LALIN PROPERTY PLC

No. 174/2024
30 September 2024

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 29/09/23

Company Rating History:

Date	Rating	Outlook/Alert
03/11/17	BBB+	Stable
14/10/15	BBB+	Negative
20/06/13	BBB+	Stable
03/06/11	BBB	Positive
15/02/08	BBB	Stable
12/09/07	BBB+	Negative

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 Lalin Property PLC (LALIN) to “BBB” from “BBB+” with “stable” outlook. The rating downgrade reflects lower-than-expected operating performance and higher leverage levels. The rating also factors in the negative impacts of persistently high interest rates and rising household debt levels, which have diminished purchasing power and increased mortgage rejection rates, especially in the middle to low-income segments. The rating continues to factor in LALIN’s modest revenues base and concentrated product portfolio, while its liquidity remains adequate.

KEY RATING CONSIDERATIONS

Weaker-than-expected operating results

LALIN’s overall performance in 2023 through the first six months of 2024 (6M2024) was significantly impacted by adverse market sentiment resulting from rising interest rates and elevated household debt levels. Mortgage lenders have tightened lending policies as evidenced by the sharp increase in mortgage loan rejection rates, particularly among the middle- to low-income segments, which is LALIN’s major customer base. As a result, LALIN’s revenue and earnings in 2023 through 6M2024 fell significantly below our previous forecast.

LALIN’s total operating revenue recorded THB4.8 billion in 2023, down from THB5.5-THB6.5 billion in 2020-2022 and achieving 85% of our previous forecast. Its operating revenue in 6M2024 declined further by 30% year-on-year (y-o-y) to THB1.7 billion, achieving only 30% of our full-year target. Due to lower revenue base, LALIN’s selling, general, and administrative (SG&A) expenses rose to 17%-20% of total revenue in 2023-6M2024 from 13%-15% in past several years. Accordingly, LALIN’s EBITDA deteriorated to THB1.2 billion in 2023 from THB1.6-THB1.9 billion in 2020-2022. EBITDA in 6M2024 achieved only one-fourth of our prior full-year target.

Modest revenue and earnings base

LALIN’s credit profile continues to reflect its modest revenue and earnings base. Given the intense competition and unfavorable economic conditions, we expect LALIN’s operating performance over the next 2-3 years to remain challenged by stagnant demand in middle- to low-income segments. Consequently, we have revised down LALIN’s total operating revenue to THB4.2-THB4.5 billion for 2024-2026, around 30% below our previous forecast. We have also lowered our projected EBITDA by 30% from our prior forecast, to around THB1 billion.

Additionally, we project LALIN to sustain its gross profit margin in the 38%-39% range. However, due to a smaller revenue base, its SG&A expenses as a percentage of revenue are expected to remain 17%-18%. Consequently, its EBITDA margin is projected to hover between 23%-24%, down from around 27%-28% during 2020-2022, but still align with the industry average of 15%-25%.

Concentrated product portfolio

The concentration of LALIN’s portfolio in the affordable and middle-priced landed property segments has significantly impacted its performance compared to peers with more diversified product offerings and price ranges.

While the customer base in the middle- to low-priced segment is substantial, the purchasing power of homebuyers within this segment is limited, and bank loan rejection rates are relatively high, especially during periods of economic slowdown.

LALIN offers landed property products, including single detached houses and semi-detached houses (SDH and semi-DH) under the "LANCEO" brand with a price range of THB3-THB6 million per unit, and townhouses under the "LIO" brand with selling prices in the THB2-THB3 million per unit range. To expand its customer base and lower the risk of mortgage loan rejections, LALIN has introduced two new brands in the higher-priced segment, "Baan Lalin the Prestige, pricing THB5-THB8.0 million range for SDH and semi-DH as well as "Lio Prestige" pricing around THB2.6-THB3.5 million for townhouses. However, the revenue contribution from these new products remains relatively modest. As of June 2024, LALIN had 75 on-going projects. The value of the remaining unsold units (including built and un-built units) was THB34 billion. LALIN's key products are townhouses, contributing around 55% of total revenues in 2021 through 6M2024.

