

# PRUKSA HOLDING PLC

No. 18/2020

26 March 2020

## CORPORATES

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

Last Review Date: 11/10/19

### 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 Bt4.5 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 (PS205A) maturing in May 2020 and repay short-term borrowings.

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 a "core" subsidiary of PSH in accordance with TRIS Rating's "Group Rating Methodology".

PS is one of the largest players in the residential property market. Its competitiveness is derived from its relatively diversified product portfolio, cost competitiveness, and large backlog, which partly secures the company's future revenue stream. The ratings on PSH also take into consideration the group's moderate financial leverage level, and concerns over the unprecedented risk from the coronavirus (COVID-19) outbreak which will put increasing pressure on the domestic economy and demand for residential properties.

PSH's total operating revenue has ranked the highest among all listed residential property developers in Thailand over the past several years. Its total operating revenue was in the range of Bt44-Bt47 billion per annum during 2016-2018, but dropped to Bt40 billion in 2019. Its presales hit a record high at Bt51.1 billion in 2018, before declining to Bt35.6 billion in 2019. The drop was due mainly to the slowdown of the domestic economy and the implementation of more stringent loan-to-value (LTV) rules by the Bank of Thailand (BOT) in April 2019.

TRIS Rating expects PSH's presales and total operating revenues this year to decline further. The unprecedented risk from the outbreak of the COVID-19 could disrupt the market demand and also delay the transfers. However, PSH's total operating revenues should recover to Bt40-Bt45 billion per annum during 2021-2022. Revenue from the real estate business will likely remain the key contributor to PSH, while that from the healthcare business to remain negligible.

As of December 2019, PSH had a large project portfolio, with around 200 existing projects. Total unsold value of these projects was Bt104.7 billion (including built and un-built units). Townhouse projects comprised 47% of total remaining value, while single-detached houses (SDH) and condominium projects constituted 29% and 24%, respectively. PSH's backlog was worth Bt29 billion at the end of December 2019. TRIS Rating expects PSH to deliver its backlog to customers, worth Bt13 billion in 2020, Bt12 billion in 2021, and Bt4 billion in 2022.

**CreditUpdate**, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

PSH's earnings before interest, tax, depreciation, and amortization (EBITDA) margin was 19%-21% during 2016-2019. The ratio has been higher than the industry average of 15%. PSH's profitability may come under pressure from the slowdown in the domestic economy, resulting from the severe drought and the COVID-19 pandemic in 2020. Its profitability may decline slightly during this period as the company may have to spend more on marketing and promotions to boost presales and accelerate transfer. However, TRIS Rating expects PSH to keep EBITDA margin of at least 15%.

Despite its expansion into the residential property and health care businesses, TRIS Rating expects PSH to keep the debt to capitalization ratio below 50%, or the interest-bearing debt to equity ratio below 1 time over the next three years. As of December 2019, PSH's debt to capitalization ratio was 42% and its interest-bearing debt to equity ratio was 0.75 times.

Although PSH has the strong fundamental, the COVID-19 induced risk-off sentiment in the corporate bond market could pose a refinancing risk for the group's maturing bonds. However, the Thai Bankers' Association, the Government Savings Bank, Thai insurance providers, and the Government Pension Fund have collectively set up a Bt70-Bt100 billion "Corporate Bond Stabilization Fund" to invest in short-term papers issued by high quality corporate issuers that have problems refinancing their maturing bonds. The stabilization fund is intended to bridge the gap in market liquidity and mitigate refinancing risk of corporate issuers.

On a consolidated basis, PSH's debts due over the next 12 months will amount to Bt14.8 billion, comprising Bt6 billion in short-term obligations, Bt1.7 billion in long-term bank loans, and Bt7.1 billion in debentures. PSH's sources of funds consisted of Bt1.8 billion in cash on hand plus available credit facilities which can be drawn without conditions of Bt5.7 billion. PSH's FFO over the next 12 months are estimated to be Bt6.8 billion. The company also has unencumbered land banks at book value worth Bt6.1 billion.

#### **RATING OUTLOOK**

The "stable" outlook reflects TRIS Rating's expectation that PSH will be able to sustain its operating performance in the medium term. The company's property subsidiary should be able to deliver a large number of the units in its backlog as scheduled. Despite the stagnant growth in demand from both domestic and foreign homebuyers coupled with the unprecedented risk from the COVID-19, we expect PSH to keep its EBITDA margin of at least 15%, and its debt to capitalization ratio below 50% on a sustained basis.

#### **RATING SENSITIVITIES**

PSH's ratings will depend on the operating performance and financial position of the group. A successful diversification into new businesses will be positive for the group. On the contrary, the ratings on PSH will be negatively affected if the 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)**

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
PSH215A: Bt4,750 million guaranteed debentures due 2021	A
PSH22NA: Bt3,500 million guaranteed debentures due 2022	A
PSH223A: Bt3,500 million guaranteed debentures due 2022	A
PSH235A: Bt750 million guaranteed debentures due 2023	A
PSH24NA: Bt3,000 million guaranteed debentures due 2024	A
Up to Bt4,500 million guaranteed debentures due within 5 years	A
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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