TRIS RATING
A Strategic Partner of S&P Global

CreditNews ข่าวเครดิต

PRUKSA HOLDING PLC

No. 151/2024
4 September 2024

CORPORATES

Company Rating:	BBB+
Issue Ratings:	
Guaranteed	BBB+
Outlook:	Stable

Last Review Date: 26/04/24

Company Rating History:

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

Contacts:

Hattayanee Pitakpatapee
hattayanee@trisrating.com

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Jutamas Bunyawanichkul
jutamas_b@trisrating.com

Suchada Pantu, Ph.D.
suchada@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating downgrades the company rating on Pruksa Holding PLC (PSH) and the ratings on PSH's guaranteed debentures to "BBB+" from "A-" with "stable" outlook. PSH's debentures are unconditionally and irrevocably guaranteed by Pruksa Real Estate PLC (PS), PSH's subsidiary, rated "BBB+/Stable". The guaranteed debentures are ranked pari passu to PS's senior unsecured creditors.

The ratings downgrade reflects continuing weaker-than-expected operating performance of the group's residential property business, increasing risk exposure from a sizable investment portfolio, and elevated financial leverage. The ratings also incorporate the negative impacts of lingering high interest rates and rising household debt levels, which have led to higher mortgage rejection rates and lower purchasing power. The ratings continue to reflect PSH's adequate liquidity.

KEY RATING CONSIDERATIONS

Weaker-than-expected operating performance

PSH's total operating revenue in 2023 decreased by 13% year-on-year (y-o-y) to THB25 billion and achieved 84% of our prior forecast. Total operating revenue in the first six months of 2024 (6M24) continued declining by 24% y-o-y and reached only one-third of our full-year target. A deterioration in overall performance was attributed to a drop in residential property sales by around 20% y-o-y in 2023 and around 30% y-o-y in 6M24. Revenue from healthcare business was in line with our prior forecast.

PSH's profitability has also weakened following its attempts to use pricing strategy to boost residential property sales, negative earnings carried from healthcare business, and higher fixed costs related to new businesses. As a result, PSH's EBITDA slumped to THB3.3 billion in 2023 from THB4-THB5 billion per annum in 2020-2022. EBITDA in 6M24 fell by 40% y-o-y to THB1.2 billion and reached only one-fourth of our prior full-year forecast. Given lower profitability and interest rate hikes, PSH reported the bottom line of THB2.2 billion in 2023, the lowest level in past several years. Its bottom line significantly dropped by 80% y-o-y to THB400 million in 6M24.

Future performance remains challenging

TRIS Rating views that PSH's operating performance over the next 2-3 years will remain challenging, given that the residential property continues to be the main contributor to the group's overall performance. We believe that higher mortgage rejection rates from banks, particularly in the middle-to low-income segments, along with intense competition from top-tier developers, will continue to pressure residential property sales. Although PSH's healthcare business has shown improvement since 2023, its contribution to total earnings is expected to remain small between 5%-7% over the next 2-3 years.

Looking ahead, we have revised down PSH's total operating revenue to THB21-THB23 billion per annum for 2024-2026, approximately 30% below our previous forecast. Revenue from the residential property business will remain a major contributor, accounting for around 90% of total revenue. We have also lowered our projected EBITDA by 40% from previous forecast to THB3.0-THB3.5 billion per annum, with the residential property business contributing more than 85% of the group's EBITDA. PSH's EBITDA margin and net profit margin are expected to sustain at approximately 13%-15% and around 7%-8%, respectively.

Transition of residential portfolio remains challenging

Although PSH offers a diverse range of products, including single-detached houses (SDH), semi-detached houses (semi-DHs), townhouses, and condominiums, covering almost all segments, its existing portfolio focuses on the middle- to low-income segment, with the unit price below THB7 million. As of June 2024, the below THB7 million products contributed around 85% of total portfolio. The impacts of weak purchasing power in the middle-to low-end segment and rising interest rates caused a significant drop in PSH's residential property sales. Thus, PSH intends to shift its residential portfolio more towards middle- to high-end segments. The company plans to launch products priced above THB7 million, targeting around half of total new project value each year. The company aims to increase the mix of products priced above THB7 million to 30% of its portfolio by the end of 2024 and to 40% by 2026.

We believe that increasing its market share in the upper segment will be quite challenging for PSH, given its lack of prominence in this market segment and the intense competition from large players. However, if successful, the portfolio shift could help PSH regain market share and improve its operating performance in the residential property business.

