PRUKSA HOLDING PLC

No. 37/2024
26 April 2024

CORPORATES

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

Last Review Date: 22/04/24

Company Rating History:

Date	Rating	Outlook/Alert
04/08/23	A-	Stable
18/07/22	A	Negative
27/04/18	A	Stable

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RATIONALE

TRIS Rating assigns a rating of "A-" to Pruksa Holding PLC (PSH)'s proposed issue of up to THB4.5 billion guaranteed debentures. The new issue rating replaces the issue rating previously assigned on 22 April 2024, following PSH's request to increase the issue size to up to THB4.5 billion from up to THB4 billion. The debentures are unconditionally and irrevocably guaranteed by Pruksa Real Estate PLC (PS), PSH's subsidiary, rated "A-/Stable". The guaranteed debentures are ranked pari passu to PS's senior unsecured creditors. The proceeds from the new debentures are intended to be used for refinancing debentures coming due in May 2024 and/or working capital. At the same time, we affirm the company rating on PSH and the ratings on its existing guaranteed debentures at "A-", with a "stable" rating outlook.

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 our "Group Rating Methodology".

PSH's credit profile is derived mainly from the strengths of PS as one of the leading players in the Thai residential property market. PS's competitiveness is underpinned by its relatively diverse product portfolio and well-accepted brands in the middle- to low-end segments. The ratings also take into consideration PSH's exposure of large-scale investment portfolio, expected rise in financial leverage, and adequate liquidity. However, we view that PSH's future revenue and earnings will be challenged by intense competition and unfavorable market sentiment in the residential property market caused by the reimposition of stringent loan-to-value (LTV) rules in 2023, lingering high interest rates, and high household debts.

PSH's total operating revenue in 2023 decreased by 12% year-on-year (y-o-y) to THB25.2 billion and achieved 85% of our full-year forecast. This was the result of sluggish housing demand and higher bank rejection rate of mortgage loan applications, especially in the middle- to low-income segment. Although PSH reported satisfactory gross profit margin, its higher selling, general, and administrative (SG&A) expenses caused a drop in earnings before interest, taxes, depreciation, and amortization (EBITDA). PSH's EBITDA declined by 30% y-o-y to THB3.3 billion, or around 70% of our full-year target. Its bottom line subsided by 20% y-o-y to THB2.2 billion in 2023.

Looking ahead, we project PSH's total operating revenue from all businesses to range THB29-THB32 billion per annum in 2024-2025, with an EBITDA margin of around 17%. The real estate business will continue to be the major contributor, accounting for more than 90% of total revenue and earnings over the forecast period. Revenue from the healthcare business and strategic investments will likely remain marginal. As a new player in the healthcare industry, it will take time for PSH to build its market position and generate significant earnings from this business.

We view that PSH's investment policy is posing significant risk given its large scale and the venturing into new businesses. As of December 2023, the total value of investments in these corporate ventures stood at THB9.4 billion. PSH's capability to effectively manage operations of these new businesses and generate the targeted returns still has yet to be proven. The larger scale of investments undertaken by PSH also exposes the group's credit profile to higher investment risk.

We expect PSH to incur additional debt that will result in higher financial leverage in 2024-2025, to fund its expansion plans through the residential property and healthcare businesses, together with investments in corporate venture funds and joint ventures (JVs). We project PSH's debt to capitalization ratio to increase to 30%-40% in 2024-2025 from 22% in 2023, and the group's debt to EBITDA ratio to increase to 4.5-5.5 times over the forecast period from around 4 times in 2023.

On a consolidated basis, we assess PSH to have adequate liquidity over the next 12 months. As of December 2023, PSH's sources of funds comprised THB4 billion cash on hand and THB10 billion undrawn committed credit facilities. We forecast PSH's funds from operations (FFO) in 2024 to be THB3.3 billion. PSH also has unencumbered land at book value of THB13.3 billion, which could be pledged as collateral for new loans, if needed. Debts due over the next 12 months will amount to THB11.2 billion, comprising THB7 billion debentures, THB3.5 billion short-term loans, THB0.7 billion long-term loans, and THB82 million lease liability.

PSH's priority debt, amounting to THB5.9 billion, was made up of debts at the subsidiary level. This translates to PSH's priority debt to total debt ratio of 37%. Although its priority debt ratio is less than 50%, we see the rationale for PSH's debentures to be guaranteed by PS since PS or other subsidiaries will likely incur more debt in the future.

The financial covenants on PSH's debentures and bank loans require the company to maintain its interest-bearing debt to equity ratio below 2 times. As of December 2023, the ratio was 0.4 times. We believe that PSH should have no problems complying with the financial covenants over the next 12 to 18 months.

RATING OUTLOOK

The "stable" outlook reflects our expectation that PSH will be able to deliver operating performance as targeted. This is based on the assumption that its substantial investments will not poise material deterioration in PSH's financial profile. We also expect the debt to EBITDA ratio to stay 4.5-5.5 times over the forecast period.

RATING SENSITIVITIES

The ratings and/or outlook could be revised downward should the company's operating results significantly deviate from our expectation and/or its sizable investments further weigh down the credit profile of the group. On the contrary, a credit upside scenario could emerge if the company is able to improve its operating performance and competitive position comparable to higher-rated peers.

RELATED CRITERIA

- Homebuilders and Real Estate Developers Rating Methodology, 12 January 2023
- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Pruksa Holding PLC (PSH)

Company Rating:	A-
Issue Ratings:	
PSH245A: THB3,000 million guaranteed debentures due 2024	A-
PSH245B: THB1,000 million guaranteed debentures due 2024	A-
PSH24NA: THB3,000 million guaranteed debentures due 2024	A-
PSH255A: THB1,000 million guaranteed debentures due 2025	A-
Up to THB4,500 million guaranteed debentures due within 3 years	A-
Rating Outlook:	Stable

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