

AP (THAILAND) PLC

No. 59/2019
14 August 2019

CORPORATES

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Stable

Last Review Date : 10/05/19

Company Rating History:

Date	Rating	Outlook/Alert
21/06/11	A-	Stable
12/07/10	BBB+	Positive
28/06/07	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on AP (Thailand) PLC (AP) and the ratings on its outstanding senior unsecured debentures at "A-". At the same time, TRIS Rating assigns a rating of "A-" to AP's proposed issue of up to Bt2 billion in senior unsecured debentures due within five years. The company plans to use the proceeds from the new debentures to repay some of its existing loans and fund business expansion.

The ratings reflect AP's strong market position, driven by growing revenues and stable profitability, its sizeable backlog which secures a portion of its future revenue stream, and its balanced products portfolio. These strengths are partially offset by AP's moderate use of financial leverage plus the cyclical and competitive nature of the residential property development industry. The impact from the new loan-to-value (LTV) lending rules set by the Bank of Thailand (BOT) and a persistently high level of household debt nationwide could affect the demand for housing over the next few years.

AP's operating performance in the first quarter of 2019 was higher than TRIS Rating's expectation. Revenue in the first quarter of 2019 was Bt7.8 billion, up 39% year-on-year (y-o-y). Revenues from housing segment increased 51% y-o-y. The operating margin (operating income before depreciation and amortization as a percentage of revenue) was 14.6% in the first quarter of 2019, improving from 13.8% in 2018 but decreasing from 15.5%-17.0% during 2015-2017. The operating margin dropped because the company accelerated the sales of finished units in the stock of condominium projects with a lower gross profit margin.

In the first half of 2019, AP launched 16 residential property projects with a combined value of Bt30.2 billion. This value was the highest among its peers. AP's performance in the first half of 2019 was not significantly affected by the new LTV rules. AP's projects (including presales from projects conducted through joint ventures (JVs)) generated presales of Bt20.8 billion, up 20% from the same period last year. TRIS Rating, however, views that the lower LTV rules, coupled with the current slowdown in the domestic economy, will remain the major challenges for property developers over the next few years. In addition, the intense global trade tensions could reduce demand from foreign buyers. As a result, AP, like other residential property developers, must manage carefully its new project launches in order to match demand in each market segment.

AP's financial risk measures were in line with expectations. The debt to capitalization ratio (including 51.0% of the debt carried by the JV) at the end of March 2019 was 49.1%, in line with our expectation. We forecast the debt to capitalization ratio will stay around 50%-55% over the next three years.

AP's liquidity position is adequate. At the end of March 2019, debts coming due over the next 12 months amount to Bt10.3 billion, comprising Bt6.3 billion in short-term loans, and Bt4.0 billion in bonds. AP plans to refinance most of the maturing bonds with new bond issues. Sources of liquidity include cash on hand at the end of March 2019 of around Bt2.4 billion and undrawn committed credit facilities of Bt5.1 billion. We forecast funds from operations (FFO) over the next 12 months to remain above Bt3.0 billion.

RATING OUTLOOK

The “stable” outlook reflects TRIS Rating’s expectations that AP will remain competitive in its core market segments and will rebalance its product portfolio as market conditions and customer needs change. The outlook is also based on the expectation that AP will continue to follow prudent financial policies and keep the debt to capitalization ratio below 55% over the next three years. FFO to total debt is expected to stay around 12%-15%.

RATING SENSITIVITIES

The company’s ratings and/or outlook could be revised downward should its financial profile deteriorate significantly from the current level or if the debt to capitalization ratio stays above 55% on a sustained basis. In contrast, the ratings could be revised upward if the company can improve its profitability while its debt to capitalization ratio declines to stay around 40%-45% on a sustained basis.

RELATED CRITERIA

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

AP (Thailand) PLC (AP)

Company Rating:	A-
Issue Ratings:	
AP201A: Bt1,500 million senior unsecured debentures due 2020	A-
AP207A: Bt1,500 million senior unsecured debentures due 2020	A-
AP20DA: Bt1,000 million senior unsecured debentures due 2020	A-
AP217A: Bt1,500 million senior unsecured debentures due 2021	A-
AP21DA: Bt1,000 million senior unsecured debentures due 2021	A-
AP221A: Bt1,500 million senior unsecured debentures due 2022	A-
AP222A: Bt500 million senior unsecured debentures due 2022	A-
AP228A: Bt1,500 million senior unsecured debentures due 2022	A-
Up to Bt2,000 million senior unsecured debentures due within 5 years	A-
Rating Outlook:	Stable

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