TRIS RATING
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# SIAMESE ASSET PLC

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## CORPORATES

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

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## RATIONALE

TRIS Rating assigns the company rating on Siamese Asset PLC (SA) at "BB+" with a "stable" rating outlook. The rating reflects SA's evolving brand recognition in the condominium segment and its relatively high backlog. However, these strengths are partly offset by the company's limited track record, product segment concentration, and its aggressive expansion, which has led to high financial leverage. In addition, most of its assets are pledged as collateral for bank loans. Its unsecured creditors could therefore be in an inferior position to bank lenders. The rating also takes into consideration a slowdown in demand for condominiums and concerns over the impacts of the coronavirus (COVID-19) pandemic which further suppress demand for residential properties.

## KEY RATING CONSIDERATIONS

### Limited track record with evolving brand recognition in the condominium segment

In TRIS Rating's view, SA's market position in the condominium segment is improving over time. Its brand recognition in the middle- to high-end condominium segments is evolving. The company develops condominium projects under the "Blossom", "Siamese", "Siamese Exclusive", and "The Collection" brands. SA's presales have grown steadily over the past three years. Presales increased to THB5.7 billion in 2019 from around THB4 billion in 2017. However, presales in the first quarter of 2020 were THB0.7 billion, down from THB1.3 billion in the same period last year due to a slowdown in domestic demand and the negative impacts of the COVID-19 pandemic. SA's revenue base also remains small compared with other rated developers as the company has completed relatively few projects each year.

In order to differentiate itself from other developers and pursue its growth strategy, SA plans to develop more mixed-use projects, which have both residential and commercial properties in the same project. In addition, the company plans to develop more branded residences, which have hotel service tie-ins with the residential projects in order to capture demand from both homebuyers and investors. However, this concept is still in its initial stage, and the success of the strategy remains to be seen.

### Sizeable backlog partly secures revenues during 2020-2022

TRIS Rating is of the view that SA's sizeable backlog should partly secure its revenue and profitability over the next three years. At the end of March 2020, the value of SA's condominium backlog stood at THB10.3 billion. The backlog is expected to be recognized as revenue of around THB3.9 billion in 2020, THB1.4 billion in 2021, THB3.6 billion in 2022, and the rest in 2023. The company also had 11 condominium projects and two landed property projects. The total value of the remaining units available for sale was THB17.9 billion.

In TRIS Rating's base case forecast, SA's revenue is expected to range from THB4-THB6 billion per annum during 2020-2022. Its earnings before interest, tax, depreciation, and amortization (EBITDA) is expected to range THB1.0-THB1.5 billion per annum over the next three years. The company should be able to maintain its EBITDA margin at around 20% during 2020-2022. We project its funds from operations (FFO) to stay in the range of THB0.4-THB0.8 billion per annum.

### Concentrated product portfolio

SA's portfolio is quite concentrated in terms of locations, product types, and price range. More than 95% of its products are high-rise condominium projects, with prices ranging THB80,000-THB300,000 per square meter (sq.m.). Its projects are located mostly in the Sukhumvit, Rama 9, and Bangna areas. Generally, high-rise condominium projects have a relatively high project value and require a longer development period than low-rise condominiums or landed properties. We view its concentration in a certain number of high-rise condominium projects as a negative factor on its business and financial risk profiles, since failure in any single project could materially hurt the overall performance of the company. As the company is in the growth stage, its ability to manage several large projects at the same time is yet to be seen.

During 2018-2019, SA launched five projects worth around THB21.8 billion accounting for more than 60% of the remaining active projects. Four out of the five projects still had presales lower than 50%. Its most exclusive project, the "Collection", worth around THB5 billion, is still awaiting environmental impact assessment (EIA) approval while its largest project, "Siamese Rama 9", worth around THB8 billion, was 44% sold as of March 2020. Due to the sluggish domestic and foreign demand, sales of these projects may take longer to complete than anticipated.

### Concerns over softening demand and impacts of COVID-19

The residential property market closely follows trends in the domestic economy. However, volatility in this market is much more pronounced than in the overall economy. The slowdown of the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the purchasing power of local homebuyers. Negative impacts from the global trade war and appreciation of the Thai baht have also caused a drop in demand for condominiums from foreign investors, especially Chinese investors, since 2019.