Ramp up operation in healthcare business

PSH's revenue from healthcare business soared by 50% y-o-y to THB1.8 billion in 2023 as a result of consolidating a full-year operation of Vimut Theptarin Hospital and improving performance of Vimut Paholyothin Hospital. Increasing patient numbers of both outpatient department (OPD) and inpatient department (IPD) as well as higher revenue per billing from the two hospitals drove a revenue growth. PSH plans to expand its customer base to attract new local and international patient groups through online and offline marketing activities. In addition, the company plans to establish more centers of excellence to address more complex medical treatments. Thus, we expect revenue from healthcare business to continue growing by around 10%-15% per annum to THB2.1-THB2.5 billion in 2024-2026. Although PSH's market position in the healthcare business is improving, it will take time for PSH to generate substantial earnings from this business. PSH's EBITDA from healthcare business remained in the negative territory in 2023, but it should turn positive this year.

Risk exposure from substantial investment portfolio

We assess PSH's investment policy is posing significant risk given its large scale and the venturing into new businesses. Over the past few years, PSH has invested in various joint ventures (JVs) including healthcare-related and logistics businesses. The company also set up JVs with leading property developers to invest in residential property and mixed-use projects. Additionally, PSH has invested in several corporate venture funds associated with property, healthcare, and logistics service businesses, as well as foreign income funds. As of June 2024, the total investments (including equity investment and shareholder loans) through JVs and corporate venture funds stood at THB16.2 billion. We project these investments to reach THB23 billion by 2026, taking into consideration certain committed investments.

Given these substantial investments in new ventures, we have concerns about PSH's ability to manage operations and achieve the targeted returns. The large scale of investments undertaken by PSH also exposes the group's credit profile to higher risk. Currently, the returns from these investments remain minimal given the initial stage of these investments. Thus, the success of its investments remain to be seen. However, PSH is expected to secure reliable returns on certain investments once project construction is completed, as the company or the JVs has already entered into master lease agreements with partners. This arrangement should partially ensure PSH's future revenue and earnings.

Leverage on the rise

PSH's large capital requirements to support business expansion in the residential property and healthcare sectors, together with investments through JVs and corporate venture funds in 2024-2026, are expected to further elevate the group's financial leverage. Our base-case scenario projects PSH's debt to capitalization ratio to increase to 30%-40% in 2024-2026 from 22% in 2023. We also project the group's debt to EBITDA ratio to escalate to 7-8 times from 4 times in 2023. Fund from operation (FFO) to debt ratio is likely to weaken to 5%-10% from above 10% in past several years.

Our baseline assumes that PSH will launch new residential projects through its own and JVs worth THB23-THB28 billion per annum in 2024-2026, with an annual budget for land acquisition of THB3-THB4 billion. We estimate material investments in 2024-2026 comprising THB5.4 billion in the healthcare business as well as THB8-THB10 billion through JVs and corporate venture funds. We project dividend payment of around 80% in our base case.

Adequate liquidity

On a consolidated basis, we assess PSH's liquidity to be adequate over the next 12 months. As of June 2024, PSH's sources of liquidity comprised THB1.7 billion cash on hand, THB5.5 billion undrawn committed credit facilities, and THB8.5 billion undrawn uncommitted credit facilities. We forecast PSH's FFO in 2024 to be THB1.7 billion. PSH also has unencumbered land at book value of THB15.7 billion and remaining finished units in debt-free projects at cost value of THB7.8 billion, which could be pledged as collateral for new loans, if needed.

On the flip side, PSH's debts due over the next 12 months will amount to THB13.4 billion, comprising THB4.6 billion short-term loans, THB4 billion debentures, THB3.9 billion long-term loans, and THB0.9 billion short-term aval for land purchases. PSH plans to repay some of short-term loans by internally generated cash and rollover the remainder. The company normally refinance maturing debentures by new debentures issuances and/or term loans from financial institutions.

The financial covenants on PSH's bonds and bank loans require the company to maintain its interest-bearing debt to equity ratio below 2 times. As of June 2024, 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.

Debt structure

As of June 2024, PSH had total consolidated debts of THB19.3 billion. PSH's priority debt, including secured debt at the company and total debts at the subsidiaries, was THB8.7 billion. This translates to a priority debt to total debt ratio of 45%. Although its priority debt ratio is less than 50%, we view it is appropriate for PSH's debentures to be guaranteed by PS since PS or other subsidiaries will likely incur more debt in the future.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base case forecast for PSH's operations in 2024-2026:

- PSH to launch new residential projects (own and JVs) worth THB23-THB28 billion per annum.
- Annual budget for land acquisition to be THB3-THB4 billion.
- Annual capital expenditures for the healthcare business to be THB1.7-THB2.0 billion.
- Investments through JVs and corporate venture funds to total around THB8-THB10 billion
- Total operating revenue to range between THB21-THB23 billion per annum, with an EBITDA margin of 13%-15%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that PSH will be able to deliver its operating performance aligned with our target while its financial profile will not further deteriorate from our base-case forecast. We also expect the FFO to debt ratio to remain in the 5%-10% range over the forecast period.