Financial leverage exceeds target

LALIN's financial leverage has increased more than previously targeted. The company's debt to capitalization ratio rose to 35% in 2023 and 41% as of June 2024, up from around 20%-25% during 2020-2022. Its funds from operation (FFO) to debt ratio also declined to 16% in 2023 and 9% in 6M2024, down from above 20% in prior years. The sharp rise in leverage resulted from significant investments in new projects, while demand in the middle- to low-income segments contracted abruptly due to higher mortgage loan rejection rates.

LALIN's portfolio expanded significantly over the past two years. The company doubled its budget for land purchases to around THB2 billion annually in 2022-2023. The value of new project launches during the same period also increased to THB8.5 billion per annum, up from around THB5-THB6 billion annually in the preceding two years. However, the sharp drop in sales in 2023-6M2024 led to a substantial rise in inventory (including land awaiting for development), from THB12.9 billion in 2022 to THB17 billion as of June 2024. Amid stagnate demand, the company's inventory (including land awaiting for development) surged to 5 times of its cost of goods sold in 2023 and 8 times as of June 2024, up from around 3 times in 2020-2022.

Going forward, LALIN's debt to capitalization ratio is expected to stabilize in the 35%-40% range, while the FFO to debt ratio is projected to remain between 10%-12% in 2024-2026. This is based on the assumption that LALIN will lower the value of new project launches to around THB5-THB6 billion per year and set an annual budget for land acquisitions at around THB1.0 billion. Annual capital expenditures for construction are projected at THB2.0-THB2.3 billion. Our base case also assumes a dividend payout ratio of 45%.

Adequate liquidity

We assess LALIN's liquidity as adequate over the next 12 months. As of June 2024, LALIN's sources of liquidity comprised cash on hand and investments in fixed-income funds of THB145 million, coupled with undrawn committed credit facilities from banks of THB2.4 billion. Projected FFO in the next 12 months will be THB640 million. In addition, LALIN has unencumbered assets at book value worth THB14.3 billion, which can be pledged as collateral for new credit facilities, if needed.

Debts due over the next 12 months will amount to THB2.8 billion, consisting of THB1.2 billion debentures as well as THB1.6 billion short-term bills of exchange (B/Es) and promissory notes (P/Ns). LALIN normally refinances maturing debentures by new debentures issuances. B/Es and P/Ns will be repaid through internal cash flow and/or rollovers.

The financial covenant on LALIN's debt obligations requires the company to maintain its interest-bearing debt to equity ratio below 2 times. The ratio at the end of June 2024 was 0.7 times. We expect LALIN to have no problem complying with the financial covenants over the next 12 to 18 months.

Debt structure

As of June 2024, LALIN had total consolidated debts of THB6.4 billion. LALIN's priority debt, including secured debt at the company level, was THB150 million. This translates to a priority debt to total debt ratio of 2%.

BASE-CASE ASSUMPTIONS

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

- LALIN to launch new landed property projects worth around THB5-THB6 billion
- Annual budget for land acquisition of around THB1.0 billion
- Total operating revenue in the range of THB4.2-THB4.5 billion with EBITDA margin of 23%-24%
- Dividend payout ratio of 45%

RATING OUTLOOK

The "stable" outlook reflects our expectation that LALIN will be able to deliver operating results and maintain its financial profile in line with our base-case forecast. We also expect LALIN to keep the debt to capitalization ratio in the 35%-40% range and the FFO to debt ratio to remain above 10% over the forecast period.

RATING SENSITIVITIES

The rating and/or outlook could be revised downward should LALIN's operating performance and/or financial profile deviate considerably from our expectations. A further weakening competitive position could also lead to a downward revision of rating and/or outlook.

Conversely, the credit upside scenario would materialize if LALIN's business scale enlarges and its financial position improves significantly, such that the debt to capitalization ratio remains below 35% and the FFO to debt ratio stays above 20% on a sustained basis.

