SUPALAI PLC

No. 171/2019
16 October 2019

CORPORATES

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

Last Review Date: 12/10/18

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

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RATIONALE

TRIS Rating affirms the company rating on Supalai PLC (SPALI) and the ratings on SPALI's existing senior unsecured debentures at "A". The ratings reflect the company's strong market position, well-balanced residential property portfolio, solid operating performance, and conservative financial policy. The ratings also reflect TRIS Rating's concerns over the negative impact resulting from the introduction of new loan-to-value (LTV) rules by the Bank of Thailand (BOT), and the cyclicality and heightened competition in the residential property development industry.

KEY RATING CONSIDERATIONS

Strong market position

TRIS Rating holds the view that SPALI should be able to maintain its strong market position in the medium term. SPALI's brands are well-accepted by homebuyers, especially in the middle-income segment. The company has ranked as one of the top five SET-listed property developers in terms of revenue from 2015 up to the present. Its products are well acknowledged by customers in terms of product quality with reasonable price.

The company's strong market presence reflects its steady growth in presales. SPALI's presales have increased constantly, in both the landed property and condominium segments, over the past several years. In 2018, presales stood at Bt33.3 billion, increasing by 9.6% year-on-year (y-o-y). However, presales during the first half of 2019 dropped significantly by 20.8% y-o-y to Bt13.3 billion due to the sluggish economy and concerns over the implementation of the new LTV rules by the BOT in April 2019.

The company expects its presales to recover in the second half of this year. SPALI plans to launch 22 new projects worth around Bt22.8 billion, comprising Bt14.8 billion for 18 landed property projects and Bt8 billion for condominium projects in the last six months of 2019.

As of June 2019, SPALI had 137 existing projects with total remaining project value of Bt69 billion (including built and un-built units). Landed property projects accounted for 46% of total unsold value, while condominium projects made up the rest.

Well-balanced portfolio

SPALI offers a broad range of residential products regarding type, price range, and location. SPALI's portfolio is well balanced between landed property projects and condominium projects. This healthy product mix enables the company to adjust its portfolio in response to changes in customer demand. The revenue contributions from landed properties and condominiums was around 50% each in 2017, while 55% of residential revenue came from landed properties in 2018 and the first half of 2019.

SPALI is one of a few listed property developers that generate a significant portion of their revenues from housing sales in upcountry areas. The company's diversification into distinct major cities in Thailand enables SPALI to serve various homebuyer demands in several locations. Revenues derived from upcountry housing projects in 2018 and the first half of 2019 were around 28% and 30% of total residential revenue, respectively. However, due to the sluggish economy and stringent lending policies at banks, SPALI plans to cautiously expand its residential projects in upcountry. The company will focus only on landed residential property projects and select locations in which SPALI is confident of accomplishing sales targets.

Operating performance remains robust

Under TRIS Rating's base case, SPALI's annual revenue is expected to range between Bt25-Bt29 billion during 2019-2021. Its target revenue is supported by the company's strong revenue base in the landed property segment and the significant amount of condominium backlog. SPALI's revenue hit a record high of Bt25.6 billion in 2018, supported by strong sales in both landed properties and condominiums. Revenue from landed residential projects rose to Bt13.8 billion, from Bt12.8 billion, while revenue from condominium projects recorded negligible change at Bt11.4 billion.

SPALI's revenue in the first half of 2019 was only Bt10.7 billion, relatively flat compared with the same period last year. However, its revenue is expected to reach Bt25 billion in 2019, given more project launches in 2H19 and the transfer of backlog for several condominium projects in the second half of 2019. At the end of June 2019, SPALI's backlog was Bt43 billion. The backlog should be recognized as revenues of around Bt10 billion in the second half of 2019 and around Bt9-Bt11 billion per annum during 2020-2022.

TRIS Rating expects SPALI's profitability to remain strong over the next few years. Its operating margin is expected to maintain at around 25%-26% over the next three years, given its cost efficiency and transfer of backlog in high-margin condominium projects. The ability to control land cost and construction cost has helped the company maintain satisfactory gross profit margins of around 38% for years. Also, the company has been able to manage its selling and administrative (SG&A) expenses at around 10%-12% of total revenues over the past five years. As a result, SPALI has consistently achieved superior profit margins compared with the industry average. Over the past five years, its operating margins (operating income as a percentage of total operating revenues) stayed in the 27%-32% range, a relatively high figure when compared with the industry average of 15%-25% for the same period. The high profit margins allow the company more headroom to adjust prices to accelerate sales, if needed.

Exposure to cyclical and highly competitive residential property business

The residential property market closely follows trends in the overall economy. However, the volatility in this market is much more pronounced than in the general economy. A sluggish domestic economy and a high level of household debt nationwide have raised concerns over the purchasing power of middle- to low-income homebuyers. In addition, the implementation of the new LTV rules by the BOT should impact sales of residential properties 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.

