TRIS RATING
A Strategic Partner of S&P Global

CreditNews ข่าวเครดิต

SUPALAI PLC

No. 158/2018
12 October 2018

CORPORATES

Company Rating: A

Issue Ratings:
Senior unsecured A

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
18/07/14	A	Stable
07/06/13	A-	Positive
20/05/10	A-	Stable
03/03/06	BBB+	Stable
29/10/04	BBB	Stable

Contacts:

Rapeepol Mahapant
rapeepol@trisrating.com

Jutamas Bunyawanichkul
jutamas@trisrating.com

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Hattayanee Pitakpatapee
hattayanee@trisrating.com

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

WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Supalai PLC (SPALI) and the ratings of its senior unsecured debentures at "A". The ratings reflect SPALI's solid competitive position, well-balanced residential property portfolio, and strong financial position. The company has high profit margins and moderate gearing. A recent capital increase strengthened its capital structure. The ratings also take into consideration the Bank of Thailand's (BOT) measures to contain non-performing housing loans and the cyclical and competitive nature of the property development industry. The industry-wide risks remain concerns for the ratings.

KEY RATING CONSIDERATIONS

Solid competitive position

TRIS Rating believes SPALI will be able to maintain its strong competitiveness in the property development industry. SPALI's revenues ranked among the top five SET-listed property developers for the last three years. The company has consistently achieved superior profit margins to the industry average. Over the past three years, SPALI's operating margin (operating income as a percentage of total operating revenues) ranged between 28%-29%, higher than an average operating margin of 18%-20% for the top 20 listed property developers. The company controls operating costs efficiently. As a result, it is able to offer competitively-priced residential units to homebuyers while maintaining its profitability at favorable levels. The high profit margins allow the company more room to adjust prices to accelerate sales, if needed. In the view of home buyers, SPALI's products offer value for money.

Well-balanced portfolio

In TRIS Rating's opinion, SPALI's product portfolio is diversified in terms of type, price range, and location. Landed property projects and condominium projects contributed about 50% each to total revenue. Regardless of whether the housing segment or the condominium segment drives demand, the company can adjust its portfolio to benefit from growth in either segment. The well-balanced portfolio also helps SPALI control the level of leverage. Housing projects typically require lower investment amounts and produce a faster payback period than condominium projects.

SPALI has a wide range of products located in a significant number of major cities in Thailand, which enables SPALI to tap various homebuyer demands in several locations. Currently, SPALI has more than 60 projects outside Bangkok and vicinity. Revenue from these projects made up about one fourth of total revenue in the first half of 2018. However, the absorption rate of the projects outside Bangkok and vicinity, particularly condominiums, was slower than those projects in Bangkok and vicinity. We expect an improving domestic economy will help speed up the absorption rate of the projects in provincial areas over the next three years.

Operating performance stays strong

TRIS Rating forecasts SPALI's revenue will increase further, given an expectation that the company will keep launching more residential property projects. We believe total annual operating revenue will pass Bt30 billion over the next three years. Total operating revenue hit a record high of Bt25.3 billion in 2017, boosted by revenue from condominium projects. Total operating revenue increased to Bt11.2 billion in the first half of 2018 from Bt9.9 billion in the same period last year. Revenue from housing projects rose to Bt6 billion, from Bt5.5 billion, while revenue from condominium projects rose to Bt4.8 billion, from Bt4.1 billion.

The BOT's measures, effective next year, to contain non-performing housing loans should not greatly affect SPALI, in our opinion. More than 95% of its products are priced below Bt10 million per unit. Although the company requires a down payment lower than the minimum requirement under the new rules (15%-20% versus 20%), most of SPALI's customers are first time home buyers. The company has its own measures to prevent speculative demand such as limiting the number of units a homebuyer can purchase. As a result, its bank rejection rate has been low at below 10%, and its cancellation rate has been at below 8%.

TRIS Rating believes SPALI's profitability will remain strong, thanks to its efficient cost controls. The operating margin will hover around 25% over the next three years, given our base-case forecast. The operating margin slid to 24.3% in the first half of 2018 due to rising agent fees. We expect more revenue to be realized in the second half of 2018, raising the operating margin for the year.

SPALI currently invests in joint ventures in Australia. However, foreign investments remain small and share minor earnings contributions to SPALI. We expect SPALI will not aggressively expand foreign investments over the next three years.

