SUPALAI PLC

No. 174/2020
20 October 2020

CORPORATES

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

Last Review Date: 16/10/19

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:

Hattayanee Pitakpatapee

hattayanee@trisrating.com

Auyporn Vachirakanjanaporn

auyporn@trisrating.com

Jutamas Bunyawanichkul

jutamas@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 rating on SPALI's existing senior unsecured debentures at "A" with a "stable" rating outlook. The ratings reflect the company's well-balanced product portfolio, strong market position, sizable condominium backlog, and resilient profitability. The ratings have factored in SPALI's increased gearing resulting from the company's recent share repurchase program. The increased leverage, however, is still at a level commensurate with the assigned ratings. The ratings also take into consideration our concerns over the negative impacts of the Coronavirus Disease 2019 (COVID-19), which could put more pressure on the domestic economy and demand for housing in the short to medium term.

KEY RATING CONSIDERATIONS

Strong market position

We expect SPALI to maintain its strong market position in the residential property market in the medium term. The company has ranked as one of the top five property developers in terms of revenue from 2015 to 2019. SPALI's brands are well-perceived by homebuyers, especially in the middle-income segment. Its presales have grown steadily and have remained above THB20 billion since 2015, hitting a record high of THB33.34 billion in 2018. However, the company faced a sharp drop in presales to THB22.32 billion in 2019 owing to the domestic economic slowdown and the implementation of more stringent loan-to-value (LTV) rules by the Bank of Thailand (BOT) in April 2019. These negative factors have impacted the overall residential property industry.

Despite the negative impacts of the COVID-19 pandemic, SPALI's presales in 2020 are expected to grow by 5%-10% year-on-year (y-o-y) as the company plans to launch more projects in the second half of 2020. In the first half of 2020, the company focused on landed residential property projects and postponed launching some condominium projects amid concerns over the pandemic. However, in the second half of 2020, SPALI plans to launch 22 new projects worth around THB20.06 billion, comprising THB16.46 billion for 20 landed property projects and THB3.6 billion for two condominium projects.

Well-balanced portfolio

SPALI's portfolio is well balanced between landed property projects and condominium projects. Its portfolio covers various product types and price ranges. The company offers single-detached houses (SDH), semi-detached houses (semi-DHs), townhouses, and condominiums to homebuyers in different market segments. This healthy product mix gives the company flexibility to adjust its portfolio in response to changes in market conditions. The revenue contributions from landed properties accounted for 53%-55% over the past three years.

In addition, SPALI has been diversifying its portfolio into upcountry areas for several years. The company has received a satisfactory response from homebuyers, reflected in the considerable proportion of revenue derived from upcountry housing projects. The revenue contribution from residential projects in upcountry areas was 28% in 2019 and 38% in the first half of 2020.

As of June 2020, SPALI had 41 existing condominium projects and 106 landed property projects, with total remaining project value of THB71.25 billion (including built and un-built units). The unsold value comprised landed property projects and condominium projects of approximately 50% each. Around 33% of unsold value was in upcountry areas, with landed projects comprising around 85% of that amount.

Sizeable backlog and resilient profitability help sustain earnings amid the downturn

We expect SPALI's revenue to remain above THB20 billion per annum with earnings before interest, taxes, depreciation, and amortization (EBITDA) margin at around 28% over the next three years, given its large backlog in the pipeline and its decent profitability.

SPALI's revenue has ranged from THB21.36-THB25.55 billion over the past five years. Despite the negative impacts caused by the new LTV rules, its revenue in 2019 declined by only 8% y-o-y to THB23.56 billion. However, its revenue during the first half of 2020 was only THB6.65 billion, a significant drop of 38% y-o-y, owing to the absence of new finished condominium projects to transfer during the period and the impacts of COVID-19. As condominium projects, which typically provide higher margins than landed property projects, contributed only 19% of total revenue, the company's gross profit margin declined to 36%, from between 38% and 39% during 2015-2019. The EBITDA margin also declined from 31%-32% in 2015-2019, to around 29% in the first half of 2020. However, SPALI's profitability remained comparatively high compared with the industry average of 15%-25%.

