

MAJOR DEVELOPMENT PLC

No. 121/2022
27 July 2022

CORPORATES

Company Rating: BB
Outlook: Stable

Last Review Date: 09/07/21

Company Rating History:

Date	Rating	Outlook/Alert
09/07/21	BB+	Negative
02/08/18	BB+	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Major Development PLC (MJD) to “BB” from “BB+” and revises the outlook to “stable” from “negative”. The rating downgrade reflects the company’s continued weakening operating performance amid sluggish demand and intense competition in the condominium market and its high financial leverage.

The rating continues to reflect MJD’s relatively volatile operating performance as its products are concentrated in the high-end residential market, and its well-accepted brand name is in the luxury condominium segment. The rating also takes into consideration our concerns over the relatively high household debt level and rising inflation rates which could impact the purchasing power of homebuyers and development costs of property developers in the short to medium term.

KEY RATING CONSIDERATIONS

Operating performance remains weak

MJD’s operating performance fell below our previous forecast amid a slow recovery and intense competition in the condominium market. Its revenue dropped by 40% year-on-year (y-o-y) and 53% y-o-y to THB4.4 billion in 2021 and THB585 million in the first quarter of 2022, respectively. Looking forward, MJD’s operating performance is likely to remain under pressure over the next 2-3 years. We have revised down projections of MJD’s revenues to THB3-THB4 billion per annum during 2022-2024, lower than our previous forecast of THB3.5-THB4.6 billion per annum. MJD’s earnings before interest, taxes, depreciation, and amortization (EBITDA) margin is expected to hover around 15%-18% over the next three years, which is below other rated property developers that have recorded an average EBITDA margin of around 20%-25%. The lower margins reflect MJD’s lower revenues and share of profit from investments in joint ventures (JVs) and its high fixed operating expenses.

MJD’s presales value (including presales from JVs) was only THB1.9 billion in 2021 and THB1.0 billion in the first quarter of 2022. This is a drop from the normal range of THB4-THB6 billion in the past several years. Backlog at the end of May 2022 was only THB2.5 billion, comprising THB1.5 billion of its own projects and THB1.0 billion under JVs. Its own backlog is expected to be recognized as revenue of THB688 million in the remainder of 2022, THB245 million in 2023, and THB533 million in 2025. Most backlog of JV projects is expected to be transferred this year. Thus, MJD will have to focus on the sales of its existing completed projects in order to achieve its target revenue. At the end of May 2022, MJD had around THB7.6 billion of completed units available for sale.

Concentration in high-priced condominiums

In TRIS Rating’s view, MJD’s portfolio is highly concentrated in the high-priced condominium segment. At the end of May 2022, the company had 18 residential projects (including two JV projects), with remaining units available for sale worth THB12.1 billion. About 77% of the unsold value was units in condominium projects, with prices ranging from THB125,000-THB280,000 per square meter (sq.m.). As demand for condominiums has dropped sharply over the past few years amid concerns over the lingering Coronavirus Disease 2019 (COVID-19) pandemic, MJD’s operating performance has also been hit by a material downward shift in market demand while the company still had a

certain amount of fixed operating expenses. As a result, we have seen a high degree of volatility in MJD's profit margins. MJD's EBITDA margin was 15% in 2020 before dropping to 11% in 2021 then rising to 18% in the first quarter of 2022.

MJD has tried to balance its portfolio between condominium and landed property projects. The company plans to develop more housing projects in the medium- to high-price segments under the "Mayfield" brand, with prices ranging from THB10-THB20 million per unit. The company is still focusing on high-income homebuyers, a group in which bank rejection rates are low. The diversification toward landed property products should also help shorten development periods. MJD plans to launch landed property projects worth THB7.0-THB7.2 billion during 2022-2023. The success of its portfolio diversification should help smooth out its revenues and earnings. MJD's investments in the hotel and office businesses are still marginal compared with its residential property business. Revenues from the hotel and office businesses are expected to be only THB0.3-THB0.4 billion per annum during the next 2-3 years.

Well-accepted brands in the condominium segment

MJD's brands are widely accepted in the high-end residential property segment. MJD's condominium projects are developed under the "Muniq", "M Series", "Maru", "Metris", and "Maestro" brands. Its brand recognition is quite strong in the high-end condominium segment, with prices in the THB120,000-THB170,000 per sq.m. range. The company's competitive edge in the high-end condominium segment is underpinned by its well-accepted product quality, functional unit sizes, and prime locations. Most of MJD's projects are located in prime areas close to stations on the existing mass transit lines and tourist destinations like Pattaya and Hua Hin.