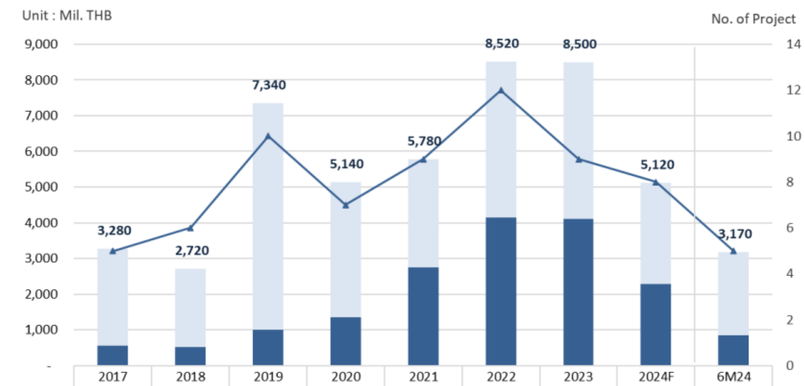
COMPANY OVERVIEW

LALIN was established in 1988 by Mr. Taveesak Watcharakkawongse and Mr. Chaiyan Chakarakul, and listed on the Stock Exchange of Thailand (SET) in 2002. The Chakarakul and Watcharakkawongse families, the company's founders and major shareholders, held a combined 71% equity stake as of March 2024. LALIN focuses on the middle- to low-income landed property segment. In 2009, the company launched two landed property brands: "LANCEO" and "LIO". The LANCEO brand offers SDH and semi-DH units with prices ranging from THB3-THB6 million. The LIO brand offers townhouses at prices of THB2-THB3 million per unit. LALIN launched its first condominium project in late 2011. Its condominium projects use the "LEVO" and "LIB" brands, with unit prices ranging from THB1.4-THB3.0 million. LALIN has expanded upcountry since late 2012. Currently, it has upcountry projects in Chonburi, Rayong, Chachoengsao, Nakorn Ratchasima, and Ratchaburi provinces. Most upcountry projects target customers living near industrial estates. During the second half of 2021, LALIN launched the "Baan Lalin the Prestige" brand for SDH and semi-DH to expand its property development portfolio into the higher-priced segment, with prices ranging between THB5-THB8 million per unit. LALIN also launched the "LIO Prestige" brand for townhouses with prices ranging between THB2.6-THB3.5 million per unit. In 2023, the revenue contributions from projects in the Greater Bangkok area and other provinces were around 90% and 10%, respectively.

As of June 2024, LALIN's residential project portfolio comprised 75 on-going projects, with a remaining value of THB34 billion and a backlog value of THB1.1 billion. Over the past five years, almost all revenue has been derived from landed property projects.

KEY OPERATING PERFORMANCE

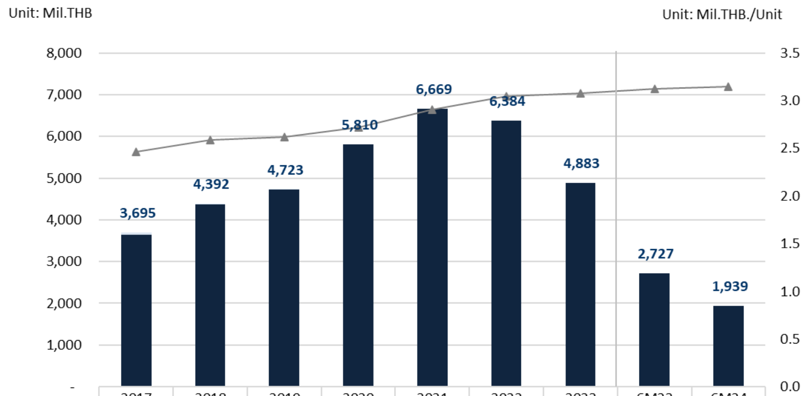
Chart 1: New Project Launches



	2017	2018	2019	2020	2021	2022	2023	2024F	6M24
Townhouse	2,720	2,200	6,340	3,790	3,030	4,370	4,400	2,830	2,330
SDH	560	520	1,000	1,350	2,750	4,150	4,100	2,290	840
Total	3,280	2,720	7,340	5,140	5,780	8,520	8,500	5,120	3,170
No. of project	5	6	10	7	9	12	9	8	5

