TRIS RATING
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MAJOR DEVELOPMENT PLC

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CORPORATES

Company Rating:	BB+
Outlook:	Stable

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RATIONALE

TRIS Rating assigns the company rating on Major Development PLC (MJD) at "BB+". The rating reflects MJD's relatively high volatility in profitability and cash flow from operations along with high financial leverage due to its concentrated products in the high-end condominium and housing segments. The rating also takes into consideration MJD's well-accepted brand name in the luxury condominium segment and its relatively large backlog. The cyclicality of housing demand and more intense competition in the high-end residential property segment remain a challenge for the company.

KEY RATING CONSIDERATIONS

Volatile operating performance

In TRIS Rating's view, MJD's operating performance is relatively volatile. MJD's products are concentrated in high-end condominium projects and high-priced low-rise housing projects which take time to develop. Its revenue recognition is inconsistent, depending on the number of projects completed each year. However, its selling and administrative expenses (SG&A) are quite fixed and increased steadily in the last three years. MJD's operating margin (operating income before depreciation and amortization as a percentage of revenue) jumped to 20.14% in 2016 from 9.22% in 2015, but dropped to 2.31% in 2017. However, we expect MJD's operating margin will improve to around 10%-12% in 2018, supported by sizable condominium backlog which will be transferred this year.

MJD's operating performance in 2017 was lower than TRIS Rating's expectation. The delay in transfer of the "Marque" project, a joint venture (JV) project between MJD and private equity funds, caused the profit sharing from this project to be lower than the target. Thus, the company reported a net loss of Bt184 million in 2017, a significant deviation from our net profit target of around Bt250 million.

Large backlog partly secures future revenue

MJD has a significant amount of backlog on hand. At the end of March 2018, MJD's condominium backlog stood at Bt9,417 million and is expected to be recognized as revenue of around Bt3,700 million in the remainder of 2018, Bt1,200 million in 2019, and the rest in 2020 and 2021. In addition, the backlog under the JV, worth Bt7,990 million, will be recognized as revenue of around Bt2,800 million by this year, Bt1,400 million in 2019, and the rest in 2020 and 2021. The significant amount of backlog was driven by the increasing number of project launches and the strong presales of both the company's and the JV projects.

MJD's presales improved in 2017 through the first quarter of 2018. Presales in 2017 was Bt6,511 million, up from around Bt3,500-Bt4,000 million per year during 2013-2016. In the first quarter of 2018, MJD generated presales of Bt1,629 million, up from Bt323 million in the same period a year ago, while presales generated from projects under the JVs were Bt2,589 million.

Concentration in high-rise condominiums, but gradually increasing low-rise condominium and landed property projects

MJD's portfolio is quite concentrated in the high-rise condominium segment. At the end of March 2018, the company had 23 condominium projects worth

Bt12,816 million available for sale. Almost 73% of the value of its unsold units was in the high-rise projects. In addition, MJD has three condominium projects undertaken through JVs. At the end of March 2018, the JV projects were 76% sold and had Bt3,348 million worth of units available. High-rise condominium projects have a relatively high project value and require a longer development period than low-rise projects. If presales are low or if a project faces construction delays, MJD's performance will suffer.

MJD is trying to mitigate its business concentration risk by developing more low-rise condominium projects under the "Maestro" brand. However, its target customers are still in the high-end segment. The company also plans to add new products, such as townhomes and single detached houses, into its portfolio. MJD plans to launch housing projects worth around Bt2,000-Bt3,000 million during 2018-2019. These housing projects also focus on the high-end segment.

High level of financial leverage

MJD's leverage is high. The company develops only condominium projects, which are capital intensive and take a long time to finish. MJD's slow selling rate and its long development period cause its financial leverage to be higher than most property developers on the list of the Stock Exchange of Thailand (SET). The total debt to capitalization ratio (including a proportionate 51% of debt from the JV) of MJD stayed above 70.0% over the past three years. This ratio was 77.6% at the end of March 2018, higher than most listed property developers. With many condominium projects in progress plus its plans to invest in both condominium and new recurring-income projects, we expect MJD's leverage to remain high. However, the company has to keep the interest-bearing debt to equity ratio below 3.5 times in order to comply with its loan covenants.

At the end of March 2018, the ratio of interest-bearing debt to equity was 3.27 times. MJD mainly finances land acquisition and construction costs with project loans from banks and debenture issuance. At the end of March 2018, total debt (including a proportionate 51% of debt from the JV) was Bt13,213 million. Around 53% of the outstanding debts were long-term project loans, 35% were debentures, and the rest were short-term loans.

Well-accepted brand name in the high-end segment

MJD's brands are widely accepted in the high-end residential property segment. MJD's condominium projects were developed under the "M Series", "Maru", "Metris", and "Maestro" brands. Its brand recognition was quite strong in the high-priced condominium segment, especially in condominium projects with prices ranging between Bt100,000-Bt150,000 per square metre (sq.m.).

