TRIS RATING
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CreditUpdate เครดิตวาระ
New Issue Report

PRUKSA HOLDING PLC

No. 80/2020
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CORPORATES

Company Rating: A
Issue Ratings:
Guaranteed A
Outlook: Stable

Last Review Date: 08/06/20

Company Rating History:

Date	Rating	Outlook/Alert
27/04/18	A	Stable

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RATIONALE

TRIS Rating affirms the company rating on Pruksa Holding PLC (PSH) and the ratings on PSH's existing guaranteed debentures at "A" with a "stable" outlook. At the same time, TRIS Rating assigns the rating of "A" to PSH's proposed guaranteed debentures of up to THB2.5 billion. The debentures are unconditionally and irrevocably guaranteed by Pruksa Real Estate PLC (PS), PSH's subsidiary, rated "A" with a "stable" outlook by TRIS Rating. The guaranteed debentures are ranked pari passu to PS's senior unsecured debentures. The proceeds from the new debentures are intended to be used to refinance debentures issued by PS (PS20NA) maturing in November 2020.

The ratings reflect PSH's creditworthiness as the holding company of PS, in which PSH holds a 98.23% equity stake, and the significant dividend stream PSH receives from PS. PS is considered a "core" subsidiary of PSH in accordance with TRIS Rating's "Group Rating Methodology".

The ratings on PSH take into consideration the strengths of PS as one of the largest players in the residential property market. PS's competitiveness is derived from its relatively diverse product portfolio, cost competitiveness, and large backlog which partly secure the company's future revenue stream. The ratings also take into account the group's moderate financial leverage and concerns over the adverse effects of the Coronavirus Disease 2019 (COVID-19), which could put more pressure on the demand for residential property and the profitability of developers in the short to medium term.

We expect PSH to sustain its top-ranked market position in the residential property market over the next three years. PSH's total operating revenue, mainly from the residential property business, was recorded at THB44-THB47 billion per annum during 2016-2018. Its total operating revenue decreased by 11% year-on-year (y-o-y) to THB40.2 billion in 2019 and slashed by 32% y-o-y to THB13.4 billion in the first six months of 2020. The drop was due primarily to the implementation of more stringent loan-to-value (LTV) rules by the Bank of Thailand (BOT) in April 2019 and the softening demand in residential property market induced by the prolonged effect of the COVID-19 outbreak.

In our base-case scenario, we assess PSH's revenue from the real estate business to decline by 30%-35% y-o-y this year to THB25 billion and gradually recover to around THB35-THB45 billion per annum during 2021-2022. We believe that revenue from the real estate business will remain a key contributor of the group during the next three years. Revenue from the healthcare business will remain negligible and the loss recorded by the healthcare business should not significantly impact the overall performance of PSH.

As of June 2020, PSH's real estate business had around 200 existing projects. The total unsold value of these projects was THB96 billion (including built and un-built units). Townhouse projects comprised 47% of total remaining value, SDH 29%, and condominium projects 24%. PSH had a backlog worth THB25.3 billion. The company plans to deliver backlog worth THB7.4 billion to customers during the remainder of 2020, THB8.7 billion in 2021, THB8.2 billion in 2022, and the remaining in 2023-2024. The backlog should partly secure future operating revenues during a period of suppressed domestic demand.

PSH's profitability may come under pressure from more intense competition and rising land cost in landed property segment. Due to the softening demand in the condominium segment among both local and foreign homebuyers, we foresee that several property developers will turn to more landed property project launches during the next few years. In any case, PSH's earnings before interest, tax, depreciation, and amortization (EBITDA) margin may decrease to as low as 15% from 18%-21% of total operating revenue during 2016 through the first six months of 2020. Its net profit margin could drop to around 10% of total operating revenue from 12%-13% during the past four years.

Although PSH continues to expand its residential property portfolio at the same time as its investment in the healthcare business, we expect PSH to keep its debt to capitalization ratio below 50%, or the interest-bearing debt to equity ratio below 1 times. As of June 2020, PSH's debt to capitalization ratio was 43% and its interest-bearing debt to equity ratio was 0.78 times.

On a consolidated basis, we assess PSH to have adequate liquidity over the next 12 months. As of June 2020, PSH's sources of funds consisted of THB1.2 billion in cash on hand, undrawn committed credit facilities of THB5.9 billion, undrawn uncommitted credit facilities of THB12.3 billion, and unencumbered land at book value of THB6.3 billion. PSH's funds from operations (FFO) over the next 12 months are forecast at around THB3 billion. Debt due over the next 12 months will amount to THB19.3 billion, comprising THB11.9 billion in debentures, THB7.3 billion in loans from banks, and THB0.1 billion in financial lease.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that PSH will be able to deliver operating performance as targeted. PSH's property subsidiary should be able to transfer its backlog as scheduled. Despite the stagnant growth in demand from both domestic and foreign homebuyers coupled with the impacts from the COVID-19 pandemic, we expect PSH to keep its FFO to total debt ratio at around 10% this year. The ratio should improve to 15%-20% during 2021-2022. PSH's debt to capitalization ratio should stay below 50% on a sustained basis.

RATING SENSITIVITIES

The ratings on PSH will depend on the operating performance and financial position of the group. A successful diversification into new businesses will be a positive factor for the ratings. On the contrary, the ratings on PSH could be under downward revision pressure if the operating performance of its property subsidiary significantly deviates from the target level and/or investments in new businesses drag down the financial position of the group.

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

Pruksa Holding PLC (PSH)

Company Rating:	A
Issue Ratings:	
PSH215A: THB4,750 million guaranteed debentures due 2021	A
PSH223A: THB3,500 million guaranteed debentures due 2022	A
PSH225A: THB2,000 million guaranteed debentures due 2022	A
PSH22NA: THB3,500 million guaranteed debentures due 2022	A
PSH235A: THB750 million guaranteed debentures due 2023	A
PSH24NA: THB3,000 million guaranteed debentures due 2024	A
Up to THB2,500 million guaranteed debentures due within 3 years	A
Rating Outlook:	Stable

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