

AREEYA PROPERTY PLC

No. 206/2022
3 November 2022

CORPORATES

Company Rating: B+
Outlook: Stable

Last Review Date: 28/10/21

Company Rating History:

Date	Rating	Outlook/Alert
28/10/21	BB-	Negative
20/10/20	BB-	Stable
30/12/19	BB	Negative
04/01/18	BB	Stable
30/12/16	BB+	Negative
13/01/15	BB+	Stable
10/01/14	BBB-	Negative
13/03/13	BBB-	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Areeya Property PLC (Areeya) to “B+” from “BB-” and revises the outlook to “stable” from “negative”. The downgrade reflects our expectation that Areeya’s weak operating performance will further drag down its financial profile. The rating takes into consideration the company’s relatively high financial leverage and stretched liquidity. The rating also incorporates our concerns over the persistently high household debt level and rising inflation which could impact the purchasing power of homebuyers in the short- to medium-term while pushing up development and funding costs for developers.

KEY RATING CONSIDERATIONS

Weaker-than-expected operating performance

Areeya’s performance continued to deteriorate in 2021. Revenue from landed property stood at THB2.1 billion, decreasing from around THB2.4 billion per annum during 2019-2020 and THB3.0 billion in 2018. Revenue from condominium projects was only THB424 million in 2021, down from THB801 million in 2020, since the company did not launch any condominium projects in the past three years. Areeya’s operating profit was only THB33 million while its interest expenses were relatively high at THB354 million, resulting in a net loss of THB346 million in 2021. The company reported negative funds from operations (FFO) of THB484 million, and a thin earnings before interest, taxes, depreciation and amortization (EBITDA) of THB190 million in 2021.

With intense competition and unfavorable economic sentiment caused by rising inflation and high household debt, Areeya’s operating performance will likely remain under pressure over the next three years. Our base-case forecast expects revenue from residential sales to range between THB2.5-THB3.0 billion per annum during 2022-2024. We forecast an operating profit margin of 4%-9% of total operating revenue with expected interest expenses of around THB300 million per year. As a result, Areeya is likely to report a marginal net profit this year and a net loss of around THB100-THB200 million per annum during 2023-2024. Thus, its FFO may still be in negative territory in the range of minus THB150 million to minus THB350 million per annum over the forecast period.

Uncertainty in the “Soontareeya Project”

Areeya has invested around THB1.8 billion since 2012 for an upfront land lease fee, compensation payment, construction cost, and soft cost in the Soontareeya Project. The development timeline of the project has been delayed several years from its initial plan since the company has not yet been able to secure appropriate sources of funds. We view that there is high degree of uncertainty in the development and financing plans of the project. Due to the company’s currently high leverage level, further investment in this project using debt funding may lead to a breach of its net interest-bearing debt to equity ratio debt covenant.

Areeya already received an approval from the landlord for a 3-year extension of the construction phase until late 2025. Currently, the project is at the substructure stage of construction. Our base-case scenario incorporates capital expenditures for substructure completion of THB540 million (including the extension fee of construction) in 2022 and THB100 million in 2023. We

expect Areeya to properly manage its funding plan before the next step of construction.

Weakening financial profile exacerbated by relatively high leverage

We expect Areeya's financial leverage to stay at a high level over the forecast period. Areeya's operating loss in 2021 further weakened its capital structure. The company's debt to capitalization ratio rose to 73%-74% during 2021 through the end of June 2022, from 71% in 2020. Areeya's cash flow protection has been weak as its FFO to debt ratio has remained in negative territory since 2021 through the first six months of 2022.

Looking forward, the erosion of retained earnings from expected consecutive losses will likely lead to a surge in leverage. We project Areeya's debt to capitalization ratio to hover around 75% over the next three years. The FFO to debt ratio is forecast to stay in the -2% to -4% range and EBITDA interest coverage ratio to fall below 1 time during 2022-2024. This is based on our assumption that Areeya will launch new residential projects worth THB5.8 billion this year and THB2 billion per annum during 2023-2024. We assume an annual budget for land acquisition of THB400-THB640 million and annual construction expenditure of THB1.4-THB1.7 billion over the next three years.

The financial covenant on Areeya's debt obligations requires the company's net interest-bearing debt to equity ratio to remain below 3 times. The ratio at the end of June 2022 was 2.2 times. The persistently high leverage heightens our concern over the company's ability to comply with its financial covenants. We expect Areeya to cautiously manage its capital structure to remain in compliance with debt covenants. The company plans to raise capital of THB220 million from the company's directors in 2023, which should partly alleviate the surge in leverage.