The company has also developed housing projects under the "Malton" and "Mavista" brands, targeting the high-end and luxury segment with starting prices from THB50 million per unit. Going forward, the company plans to launch more housing projects under the "Mayfield" brand to capture the middle to high segments. In our view, MJD's strength in the landed property segment is still evolving and needs more time to prove its success.

Concerns over high household debt and rising inflation

As of December 2021, household debt in Thailand peaked at THB14.58 trillion. The household debt to gross domestic product (GDP) ratio stood at 90.12%, increasing slightly from 89.66% at the end of 2020. The relatively slow pace of economic recovery has caused this ratio to hang at a high level. The Thai GDP dropped by 6.2% y-o-y in 2020 and grew by only 1.6% y-o-y in 2021. This year, we expect the GDP will grow by 2%-3% y-o-y. Thus, assuming household debt to stay at the same level, the household debt to GDP ratio should remain at around 87%-88% in 2022. The relatively high household debt level will impact housing sales, especially in the lower-priced housing segment where bank rejection rates are high.

Rising inflation since the last quarter of 2021 poses another threat to both developers and homebuyers. High inflation rates will push up development and funding costs for developers while lowering the purchasing power of homebuyers. High inflation will also impact the prices of construction materials and labor costs. Thus, developers' profit margins could decline if they are unable to pass through the rising costs to homebuyers. With our concerns over the rising construction and labor costs, we expect MJD's EBITDA margin will slightly decline but it should remain in the 15%-18% range over the forecast period.

Financial leverage remains high

MJD's financial leverage remains high. The company's debt to capitalization ratio was 63.4% at the end of March 2022, hovering at around the same level as the past two years. Although the company launched only one condominium project worth THB580 million in 2020, its relatively low profitability coupled with high interest expenses has resulted in its EBITDA interest coverage ratio falling below 1 times. MJD's EBITDA interest coverage ratio stood at 0.75 times in 2021 and 0.85 times in the first quarter of 2022. The ratio of its funds from operations (FFO) to debt was negative 2% in 2021, and negative 3% in the first quarter of 2022.

Looking forward, we expect MJD's debt to capitalization ratio to rise but to stay below 70% over the next three years. Our base case assumes the company will launch its own condominium projects worth around THB3-THB8 billion per annum and landed property projects worth around THB1.5-THB3.5 billion per annum during 2022-2024. According to the company's loan covenants, MJD is obliged to keep its interest-bearing debt (IBD) to equity ratio below 3.5 times. At the end of March 2022, its IBD to equity ratio was 1.73 times. MJD's priority debt to total debt ratio was 39.1%.

Tightening liquidity

We assess MJD's liquidity as tight. As of March 2022, MJD had THB3.6 billion of debt due over the next 12 months, comprising THB0.2 billion of short-term loans, THB0.6 billion of long-term project loans, and THB2.8 billion of debentures. Its sources of liquidity at the end of March 2022 comprised THB444 million of cash on-hand and THB519 million of undrawn committed credit facilities. The company plans to refinance most of its maturing debentures with new debenture issuances while its project loans will be repaid with cash from the transfers of sold property units.

BASE-CASE ASSUMPTIONS

- MJD to launch residential property projects in 2022 worth THB6.9 billion, comprising one condominium project worth THB3.0 billion and three landed property projects worth THB3.9 billion. We also assume the company will launch new residential projects worth THB6-THB10 billion per annum in 2023-2024.
- MJD's revenue to be THB3.2-THB3.8 billion per annum during 2022-2024. Share profit from JV projects to be around THB70-THB130 million per annum.
- Land acquisition to be around THB1.5-2.5 billion yearly.
- EBITDA margin to be around 15%-18%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that MJD should be able to sustain its operating performance as targeted and deliver the units in its backlog as scheduled. Based on its business plans, we expect the company's debt to capitalization ratio to stay below 70% over the forecast period, and EBITDA margin should be maintained at around 15%.

RATING SENSITIVITIES

TRIS Rating could revise MJD's rating or outlook upward if the company can improve its operating performance and lower its debt to capitalization ratio to 60%-65% on a sustainable basis. However, we would revise the rating and/or outlook downward should MJD's operating performance and financial leverage deteriorate significantly from our base-case levels. A decline in EBITDA margin to below 15% and/or the debt to capitalization ratio staying above 70% for a sustained period may also lead to a rating downgrade.

