UNIVENTURES PLC

No. 125/2018
24 August 2018

CORPORATES

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

Company Rating History:

Date	Rating	Outlook/Alert
08/09/16	BBB+	Stable
01/12/14	BBB	Positive
10/09/13	BBB	Stable
11/09/12	BBB	Developing
17/10/08	BBB	Stable
13/06/07	BBB	Developing
03/11/05	BBB	Stable

Contacts:

Jutamas Bunyawanichkul

jutamas@trisrating.com

Auyporn Vachirakanjanaporn

auyporn@trisrating.com

Rapeepol Mahapant

rapeepol@trisrating.com

Suchada Pantu, Ph. D.

suchada@trisrating.com

RATIONALE

TRIS Rating affirms the company rating on Univentures PLC (UV) and the rating on UV's senior unsecured debentures at "BBB+". The ratings reflect UV's diversified portfolio, growing contribution from its residential property business, reliable stream of income from its rental assets, and support from its ultimate major shareholder. However, these strengths are partially offset by the expected rise in its financial leverage based on the rapid expansion in the residential property business of the group. The ratings also take into consideration the cyclical and competitive environment in the residential property development business and concern over the high level of Thailand's household debt which impacts the affordability of homebuyers, especially in the middle- to low-income segments.

KEY RATING CONSIDERATIONS

Diversified product portfolio

UV's business portfolio is comprised residential property for sales, office buildings and hotels for rent, zinc oxide business, and other businesses. Revenue from residential property for sales contributed around 80% of total revenue during 2015 through the first nine months of fiscal year 2018 (FY2018).

UV's residential property portfolio covers single detached house (SDH), twin house, townhouse, and condominium units. Landed property projects offer units priced from Bt2 million per unit to Bt40 million per unit. Condominium has been repositioned and launched under new brands from FY2018 onwards. New condominium brands tap customers from middle-end to high-end segments. UV offers condominium units with prices ranging from Bt1.5 million per unit to Bt20 million per unit or selling prices from Bt90,000 per square meter (sq.m.) to more than Bt200,000 per sq.m. Since UV is repositioning its condominium products, it needs time to prove the success of these new brands.

As of June 2018, UV had 37 existing landed property projects and eight active condominium projects, with total remaining project value of Bt20,000 million (including built and un-built units). Landed property projects comprised 73% of total unsold value, while condominium projects accounted for the rest. The total backlog was valued at around Bt7,700 million and UV expects to deliver the backlog to customers during the remainder of FY2018 through FY2019.

Growing contribution from residential property business

UV's residential property sales have grown steadily in the past five years, driven mainly by landed property sales. Presales in the first nine months of FY2018 (October 2017-June 2018) grew by 26%, to Bt15,866 million from Bt12,545 million in FY2017 (January 2017-September 2017). Both landed property and condominium projects drove presales growth. Revenues from residential sales was Bt12,297 million in the first nine months of FY2018, up 12% from Bt11,027 million in FY2017. TRIS Rating expects UV's revenues from residential sales to stay around Bt15,000 million in FY2018, and thus increase to Bt20,000-Bt25,000 million per annum during FY2019-FY2021.

UV's operating profit margin, as measured by operating income before depreciation and amortization as a percentage of revenue, improved to 17%-18% during 2016 through the first nine months of FY2018, from 15% in 2015.

This was in line with the growth in its residential property sales. Going forwards, UV's profitability may be threatened by rising land costs and more intense competition in both landed property and condominium markets. However, we expect UV's operating profit margin to stay at around 15% over the next three years.

Reliable income stream from rental assets

UV's current rental property portfolio comprises four office buildings, two serviced apartments for rent, and one hotel. As of June 2018, the occupancy rate (OR) of each office building was above 94%. The operating performance of the serviced apartments remained sound with an OR above 80%. The OR of the hotel, "Modena", improved to 67% in the first nine months of FY2018, from 56% in FY2017. UV's existing rental assets generated recurring income of Bt1,200-Bt1,500 million per annum during the past three years.

UV plans to continuously invest in rental assets. Future recurring-income assets include a hotel named "Modena by Fraser" in Burirum province, a mixed-use development in the "Samyan Mitrtown" project, and other upcoming assets in its pipeline. The company plans to recycle its capital by subleasing an office building in "FYI Center" to Golden Ventures Leasehold Real Estate Investment Trust (GVREIT). Cash receipts from subleasing the FYI Center will be used to help fund the development of other projects.

Support from the ultimate shareholder

After Adelfos Co., Ltd. became a major shareholder in UV in 2007, UV's business direction has focused on property development. UV increased its stake in Grand Unity Development Co., Ltd. (Grand U) to have more participation in condominium projects. UV also developed its own office building for rent, "Park Ventures Ecoplex".

