

SANSIRI PLC

No. 79/2023
3 May 2023

CORPORATES

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Hybrid	BBB-
Outlook:	Stable

Last Review Date: 27/01/23

Rating History:

Date	Rating	Outlook/Alert
30/04/21	BBB+	Stable
01/04/20	BBB+	Negative
12/05/14	BBB+	Stable
10/05/13	BBB+	Positive
05/02/10	BBB+	Stable
19/03/09	BBB	Positive
12/07/04	BBB	Stable
08/10/03	BBB	-

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RATIONALE

TRIS Rating affirms the company rating on Sansiri PLC (SIRI) and the ratings on SIRI's existing senior unsecured debentures at "BBB+", with a "stable" rating outlook. We also affirm the ratings on SIRI's subordinated capital debentures (hybrid debentures) at "BBB-". At the same time, we assign the rating of "BBB+" to SIRI's proposed issue of up to THB6 billion senior unsecured debentures. Proceeds from the new debentures will be used for SIRI's debt repayment and working capital.

The ratings on SIRI and its debentures continue to reflect the company's diversified product portfolio, its strong market position in both landed property and condominium segments, and improving profitability. The ratings however are constrained by its high financial leverage, resulting from its aggressive investment in residential property and other businesses. The ratings also incorporate our concerns over the reimposition of the loan-to-value (LTV) rules and interest rate hikes which could negatively impact demand for housing in the short to medium term.

The ratings on SIRI's hybrid debentures are two notches below the company rating. This rating differential reflects the subordinated nature of the hybrid debentures and the option of the issuer to defer coupons on a cumulative basis.

KEY RATING CONSIDERATIONS

Diversified products, well-recognized brands

SIRI has a strong brand in both landed properties and condominiums. The company's existing and new projects have been well received by customers, enabling a decent profit margin. Its product portfolio is also well-diversified in terms of product type and price range. The company's products include single-detached houses (SDH), semi-detached houses (Semi-DH), townhouses, and condominiums covering premium, medium, and affordable segments. Given its product diversity, the company is resilient and can adjust its product mix to attract market demand. This helps lessen the downside risk from unfavorable market conditions in some segments in any particular period.

As of December 2022, SIRI had 73 existing landed property projects (including one condominium project under joint venture (JV) and 38 condominium projects (including five condominium projects under JVs) with a total unsold value of THB55.4 billion (including built and un-built units). Landed property projects accounted for 66% of the total remaining value, while condominium projects accounted for the rest.

Strong market position

TRIS Rating expects SIRI to be able to sustain its strong market position as well as competitive edges in the residential property market over the next three years. The company has ranked in the top-five listed residential property developers in terms of total operating revenue during the past several years. SIRI's total operating revenue ranged around THB25-THB35 billion per annum during 2018-2022.

Looking forward, we forecast SIRI's operating total operating revenue will grow to THB39-THB44 billion per annum during 2023-2025 buoyed by its plan to launch more projects, worth more than THB154 billion over the next three

years. Also, the company's revenue will be partly supported by its backlog worth around THB18.8 billion at the end of December 2022, comprising THB15.8 billion in backlog of its own projects and THB3.0 billion in backlog under JVs.

Improving profit margin

SIRI reported a record-high net profit of THB4.28 billion in 2022 underpinned by strong transfers performance and improved gross profit margin of its landed property sales. The margin was satisfactory, especially for its newly launched projects in the premium segment which proved a success with customers. SIRI's gross profit margin of SDH rose to 39% of total operating revenue in 2022 from 32% in 2021. However, the overall gross profit margin was toned down by the loss incurred from its hotel management services and lower gross profit margin of its condominium. SIRI's hotel management business, operated under Standard International Holdings, LLC (The Standard), still incurred an operating loss of around THB474 million in 2022. Thus, the company's average gross profit margin from all businesses improved slightly to around 35% in 2022 from 34% in 2021. However, with its acceptable cost control and higher share of profit from its JVs, earnings before interest, taxes, depreciation, and amortization (EBITDA) margin improved to 25% in 2022 from 21.7% in 2021.

Looking ahead, TRIS Rating expects SIRI to maintain an acceptable level of profitability during the next three years. Our base-case assumes SIRI's average gross profit margin from all businesses to be around 33-34% of total operating revenue and its selling, general, and administrative (SG&A) expenses not over 20% of total operating revenue. SIRI's EBITDA should stay in the THB9.4-THB10.7 billion range per annum or 24%-25% of total operating revenue during 2023-2025. The pretax return on permanent capital (ROPC) ratio is expected to stay in the 6%-8% range over the forecast period, given that SIRI's investments in other businesses are still in the initial phase and have not generated returns yet. At the end of 2022, SIRI's investments in other businesses was THB4.4 billion, including THB980 million in BFTZ Bangkok Co., Ltd. (BFTZ) and THB2 billion in XSpring Capital PLC (XSpring).