Looking forward, we expect SPALI's revenue to reach THB20.46 billion in 2020, based on expected more project launches and the delivery of backlog for several condominium projects in the second half of 2020. Overall, we expect SPALI's revenue to come under pressure in 2020 and then recover in the following years. Revenue is expected to recover and jump to THB30.45-THB32.26 billion in 2021-2022, backed by the company's strong revenue base in the landed property segment and its sizable condominium backlog. At the end of June 2020, SPALI's backlog was THB39.80 billion, comprising THB6.62 billion in landed properties and THB33.18 billion in condominium projects. The backlog should be recognized as revenues of around THB10.14 billion in the second half of 2020 and around THB12.32-THB13.49 billion per annum during 2021-2022. We believe SPALI's profitability may soften from the intense competition in the industry. However, we expect SPALI to maintain a gross profit margin in the range of 36%-37% and EBITDA margin of around 28% over the next three years. The high profit margins give the company flexibility to adjust its prices to accelerate sales, if needed.

Concerns over softening demand and impacts of COVID-19

The residential property market closely follows trends in the domestic economy. However, the volatility in this market is much more pronounced than in the overall economy. A prolonged outbreak of COVID-19 could cause a severe economic downturn and further suppress market demand. The number of non-performing mortgage loans (NPL) could also rise further. The weakening purchasing power of homebuyers and stringent bank lending policies have been the key factors affecting the demand for housing, especially in the middle- to low-income segments. In addition, due to the travel restrictions in several countries, the transfers of foreign-buyer residential units have been mostly postponed. Nonetheless, this should not affect the company's revenue recognition this year as there is no backlog of units sold to foreign buyers to be transferred in 2020. Since SPALI normally focuses on real demand and local homebuyers, the backlog of units sold to foreign buyers accounted for less than 5% of the total backlog of the company.

We expect some positive effects from several stimulus measures launched by the government to boost housing demand. Recently, the BOT relaxed the LTV regulations by allowing first-time homebuyers to take out a top-up of 10% on their housing loans, constituting 110% for the mortgage bundled with the top-up. Another measure is a cut in housing transfer and mortgage fees to 0.01% for homes priced below THB3 million, effective till the end of December 2020. Nonetheless, with the current market situation, many developers have shifted their focus toward landed property projects, particularly in the middle- to low-income segments which still have considerable demand. As a result, competition in this market segment appears to have intensified.

Leverage to rise, but remain low compared with industry peers

We expect SPALI's leverage to increase in the short to medium term, as a result of its recent share repurchase program together with its investments in new residential projects. However, we believe its leverage to stay lower than the industry average, in line with its prudent financial policy. During February 2020 to June 2020, SPALI bought back shares amounting to THB2.99 billion, leading to a significant decrease in the shareholders' equity of the company. The ratio of debt to capitalization as of June 2020 climbed to 38%, from 25% at the end of 2019. By the end of the program in July 2020, treasury stocks totaled THB3 billion. The company plans to launch 22 new projects with total project value of THB20.06 billion and purchase more land plots in the second half of this year. We estimate the debt to capitalization ratio to reach 39% and the debt to EBITDA ratio to rise to 4 times at the end of this year. However, the company intends to sell the full amount of the treasury stock back within three years, which will help increase its equity base as a result. Based on that, we expect SPALI's leverage to steadily decline during 2021 and 2022, with its debt to capitalization ratio to drop and remain in the 31%-35% range, and the debt to EBITDA ratio to be 2.3-2.5 times, taking into account the company's sizable capital expenditures from construction and land purchases.

Acceptable liquidity

We assess SPALI's liquidity as acceptable over the next 12 months. As of June 2020, the company had debts of THB11.89 billion coming due in the next 12 months, comprising THB4.5 billion in debentures, THB3 billion in bills of exchange (B/Es) and THB4.38 billion in promissory notes (P/Ns). SPALI's sources of liquidity included cash on hand of THB945 million and undrawn committed credit facilities of around THB8.21 billion. The company has already refinanced THB1.5 billion of bonds due in September 2020 with a one-and-a-half-year bond issue. The company has also rolled over THB1 billion of B/Es. The maturing P/Ns are planned to be repaid with cash received from the transfers of residential property units to customers. SPALI plans to refinance the remaining maturing debentures with new debenture issues, and to roll over the outstanding B/Es. We forecast funds from operations (FFO) to be in the range of THB4.3-THB6.98 billion per annum during 2020-2022. We expect SPALI's cash flow protection to remain sound over the next three years, with the FFO to debt ratio to fall in the range of 18%-34%.