For 2020, the economic fallout from the COVID-19 pandemic is going to further suppress market demand. Most developers are adopting a wait-and-see approach as demands from local and foreign buyers are expected to drop sharply in 2020. In addition, due to the travel restrictions in several countries, SA may have to postpone the transfers of foreign-buyer residential units for a few months. The company's backlog of units sold to foreign buyers which are ready for transfer this year amounts to around THB2 billion, or 45%-50% of total backlog to be transferred in the year. Thus, SA should prudently manage the transfers of its condominium units since the delay in transfers could significantly impact the company's revenue recognition this year.

### Aggressive expansion leads to high financial leverage

TRIS Rating views SA's leverage will likely remain at a relatively high level over the next three years since the company plans to launch numerous projects to sustain business growth momentum. SA plans to launch new condominium projects worth around THB4 billion this year and THB15 billion in total during 2021-2022. SA also plans to invest in assets that generate recurring income, such as hotels, serviced residences, and office spaces. The investment budget has been set to amount to THB2.0-THB2.5 billion over the next three years. However, due to concerns over the negative impacts of the COVID-19 pandemic on the economy, SA may postpone investments in some projects.

SA's debt to capitalization ratio has ranged 72%-79% in the last five years. In TRIS Rating's base-case forecast, SA's debt to capitalization ratio is expected to stay in the 65%-70% range over the next three years. This ratio should decrease once its large condominium projects are completed and transferred. Its FFO to debt ratio is expected to stay in the range of 7%-10%. The company's plan to list on the Stock Exchange of Thailand (SET) is expected to help improve its equity base and lower its debt to capitalization ratio. In our views, the company's leverage may drop only temporarily because of its plans to invest in several large projects in the next three years. SA's ability to lower its debt to capitalization ratio to around 60%-65% on a sustained basis will be a plus for its rating.

### Tight but manageable liquidity

We assess SA's liquidity as tight, but it should be manageable over the next 12 months. Debts due over the next 12 months amount to THB1.31 billion, comprising THB149 million in short-term loans, THB969 million in project loans, and THB187 million in debentures. Project loans will be repaid with cash from the transfers of residential units. Sources of funds comprised cash on hand of THB185 million and undrawn committed credit facilities of around THB860 million at the end of March 2020. TRIS Rating forecasts SA's FFO over the next 12 months to be around THB400-THB500 million. Due to the liquidity crunch in the bond market, SA may need to seek bank financing. Based on the company's good operating performance, we expect the company should have no problems sourcing bank loans. Nonetheless, SA needs to manage its liquidity carefully.

We believe that SA should be able to comply with its financial covenants over the next 12 to 18 months. The financial covenants of its bank loans and bonds require SA to keep its interest-bearing debt to equity ratio below 3 times. The ratio at the end of March 2020 was 2.7 times.

## BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for SA's operations during 2020-2022:

- SA to launch one mixed-use project worth THB4 billion in the fourth quarter of 2020, and new condominium projects worth THB3-THB4 billion per annum during 2021-2022.
- Revenue is forecast at THB4-THB6 billion per annum during 2020-2022.
- Land acquisition budget of around THB1 billion per year.
- Capital expenditures on its rental assets of THB2.0-THB2.5 billion over the next three years.

## RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectations that SA will deliver its condominium units in the backlog as scheduled. Backed by the projected backlog units delivered during 2020-2022, SA's financial profile should improve over the next three years. We expect the company's EBITDA margin to hold at around 20%. However, as SA plans substantial future investments in both new condominium projects and recurring-income assets, we expect SA's debt to capitalization ratio to stay in the range of 65%-70%.

## RATING SENSITIVITIES

TRIS Rating could revise SA'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 sustained basis. On the other hand, we would revise the rating and/or outlook downward should SA's operating performance and its financial leverage deteriorate significantly from the target levels.

## COMPANY OVERVIEW

SA was established in 2010 by Mr. Kajonsit Singsansern to develop residential property projects in Bangkok. Mr. Singsansern holds the position of managing director and has also been the major shareholder since the company's inception. As of March 2020, he owned 41.4% of the company's shares. SA plans to list on the SET in late 2020. After the listing, Mr. Singsansern would hold a 31% stake.