Conservative financial policy

TRIS Rating expects SPALI's gearing will stay at a moderate level, thanks to the company's conservative financial policy. To expand without leverage constraints, SPALI, in 2017, sold an office building it invested in the Philippines and suspended dividend payments for last year's operational results. SPALI also issued SPALI-W4, of which the exercise price was much lower than the market price of SPALI's shares. All in all, SPALI's cash position should increase by about Bt4.5 billion, given our expectation that SPALI-W4 will be entirely exercised.

An exercise of the warrants increased capital by about Bt800 million in the first half of 2018. As a result, the debt to capitalization ratio fell to 34.9% as of June 2018, from a peak of 48.8% in 2015. The leverage ratio is likely to drop further to about 33% at the end of 2018, as we expect the exercise of the remaining warrants will increase its capital by Bt900 million in the second half of this year. Although SPALI is likely to expand further over the next three years, the debt to capitalization ratio should be kept below 50%, given TRIS Rating's base-case forecast.

SPALI's cash flow in relation to debt should improve slightly from past levels due to improved leverage. We project the ratio of funds from operations (FFO) to debt will stay above 30% over the next three years, rising from 25%-30% during the last three years. The ratio increased to 36.1% in the first half of 2018, following SPALI's deleveraging. The level is considered high for a property development company.

Manageable liquidity

TRIS Rating believes SPALI will manage liquidity prudently over the next three years, due to its conservative financial policy. SPALI had a large amount of backup facilities as of June 2018. The undrawn project loans, plus cash and marketable securities, were worth about Bt14 billion, sufficient to support the debts coming due. The company has debts of Bt3,000-Bt7,000 million coming due annually over the next three years. Net cash flows from selling residential projects themselves should cover the annual debt repayment. We forecast annual FFO to range from Bt5,000-Bt7,000 million over the next three years.

A key financial covenant in SPALI's debentures requires the debt to equity ratio to stay below 2 times. The ratio, as of June 2018, was 0.8 times. Thus, the company was in compliance with this key financial covenant. TRIS Rating believes that the company will stay in compliance for the next 12 to 18 months.

RATING OUTLOOK

The "stable" outlook reflects the expectation that SPALI will maintain its sound operating performance and strong financial position. The FFO to debt ratio should stay above 20%, while the debt to capitalization ratio should stay below 50% over the next three years.

RATING SENSITIVITIES

A credit upside situation may arise if the company's operating and financial performances are significantly stronger than expected. Revenue and earnings contributions from income-generating assets will be a plus for the ratings or outlook. In contrast, any significant deterioration in profitability or capital structure could cause the ratings or outlook to be revised downward.

COMPANY OVERVIEW

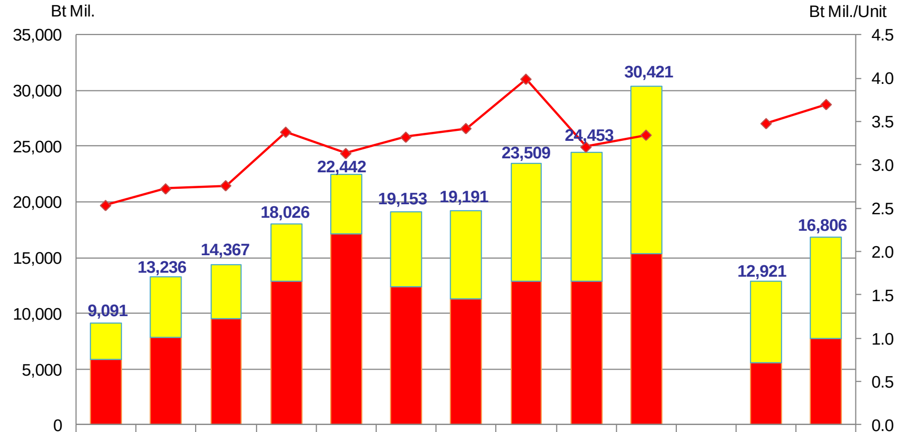
Established by the Tangmatitham family in 1989, SPALI is one of Thailand's leading property developers. As of August 2018, the Tangmatitham family, the largest shareholder, held a 30% stake in SPALI. The company offers a wide range of residential property products including single detached houses (SDHs), semi-detached houses (semi-DHs), townhouses, and condominiums. Its products target the middle-income segment and are located in a number of major cities in Thailand.