RATING SENSITIVITIES

A downward revision of PSH's ratings and/or outlook could occur if the company's operating results considerably deviate from our expectation and/or its substantial investments further weigh down the credit profile of the group, such that its FFO to debt ratio declines to below 5%. Conversely, a credit upside would materialize if PSH's operating performance and competitive position improves to the level attained by its higher rated peers, such that the FFO to debt ratio stays above 10% on a sustained basis.

COMPANY OVERVIEW

PSH was established in March 2016 as a holding company, in accordance with the group restructuring of PS. PSH made a tender offer for all securities of PS at a swap ratio of 1:1. After completion of the tender offer, the holding company became the major shareholder of PS and its securities have been listed on the Stock Exchange of Thailand (SET) since December 2016 in place of PS, whose securities were simultaneously delisted from the SET. As of June 2024, the Vijitpongpun family was PSH's largest shareholder, owning a 75% stake. PSH holds a 98.23% stake in PS.

PSH operates as a holding company which currently invests in the residential property business, healthcare business, and other related businesses through JVs, corporate ventures, and private equity funds. PSH's residential property portfolio covers landed property and condominium products across broad price ranges. Its main products target the middle- to low-priced market segments. PSH has expanded into the healthcare business with the launch of "Vimut Hospital", its first flagship hospital, in May 2021, and by investing in a 51% stake in "Theptarin Hospital" in February 2021.

PSH has invested in other businesses relating to prop-tech, health-tech, sustainability-tech, and e-commerce in both fund level and project level since 2022. Its investments include an equity shareholding in Pathology Asia Holdings Pte., Ltd. (PAH) in Singapore. PSH also set up a JV, PAH Holdings (Thailand) Co.,Ltd, with PAH to develop advance gene lab in Thailand.

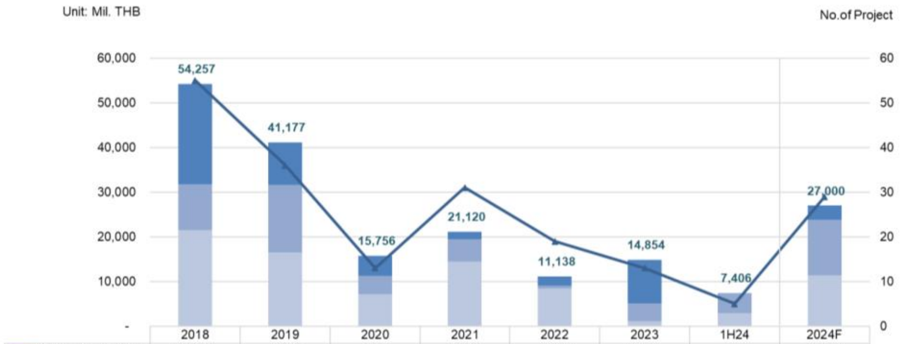
PSH joins with CapitaLand Investment Group (CLI) and Ally Logistic Property Co., Ltd. (ALP) to set up CapitaLand SEA Logistics Fund (CSLF). CSLF will focus on investing and developing in logistics properties, which provide comprehensive automated logistics services, in Southeast Asia. In addition, PSH and CSLF jointly develops Omega Logistics Campus, an automatic logistic warehouse project, with sizable project value of THB12 billion.

PSH entered into an agreement with CLI to establish the CapitaLand Wellness Fund (C-WELL), a private equity fund, focusing on investment in wellness and healthcare-related assets. PSH also jointly develops two luxury wellness residence projects with C-WELL, with total project value of THB4 billion.

Revenue and earnings from the residential property business will continue to be a key contributor to the group over the next several years, thus PS is considered as a “core” subsidiary of the group. The issuer ratings on PS and the group are equivalent.

KEY OPERATING PERFORMANCE

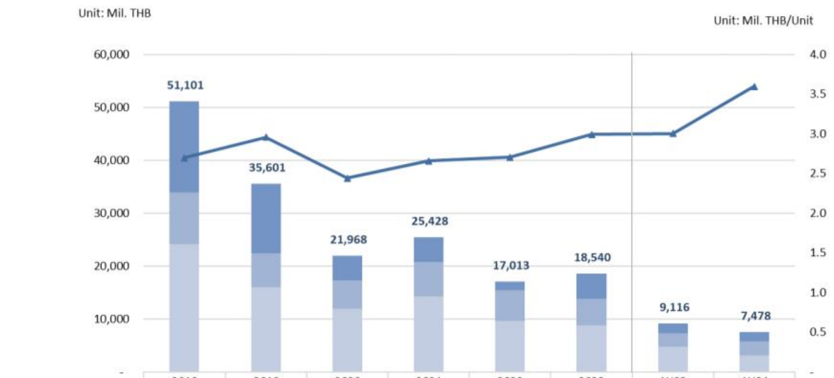
Chart 1: New Residential Project Launches



