SANSIRI PLC

No. 81/2017 12 December 2017

Company Rating: BBB+

Issue Rating:
Senior unsecured BBB+

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
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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Rating Rationale

TRIS Rating affirms the company rating of Sansiri PLC (SIRI) and the ratings of its existing senior unsecured debentures at “BBB+”. At the same time, TRIS Rating assigns the rating of “BBB+” to SIRI’s proposed issue of up to Bt4,000 million in senior unsecured debentures. The proceeds from the new debentures will be used to repay debentures maturing in January 2018 and fund SIRI’s business operation.

The ratings reflect SIRI’s leading position and proven track record in the residential property development industry, well-recognized condominium and housing brands, and diverse product portfolio. These strengths are partially offset by SIRI’s expected higher financial leverage resulting from its plan to launch several condominium projects, its purchase negotiation of some projects from Pace Development Corporation PLC (PACE), and its oversea investments. In addition, the high level of household debt nationwide and the rising mortgage loan rejection rate, especially in the middle- to low-income segment, will continue to impact demand in the residential property market in the short to medium term.

SIRI is one of the leading property developers in Thailand. As of September 2017, the company had around 80 residential projects in its portfolio, worth a total of around Bt150,000 million. The portfolio comprised condominium (50% of the total portfolio value), single-detached house (SDH, 44%), and townhouse (6%) projects. The average unit price across the portfolio was Bt6 million. At the end of September 2017, SIRI had a backlog worth Bt6,900 million (excluding backlog under the joint venture (JV) projects worth Bt24,000 million) and unsold units (including built and un-built units) worth Bt44,000 million (excluding unsold units under the JV projects worth Bt13,000 million) available for sale.

SIRI’s presales during the first nine months of 2017 grew by 21% year-on-year (y-o-y) to Bt24,681 million. Presales from condominium projects under the JV and SDH projects supported the growth. SIRI’s revenue during the first nine months of 2017 slightly increased by 2% y-o-y to Bt22,748 million. Revenue from residential sales decreased by 4% y-o-y, while revenue from business management under the JV projects increased sharply. SIRI’s revenue during the remainder of 2017 is partly secured by units in the backlog worth Bt4,400 million. A number of backlog under the JV projects will support the revenue growth from business management. Under TRIS Rating’s base case scenario, SIRI’s revenue over the next three years is forecast to be around Bt30,000 million per annum. Revenue contribution from residential sales will decrease to 70%-75% of total revenue, while the revenue from business management under the JV projects will constitute a greater portion from 2017 onwards.

SIRI’s gross profit margin declined to 29% of total revenue in 2015 and 31% during 2016 through the first nine months of 2017 from 33%-34% during 2010-2014 as the company launched marketing campaign in several residential projects in order to speed up the sales of the remaining finished units. Selling, general, and administrative (SG&A) expenses improved to 17%-18% of total revenue during 2015 through the first nine months of 2017 from 20%-24% during 2011-2014. SIRI's operating profit margin (as measured by operating income before depreciation and amortization as a percentage of sales) was around 13%-14% during 2014 through the first nine months of 2017. Its net profit margin stood at 9%-10% of total revenue during 2015 through the first nine months of 2017. Going forward, SIRI's operating profit margin and net profit margin should hold at the current levels over the next three years.

The company's debt to capitalization ratio (including proportionate debt from the JVs) increased to 62% as of September 2017, from 59% as of December 2016, and 57% as of December 2015. The interest-bearing debt to earnings before interest, tax, depreciation, and amortization (EBITDA) ratio stayed at 10 times as of September 2017, up from 6-8 times during 2014-2016. TRIS Rating's base case scenario assumes SIRI's financial leverage and the interest-bearing debt to EBITDA ratio over the next three years will be higher than the current level due to its aggressive business expansion. However, the debt to capitalization ratio should not exceed 60% and the interest-bearing debt to EBITDA ratio should not be higher than 8 times on a sustained basis in order to maintain its ratings at the current level.