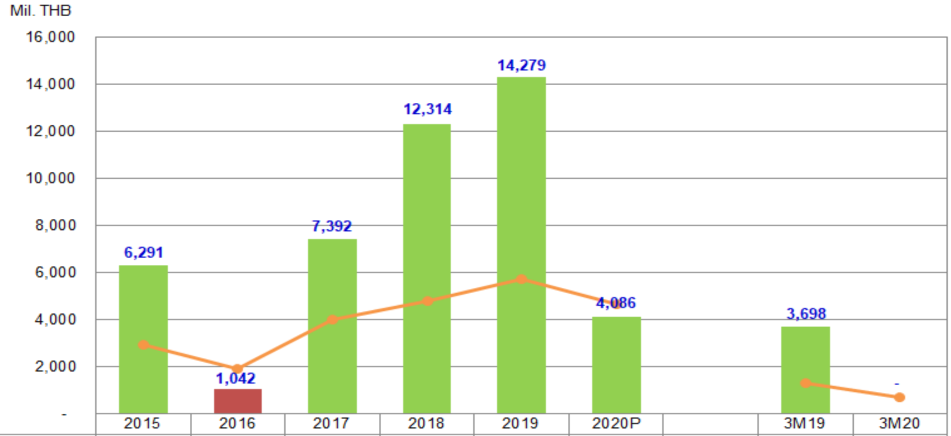
SA focuses on the middle- to high-end condominium segments. Its product portfolio covers a price range of THB3-THB14 million per unit. SA's condominium projects are located near mass transit line stations in the Sukhumvit road and Rama 9-Ratchada areas. SA also has land in the Ramintra area to develop landed property projects.

SA's condominium brands include: "Blossom", "Siamese", "Siamese Exclusive", and "The Collection". "The Collection" is a high-end condominium brand with selling prices of THB230,000-THB300,000 per sq.m. The "Siamese Exclusive" brand has selling prices between THB150,000-THB230,000 per sq.m. The "Siamese" brand sets prices at THB100,000-THB150,000 per sq.m. and the "Blossom" brand was introduced to capture the middle-income segment, with selling prices from THB80,000-THB100,000 per sq.m. Most of the condominium projects are located in Bangkok. The company's single detached house (SDH) brand "Siamese KIN" carries a price range of THB5-THB22 million per unit.

SA plans to expand its business to generate more recurring income. The company plans to retain ownership of some unit areas of condominium projects that are situated in good locations to develop as hotels, serviced residences, or commercial spaces for rent. SA has also bought land and a building under construction named "Above 39" on Sukhumvit 39 to redesign and renovate for development as a hotel or serviced residence. This project is slated to open in 2023.

## KEY OPERATING PERFORMANCE

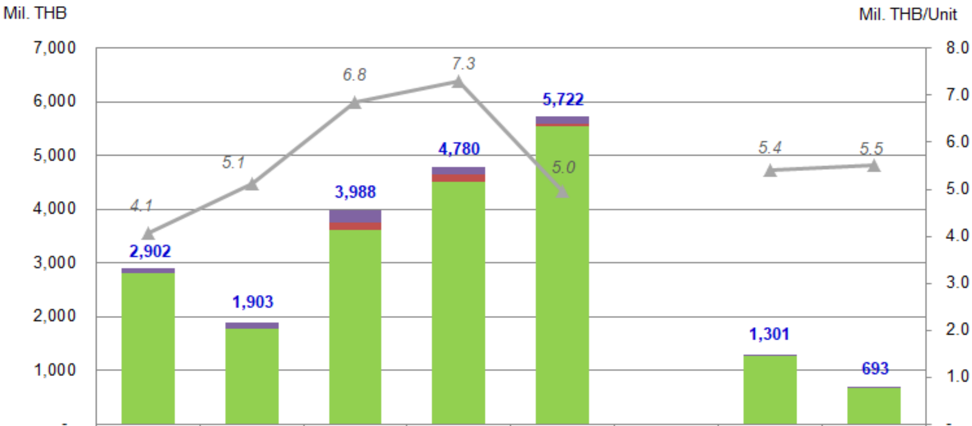
**Chart 1: Residential Project Launches**




| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020P | | 3M19 | 3M20 |
|---|---|---|---|---|---|---|---|---|---|
| TH | - | - | - | - | - | - | | - | - |
| SDH | - | 1,042 | - | - | - | - | | - | - |
| Condominium | 6,291 | - | 7,392 | 12,314 | 14,279 | 4,086 | | 3,698 | - |
| Presales | 2,902 | 1,903 | 3,988 | 4,780 | 5,722 | 4,620 | | 1,301 | 693 |