The company's competitive edge in the high-end condominium segment comes from high-quality, functional unit sizes and prime locations. Most of MJD's projects are located in prime areas close to stations on the existing mass transit lines. The rest are located in tourist destinations like Pattaya and Hua Hin. In the last couple of years, the company diversified its products toward smaller projects like 8-floor condominium projects and detached houses in order to shorten the construction time period but still target high-income homebuyers.

Exposure to cyclical and competitive industry

Demand for housing is cyclical and depends largely on the economy. Due to a slowdown in the domestic economy and concerns over the high level of household debt nationwide, lending policies at banks have tightened. Rejection rates for mortgage loans have increased significantly, especially in the low-priced housing segment (units priced at less than Bt3 million). To avoid the problem of rising rejection rates, several developers, including MJD, focus more on the higher-priced segments. However, demand in the higher-priced segments is much lower than in the lower-priced segment. More competition among developers will result from an increased supply of housing units in this segment.

Liquidity remains a key concern

MJD's liquidity is tight. Debt due over the next 12 months (excluding project loans) will be Bt2,406 million. Its sources of funds comprised cash on hand of Bt567 million and undrawn committed credit facilities of around Bt1,300 million at the end of March 2018. TRIS Rating forecasts the funds from operations (FFO) of MJD over the next 12 months will be around Bt500-Bt600 million. MJD should carefully manage its cash inflows and cash outflows in order to avoid liquidity risk.

Under TRIS Rating's base-case, we expect MJD's FFO to total debt ratio will range from 3%-5% over the next three years, while the EBITDA (earnings before interest, taxes, depreciation, and amortization) interest coverage ratio is expected to stay around 1-2 times.

RATING OUTLOOK

The "stable" outlook reflects our expectation that MJD will deliver its condominium units in the backlog as scheduled. Due to the significant amount of backlog transferred for this year, MJD's financial profile should improve from last year. However, because MJD plans substantial future investments in both new condominium projects and recurring-income assets, we therefore expect its financial leverage will remain high over the next three years.

Under TRIS Rating's base case scenario, MJD's total revenue will be around Bt4,500-Bt5,500 million per annum in 2018 and 2019. Revenue in 2020 is expected to be around Bt8,000 million, because the large condominium projects in backlog are planned to be transferred to customers. The revenue contribution from the recurring-income assets is expected to be around Bt200-Bt300 million per annum. The operating margin is expected to be 10%-15%. MJD's debt to capitalization ratio (including a proportionate 51% of debt from the JV) is expected to stay in the range of 70%-75%.

RATING SENSITIVITIES

TRIS Rating could revise MJD's rating or outlook upward if the company delivers its projects as planned and lowers its debt to capitalization ratio to 60%-65% on a sustainable basis. However, we would revise the rating and/or outlook downward should MJD's operating performance and its financial leverage deteriorate significantly from the current levels. A decline in operating margin to below 10% and/or the debt to capitalization ratio staying at around 75% for a sustained period may also lead to a rating downgrade.

COMPANY OVERVIEW

MJD was established in 1999 by the Poolvoralaks family. The company became a public company in December 2005 and was listed on the SET in November 2007. After the initial public offering (IPO), the Poolvoralaks family continued to be MJD's largest shareholder. As of March 2018, the Poolvoralaks family held a 63% stake in the company.

MJD focuses on the high-end condominium segment. The average selling price across the portfolio was around Bt120,000 per sq.m. or an average price of Bt5-Bt10 million per unit. Its major brands comprise the M Series and the Maestro. The M Series projects are high-rise condominiums located near mass transit lines. The Maestro projects are low-rise condominiums in good locations on smaller land plots. The company also has signature projects targeting the super-luxury segment.

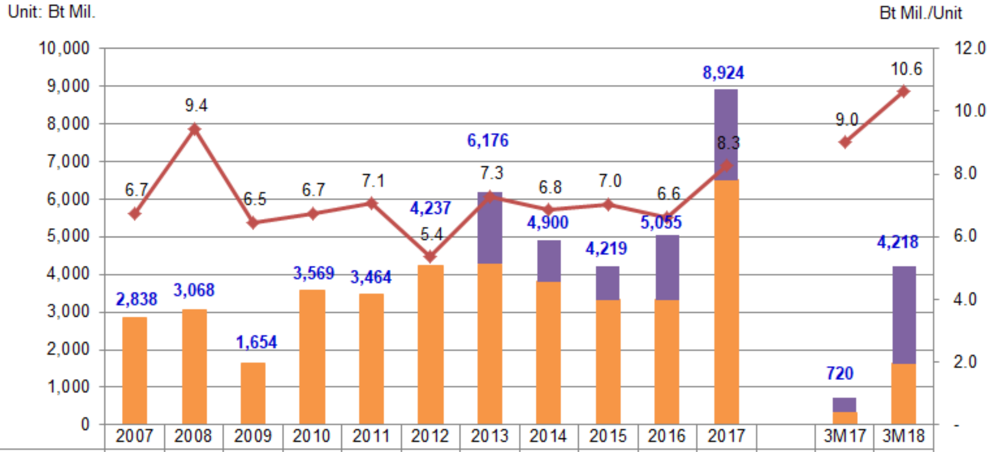
In 2013, MJD invested 51% in a JV with private equity funds, including Must International Trading Pte. Ltd. (22%), GMM Singapore Real Estate Pte. Ltd. (22%), and Lionpath Ltd. (5%). The JV developed two condominium projects: "Marque", launched in 2013 and "Muniq Sukhumvit", launched in 2016, with combined project value of Bt9,365 million. The JV also launched "Muniq Langsuan" in 2018, with project value of Bt3,690 million.

