

# PRUKSA REAL ESTATE PLC

No. 142/2023  
4 August 2023

## CORPORATES

**Company Rating:** A-  
**Outlook:** Stable

**Last Review Date:** 18/07/22

### Company Rating History:

Date	Rating	Outlook/Alert
18/07/22	A	Negative
14/08/12	A	Stable
24/11/11	A	Negative
07/05/10	A	Stable
30/06/09	A-	Positive
25/06/08	A-	Stable
18/04/06	BBB+	Positive
12/07/04	BBB	Stable
19/06/03	BBB	-
05/02/02	BB+	-

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## RATIONALE

TRIS Rating downgrades the company rating on Pruksa Real Estate PLC (PS) to “A-” from “A” and revises the rating outlook to “stable” from “negative”. The downgrade follows the rating action on its parent company, Pruksa Holding PLC (PSH, rated “A-/stable”). Since PS is considered a “core” subsidiary of PSH, the rating on PS is at the same level as that assigned to PSH. The rating downgrade reflects the weaker-than-expected operating performance of the residential property business and expected rise in the group’s financial leverage resulting from its substantial investments in new businesses.

The rating reflects our concerns over PS’s future revenue and earnings amid the intense competition and unfavorable market sentiment in the residential property market. The rating also incorporates the negative impacts from interest rate hikes and reimposition of the loan-to-value (LTV) rules which could negatively impact housing demands in the short to medium term. On the positive side, the rating continues to reflect PS’s diversified product portfolio and adequate liquidity.

## KEY RATING CONSIDERATIONS

### The rating on PS reflects its core status within the group

The rating downgrade of PS follows the rating downgrade of PSH, as PS is a core subsidiary of PSH. The downgrade of PSH primarily reflects the weaker-than-expected performance of its residential property business and the increasing exposure of PSH’s investments in other ventures, with our expected minimal returns in the short- to medium term.

After the completion of the tender offer and delisting of PS from the Stock Exchange of Thailand (SET) in 2016, PSH became the major shareholder of PS. At present, PSH holds a 98.23% stake in PS. PS is the major contributor to PSH’s revenues and earnings, accounting for around 95% of PSH’s total operating revenue and almost the whole of PSH’s total earnings before interest taxes, depreciation, and amortization (EBITDA) in 2022. PS’s assets accounted for 86% of PSH’s total assets.

Looking forward, we expect PS to remain a core subsidiary of PSH, given its dominant earnings contribution to the group. We view that PS’s property business will continue to generate a sizable EBITDA of more than 95% of the group EBITDA over the next three years. As a core subsidiary, PS is expected to receive continued financial support from PSH. As of March 2023, almost all PS’s debt was made up of loans from PSH.

### Weaker-than-expected residential property sales

With weak demand and higher mortgage rejection rates from banks, especially in the middle-to low-income segments, PS has slowed down new project development since 2020. Intense competition from leading players in landed property market also disrupted PS’s market position. PS’s presales have continued to deteriorate since 2020 and tumbled to THB17 billion in 2022, from above THB35 billion in earlier years. PS reported total operating revenue of THB27-THB28 billion in 2021-2022, below our prior projections of above THB30 billion.

PS’s profitability softened as it resorted to more promotional campaigns to boost sales and clear slow-moving stock. Its EBITDA showed a downward trend from the THB8-THB9 billion level in past years to the THB4-THB5 billion level

in 2020-2022. EBITDA margin also contracted, declining to 17%-18% from around 20%. In comparison, PS's market position has declined relative to its peers in the 'A' rated category with EBITDA size exceeding THB6 billion annually and EBITDA margin surpassing 20%.

#### **Future revenue and earnings to remain challenging**

We view that PS's forthcoming revenue and earnings will come under pressure from unfavorable market conditions and intense competition. Interest rate hikes and the continuing weak purchasing power of middle-to low-income homebuyers, which are PS's major customers, could hinder the company's revenue growth and profitability. Intense competition from leading players in the market might result in PS losing market share or experiencing a reduction in profit margin.

