

# VILLA KUNALAI PCL

No. 14/2022  
24 February 2022

## CORPORATES

**Company Rating:** BB  
**Outlook:** Stable

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## RATIONALE

TRIS Rating assigns the company rating of “BB” to Villa Kunalai PCL (KUN) with a “stable” rating outlook. The rating reflects the company’s very small size of revenues and earnings, the concentration of its product portfolio, and its rising financial leverage. The rating also takes into consideration our concerns over the relatively high household debt levels and rising inflation rates which could impact the purchasing power of homebuyers in the middle- to low-income segments, which are the target segments of KUN.

## KEY RATING CONSIDERATIONS

### Growing, but still very small revenue base

KUN’s revenues and earnings are growing but still considered small compared with peers of higher ratings. Its revenues increased from less than THB500 million in 2017 to around THB1 billion in 2021. The growing revenue base and better cost control have helped improve the company’s profitability as a result. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) margin has continually risen and stayed above 15% since 2019, from 9%-13% in 2016-2018. The EBITDA margin was 18% in 2020 and 23% during the first nine months of 2021. As a result, its EBITDA is expected to be around THB200 million in 2021, increasing from around THB50 million in 2017.

Looking forward, we expect the company’s operating performance to improve continually. KUN launched a landed property project worth THB485 million in the last quarter of 2021 and plans to launch new landed residential projects worth around THB3.6 billion in 2022. Based on that, we expect the company’s revenue to stay in the range of THB1-THB1.3 billion per annum over the next three years. We view KUN’s profitability could be pressured by intense competition in the industry and the rising cost of building materials in the short to medium term. Nonetheless, we expect the company to maintain its EBITDA margin in the 15%-20% range over the next three years.

### Portfolio concentration

We view KUN’s product portfolio is highly concentrated. As of December 2021, KUN’s residential project portfolio comprised five on-going projects, with a remaining value of THB1.6 billion and a backlog value of THB303 million. Four out of five projects (worth around 90% of the remaining value) are located at a single site in Bangbuathong district, Nonthaburi province. The remaining project is located in Chachoengsao province. KUN also focuses mainly on the middle- to low-priced housing segments. The company offers single-detached houses (SDH) and semi-detached houses (semi-DH) with average selling prices of THB3-THB6 million per unit, townhouses (TH) with unit prices of around THB2 million, and commercial buildings (CB) with unit prices of THB3-THB4 million.

Due to the limited number of projects, an unfavourable response to any project could significantly impact the operating performance of the company. However, KUN has been seeking opportunities to expand its housing projects into new potential areas. The company plans to launch a new project, “Kunalai Navara”, worth around THB2.8 billion in the Bangkhuntian area in the last quarter of 2022. This project will contain 430 units of SDHs, with an average unit price of THB6.5 million. KUN views that prices to be set for the project will be rather competitive compared with other developers in that area. Its expansion into the Southern part of Bangkok, if successful, will help

enhance its revenue base and partly alleviate its concentration risk.

### Rising financial leverage

We expect KUN's financial leverage to climb and stay in the 50%-60% range over the next three years due to more new project launches and land purchases. To facilitate revenue growth, the company purchased land in 2021 worth THB659 million, including THB420 million of land in Bangkhuntian. As this transaction is relatively sizable compared with the size of the company, KUN's debt to capitalization ratio is forecast to reach 60% at the end of 2021, increasing from 32% in 2020 and 48% as of September 2021.

Looking forward, we expect the company's debt to capitalization ratio to gradually decline and range 50%-56% in 2022-2023, based on the assumption that the company will launch new landed residential projects worth around THB3.6 billion in 2022-2023 and THB1 billion in 2024. The budget for land acquisition will be around THB200 million per annum. Based on the expected growth in revenues and earnings, KUN's debt to EBITDA ratio is expected to gradually decline from its peak of around 3.8 times in 2021 to around 3-3.5 times during 2022-2023.

At the end of December 2021, KUN had debts of THB946.4 million, comprising THB520.1 million project loans, THB240 million secured debentures, THB120 million convertible debentures, and THB66.3 million of other debts. Around THB800 million of its total debts were considered priority debts. As a result, KUN's priority debt to total debt ratio was 85%, higher than the 50% threshold according to TRIS Rating's "Issue Rating Criteria". Thus, in our view, KUN's unsecured creditors are significantly disadvantaged to its priority debt holders with respect to the priority of claims against the company's assets.

