

SANSIRI PLC

No. 47/2018

5 July 2018

CORPORATES

| | |
|------------------------|--------|
| Company Rating: | BBB+ |
| Issue Ratings: | |
| 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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RATIONALE

TRIS Rating affirms the company rating of Sansiri PLC (SIRI) and the ratings of SIRI's 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 Bt5,000 million in senior unsecured debentures. The proceeds from the new debentures will be used to refinance SIRI's existing debentures maturing in August 2018 and for business operation.

The ratings of SIRI and its debentures reflect the company's leading position and proven track record in the residential property development industry, well-recognized condominium and housing brands, and diverse product portfolio. The ratings also reflect SIRI's moderate profitability and its expected higher financial leverage from aggressive business expansion, which will lower its cash flow protection. The ratings also take into consideration the cyclical and competitive environment in the residential property development business and the concern over the high level of household debt nationwide which impacts the affordability of homebuyers, especially in the middle- to low-income segments.

As of 17 June 2018, SIRI had 31 existing condominium projects (including 11 condominium projects under joint ventures (JVs) with BTS Group and one condominium project under the JV with Tokyu Corporation) and 57 housing projects, with the total project value of Bt176,000 million. Condominium projects accounted for 52% of the total portfolio value, while single-detached house (SDH) and townhouse projects accounted for the rest. As of 17 June 2018, the value of the remaining unsold units (including built and un-built units) across SIRI's portfolio was around Bt51,000 million (excluding unsold units worth Bt16,000 million under JVs). The total backlog was valued at around Bt22,000 million (excluding backlog worth Bt25,000 million under JVs) and will partly secure SIRI's future revenue stream during the remainder of 2018 through 2021. The backlog under the JV projects will support the revenue growth of business management under the JVs over the next four years.

SIRI's total revenue has ranked among the top three listed property developers for several years. However, its revenue continually decreased to Bt33,811 million in 2016 and Bt30,916 million in 2017 from Bt36,955 million in 2015. Revenue during the first quarter of 2018 decreased by 28% year-on-year (y-o-y) to Bt5,032 million. The drop came because SIRI recognized lower revenue from its own condominium projects. Revenue from condominium projects was Bt23,048 million in 2015, and thus declined to Bt19,260 million in 2016 and Bt12,897 million in 2017. Going forward, SIRI's revenue during 2018-2019 is expected to be around Bt30,000 million per annum, as few of its own condominium units will be delivered to customers.

SIRI's operating income as a percentage of sales (operating profit margin) declined to 4% in the first quarter of 2018 from 12%-14% during 2014-2017. Its net profit margin was 5% of total revenue in the first three months of 2018, down from 9%-12% during the past four years. The drop was due to lower profit margin from some residential projects and thinner profit margin from business management under the JV projects. However, SIRI is expected to keep operating profit margin and net profit margin at the target levels over the next three years.

SIRI's adjusted debt to capitalization ratio was 62% as of March 2018, higher than 59%-60% during 2016-2017. Despite its JVs partially alleviate its funding

needs, SIRI's need for capital to pursue its growth plan remains significant. Over the next three years, TRIS Rating views SIRI's financial leverage will be higher than the current level. However, its adjusted debt to capitalization ratio is expected to stay below 66%, or its adjusted interest-bearing debt to equity ratio to stay below 2 times. The ratio of adjusted funds from operations (FFO) to adjusted total debt should be maintained at 5%-10% since its debt burden is expected to increase faster than earnings.

SIRI's liquidity is acceptable. At the end of March 2018, the company had Bt2,659 million in cash plus undrawn unconditional credit facilities of project loans from financial institutions of around Bt53,000 million. Adjusted FFO over the next 12 months is forecast at around Bt2,000 million. Debt due over the next 12 months amounts to Bt21,783 million, comprising Bt3,000 million in debentures, Bt4,165 million in project loans, Bt3,754 million in long-term promissory notes (P/Ns) for land purchase, and Bt10,865 million in short-term bills of exchange (B/Es) and P/Ns.