The financial covenant on its bank loans and bonds require SPALI to maintain its total liability to equity (D/E) ratio below 2 times. The ratio at the end of June 2020 was 0.9 times. We believe that the company should have no problem complying with the financial covenant.

BASE-CASE ASSUMPTIONS

- Operating revenue to range from THB20.46-THB32.26 billion per annum during 2020-2022.
- Gross profit margin to range from 36%-37% and EBITDA margin to hover around 28% over the next three years.
- Budget for land acquisition of THB8-THB9 billion per annum in 2020-2022.

RATING OUTLOOK

The "stable" outlook on SPALI reflects our expectation that the company will maintain its sound operating performance and strong financial position, with a debt to capitalization ratio below 50%. The FFO to debt ratio may decline this year and rebound to a level above 20% in 2021-2022.

RATING SENSITIVITIES

SPALI's ratings and/or outlook could be revised upward if the company's operating and financial performances improve significantly such that its FFO to total debt ratio stays above 40% on a sustained basis. Higher revenue contributions from recurring-income assets will be a plus for the ratings or outlook. In contrast, the ratings and/or outlook could be revised downward if SPALI's profitability or capital structure deteriorates significantly from the target levels.

COMPANY OVERVIEW

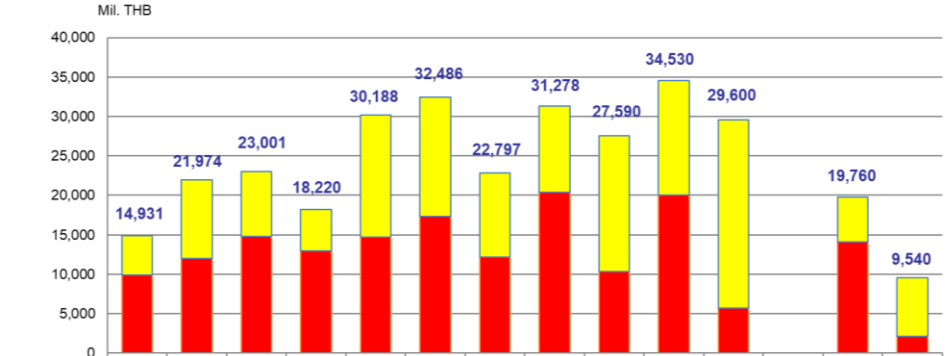
Established by the Tangmatitham family in 1989, SPALI is one of Thailand's leading property developers. As of May 2020, the Tangmatitham family, the largest shareholder, held a 29.6% stake in SPALI. The company offers a wide range of residential property products including single detached houses (SDHs), semi-detached houses (semi-DHs), townhouses, and condominiums. Its products, which target the middle-income segment, are located in a number of major cities in Thailand.

SPALI has explored investment opportunities abroad since 2013. It is currently investing in joint ventures with local residential property developers in Australia. However, SPALI's foreign investments account for only a small proportion 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 2020, SPALI had more than a hundred active projects. The value of unsold units was approximately THB71.25 billion. About half of the value was in housing projects and the remainder in condominium projects. The backlog was sizable, standing at about THB39.80 billion.

KEY OPERATING PERFORMANCE

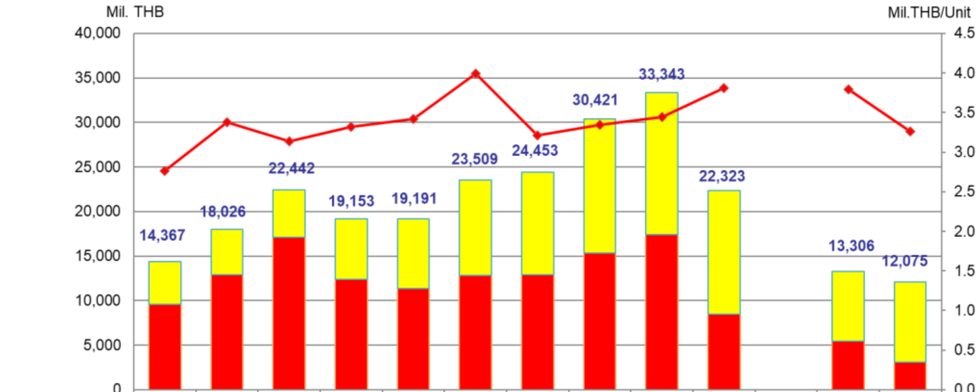
Chart 1: New Residential Project Launches