In our view, the tighter mortgage standards should help reduce speculative buying in real estate. Since SPALI typically focuses on real demand and the majority of its customers are first-time homebuyers, the impact from the new LTV rules on SPALI should not be so significant. However, SPALI should carefully manage its new project launches to match the demand in each area.

Conservative financial policy

TRIS Rating expects SPALI to maintain its prudent financial policy. Despite rising leverage from expansion plans in the pipeline, we believe its gearing to stay at a moderate level as the company aims to keep its gearing (net IBD/E) ratio in the range of 0.6-0.8 times, or the debt to capitalization ratio at around 37%-45%, in the medium to long term.

As a result of the exercise of SPALI-W4 last year, the company's capital increased by about Bt1.7 billion. Thus, the debt to capitalization ratio suddenly dropped to 28% in 2018 from 40% in 2017. The ratio, as of June 2019, was 27.2%. However, SPALI plans to launch 22 new projects, valued at Bt22.8 billion, and make sizable land purchases in the second half of this year. Consequently, the debt to capitalization ratio is expected to increase to around 31% by the end of 2019. Looking forward, SPALI intends to expand further in order to pursue revenue growth. TRIS Rating expects the company's large capital expenditures, including land purchases and construction expenditures, will continue to push up its leverage. The ratio of debt to capitalization during 2020-2021 is expected to rise to 33%-35%, and the debt to earnings before interest, tax, depreciation, and amortization (EBITDA) ratio is expected to range between 2.3-2.7 times.

Adequate liquidity

TRIS Rating assesses SPALI's liquidity as adequate. As of June 2019, SPALI had Bt9.8 billion of debts due in the next 12 months, comprising Bt7.2 billion in debentures, and Bt2.6 billion in short-term loans from financial institutions. As of June 2019, SPALI had Bt833 million in cash on hand, Bt11.36 billion in unused committed credit facilities that can be promptly drawn down, and expected funds from operations (FFO) of around Bt6-Bt7 billion per annum. These sources of funds should be sufficient to support the debts coming due. We believe SPALI's cash flow protection to remain sound over the next three years. The FFO to debt ratio is expected to range between 28%-34%.

According to its financial covenant, the company has to maintain the total liabilities to equity (D/E) ratio below 2 times. As of June 2019, the ratio was 0.7 times. TRIS Rating believes that the company should be able to comfortably comply with its financial covenant.

BASE-CASE ASSUMPTIONS

- Operating revenue to range Bt25-Bt29 billion per annum during 2019-2021.
- The gross profit margin to stay around 38% and the operating margin to be around 25%-26% over the next three years.
- The land acquisition budget is forecast to be Bt10-Bt13 billion per annum during 2019-2021.

RATING OUTLOOK

The "stable" outlook on SPALI reflects our expectation that the company 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

SPALI's ratings and/or outlook could be revised upward should the company's operating and financial performances are significantly stronger than expected. Higher revenue contributions from recurring-income assets will be a plus for the ratings or outlook. On the contrary, the ratings and/or outlook could be revised downward should SPALI's profitability or capital structure deteriorate significantly from targets.

COMPANY OVERVIEW

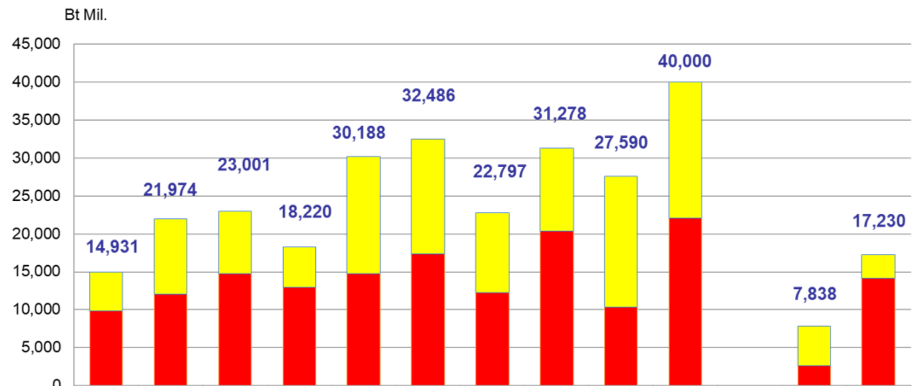
Established by the Tangmatitham family in 1989, SPALI is one of Thailand's leading property developers. As of March 2019, the Tangmatitham family, the largest shareholder, held a 29% stake in SPALI. The company offers a wide range of residential property products including single detached houses (SDHs), 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 2019, SPALI had more than a hundred active projects. The value of unsold units was approximately Bt69 billion. About half of the value was in housing projects and the remainder was in condominium projects. The backlog was sizable, standing at about Bt43 billion.