SIRI plans to refinance its maturing bonds with new bond issues. Project loans will be repaid with cash flow from the transfers of residential units. Long-term P/Ns for land purchase will be converted to long-term project loans thereafter. Short-term B/Es and P/Ns will either be rolled over or repaid within 3-6 months. SIRI normally uses short-term B/Es and P/Ns in order to lower cost of funds. However, SIRI is expected to maintain its undrawn project loans to cover all outstanding B/Es and P/Ns in order to avoid rollover risk.

RATING OUTLOOK

The "stable" outlook reflects the expectation that SIRI will be able to sustain its operating performance at the target levels. Also, the company should be able to deliver the units in its backlog as scheduled. The operating profit margin and net profit margin should be maintained at the target levels over the next three years. With its aggressive business expansion, SIRI's debt burden will be on the rise. However, SIRI is expected to keep its adjusted debt to capitalization ratio below 66%, or adjusted interest-bearing debt to equity ratio lower than 2 times. The adjusted FFO to adjusted total debt ratio should stay at 5%-10% for a certain period.

RATING SENSITIVITIES

SIRI's ratings and/or outlook could be upgraded should its financial profile improve to the same levels as its higher rated peers. The adjusted debt to capitalization ratio should stay below 55% on a sustainable basis. Also, the ratio of adjusted FFO to adjusted total debt should increase to around 15%. On the other hand, the ratings and/or outlook could be revised downward should SIRI's operating performance and/or financial position significantly deteriorate from the target levels.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

| | Jan-Mar 2018 | ----- Year Ended 31 December ----- | | | |
|--|-----------------|------------------------------------|--------|--------|----------|
| | | 2017 | 2016 | 2015 | 2014 |
| Revenue | 5,032 | 30,916 | 33,811 | 36,955 | 28,093 |
| Gross interest expense | 1,094 | 1,576 | 1,593 | 1,807 | 1,956 |
| Net income from operations | 252 | 2,825 | 3,380 | 3,506 | 3,393 |
| Funds from operations (FFO) | 292 | 3,299 | 3,972 | 4,346 | 3,130 |
| Inventory investment | (1,891) | (1,678) | 19 | 5,742 | (11,125) |
| Total assets | 84,304 | 80,150 | 72,774 | 69,451 | 73,147 |
| Total debts | 50,318 | 45,008 | 40,277 | 35,713 | 39,103 |
| Shareholders' equity | 30,763 | 30,478 | 28,096 | 27,198 | 24,816 |
| Operating income before depreciation and amortization as % of sales | 4.13 | 12.08 | 14.04 | 12.59 | 14.28 |
| Pretax return on permanent capital (%) | 4.73 ** | 7.68 | 9.38 | 10.31 | 10.75 |
| Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times) | 0.72 | 3.67 | 4.03 | 3.77 | 3.35 |
| FFO/total debt (%) | 5.42 ** | 7.33 | 9.86 | 12.17 | 8.01 |
| Total debt/capitalization (%) | 62.06 | 59.62 | 58.91 | 56.77 | 61.18 |
| Total debt/EBITDA (times) | 24.61 | 10.55 | 7.75 | 6.21 | 7.37 |

Note: All figures have been adjusted by proportionate debt from the JVs since 2015 onwards.

* Consolidated financial statements

** Annualized with trailing 12 months

Sansiri PLC (SIRI)

| | |
|--|--------|
| Company Rating: | BBB+ |
| Issue Ratings: | |
| 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+ |
| SIRI190A: 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+ |
| SIRI21NA: Bt2,000 million senior unsecured debentures due 2021 | BBB+ |
| SIRI229A: Bt2,000 million senior unsecured debentures due 2022 | BBB+ |
| SIRI231A: Bt4,000 million senior unsecured debentures due 2023 | BBB+ |
| Up to Bt5,000 million senior unsecured debentures due within 3 years | BBB+ |
| Rating Outlook: | Stable |

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