ASSETWISE PLC

No. 136/2021
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CORPORATES

Company Rating: BBB-
Outlook: Stable

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RATIONALE

TRIS Rating assigns the company rating on Assetwise PLC (ASW) at "BBB-" with a "stable" rating outlook. The rating reflects ASW's volatile operating performance and evolving market position, its product segment concentration, and its improving capital structure after listing on the Stock Exchange of Thailand (SET) in April 2021. The rating also takes into consideration the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, which could put more pressure on the domestic economy and demand for residential properties. However, the company's relatively high backlog should help smooth out its earnings over the next 2-3 years.

KEY RATING CONSIDERATIONS

Evolving market position

ASW's market position, especially in the middle- to low-priced condominium segment, is evolving over time. The company's condominium projects developed under the "Kave", "Atmoz", and "Modiz" brands are well-accepted among college students and those in their early careers. ASW's presales have grown steadily in the last five years with a brief drop in 2019 due to the introduction of new loan-to-value (LTV) rules by the Bank of Thailand (BOT). Its presales ranged from THB3-THB5 billion during 2017-2020, growing from around THB1.5-THB2 billion during 2015-2016.

Despite a slowdown in domestic demand and the negative impacts of the COVID-19 pandemic, ASW's presales in the first half of 2021 were THB3.3 billion, up from THB2.5 billion in the same period last year. Given the healthy presales over the past three years, the value of ASW's project backlog stood at THB8.1 billion at the end of June 2021. The backlog is expected to be recognized as revenue of around THB2.9 billion in the second half of 2021, THB2.8 billion in 2022, and THB2.4 billion in 2023.

Relatively volatile operating performance but improvement expected over time

In TRIS Rating's view, ASW's operating performance is relatively volatile but should improve over time. ASW's revenue base is relatively small compared with rated peers. Its revenue was rather fluctuating, depending on the number of projects completed each year. The company's revenue jumped to THB4.2 billion in 2018 from less than THB1 billion in 2017, then, declined to THB2.6 billion in 2019, before recovering to THB4.6 billion in 2020. The company's earnings before interest, taxes, depreciation, and amortization (EBITDA) have also ranged widely, swinging from minus THB10 million to THB1.2 billion per annum over the same period.

Going forward, we project ASW's revenue to be THB5-THB7 billion per annum during 2021-2023, supported by the relatively large backlog on hand and its plan to consistently launch new projects in the next few years. The company's EBITDA is expected to range from THB1.2-THB1.8 billion annually while the company should be able to maintain its EBITDA margin above 20% during 2021-2023.

Concentration on product segment

We view that ASW's product portfolio to be quite concentrated in terms of locations, product types, and price range. As of June 2021, ASW had 24 condominium projects and three townhouse (TH) projects. The total value of the remaining units available for sale was THB5.8 billion (including built and un-built units). Condominium projects comprised around 95% of total unsold value, while TH projects accounted for the rest. More than 73% of the condominium projects were low-rise condominiums. In terms of price range, most condominium units are priced below THB3 million, with the price range of THB55,000-THB95,000 per square meter (sq.m.) made up around 60% of the remaining value. The company's projects are located mostly in the Lat Phrao, Ratchada, and Ramindra areas.

Going forward, ASW plans to add more landed property projects and high-rise condominiums to its portfolio. The company aims to increase the proportion of landed property projects to around 30% of its portfolio by the end of 2024. In addition, the company plans to launch one or two high-rise condominium projects each year. In our view, a diversified product portfolio will give the company more flexibility to adjust its products to meet market demand, while revenues and profitability should become less volatile in the future.

Concerns over the prolonged COVID-19 pandemic

TRIS Rating views that the demand for residential properties from both local and foreign homebuyers in 2021 will still be in a depressed condition due to the negative impacts of the ongoing COVID-19 outbreak. There remains a significant risk to the recovery and earnings prospects of developers, which is not helped by the slow progress of vaccination rollouts. Moreover, the rise in non-performing mortgage loans has prompted banks to tighten their lending policies. The weak purchasing power of homebuyers combined with stringent bank lending policies will continue suppressing demand for housing, especially in the middle- to low-income segments, which are the main target customers of the company. The intense competition in these segments could pressure the company's profit margin in the short to medium term. Nonetheless, we expect ASW to maintain its EBITDA margin above 20% over the next three years. Whereas the low interest rates and the extended stimulus measures and reduction in the transfer and mortgage registration fees for homes priced below THB3 million should help support the demand to some extent.