In late 2012, Adelfos injected new capital into UV. After the equity injection, UV acquired Golden Land Property Development PLC (GOLD) in order to expand its residential property portfolio to landed property. In January 2016, Frasers Property Holdings (Thailand) Co., Ltd. (FPHT), which has the same ultimate shareholder as the TCC Group, injected Bt4,971 million of capital into GOLD. After the capital injection, UV and GOLD's capital structure significantly improved. UV and GOLD are able to negotiate the terms and conditions of loans with financial institutions.

Adelfos has assigned some of its key executives, with extensive experience in the property development sector, to be on the boards of directors of both UV and GOLD. The executives help ensure UV and GOLD run their businesses in accordance with the group's strategy.

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. Slow recovery in the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the affordability of the middle- to low-income homebuyers. Thus, several property developers have shifted their focus towards the higher-income segment, intensifying competition in this segment due to increased supply. Thus, UV has to carefully manage its new project launches to match the demand in each area. The slower absorption rate and higher post-financing rejection rate may cause its leverage to hang at a high level for a longer period.

Leverage is expected to rise

In FY2018, UV plans to spend Bt13,000 million to purchase land plots and launch 31 residential projects worth Bt42,000 million. The budget for land acquisition will increase to Bt11,000-Bt15,000 million per annum during FY2019-FY2021, much higher than the expenditures the company spent on land purchases in the past. UV plans to launch more condominium projects under new brands and targets to open 28 new landed property projects per year in order to reach its residential sales target of Bt25,000-Bt35,000 million per annum during FY2019-FY2021.

Despite its aggressive project expansion, UV's need for capital to pursue its growth plan remains moderate. TRIS Rating views that UV's financial leverage during FY2019-FY2021 will be higher than the current level. However, we expect UV to keep its debt to capitalization ratio at 55%-60% or interest-bearing debt to equity ratio at 1-1.2 times. TRIS Rating forecasts the ratio of funds from operations (FFO) to total debt will drop to around 10% since the debt level will increase faster than earnings.

Acceptable liquidity profile

UV's liquidity is acceptable. At the end of June 2018, the company had Bt1,770 million in cash plus undrawn committed credit facilities of project loans from financial institutions of around Bt900 million. TRIS Rating forecasts UV's FFO over the next 12 months will be around Bt2,500 million. Debts due over the next 12 months will amount to Bt3,778 million, comprising Bt3,730 million in short-term bills of exchange (B/Es) and promissory notes (P/Ns) and Bt48 million in project loans.

Short-term B/Es and P/Ns will either be rolled over or repaid within the next 12 months. Project loans will be repaid with cash flow from the transfers of residential units. However, TRIS Rating expects UV to maintain its undrawn credit facilities to cover all maturing debts over the next 12 months in order to avoid rollover risk.

According to the key financial covenants on its bank loans, the company has to maintain its total liability to total equity ratio (excluding deferred income) at lower than 2 times. The ratio as of June 2018 was 1.02 times. Thus, the company was in compliance with its financial covenants. TRIS Rating believes that UV should have no problem complying with its financial covenants over the next 12 to 18 months.

RATING OUTLOOK

The “stable” outlook reflects the expectation that UV will be able to sustain its operating performance at the target level. During aggressive expansion, TRIS Rating expects UV to keep operating profit margin at around 15%. The debt to capitalization ratio should stay at 55%-60% or interest-bearing debt to equity ratio at 1-1.2 times.

RATING SENSITIVITIES

UV’s ratings and/or outlook could be revised downward should its operating performance and/or financial profile significantly deteriorate from the target levels. Also, the debt to capitalization ratio at above 60% on a sustainable basis may lead to a downward rating or outlook revision. On the other hand, UV’s future outlook could be revised upward if the company is able to improve its competitive position in terms of market share and brand equity to the same level as higher-rated peers.

COMPANY OVERVIEW

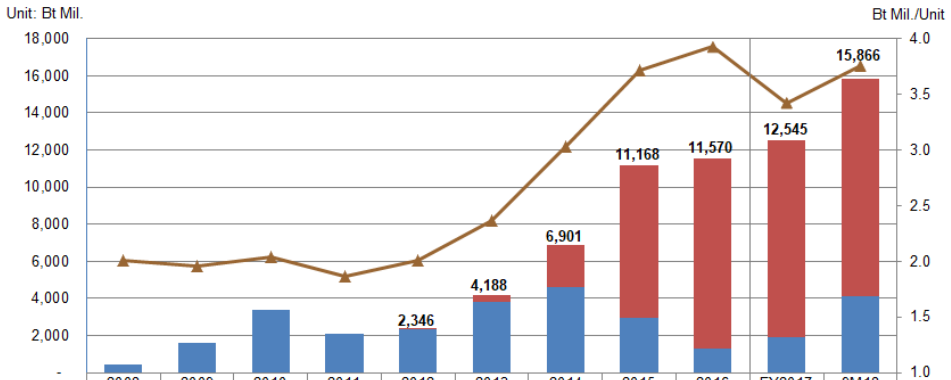
UV was founded in August 1980 to manufacture and distribute zinc oxide products. The company was listed on the Stock Exchange of Thailand (SET), in the petrochemical and chemical sector, in December 1988. UV shifted its business focus to property development and moved to the SET property development sector in September 2006. In mid-2007, Adelfos acquired 51.6% of UV’s shares and became the controlling shareholder. Adelfos is owned equally by the member of the Sirivadhanabhakdi family, which owns the TCC Group, a leading Thai conglomerate. As of March 2018, Adelfos held a 66.01% stake in UV.