Our base-case scenario revises down PS's total operating revenue to THB27-THB29 billion per annum in 2023-2025. We expect revenue from landed property to contribute around 70%-80% of total revenue. Furthermore, we have adjusted the projected EBITDA to a range of THB4.8-THB5.0 billion per annum, down from our previous forecast of above THB5.0 billion. The EBITDA margin is expected to remain at approximately 18% over the forecast period.

Our base-case assumes that PS will launch new residential projects worth THB23 billion in 2023 and THB30 billion per annum in 2024-2025. We estimate the budget for land acquisition to be THB7.0-THB7.5 billion per year. We also incorporate annual capital expenditures of THB100-THB300 million and dividend payment of 90% in our assumption. The investments of PS will be supported by PSH.

#### **Negative impact from interest rate hikes and more stringent LTV rules**

The Bank of Thailand (BOT) has already raised the policy rate three times this year, in January, March and May. We view that rising interest rates will affect not only the funding costs of developers but also the debt servicing capacity of homebuyers, especially those in the middle- to low-income segments. Rising interest rates could also dampen demand from investors as their expected returns would be eroded by higher funding costs. However, we do not expect the proportion of demand from investors and/or speculative demand to increase.

The reimposition of LTV rules could also soften housing demand in the short to medium term. In our view, the LTV rules will generally have a greater impact on the middle and high-end segments since these buyers may have multiple mortgage contracts. However, the impact of the LTV measures on PS is expected to be minimal since its primary customers typically have only one mortgage contract and can still borrow up to 100% of the housing value.

#### **Diversified product portfolio with established brands in the middle- to low-income segments**

We consider PS's product portfolio to be relatively diversified in terms of product type and price range. The company's portfolio comprises townhouses, single-detached houses (SDH), and condominiums, covering almost all segments of the residential property market. PS's townhouse products cater to the low- to middle-income segments, with selling prices ranging from THB2-THB5 million per unit. SDH products are priced from THB3.5-THB15 million per unit. PS's condominium portfolio covers the low- to high-end segments, with selling prices ranging from THB50,000-THB260,000 per square meter (sq.m.). Currently, around 40% of PS's portfolio is in the sub-THB3-million segment, 35% in the THB3-THB5-million segment, and the rest in the THB5-million-plus segment.

Due to the impacts of interest rate hikes and the weak purchasing power of middle-to low-income homebuyers on PS's operating performance, the company plans to adjust its portfolio to include more products targeting the middle-to high-end segments. PS plans to launch more townhouse projects in the THB3-THB5 million range and more SDH projects under The Palm brand in the THB20-THB30 million range in the next few years. PS expects products targeting the middle-to high-income segment to be rise to around half of its total portfolio value.

In our view, PS's portfolio shift coupled with its well-accepted brands should help the company regain market share and improve its operating performance. As of April 2023, PS had around 150 existing projects with total unsold value of THB60.6 billion (including built and unbuilt units). Townhouse projects accounted for 52% of total remaining value, SDHs 31%, and condominiums 17%.

#### **Adequate liquidity**

We expect PS to have adequate liquidity to cover its debt repayments over the next 12 months. As of March 2023, the company has debts of THB4.2 billion coming due in the next 12 months, comprising THB4.1 billion short-term loans from the parent company, THB5 million short-term borrowings from banks, and THB54 million lease liability.

PS's sources of liquidity consisted of THB2.4 billion in cash on hand plus THB7 billion in undrawn committed short-term facilities and THB15.8 billion in undrawn uncommitted short-term facilities. We forecast PS's funds from operations (FFO) to be THB3.7 billion in 2023. PS also has unencumbered land at book value of THB13.1 billion, which can be sold or pledged as

collateral for new credit facilities, if needed. In addition, as a core subsidiary of the group, we expect PS to receive financial support from the group.