Improved capital structure after SET listing but financial leverage expected to rise

ASW's capital structure improved significantly after it raised THB2 billion from an initial public offering (IPO) in April 2021. The company's debt to capitalization ratio was 38.9% at the end of June 2021, down from 62.1% at the end of 2020. Going forward, we expect the leverage to rise since the company plans to launch a number of new projects to sustain growth momentum. ASW plans to launch new condominium projects worth around THB8-THB14 billion per annum during 2021-2023. The budget for land acquisition is set at around THB3 billion per annum over the next three years. TRIS Rating anticipates that economic fallout from the prolonged COVID-19 situation will pose a number of key challenges to property developers over the next few years. As a result, ASW, like other residential property developers, has to carefully manage its new project launches in order to match demand in each market segment.

Despite the expansion plan, our base-case forecast projects ASW's debt to capitalization ratio to stay in the 50%-55% range over the next three years (or a debt to equity ratio of 1-1.2 times). The ratio of funds from operations (FFO) to debt is expected to remain in the 15%-20% range. According to the covenants on its loan obligations, ASW is obliged to keep its total liability to equity ratio below 2 times. The ratio was 1.27 times at the end of June 2021. Most of its debts were secured. At the end of June 2021, ASW's priority debt to total debt ratio was 99%. Since ASW's priority debt ratio was higher than 50%, we consider ASW's unsecured creditors are significantly disadvantaged to its priority debt holders with respect to priority claim against the company's assets.

Acceptable liquidity

We assess ASW to have adequate liquidity over the next 12 months. The company's liquidity sources comprised cash plus current investments of THB1.2 billion and available credit facilities of THB100 million, as of June 2021. We forecast the company's FFO over the next 12 months to be around THB900 million. ASW's uses of funds over the next 12 months will amount to THB2.5 billion, comprising repayments of THB500 million for short-term loans, THB1.73 billion for project loans, and THB260 million for other long-term loans. Its cash on hand should be sufficient to repay its short-term and other long-term loans while its project loans will be repaid with cash received from the transfers of finished units to customers.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for ASW's operations during 2021-2023:

- ASW to launch new condominium projects worth around THB8-THB14 billion per annum over the next three years.
- Revenue is forecast at around THB5 billion in 2021, gradually increasing to THB7 billion in 2023.
- EBITDA margin to stay above 20%.
- Land acquisition budget of around THB2.5-THB3 billion yearly over the next three years.

RATING OUTLOOK

The "stable" outlook reflects our expectations that ASW will deliver its backlog of condominium units as scheduled, which should generate revenue of THB5-THB7 billion per annum during 2021-2023, and its EBITDA margin to hold above 20%. Despite its expansion plan, we expect ASW's debt to capitalization ratio to stay around 50%-55% for the next three years.

RATING SENSITIVITIES

We could revise ASW's rating or outlook upward if the company can enlarge and stabilize its revenue base and cash flow while maintaining a debt to capitalization ratio of around 50% on a sustained basis. On the other hand, we would revise the rating and/or outlook downward should ASW's operating performance and financial leverage deteriorate significantly from our base case levels, such that its debt to capitalization ratio rises above 60% or debt to EBITDA exceeds 5 times.

COMPANY OVERVIEW

ASW was established in 2005 by the Vipanpong family. The company became a public company in May 2020 and was listed on the SET in April 2021. After the IPO, the Vipanpong family continued to be ASW's largest shareholder, holding a 68% stake in the company as of April 2021.