COMPANY OVERVIEW

MJD was established in 1999 by the Poolvorlaks family. The company became public in December 2005 and was listed on the Stock Exchange of Thailand (SET) in November 2007. After the initial public offering (IPO), the Poolvorlaks family continued to be MJD's largest shareholder. As of March 2022, the Poolvorlaks family held a 48% stake in the company.

MJD focuses on the high-end condominium segment. Selling prices across the company's portfolio are in the range of THB4-THB10 million per unit. Its major brands comprise the "M Series" and the "Maestro". The M Series projects are high-rise condominiums located near mass transit lines. The Maestro projects are low-rise condominiums on smaller land plots in good locations. The company also has signature projects targeting the super-luxury segment.

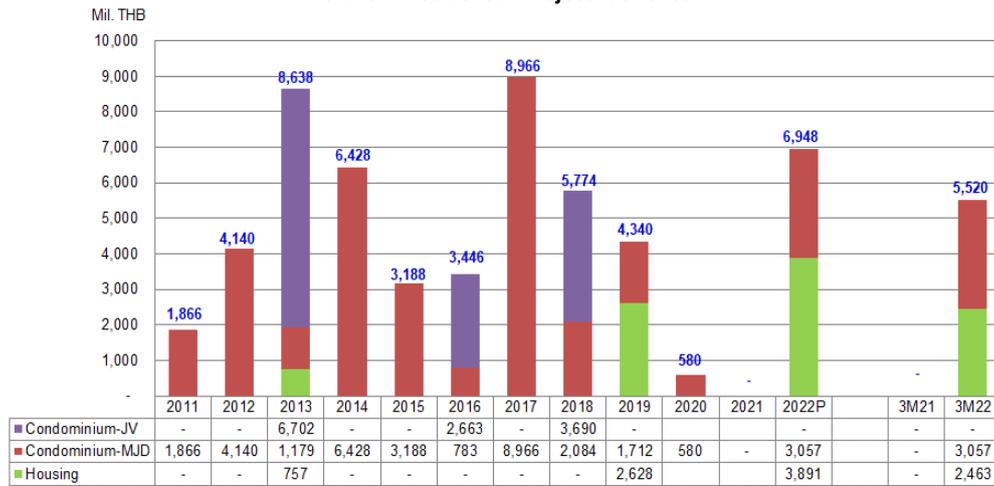
MJD invested 51% in a JV with private equity funds. The JV developed two condominium projects: "Marque Sukhumvit", launched in 2013, and "Muniq Sukhumvit 23", launched in 2016, with a combined project value of THB9.4 billion. The JV also launched "Muniq Langsuan" in 2018, with a project value of THB3.7 billion.

In 2017, MJD launched two new condominium brands, including "Metris", with prices ranging from THB4-THB6 million per unit, and "Maru", with prices ranging from THB6-THB8 million per unit, to capture the lower-priced segment. In addition, the company also launched housing projects under the "Malton" and "Mavista" brands in 2019.

MJD has expanded its business to generate more recurring income. The company developed three hotels, "Marrakesh Hua Hin Resort and Spa" in 2011, "Centra Maris Resort Jomtien" in 2016, and "Maven Stylish Hotel Hua Hin" in 2020. MJD commenced operation of its first office building, "Major Tower Thonglor 10", in 2015. The second office building, "Major Tower Rama 9 - Ramkumhang", commenced operation in 2020. These rental assets generate revenue of around THB350-THB450 million per annum.