*Source: SA*

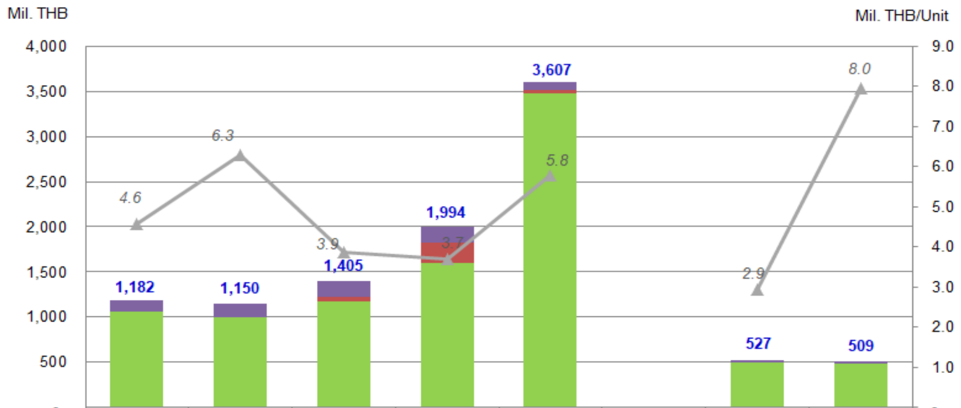
**Chart 2: Presales Performance**




| | 2015 | 2016 | 2017 | 2018 | 2019 | | 3M19 | 3M20 |
|---|---|---|---|---|---|---|---|---|
| Townhouse | 96 | 131 | 231 | 129 | 116 | | 31 | 11 |
| SDH | - | - | 137 | 144 | 68 | | - | - |
| Condominium | 2,806 | 1,772 | 3,620 | 4,506 | 5,537 | | 1,270 | 682 |
| Avg. Price | 4.1 | 5.1 | 6.8 | 7.3 | 5.0 | | 5.4 | 5.5 |

*Source: SA*

**Chart 3: Transfer Performance**




| | 2015 | 2016 | 2017 | 2018 | 2019 | | 3M19 | 3M20 |
|---|---|---|---|---|---|---|---|---|
| Townhouse | 115 | 147 | 184 | 164 | 98 | | 30 | 29 |
| SDH | - | - | 46 | 236 | 37 | | - | - |
| Condominium | 1,067 | 1,003 | 1,176 | 1,593 | 3,472 | | 497 | 480 |
| Avg. Price | 4.6 | 6.3 | 3.9 | 3.7 | 5.8 | | 2.9 | 8.0 |

*Source: SA*

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

*Unit: Mil. THB*

| | Jan-Mar 2020 | ---------------Year Ended 31 December ---------- 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Total operating revenues | 508 | 3,517 | 2,077 | 1,459 | 1,189 |
| Earnings before interest and taxes (EBIT) | 162 | 1,016 | 317 | 169 | 165 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 180 | 1,062 | 343 | 198 | 196 |
| Funds from operations (FFO) | 64 | 536 | (3) | (39) | (3) |
| Adjusted interest expense | 88 | 361 | 304 | 213 | 182 |
| Real estate development investments | 9,346 | 9,286 | 9,492 | 6,413 | 4,807 |
| Total assets | 13,395 | 13,047 | 12,431 | 8,024 | 5,873 |
| Adjusted debt | 6,933 | 6,485 | 6,755 | 3,907 | 3,166 |
| Adjusted equity | 2,607 | 2,515 | 1,772 | 1,391 | 1,125 |
| **Adjusted Ratios** | | | | | |
| EBITDA margin (%) | 35.42 | 30.21 | 16.51 | 13.57 | 16.51 |
| Pretax return on permanent capital (%) | 11.29 ** | 11.16 | 4.37 | 3.35 | 3.74 |
| EBITDA interest coverage (times) | 2.05 | 2.94 | 1.13 | 0.93 | 1.08 |
| Debt to EBITDA (times) | 5.94 ** | 6.10 | 19.70 | 19.74 | 16.13 |
| FFO to debt (%) | 7.90 ** | 8.26 | (0.05) | (1.00) | (0.11) |
| Debt to capitalization (%) | 72.67 | 72.05 | 79.22 | 73.75 | 73.79 |

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

## RELATED CRITERIA

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

## Siamese Asset PLC (SA)

| | |
|---|---|
| **Company Rating:** | BB+ |
| **Rating Outlook:** | Stable |

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