PRUKSA HOLDING PLC

No. 74/2019
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CORPORATES

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

Last Review Date: 27/05/19

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". At the same time, TRIS Rating assigns the rating to PSH's proposed guaranteed debentures of up to Bt6.5 billion at "A". 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 replace debentures issued by PS maturing in November 2019 and repay short-term borrowings.

The ratings reflect PSH's creditworthiness as the holding company of the Group. PSH's major subsidiary is PS, in which PSH holds a 98.23% equity stake. The ratings are based on the significant dividend stream PSH receives from PS. After reorganization in 2016, PS's residential property business remains a major revenue contributor of PSH. As a result, PS is considered as a "core" subsidiary of PSH. On that basis, we view that the company ratings on PSH and PS are equivalent.

The ratings on PSH take into consideration the strengths of PS in the residential property market. PS's 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 also take into consideration the Group's moderate financial leverage level, and concerns over the slowdown in the residential property segment after the implementation of new loan-to-value (LTV) rules by the Bank of Thailand (BOT) in April 2019.

PSH's presales hit a record high at Bt51.1 billion in 2018. Presales dropped by 4% year-on-year (y-o-y) to Bt37.5 billion during the first nine months of 2019. PSH's total operating revenue has ranked the highest among all listed residential property developers in Thailand over the past three years. Its operating revenue was in the range of Bt44-Bt47 billion per annum during 2016-2018. Revenue from landed property projects has been stable at Bt23 billion per annum for townhouse segment and Bt9 billion per annum for single detached house (SDH) segment during the past three years. Revenue from condominium segment was Bt12-Bt14 billion per year during 2016-2018. PSH's total operating revenue grew by 2% y-o-y to Bt19.7 billion in the first six months of 2019. Under TRIS Rating's base case scenario, we expect PSH's total operating revenue to stay above Bt45 billion per annum during 2019-2021. Revenue from the real estate business will remain a key contributor to total operating revenue. Revenue from the healthcare business will remain negligible.

As of September 2019, PSH had a large project portfolio, with around 200 existing projects. Total unsold value of these projects was Bt99.7 billion (including built and un-built units). Townhouse projects comprised 43% of total remaining value, while SDH and condominium projects constituted 34% and 23%, respectively. PSH's backlog was worth Bt42.5 billion at the end of September 2019. TRIS Rating expects PSH to deliver its backlog to customers, worth Bt16.1 billion during the remainder of 2019, Bt10 billion in 2020, Bt13.9 billion in 2021, and Bt2.5 billion in 2022.

PSH's operating margin was 18%-23% during 2016 through the first six months of 2019. The ratio has been higher than the industry average of around 15%. Going forward, PSH's profitability may be threatened by the intense competition among large property developers and rising land costs. However, TRIS Rating expects PSH to keep operating margin 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 June 2019, PSH's debt to capitalization ratio was 43% and its interest-bearing debt to equity ratio was 0.76 times.

On a consolidated basis, we assess PSH's liquidity to be adequate over the next 12 months. As of June 2019, PSH held Bt1.6 billion in cash plus undrawn unconditional committed credit facilities from financial institutions of Bt4.4 billion. Funds from operations (FFO) over the next 12 months are forecast at Bt6.5 billion. Debt due over the next 12 months will amount to Bt15.6 billion, comprising Bt9.5 billion in short-term loans from banks and Bt6.1 billion in debentures. Short-term loans will either be rolled over or repaid. PSH will likely issue new debentures to replace PS's maturing bonds and provide the inter-company loans to PS.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that PSH will be able to sustain its operating performance during 2019-2021. The company's property subsidiary should be able to deliver a large number of the units in its backlog as scheduled. Despite more intense competition in the residential property market, TRIS Rating expects PSH to keep its operating margin at least 15%. Its debt to capitalization ratio should be kept below 50% on a consolidated 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)

Company Rating:	A
Issue Ratings:	
PSH215A: Bt4,750 million guaranteed debentures due 2021	A
PSH223A: Bt3,500 million guaranteed debentures due 2022	A
PSH235A: Bt750 million guaranteed debentures due 2023	A
Up to Bt6,500 million guaranteed debentures due within 5 years	A
Rating Outlook:	Stable

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