### Challenging year for residential property industry

TRIS Rating expects the demand for residential properties in 2022 to grow by 5%-10% from the previous year, supported by improving economic prospects as the impacts of the Coronavirus Disease 2019 (COVID-19) show signs of abating. In addition, the extended relaxation of the loan-to-value (LTV) limit to 100% from 70%-90% for all housing units and the reduction in the transfer and mortgage registration fees for homes priced below THB3 million until the end of 2022 should help support the growth in demand for housing this year.

However, there remain several key challenges to property developers in the short- to medium- term. Competition among residential property developers remains intense, especially in the affordably priced segment. Therefore, the company needs to constantly update its products to match market demand and raise brand awareness among target customers in order to sustain its revenue growth. Moreover, the relatively high household debt level and rising inflation rates could weaken the purchasing power of homebuyers, especially in the middle- to low-income segments. Stringent bank lending policies are also a challenge for all residential property developers. Thus, the company's customer screening process will be an important factor that determines the success rate of its sales.

### Manageable liquidity

KUN's liquidity is tight but should be manageable. At the end of December 2021, its sources of liquidity included cash on hand of THB125 million and undrawn committed credit facilities of around THB56 million. We forecast funds from operations (FFO) to hover around THB140 million over the next 12 months. The company had debts of THB392.2 million coming due in the next 12 months, comprising THB53.5 million in promissory notes (P/N), THB248.7 million in long-term loans and THB90 million in debentures. KUN plans to refinance the maturing debentures with new debenture issues and to roll over maturing P/N, while its project loans will be repaid with cash received from the transfers of finished units to customers.

The financial covenant on KUN's debentures requires the company's net interest-bearing debt to equity (net IBD/E) ratio to remain below 3 times. The ratio at the end of September 2021 was 0.9 times. We believe the company should comfortably comply with the financial covenant over the next 12 months.

### BASE-CASE ASSUMPTIONS

- Operating revenues to grow by around 10%-20% per annum over the next three years.
- Gross profit margin to range from 28%-33% and EBITDA margin from 19%-25% during 2021-2023.
- Budget for land acquisition of THB659 million in 2021 and THB200 million per annum in 2022-2023.

### RATING OUTLOOK

The "stable" outlook reflects our expectation that KUN to maintain its operating performance and financial position as targeted. We expect KUN's revenues to stay in the THB1-THB1.3 billion range and the EBITDA margin to range between 15%-20% over the next three years. We also expect the company to keep the debt to capitalization ratio below 60% and the debt to EBITDA ratio in the range of 3-4 times over the forecast period.

## RATING SENSITIVITIES

We could revise KUN's rating or outlook upward if the company can achieve significant growth in its revenue and earnings base, while maintaining its financial profile at the current level. On the contrary, we would revise the rating and/or outlook downward if KUN's operating performance and/or financial profile deteriorate significantly from our base-case forecast causing the debt to capitalization ratio and the debt to EBITDA ratio to rise above 60% and 5 times, respectively.

## COMPANY OVERVIEW

KUN was established in 2007 by Mrs. Praweerat Dheva-aksorn and Mr. Kuna Dheva-aksorn to operate the property development for sale business. The company became a public company in February 2019 and was listed on the Stock Exchange of Thailand (SET) in December 2019. The Dheva-aksorn and Sangkawanich families, the company's founders and major shareholders, held a combined 63% equity stake as of September 2021. KUN focuses on the middle- to low-income housing segment. The company offers SDH and semi-DH with average selling prices of THB3-THB6 million per unit, TH with unit prices of around THB2 million, and CB with unit prices of THB3-THB4 million. Its housing projects are located mostly in the Bangbuathong area of Nonthaburi province.

As of December 2021, KUN's residential project portfolio comprised five on-going projects, with a remaining value of THB1.6 billion and a backlog value of THB303 million. Of the remaining value, 88.5% is located in the Bangbuathong area while the remainder is in Chachoengsao province.