After changing its major shareholder, UV increased its stake in Grand U, UV’s investment arm in the condominium segment. UV continued to expand its residential property portfolio to landed property segments by acquiring 50.64% in GOLD in late 2012 and buying all stakes of Krungthep Land PLC (KLAND) in 2014. UV is now a holding company, with investments in residential property for sale, recurring-income assets, zinc oxide business, and other businesses.

UV’s revenue contribution from residential property for sale was around 80% of total revenue during 2015 through the first nine months of FY2018. Revenue contribution from rental property and zinc oxide constituted around 10% each. Revenue from other businesses remained negligible.

KEY OPERATING PERFORMANCE

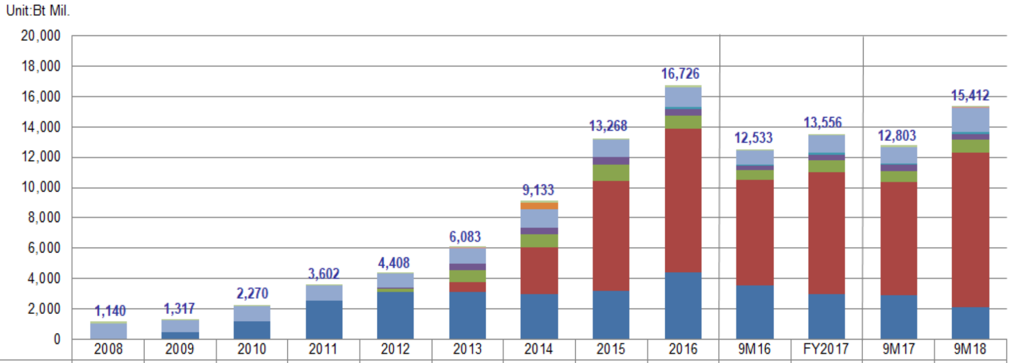
Chart 1: Presales Performance



	2008	2009	2010	2011	2012	2013	2014	2015	2016	FY2017	9M18
Housing (LHS)					8	382	2,301	8,204	10,247	10,664	11,736
Condominium (LHS)	450	1,598	3,395	2,077	2,338	3,805	4,600	2,964	1,323	1,881	4,130
Avg. Price (RHS)	2.0	2.0	2.0	1.9	2.0	2.4	3.0	3.7	3.9	3.4	3.8

Source: UV

Chart 2: Revenue Breakdown



	2008	2009	2010	2011	2012	2013	2014	2015	2016	9M16	FY2017	9M17	9M18
Others	85	110	72	58	62	58	105	102	116	69	97	110	116
Golf Course Operation					2	22	19	17	21	15	17	18	21
Land Plot Sale							443						
Zinc Oxide	1,012	744	1,059	986	961	1,057	1,242	1,142	1,291	917	1,161	1,098	1,595
Management Fee Income									91	59	92	94	130
Serviced Apt. & Hotel					40	420	408	479	449	335	394	372	406
Office				13	200	781	873	1,067	868	634	767	739	847
Housing					29	622	3,072	7,305	9,479	6,978	8,070	7,473	10,196
Condominium	43	463	1,139	2,545	3,113	3,123	2,971	3,157	4,410	3,526	2,957	2,899	2,100

Source: UV

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Year Ended 30 September		----- Year Ended 31 December ----		
	Oct. 2017- Jun. 2018	FY2017	2016	2015	2014
Revenue	15,412	13,556	16,726	13,268	9,133
Gross interest expense	296	121	277	708	504
Net income from operations	791	748	994	631	84
Funds from operations (FFO)	1,916	1,536	1,591	1,469	882
Inventory investment	(5,908)	(1,436)	(2,710)	94	(4,179)
Total assets	48,926	41,650	38,897	32,147	31,056
Total debts	17,273	11,188	9,085	17,429	17,168
Shareholders' equity	19,246	18,278	17,518	11,133	10,400
Operating income before depreciation and amortization as % of sales	18.07	17.49	16.59	15.35	11.28
Pretax return on permanent capital (%)	8.40 **	8.50 **	9.55	6.96	3.60
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	7.59	12.02	7.95	2.95	1.98
FFO/total debt (%)	14.79 **	18.31 **	17.53	8.43	5.14
Total debt/capitalization (%)	47.30	37.97	34.15	61.02	62.27

* *Consolidated financial statements*
** *Annualized*

Univentures PLC (UV)

Company Rating:	BBB+
Issue Rating:	
UV205A: Bt2,000 millionsenior unsecured debentures due 2020	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000