** | 11.15 | 11.30 | 8.57 | 9.72 |
| Debt to capitalization (%) | 53.53 | 48.42 | 48.73 | 55.80 | 53.80 |

* 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
- Issue Rating Criteria, 15 June 2021

SC Asset Corporation PLC (SC)

| | |
|---|--------|
| Company Rating: | BBB+ |
| Issue Rating: | |
| SC257A: THB2,000 million senior unsecured debentures due 2025 | BBB+ |
| Rating Outlook: | Stable |

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