In 2017, MJD launched two new condominium brands, including Metris, with an average price of Bt4-Bt6 million per unit, and Maru, with an average price of Bt6-Bt8 million per unit, to capture the lower-priced segment. In addition, the company plans to launch housing projects under the brands "Malton" and "Marvista" this year.

Moreover, MJD expanded its business to generate more recurring income. MJD developed two hotels, "Marrakesh Hua Hin Resort and Spa" in 2011 and "Centra Maris Resort Jomtien" in 2016. In addition, MJD developed an office building, "Major Tower Thonglor 10", in 2015. These rental assets generate revenue of around Bt200-Bt300 million per annum.

KEY OPERTING PERFORMANCE

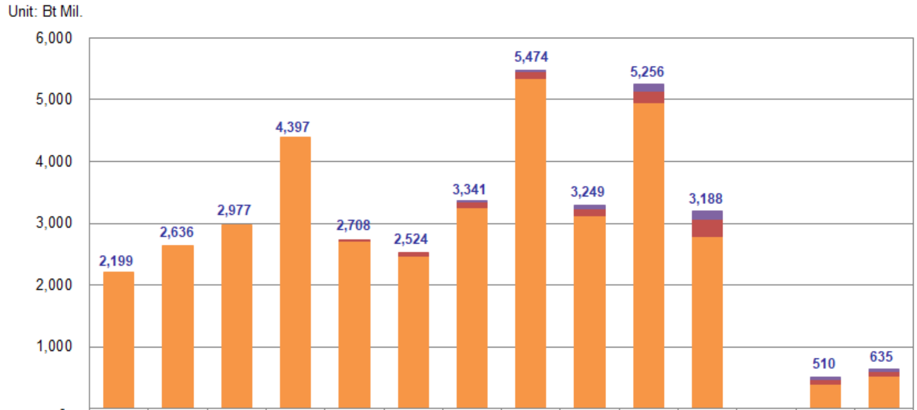
Chart 1: Presales Performance



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		3M17	3M18
Condo JV							1,902	1,092	897	1,724	2,413		397	2,589
Condo MJD	2,838	3,068	1,654	3,569	3,464	4,237	4,274	3,808	3,322	3,331	6,511		323	1,629
Avg. Price	6.7	9.4	6.5	6.7	7.1	5.4	7.3	6.8	7.0	6.6	8.3		9.0	10.6

Source: MJD

Chart 2: Revenue Breakdown by Segment



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		3M17	3M18
Rental and Service Income							4	25	67	113	132		34	32
Hotel					4	61	88	99	112	194	274		73	79
Residential Sales	2,199	2,636	2,977	4,397	2,704	2,463	3,250	5,349	3,118	4,949	2,782		403	524

Source: MJD

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2018	--------------- Year Ended 31 December --------------- 2017	2016	2015	2014
Revenue	635	3,188	5,256	3,297	5,474
Gross interest expense	174	555	399	418	426
Net income from operations	26	(184)	389	69	621
Funds from operations (FFO)	(183)	(178)	656	2	409
Inventory investment (-increase/+decrease)	(82)	(3,006)	317	(2,251)	1,207
Total assets	19,766	19,633	15,895	14,890	11,774
Total debts	12,478	12,329	9,443	8,657	5,324
Total adjusted debts	13,213	13,174	10,546	9,301	5,832
Shareholders' equity	3,811	3,785	3,963	3,537	3,299
Operating income before depreciation and amortization as % of sales	(2.67)	2.31	20.14	9.22	12.19
Pretax return on permanent capital (%)	2.39 **	1.25	7.24	2.95	9.55
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	0.95	0.54	2.76	0.94	2.48
FFO/total debt (%)	(2.35) **	(1.35)	6.22	0.02	7.01
Total debt/capitalization (%)	77.61	77.68	72.69	72.45	63.87

Note: All ratios have been adjusted by 51% debt from JVs since 2013 onwards.
* *Consolidated financial statements*
** *Annualized with trailing 12 months*

Major Development PLC (MJD)

Company Rating:	BB+
Rating Outlook:	Stable

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