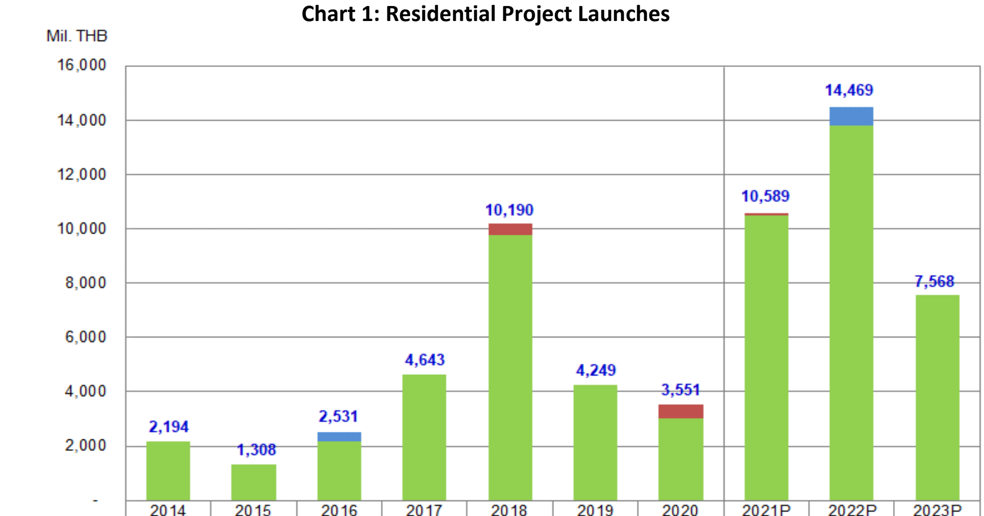
ASW focuses on the middle- to low-end condominium segment. The average selling price of its condominiums ranges from THB55,000-THB100,000 per sq.m. or THB1.5-THB3.5 million per unit. ASW's condominium projects are located mostly in the Lat Phrao and Ramindra areas. It also has several projects located near universities in the Rangsit and Salaya areas. The company plans to expand its condominium project into Sri Racha in Chonburi province.

ASW's condominium brands include: "Kave", "Atmoz", and "Modiz". "Modiz" is a middle- to high-income condominium segment brand with selling prices of THB85,000-THB130,000 per sq.m. The "Atmoz" brand has selling prices between THB70,000-THB95,000 per sq.m. and the "Kave" brand was introduced to capture the middle- to low-income segment, with selling prices from THB60,000-THB75,000 per sq.m. The company's single detached house (SDH) brand, "The Honor", has an average selling price of THB29.3 million per unit. Its TH projects are developed under brand names like "Glam" and "Baan Puri Puri", with prices ranging from THB10-THB17 million per unit.

ASW's revenue base is considered small compared with its SET-listed peers. The company transferred just a few projects each year during 2015-2017, generating revenue below THB2 billion per year. Revenue improved to the range of THB2.6-THB4.3 billion during 2018-2020. Revenue in the first half of 2021 was THB2.3 billion, up 52% from the same period a year ago.

KEY OPERATING PERFORMANCE

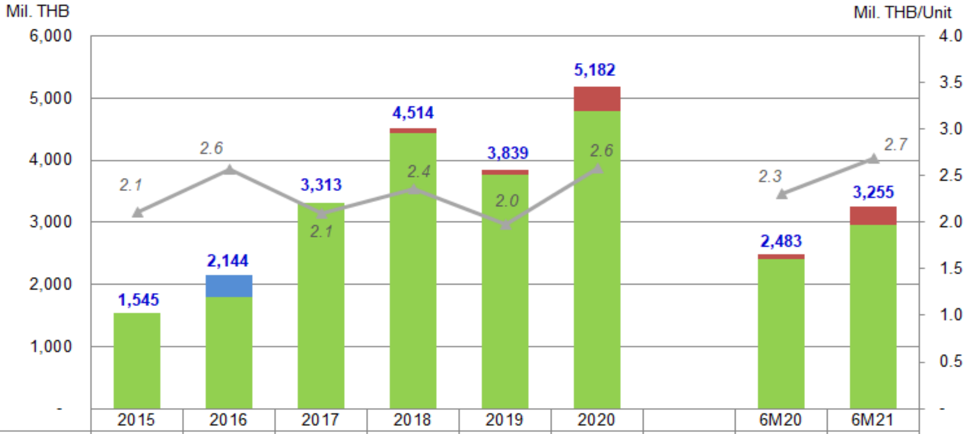
Chart 1: Residential Project Launches



	2014	2015	2016	2017	2018	2019	2020	2021P	2022P	2023P
TH	-	-	-	-	436	-	536	88	-	-
SDH	-	-	351	-	-	-		-	683	-
Condominium	2,194	1,308	2,180	4,643	9,754	4,249	3,015	10,502	13,786	7,568