Tight liquidity

We assess Areeya's liquidity to be tight, leaving the company exposed to refinancing risk. Persistently weak operating performance together with large amounts of maturing debt each year have heightened our concern over the company's liquidity. At the end of June 2022, Areeya had total consolidated debts of THB8 billion, nearly all of which was secured. That leaves the company with little room to secure additional debt funding.

As of June 2022, the company had THB3 billion in debt due over the next 12 months, comprising THB2.2 billion in debentures, THB526 million in long-term loans, THB190 million in promissory notes (P/Ns), and THB38 million in short-term borrowings. Areeya has already refinanced the THB550 million secured debentures due in October 2022 by new debentures issuance. The company plans to refinance the THB1.7 billion debentures due in the first quarter of 2023 with new debenture issues. The new issues of debentures will be secured by collateral released from the redeemed debentures. We consider Areeya's sources of liquidity as relatively limited. As of June 2022, the company had cash on hand of THB165 million and undrawn committed credit facilities of THB30 million. The company had unencumbered land at cost of THB437 million, which could be pledged as collateral for new credit facilities.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for Areeya's operations during 2022-2024:

- Areeya to launch new residential property projects in 2022 worth THB5.8 billion, comprising new landed property projects worth THB2.1 billion and one condominium project worth THB3.7 billion. During 2023-2024, Areeya plans to launch new residential property projects worth THB2 billion annually.
- Budget for land acquisition of THB640 million in 2022 and THB400 million per annum in 2023-2024.
- Construction expenditure in residential projects of THB1.4-THB1.7 billion per annum
- Total operating revenue to hover around THB3.2-THB3.4 billion per annum

RATING OUTLOOK

The "stable" outlook reflects our expectation that Areeya's operating results and financial profile will not deteriorate further from the target levels, with its debt to capitalization ratio not exceeding 75% over the forecast period.

RATING SENSITIVITIES

The rating and/or outlook could be revised downward if there are signs of escalating refinancing risk and/or a significant deviation in operating performance from our expectation. The rating could be revised downward multiple notches if the company cannot secure debt refinancing as planned. On the contrary, an upward revision could occur if Areeya is able to deliver significantly stronger operating results than the target levels and improve its financial profile, with the liquidity concerns clearly addressed.

COMPANY OVERVIEW

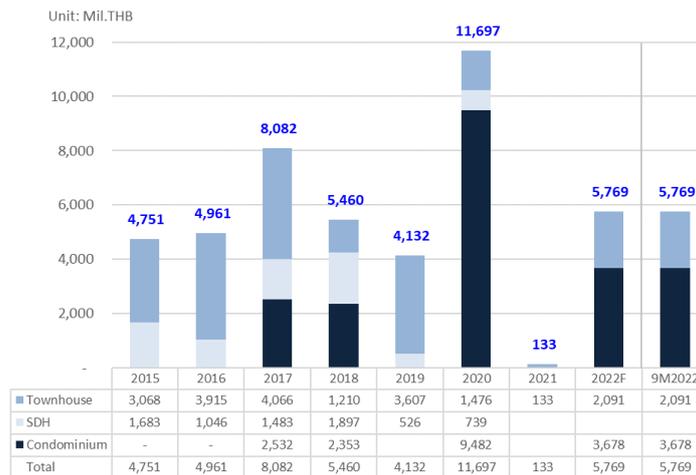
Areeya was established by the Laohapoonrungsee family in 2000 and listed on the Stock Exchange of Thailand (SET) in April 2004. The Laohapoonrungsee family has been the company’s major shareholder since its inception, owning a 66.7% stake as of June 2022. Mr. Wisit Laohapoonrungsee remains Areeya’s Chairman and Chief Executive Officer (CEO).

Areeya offers a wide range of residential property products including single detached houses (SDHs), semi-detached houses (semi-DHs), townhouses (THs), and condominiums. Its products target the middle-income segment. Across Areeya’s product portfolio, the average selling price is THB5 million per unit. THs and semi-DHs are the company’s main products, contributing the majority of its revenue. In 2020, Areeya launched new semi-DH and SDH products under the “Como Bianca” and “Como Botanica” brands with average selling prices of THB6 million and THB7 million per unit, respectively. The company also launched the “AREN” TH brand in 2021, with an average selling price of THB5 million per unit. This year, the company launched the “NORA” TH brand, with prices ranging from THB3-THB5 million per unit, and the “NOWW” condominium brand with an average selling price of THB65,000 per square meter (sq.m.).