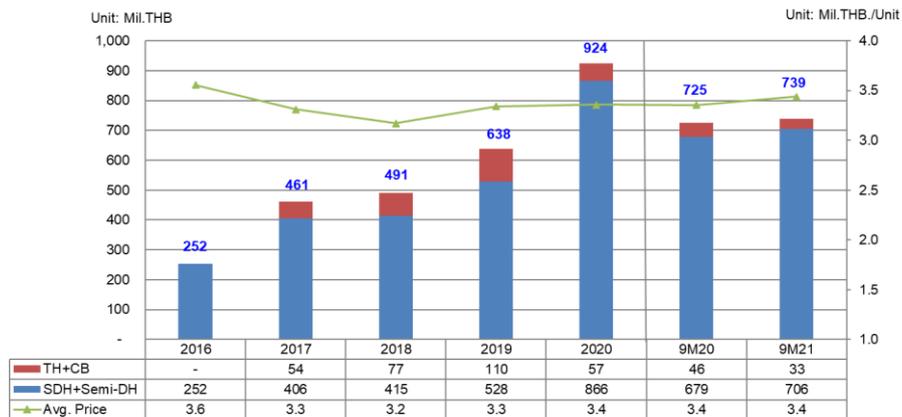
## KEY OPERATING PERFORMANCE

**Chart 1: New Project Launches**



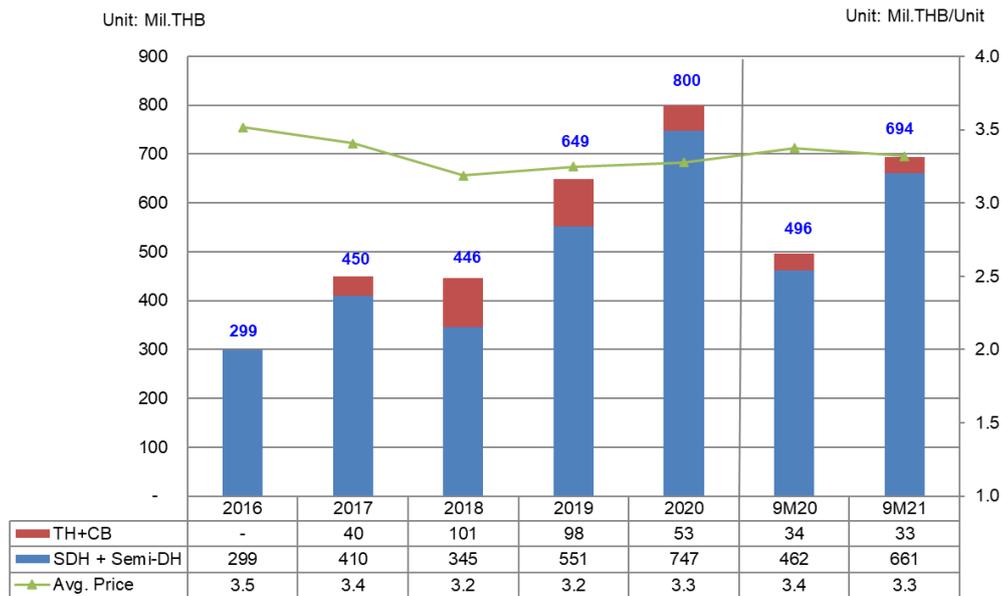
Source: KUN

**Chart 2: Presales**



Source: KUN

Chart 3: Transfers



Source: KUN

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

	Jan-Sep 2021	2020	2019	2018	2017
Total operating revenues	697	804	653	447	450
Earnings before interest and taxes (EBIT)	156	141	94	40	51
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	162	148	102	48	56
Funds from operations (FFO)	115	98	55	15	11
Adjusted interest expense	20	28	34	31	43
Real estate development investments	1,038	797	781	684	644
Total assets	1,364	1,035	940	818	805
Adjusted debt	518	246	291	366	327
Adjusted equity	570	513	459	295	314
<b>Adjusted Ratios</b>					
EBITDA margin (%)	23.16	18.38	15.70	10.71	12.46
Pretax return on permanent capital (%)	21.34 **	16.70	12.65	5.92	7.94
EBITDA interest coverage (times)	8.21	5.37	3.03	1.54	1.31
Debt to EBITDA (times)	2.22 **	1.66	2.84	7.65	5.84
FFO to debt (%)	32.02 **	40.05	19.00	4.12	3.34
Debt to capitalization (%)	47.62	32.40	38.78	55.36	51.06

\* Consolidated financial statements

\*\* Adjusted with trailing 12 months

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**RELATED CRITERIA**

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- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology – Corporate, 26 July 2019

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**Villa Kunalai PCL (KUN)**

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<b>Company Rating:</b>	BB
<b>Rating Outlook:</b>	Stable

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