Source: ASW

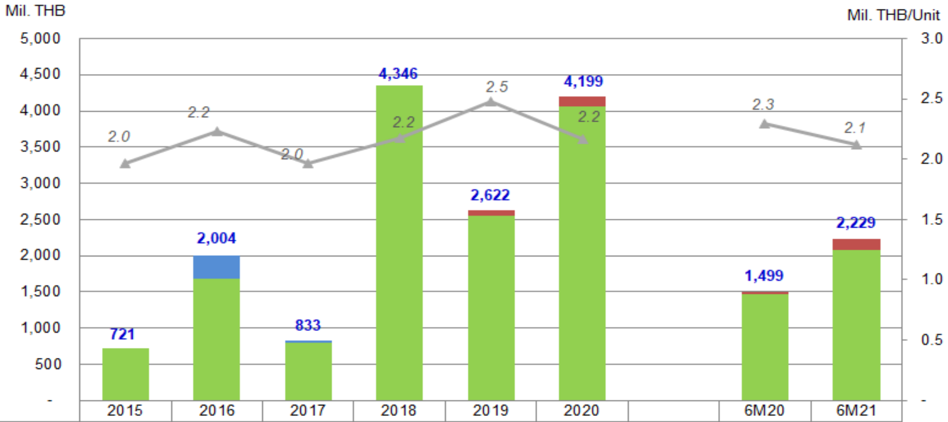
Chart 2: Presales Performance



	2015	2016	2017	2018	2019	2020		6M20	6M21
Townhouse	-	-	-	77	63	401		75	302
SDH	-	351	-	-	-	-		-	-
Condominium	1,545	1,793	3,313	4,437	3,776	4,782		2,408	2,953
Avg. Price	2.1	2.6	2.1	2.4	2.0	2.6		2.3	2.7

Source: ASW

Chart 3: Transfer Performance



	2015	2016	2017	2018	2019	2020		6M20	6M21
Townhouse	-	-	-	-	78	142	-	29	146
SDH	-	316	35	-	-	-		-	-
Condominium	721	1,688	798	4,346	2,545	4,057	-	1,470	2,083
Avg. Price	2.0	2.2	2.0	2.2	2.5	2.2		2.3	2.1

Source: ASW

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

		---------------Year Ended 31 December ---------------			
	Jan-Jun 2021	2020	2019	2018	2017
Total operating revenues	2,294	4,228	2,631	4,355	851
Earnings before interest and taxes (EBIT)	702	1,142	446	862	(22)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	755	1,191	480	885	(10)
Funds from operations (FFO)	521	792	246	598	(83)
Adjusted interest expense	83	205	148	109	82
Real estate development investments	7,351	6,751	5,259	4,599	3,691
Total assets	10,060	8,160	6,860	5,492	4,350
Adjusted debt	2,827	3,757	3,584	3,594	3,413
Adjusted equity	4,441	2,297	1,716	788	251
Adjusted Ratios					
EBITDA margin (%)	32.91	28.17	18.24	20.32	(1.13)
Pretax return on permanent capital (%)	20.84 **	19.10	8.68	20.45	(0.74)
EBITDA interest coverage (times)	9.05	5.80	3.24	8.12	(0.12)
Debt to EBITDA (times)	1.74 **	3.15	7.47	4.06	(355.52)
FFO to debt (%)	40.28 **	21.08	6.87	16.64	(2.45)
Debt to capitalization (%)	38.90	62.06	67.63	82.02	93.15

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

RELATED CRITERIA

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

Assetwise PLC (ASW)

Company Rating:	BBB-
Rating Outlook:	Stable

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