KEY OPERATING PERFORMANCE

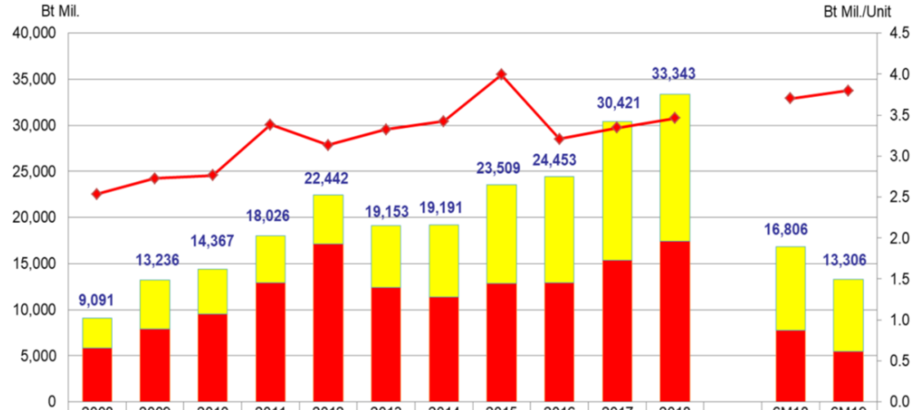
Chart 1: New Residential Project Launches



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019P		6M18	6M19
Housing	5,044	9,949	8,238	5,238	15,479	15,116	10,602	10,926	17,250	17,930		5,268	3,115
Condominium	9,887	12,025	14,763	12,982	14,709	17,370	12,195	20,352	10,340	22,070		2,570	14,115

Source: SPALI

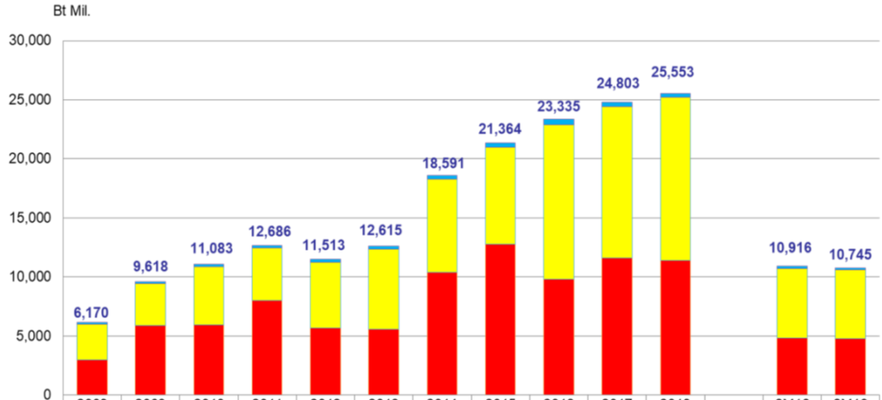
Chart 2: Presales Performance



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	6M18	6M19
Housing	3,272	5,355	4,816	5,136	5,327	6,767	7,852	10,656	11,566	15,074	15,938	9,029	7,829
Condominium	5,819	7,882	9,550	12,890	17,115	12,386	11,339	12,853	12,887	15,347	17,405	7,777	5,477
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	3.8

Source: SPALI

Chart 3: Revenue from Sales and Rental Income Breakdown



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	6M18	6M19
Rental and Services	172	179	198	220	254	293	321	366	434	403	349	187	172
Housing	3,012	3,537	4,933	4,463	5,564	6,732	7,885	8,209	13,074	12,821	13,837	5,911	5,798
Condominium	2,986	5,901	5,952	8,003	5,696	5,590	10,385	12,789	9,827	11,579	11,366	4,818	4,775

Source: SPALI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Jun 2019		-----------Year Ended 31 December ------------- 2018	2017	2016	2015
Total operating revenues	10,745		25,553	24,803	23,336	21,364
Operating income	2,879		7,116	6,801	6,500	5,959
Earnings before interest and taxes (EBIT)	3,309		8,231	7,891	7,168	6,495
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,402		8,100	7,799	7,245	6,642
Funds from operations (FFO)	2,624		6,250	5,761	5,323	4,957
Adjusted interest expense	175		401	549	644	530
Real estate development investments	51,688		50,543	49,510	46,410	42,378
Total assets	58,275		57,704	55,746	51,680	47,287
Adjusted debt	13,306		13,450	18,667	20,718	19,480
Adjusted equity	35,637		34,722	28,411	23,612	20,450
Adjusted Ratios						
Operating income as % of total operating revenues (%)	26.79		27.85	27.42	27.85	27.89
Pretax return on permanent capital (%)	16.62	**	16.77	16.89	16.74	18.20
EBITDA interest coverage (times)	19.43		20.20	14.19	11.25	12.53
Debt to EBITDA (times)	1.61	**	1.66	2.39	2.86	2.93
FFO to debt (%)	48.16	**	46.47	30.86	25.69	25.45
Debt to capitalization (%)	27.19		27.92	39.65	46.74	48.79

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

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

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

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