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020P		6M19	6M20
Housing	5,044	9,949	8,238	5,238	15,479	15,116	10,602	10,926	17,250	14,460	23,900		5,640	7,440
Condominium	9,887	12,025	14,763	12,982	14,709	17,370	12,195	20,352	10,340	20,070	5,700		14,120	2,100

Source: SPALI

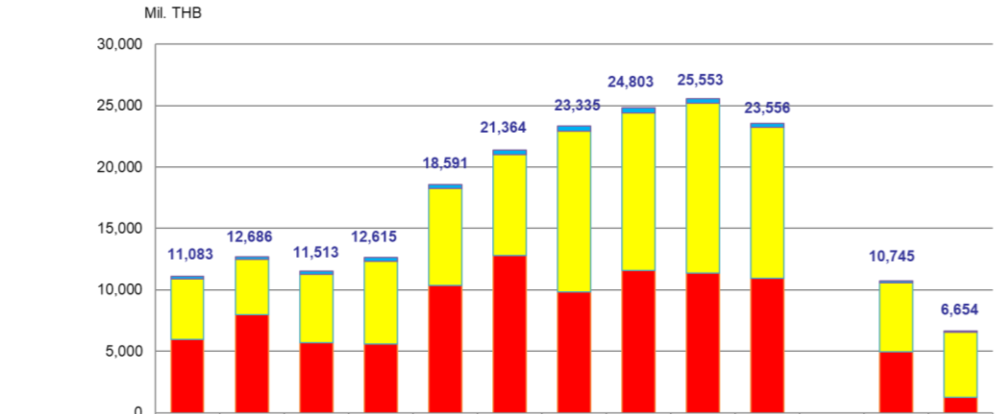
Chart 2: Presales Performance



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		6M19	6M20
Housing	4,816	5,136	5,327	6,767	7,852	10,656	11,566	15,074	15,938	13,837		7,829	8,990
Condominium	9,550	12,890	17,115	12,386	11,339	12,853	12,887	15,347	17,405	8,486		5,477	3,085
Avg. Price	2.8	3.4	3.1	3.3	3.4	4.0	3.2	3.3	3.4	3.8		3.8	3.3

Source: SPALI

Chart 3: Revenue from Sales and Rental Income Breakdown



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		6M19	6M20
Rental and Services	198	220	254	293	321	366	434	403	349	332		172	114
Housing	4,933	4,463	5,564	6,732	7,885	8,209	13,074	12,821	13,837	12,284		5,627	5,280
Condominium	5,952	8,003	5,696	5,590	10,385	12,789	9,827	11,579	11,366	10,940		4,946	1,260

Source: SPALI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

		---------------Year Ended 31 December -----------			
	Jan-Jun 2020	**2019**	**2018**	**2017**	**2016**
Total operating revenues	6,653	23,557	25,553	24,803	23,336
Earnings before interest and taxes (EBIT)	1,877	7,659	8,231	7,891	7,168
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,893	7,615	8,100	7,799	7,245
Funds from operations (FFO)	1,301	5,905	6,225	5,761	5,323
Adjusted interest expense	201	355	426	549	644
Real estate development investments	58,886	53,535	50,543	49,510	46,410
Total assets	66,544	60,511	57,704	55,746	51,680
Adjusted debt	21,505	12,737	13,450	18,667	20,718
Adjusted equity	34,890	37,849	34,722	28,411	23,612
Adjusted Ratios					
EBITDA margin (%)	28.46	32.32	31.70	31.44	31.05
Pretax return on permanent capital (%)	11.54 **	15.10	16.77	16.89	16.74
EBITDA interest coverage (times)	9.42	21.46	19.00	14.19	11.25
Debt to EBITDA (times)	3.52 **	1.67	1.66	2.39	2.86
FFO to debt (%)	21.30 **	46.36	46.28	30.86	25.69
Debt to capitalization (%)	38.13	25.18	27.92	39.65	46.74

* *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 Rating:	
SPALI213A: THB3,000 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: 0-2098-3000