High financial leverage

SIRI's financial leverage is on the high side due mainly to its high level of real estate development for sales of THB85.8 billion as of December 2022. The value of real estate development for sales was more than four times of the cost of goods sold (COGS) in 2022. Also, the company plans to aggressively launch new projects totaling more than THB154 billion over the next three years. Thus, its leverage may not improve much from the current level. Our base-case scenario projects SIRI's debt to capitalization ratio to remain at 62%-65% during 2023-2025 and its funds from operations (FFO) to debt ratio to stay in the 5%-10% range over the forecast period.

We project that SIRI will launch new residential projects worth THB40-THB72 billion per annum during 2023-2025. Around 65-70% of new projects will be landed property projects and the rest accounted for condominium projects. In term of market segment, around 46% of new projects will be premium products, followed by affordable products of 31% and medium products of 23%. SIRI's budget for land acquisition for its own projects will be at least THB10 billion annually during 2023-2025. The company also has investment requirement in BFTZ totaling THB250-THB500 million during the next three years mainly in the form of shareholder loans to support its expansion plan. Moreover, we have already considered the budget for the SIXTY SoHo hotel acquisition and renovation of THB 4.6 billion as well as the proceeds received from the divestment of Satit Pattana School of THB 1.2 billion in our base-case scenario.

The financial covenants on SIRI's bank loans and debentures require the company's interest-bearing debt to equity ratio (excluding lease liability and land aval) to remain below 2.5 times. As of December 2022, the ratio was 1.6 times. We believe that SIRI should comfortably be in compliant with the financial covenants over the next 12 to 18 months.

Negative impact from reimposition of LTV rules, interest rate hikes

The reimposition of LTV rules and rising interest rates could dampen housing demand in the short to medium term. From January 2023, banks need to cap LTV at 80%-90% for second mortgage contracts and at 70% for third mortgage contracts. In our view, the LTV rules generally will have greater impact on the mid- to high-end housing segments since these buyers may have more than one mortgage contract. The impact of LTV measures to SIRI is though partly alleviated through significant proportion of cash buyer, especially for medium and premium products.

On the other hand, rising interest rates will have greater impact on the debt servicing capacity of homebuyers, especially those in the lower-income segment. Interest rate hikes will also affect the funding costs of developers. However, given the easing pressure from both foreign exchange and inflation, we expect the Bank of Thailand (BOT) to raise the policy rate by only 50 basis points (bps) in 2023. The BOT has already raised the policy rate twice this year, by 25 bps in January 2023 and by another 25 bps in March 2023.

Manageable liquidity

We assess SIRI's liquidity to be relatively tight but manageable over the next 12 months. As of December 2022, SIRI's sources of funds consisted of THB2.6 billion cash plus THB17 billion undrawn unconditional committed credit facilities from

banks. FFO over the next 12 months is forecast to be THB4.7 billion. Also, SIRI had unencumbered land banks at book value of THB19 billion and remaining finished units in its own debt-free projects with selling prices of THB1.1 billion, which can be pledged as collateral for new loans (if needed).

On the flip side, SIRI's maturing debts over the next 12 months amounted to THB32.3 billion, comprising THB12.0 billion debentures, THB10.2 billion long-term project loans, THB6.4 billion short-term bills of exchange (B/Es), THB3.5 billion short-term promissory notes (P/Ns), and THB0.17 billion lease liability. The company normally refinances its maturing debentures by new debenture issuance. Most of the short-term promissory notes (P/Ns) and bills of exchange (B/Es) are used as bridging loans for land purchases. SIRI plans to convert them to long-term project loans thereafter. Project loans are normally repaid with the proceeds from the underlying projects' unit transfers.

As of December 2022, SIRI had total debt of THB75.7 billion (per priority debt consideration). SIRI's priority debt, including secured debts at the company and its subsidiaries, was THB18.5 billion. These translate to a priority debt to total debt ratio of 24.4%.

BASE-CASE ASSUMPTIONS

- SIRI to launch new residential projects worth THB40-THB72 billion per annum.
- Annual budget for land acquisition for its own projects of at least THB10 billion.
- Total operating revenue of THB39-THB43 billion per annum.
- EBITDA margin of around 24%-25% per annum.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SIRI will be able to deliver its operating performance and sustain its financial profile as targeted. We expect SIRI will keep its debt to capitalization ratio below 65% and its FFO to debt ratio in the 5%-10% range over the forecast period.

RATING SENSITIVITIES

The ratings and/or outlook could be revised downward should SIRI's operating results and/or financial position significantly deteriorate from our expectation. Conversely, an upward revision would materialize if SIRI's financial profile improves to the levels attained by its higher-rated peers, such that the debt to capitalization ratio stays below 55% and the FFO to debt ratio improves to 10%-15% on a sustained basis.