	2018	2019	2020	2021	2022	2023	1H24	2024F
Condominium (LHS)	22,486	9,573	4,507	1,688	2,032	9,780	-	3,200
SDH (LHS)	10,311	15,090	4,166	4,943	714	3,947	4,474	12,400
Townhouse (LHS)	21,460	16,514	7,083	14,489	8,392	1,128	2,932	11,400
Total	54,257	41,177	15,756	21,120	11,138	14,854	7,406	27,000
No. of project (RHS)	55	36	13	31	19	13	5	29

Source: PS

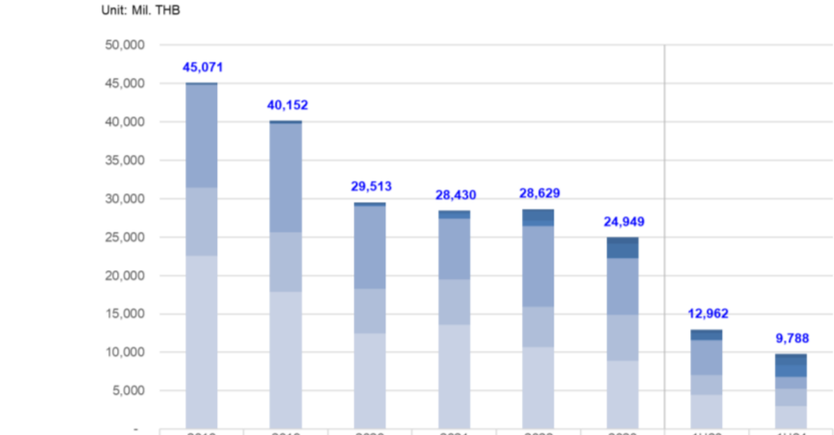
Chart 2: Presales Performance



	2018	2019	2020	2021	2022	2023	1H23	1H24
Condominium (LHS)	17,228	13,164	4,704	4,626	1,554	4,723	1,876	1,660
SDH (LHS)	9,756	6,447	5,340	6,563	5,792	5,046	2,477	2,718
Townhouse (LHS)	24,118	15,990	11,924	14,238	9,668	8,771	4,763	3,101
Presales Value	51,101	35,601	21,968	25,428	17,013	18,540	9,116	7,478
Avg. Price (RHS)	2.7	3.0	2.4	2.7	2.7	3.0	3.0	3.6

Source: PS

Chart 3: Revenue Breakdown



	2018	2019	2020	2021	2022	2023	1H23	1H24
Others	171	266	269	119	227	773	431	465
Healthcare business			-	270	1,211	1,820	852	1,013
Land sales		85	181	638	744	131	101	1,487
Condominium	13,411	14,137	10,769	7,916	10,538	7,325	4,492	1,569
SDH	8,924	7,783	5,869	5,925	5,249	5,969	2,643	2,230
Townhouse	22,566	17,880	12,426	13,562	10,660	8,932	4,444	3,024
Total operating revenue	45,071	40,152	29,513	28,430	28,629	24,949	12,962	9,788

Source: PSH

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

		-----------Year Ended 31 December ----------			
	Jan-Jun 2024	2023	2022	2021	2020
Total operating revenues	9,788	24,949	28,629	28,430	29,513
Earnings before interest and taxes (EBIT)	988	2,873	4,242	3,827	4,559
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,207	3,305	4,725	4,289	5,013
Funds from operations (FFO)	570	2,064	3,088	2,923	3,385
Adjusted interest expense	410	691	718	600	786
Real estate development investments	39,727	41,573	48,722	56,757	66,863
Total assets	70,641	68,548	68,656	72,052	78,273
Adjusted debt	17,096	12,654	10,618	16,741	25,286
Adjusted equity	44,644	45,835	45,577	44,072	43,786
Adjusted Ratios					
EBITDA margin (%)	12.3	13.2	16.5	15.1	17.0
Pretax return on permanent capital (%)	3.1 **	4.7	6.8	5.7	6.2
EBITDA interest coverage (times)	2.9	4.8	6.6	7.2	6.4
Debt to EBITDA (times)	6.9 **	3.8	2.2	3.9	5.0
FFO to debt (%)	7.6 **	16.3	29.1	17.5	13.4
Debt to capitalization (%)	27.7	21.6	18.9	27.5	36.6

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

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:	BBB+
Issue Ratings:	
PSH24NA: THB3,000 million guaranteed debentures due 2024	BBB+
PSH255A: THB1,000 million guaranteed debentures due 2025	BBB+
PSH265A: THB3,500 million guaranteed debentures due 2026	BBB+
PSH275A: THB1,000 million guaranteed debentures due 2027	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000