SPALI has explored investment opportunities abroad since 2013. It currently invests in joint ventures with local residential property developers in Australia. However, SPALI's foreign investments account for a small portion of total assets. The shares of profits and losses from foreign investments also play a minor role in SPALI's overall performance.

As of June 2018, SPALI had more than a hundred active projects. The value of the unsold units was approximately Bt55 billion. About half of the value was in housing projects and the other half was in condominium projects. The backlog was sizable, standing at about Bt42.5 billion.

KEY OPERTING PERFORMANCE

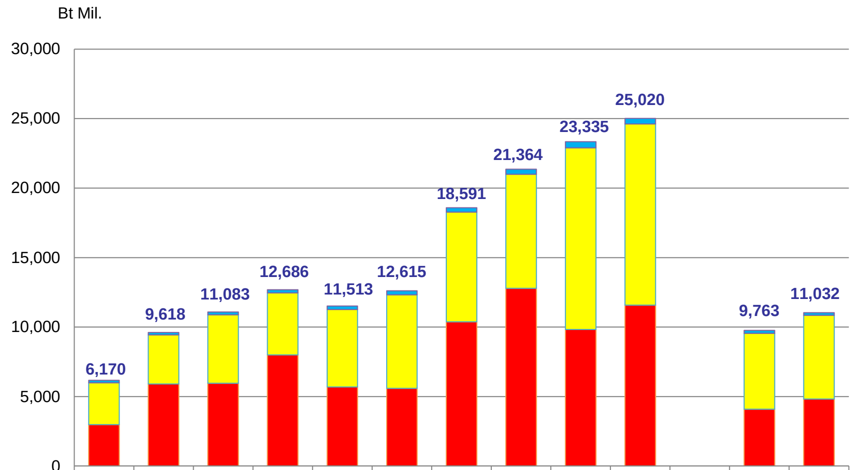
Chart 1: Presales



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		6M17	6M18
Housing	3,272	5,355	4,816	5,136	5,327	6,767	7,852	10,656	11,566	15,074		7,354	9,029
Condominium	5,819	7,882	9,550	12,890	17,115	12,386	11,339	12,853	12,887	15,347		5,567	7,777
Avg. Price	2.5	2.7	2.8	3.4	3.1	3.3	3.4	4.0	3.2	3.3		3.5	3.7

Source: SPALI

Chart 2: Total Revenue



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		6M17	6M18
Rental and Services	172	179	198	220	254	293	321	366	434	403		214	187
Housing	3,012	3,537	4,933	4,463	5,564	6,732	7,885	8,209	13,074	13,038		5,465	6,027
Condominium	2,986	5,901	5,952	8,003	5,696	5,590	10,385	12,789	9,827	11,579		4,084	4,818

Source: SPALI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Jun 2018		------------ Year Ended 31 December ------------ 2017	2016	2015	2014
Total operating revenues	11,158		25,329	23,490	21,558	18,671
Operating income	2,714		7,108	6,654	6,152	6,022
Earnings before interest and taxes (EBIT)	3,045		7,879	7,166	6,530	6,339
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,042		7,789	7,243	6,676	6,451
Funds from operations (FFO)	2,316		5,751	5,321	4,991	4,894
Adjusted interest expense	215		549	644	530	423
Inventory investment	(1,131)		(2,831)	(3,520)	(8,882)	(6,868)
Total assets	56,980		55,702	51,680	47,287	38,031
Adjusted debt	16,656		18,625	20,718	19,480	12,015
Adjusted equity	31,098		28,380	23,612	20,450	17,977
Adjusted Ratios						
Operating income as % of total operating revenues (%)	24.32		28.06	28.33	28.54	32.25
Pretax return on permanent capital (%)	16.57	**	16.87	16.73	18.30	23.57
EBITDA interest coverage (times)	14.15		14.18	11.24	12.59	15.26
Debt to EBITDA (times)	2.09	**	2.39	2.86	2.92	1.86
FFO to debt (%)	36.11	**	30.88	25.68	25.62	40.73
Debt to capitalization (%)	34.88		39.62	46.74	48.79	40.06

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

Supalai PLC (SPALI)

Company Rating:	A
Issue Ratings:	
SPALI19DA: Bt2,500 million senior unsecured debentures due 2019	A
SPALI202A: Bt2,700 million senior unsecured debentures due 2020	A
SPALI205A: Bt1,000 million senior unsecured debentures due 2020	A
SPALI209A: Bt1,500 million senior unsecured debentures due 2020	A
SPALI213A: Bt3,000 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: 02-098-3000