As of June 2022, Areeya had 32 active projects with a total project value of THB36 billion. The value of the remaining unsold units, across all of its active projects, was about THB19.8 billion. About 55% of the value was in condominium projects, 27% in TH and semi-DH projects, and 18% in SDH projects. About 14% of the remaining value of condominiums was ready to transfer. Areeya’s backlog stood at about THB750 million as of June 2022.

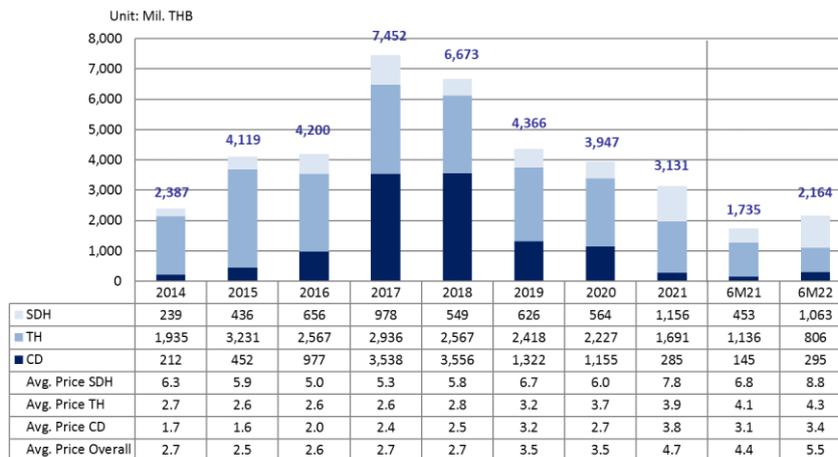
KEY OPERATING PERFORMANCE

Chart 1: New Project Launches

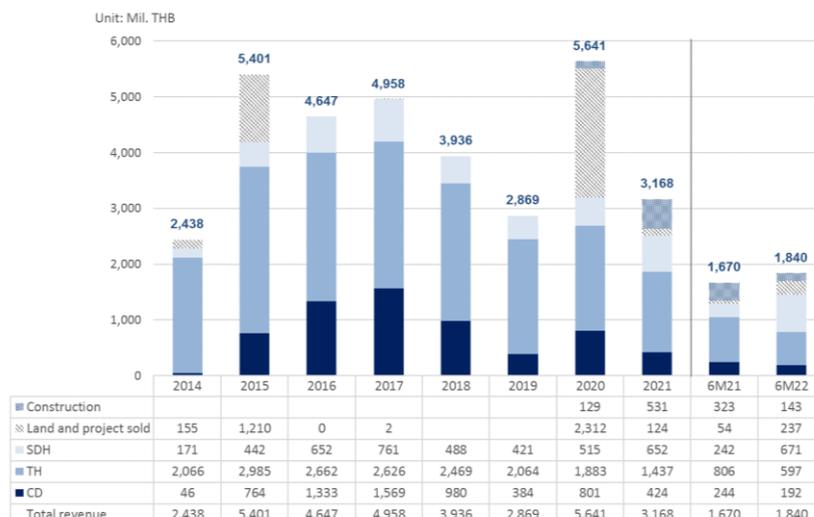


Source: Areeya

Chart 2: Presales Performance



Source: Areeya

Chart 3: Revenue Breakdown by Product


Source: Areeya

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	1,883	3,280	5,737	2,954	4,029
Earnings before interest and taxes (EBIT)	345	149	797	80	396
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	359	190	847	148	464
Funds from operations (FFO)	(9)	(484)	94	(530)	(166)
Adjusted interest expense	346	657	710	675	583
Real estate development investments	8,317	8,261	9,325	11,834	11,488
Total assets	12,865	12,883	13,144	15,279	14,297
Adjusted debt	8,005	7,992	8,075	9,830	9,713
Adjusted equity	2,994	2,889	3,274	3,103	3,332
Adjusted Ratios					
EBITDA margin (%)	19.08	5.78	14.77	5.01	11.52
Pretax return on permanent capital (%)	3.04 **	1.26	6.35	0.60	3.02
EBITDA interest coverage (times)	1.04	0.29	1.19	0.22	0.80
Debt to EBITDA (times)	20.53 **	42.17	9.53	66.37	20.91
FFO to debt (%)	(4.20)	(6.05)	1.16	(5.39)	(1.71)
Debt to capitalization (%)	72.78	73.45	71.15	76.01	74.46

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Areeya Property PLC (Areeya)

Company Rating:	B+
Rating Outlook:	Stable

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