SIRI's liquidity profile is acceptable. The ratio of the funds from operations (FFO) to total debt was 9%-12% during 2015 through the first nine months of 2017, up from 8% in 2014 and 4% in 2013. The company mainly uses debentures and project loans to finance its projects. At the end of September 2017, SIRI had Bt2,749 million in cash and Bt49,000 million in undrawn committed credit facilities. Its FFO is expected to be at least Bt2,500 million per annum. SIRI's sources of funds should be sufficient to cover its debt repayment of around Bt20,000 million over the next 12 months.

Rating Outlook

The "stable" outlook reflects the expectation that SIRI will be able to deliver the units in the backlog as scheduled. The operating profit margin and net profit margin should be maintained at the current levels over the next three years. SIRI is expected to keep its debt to capitalization ratio (including proportionate debt from the JVs) below 60% and the interest-bearing debt to EBITDA ratio should be lower than 8 times.

SIRI's ratings and/or outlook could be revised upward should its financial profile improve, as its interest-bearing debt to EBITDA ratio stays below 5 times on a sustainable basis. Also, the ratio of FFO to total debt should increase to 14%-15%. On the contrary, the ratings and/or outlook could be revised downward if SIRI's financial performance is significantly worse than the target levels.

Sansiri PLC (SIRI)

Company Rating:	BBB+
Issue Ratings:	
SIRI181A: Bt3,000 million senior unsecured debentures due 2018	BBB+
SIRI185A: Bt1,000 million senior unsecured debentures due 2018	BBB+
SIRI188A: Bt2,000 million senior unsecured debentures due 2018	BBB+
SIRI194A: Bt1,000 million senior unsecured debentures due 2019	BBB+
SIRI194B: Bt1,000 million senior unsecured debentures due 2019	BBB+
SIRI197A: Bt1,000 million senior unsecured debentures due 2019	BBB+
SIRI19OA: Bt1,000 million senior unsecured debentures due 2019	BBB+
SIRI204A: Bt2,000 million senior unsecured debentures due 2020	BBB+
SIRI206A: Bt2,000 million senior unsecured debentures due 2020	BBB+
SIRI229A: Bt2,000 million senior unsecured debentures due 2022	BBB+
Up to Bt4,000 million senior unsecured debentures due within 5 years	BBB+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		-------------------------Year Ended 31 December ---------------------				
	Jan-Sep 2017	2016	2015	2014	2013	2012
Revenues	22,748	33,811	36,955	28,093	28,597	29,821
Gross interest expense	1,150	1,593	1,800	1,956	1,481	1,181
Net income from operations	2,046	3,380	3,506	3,393	1,930	2,938
Funds from operations (FFO)	2,179	3,972	4,346	3,130	1,400	3,387
Inventory investment	(3,963)	19	5,742	(11,125)	(11,085)	(8,365)
Total assets	77,659	72,774	69,451	73,147	60,040	46,495
Total debts	46,209	40,277	35,713	39,103	34,675	24,017
Shareholders' equity	28,409	28,096	27,198	24,816	17,068	15,225
Operating income before depreciation and amortization as % of sales	14.05	14.04	12.59	14.28	9.80	14.11
Pretax return on permanent capital (%)	7.54 **	7.53	8.64	8.61	6.44	12.07
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.63	4.02	3.78	3.35	2.92	4.45
Interest-bearing debt/EBITDA (times)	10.23	7.75	6.21	7.37	10.80	5.28
FFO/total debt (%)	9.11 **	9.86	12.17	8.01	4.04	14.10
Total debt/capitalization (%)	61.93	58.91	56.77	61.18	67.01	61.20
Total debt/capitalization (%) ***	58.12	56.02	55.33	61.18	67.01	61.20

Note: All ratios have been adjusted with proportionate debt from JVs since 2015 onwards
* *Consolidated financial statements*
** *Annualized with trailing 12 months*
*** *Excluding proportionate debt from JVs*

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