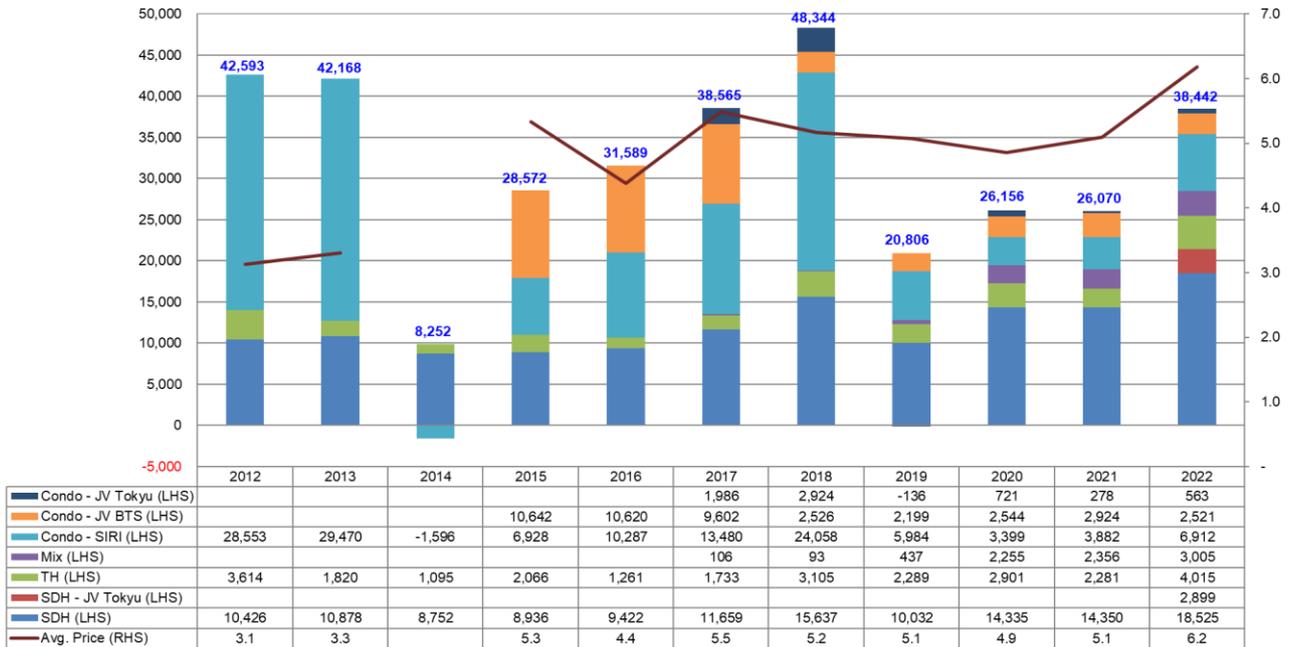
COMPANY OVERVIEW

SIRI was established in 1984 by the Chutrakul family and listed on the Stock Exchange of Thailand (SET) in 1996. SIRI offers landed property and condominium units covering low- to high-end segments. Its landed property units include SDHs, Semi-DHs, and townhouses, with the price ranging from THB2 million to THB80 million per unit. Its condominium units are priced from THB47,000 to THB800,000 per sq.m. As of December 2022, landed properties accounted for 60% of SIRI's total project value, while condominium accounted for the rest. SIRI's revenue contribution from residential sales constituted 74%-89% of its total revenue from sales and services during the past five years. Revenue from residential sales was mainly driven by SDH and condominium products. Revenue contribution from business management through JV projects declined to 2% in 2021 and 1% in 2022, following the smaller portfolio of JV condominium projects. Revenue contribution from the business management of Plus Property Co., Ltd. was 3%-4% of total revenue from sales and services during the past five years. Revenue contribution from other businesses remained negligible.