Source: LALIN

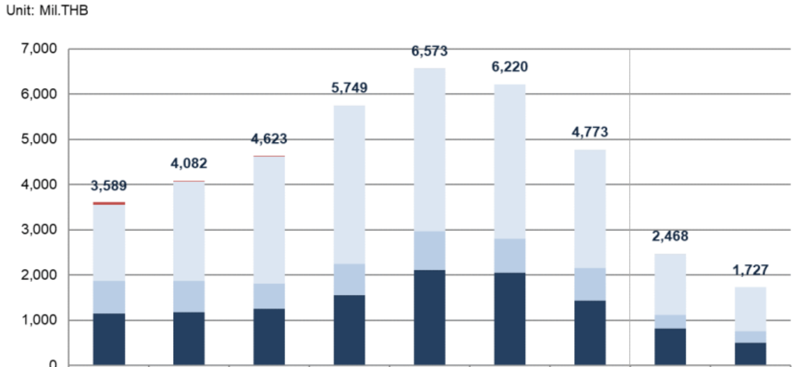
Chart 2: Presales Performance



	2017	2018	2019	2020	2021	2022	2023	6M23	6M24
Condo (LHS)	62	14	2						
Housing (LHS)	3,633	4,379	4,721	5,810	6,669	6,384	4,883	2,727	1,939
Total Presales (MB.)	3,695	4,392	4,723	5,810	6,669	6,384	4,883	2,727	1,939
Avg. Price (RHS)	2.5	2.6	2.6	2.7	2.9	3.0	3.1	3.1	3.1

Source: LALIN

Chart 3: Revenue Breakdown by Product



	2017	2018	2019	2020	2021	2022	2023	6M23	6M24
Condo	57	13	2	0	0	0	0	0	0
Townhouse	1,687	2,197	2,819	3,507	3,615	3,421	2,625	1,357	967
Semi-DH	718	692	554	690	854	746	716	296	259
SDH	1,149	1,180	1,248	1,552	2,103	2,053	1,432	814	501
Total Revenue	3,589	4,082	4,623	5,749	6,573	6,220	4,773	2,468	1,727

Source: LALIN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2024		-----------Year Ended 31 December --------- 2023	2022	2021	2020
Total operating revenues	1,727		4,773	6,220	6,573	5,749
Earnings before interest and taxes (EBIT)	352		1,112	1,674	1,827	1,594
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	376		1,158	1,716	1,875	1,645
Funds from operations (FFO)	210		805	1,293	1,415	1,191
Adjusted interest expense	101		141	102	110	118
Real estate development investments	17,039		15,624	12,862	11,433	10,916
Total assets	17,635		16,294	13,837	13,209	12,454
Adjusted debt	6,318		5,003	2,747	2,242	2,652
Adjusted equity	9,244		9,210	8,935	8,256	7,472
Adjusted Ratios						
EBITDA margin (%)	21.8		24.3	27.6	28.5	28.6
Pretax return on permanent capital (%)	6.0	**	8.5	14.3	16.3	15.2
EBITDA interest coverage (times)	3.7		8.2	16.9	17.0	13.9
Debt to EBITDA (times)	6.8	**	4.3	1.6	1.2	1.6
FFO to debt (%)	9.2	**	16.1	47.1	63.1	44.9
Debt to capitalization (%)	40.6		35.2	23.5	21.4	26.2

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

RELATED CRITERIA

- Homebuilders and Real Estate Developers Rating Methodology, 12 January 2023
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Lalin Property PLC (LALIN)

Company Rating:	BBB
Rating Outlook:	Stable

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