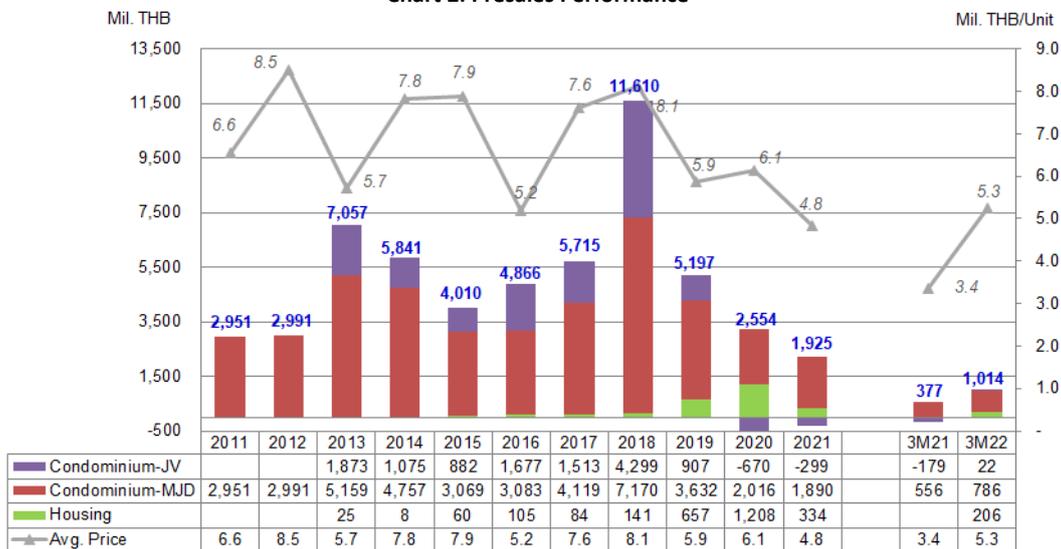
KEY OPERATING PERFORMANCE

Chart 1: Residential Project Launches



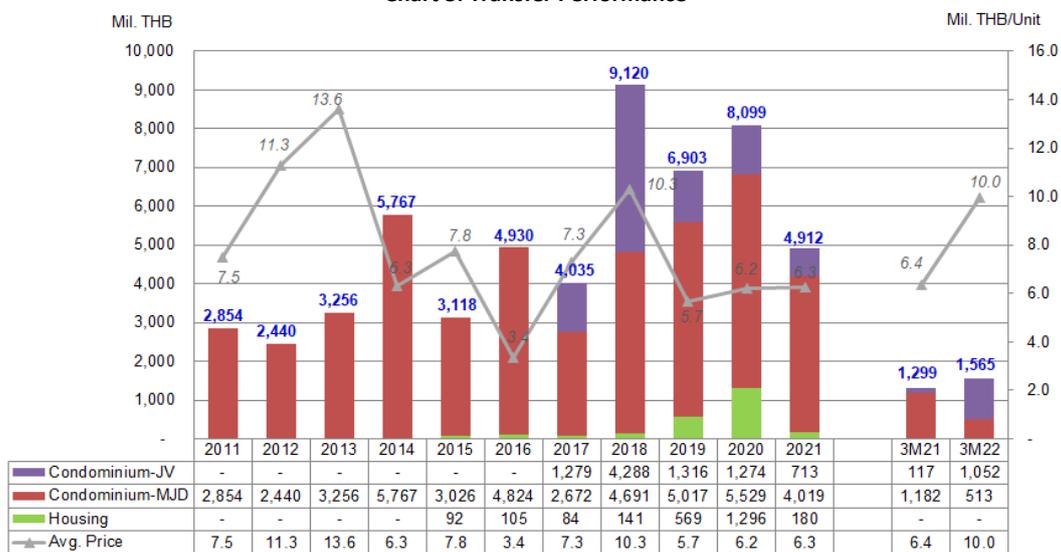
Source: MJD

Chart 2: Presales Performance



Source: MJD

Chart 3: Transfer Performance



Source: MJD

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

	Jan-Mar 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	585	4,404	7,335	6,028	5,306
Earnings before interest and taxes (EBIT)	83	388	953	925	1,873
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	108	511	1,087	1,072	2,018
Funds from operations (FFO)	(27)	(193)	357	248	1,263
Adjusted interest expense	127	678	619	725	647
Real estate development investments	6,755	7,030	8,445	10,502	11,121
Total assets	15,820	15,967	18,763	19,593	19,807
Adjusted debt	9,128	9,648	9,749	11,002	10,462
Adjusted equity	5,260	5,310	5,654	5,456	5,086
Adjusted Ratios					
EBITDA margin (%)	18.42	11.60	14.83	17.78	38.02
Pretax return on permanent capital (%)	1.63 **	2.39	5.62	5.55	11.21
EBITDA interest coverage (times)	0.85	0.75	1.76	1.48	3.12
Debt to EBITDA (times)	23.93 **	18.89	8.97	10.26	5.19
FFO to debt (%)	(3.15) **	(2.00)	3.66	2.26	12.07
Debt to capitalization (%)	63.44	64.50	63.30	66.85	67.29

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Major Development PLC (MJD)

Company Rating:	BB
Rating Outlook:	Stable

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