KEY OPERATING PERFORMANCE

Chart 1: Presales

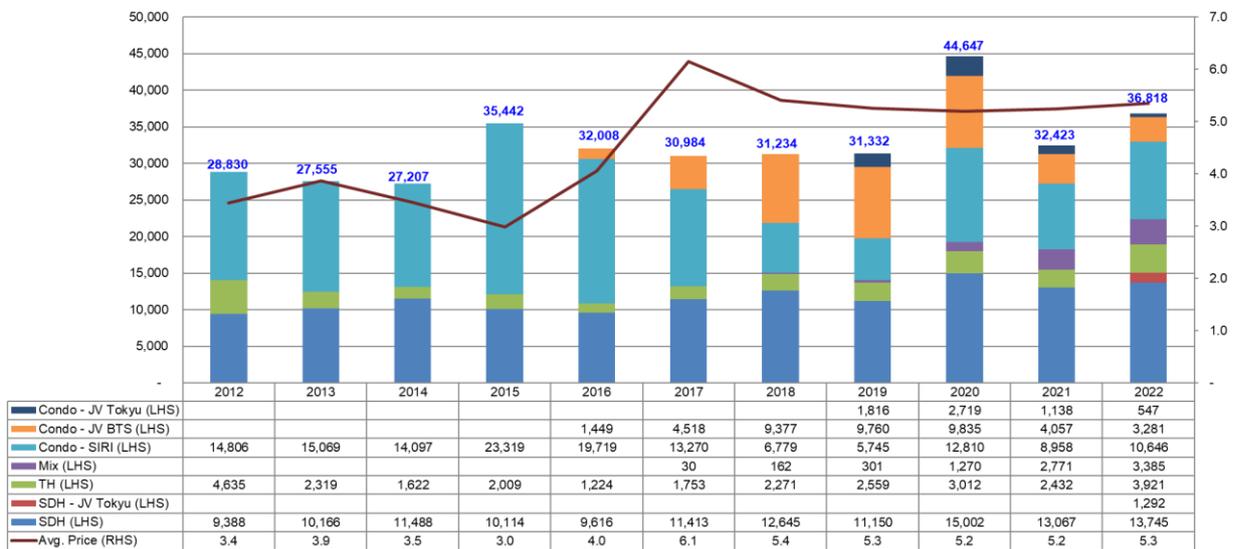
Unit: Mil. THB



Source: SIRI

Chart 2: Transfers

Unit: Mil. THB



Source: SIRI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	34,740	29,557	34,603	24,929	26,674
Earnings before interest and taxes (EBIT)	7,850	5,594	5,528	5,058	4,813
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	8,693	6,412	6,370	5,593	5,230
Funds from operations (FFO)	4,798	3,202	3,603	2,813	2,754
Adjusted interest expense	2,705	2,397	2,130	1,905	1,817
Capital expenditures	516	741	1,533	1,244	639
Total assets	127,451	116,632	112,632	108,336	95,357
Adjusted debt	73,925	68,600	62,491	67,788	56,228
Adjusted equity	40,491	37,417	35,647	31,875	30,852
Adjusted Ratios					
EBITDA margin (%)	25.02	21.69	18.41	22.43	19.61
Pretax return on permanent capital (%)	6.96	5.33	5.43	5.19	5.71
EBITDA interest coverage (times)	3.21	2.67	2.99	2.94	2.88
Debt to EBITDA (times)	8.50	10.70	9.81	12.12	10.75
FFO to debt (%)	6.49	4.67	5.77	4.15	4.90
Debt to capitalization (%)	64.61	64.71	63.68	68.02	64.57

* Consolidated financial statements

RELATED CRITERIA

- Homebuilders and Real Estate Developers Rating Methodology, 12 January 2023
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Hybrid Securities Rating Criteria, 28 June 2021
- Issue Rating Criteria, 15 June 2021

Sansiri PLC (SIRI)

Company Rating:	BBB+
Issue Ratings:	
SIRI236A: THB4,000 million senior unsecured debentures due 2023	BBB+
SIRI243A: THB497.5 million senior unsecured debentures due 2024	BBB+
SIRI247A: THB2,000 million senior unsecured debentures due 2024	BBB+
SIRI240A: THB3,600 million senior unsecured debentures due 2024	BBB+
SIRI24DA: THB800 million senior unsecured debentures due 2024	BBB+
SIRI24DB: THB500 million senior unsecured debentures due 2024	BBB+
SIRI252B: THB100 million senior unsecured debentures due 2025	BBB+
SIRI252A: THB6,000 million senior unsecured debentures due 2025	BBB+
SIRI259A: THB2,408.48 million senior unsecured debentures due 2025	BBB+
SIRI261A: THB500 million senior unsecured debentures due 2026	BBB+
SIRI263A: THB5,000 million senior unsecured debentures due 2026	BBB+
SIRI267A: THB1,000 million senior unsecured debentures due 2026	BBB+
SIRI267B: THB2,000 million senior unsecured debentures due 2026	BBB+
SIRI267C: THB3,379.97 million senior unsecured debentures due 2026	BBB+
SIRI269A: THB2,095.6 million senior unsecured debentures due 2026	BBB+
SIRI26DA: THB200 million senior unsecured debentures due 2026	BBB+
SIRI277A: THB2,620.03 million senior unsecured debentures due 2027	BBB+
SIRI279A: THB2,495.92 million senior unsecured debentures due 2027	BBB+
SIRI20PA: THB3,000 million subordinated capital debentures (hybrid debentures)	BBB-
THB2,050 million subordinated capital debentures (hybrid debentures)	BBB-
Up to THB6,000 million senior unsecured debentures due within 4 years	BBB+
Rating Outlook:	Stable

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