#### BASE-CASE ASSUMPTIONS

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These are the key assumptions in TRIS Rating's base case forecast for PS's operations during 2023-2025:

- PS to launch new landed property projects worth around THB15 billion in 2023 and THB22 billion annually in 2024-2025.
- PS to launch new condominium projects worth THB8 billion per annum.
- Annual budget for land acquisition to be THB7.0-THB7.5 billion.
- Total operating revenue should stay in the THB27-THB29 billion per annum range, with an EBITDA margin of around 18%

#### RATING OUTLOOK

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The "stable" outlook is aligned with the outlook revision on PSH and reflects our expectation that PS will maintain its status as a core subsidiary of PSH.

#### RATING SENSITIVITIES

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The rating and/or outlook on PS hinges not only on its operating performance but also on the financial position of the group. The credit profile on PS will be negatively affected if the group operating performance and/or financial position significantly deteriorate from the target level. Any change in the company's linkage with PSH could also lead to a change in the company rating on PS. On the contrary, a stronger operating result and/or financial profile of the group will have positive effect on the rating on PS.

#### COMPANY OVERVIEW

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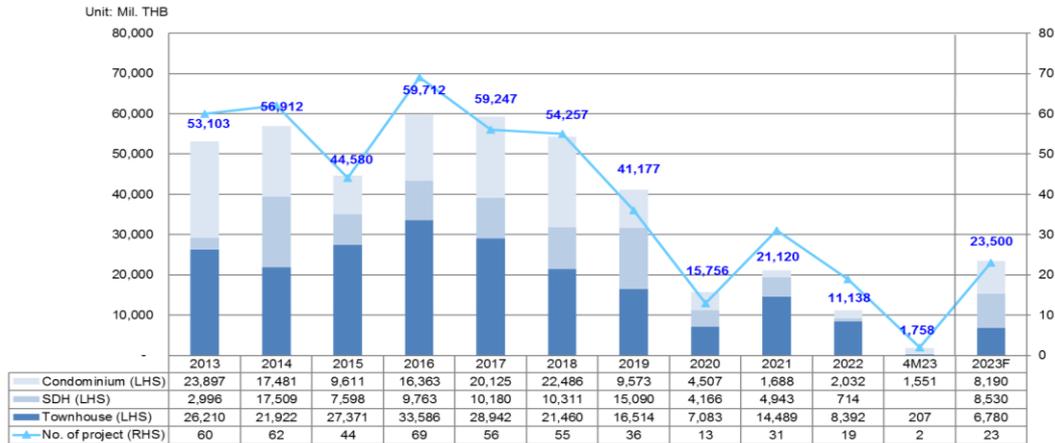
PS was founded in 1993 by Mr. Thongma Vijitpongpun and listed on the Stock Exchange of Thailand (SET) in December 2005. After the completion of the tender offer following a restructuring plan in November 2016, PSH became the major shareholder of PS. On 1 December 2016, PSH's securities were listed on the SET in place of PS's shares, whose securities were simultaneously delisted. As of March 2023, the Vijitpongpun family was PSH's largest shareholder, owning a 76% stake. PSH holds a 98.23% stake in PS.

After the reorganization, PS has retained its concentration on residential properties for sale. PS is considered as a "core" subsidiary of PSH since the residential property business is likely to remain the key contributor to the revenue and earnings of the group over the next several years. Thus, the issuer ratings on PS and the group are equivalent. The organizational structure under PSH will provide more flexibility for the group to expand into new businesses and facilitate alliances with strategic partners.

PS's property portfolio is well-diversified. Its products cover townhouses, SDHs, and condominiums across various price ranges. PS's main products target the middle- to low-income segments of the residential property market. As of April 2023, PS had a sizable project portfolio worth THB161 billion in total project value. The portfolio was 60% sold and 57% transferred. Townhouses remain the largest source of income, constituting around 40%-50% of total operating revenue for the past several years. Revenue from condominiums and SDHs contributed around 30%-40% and 20%, respectively, during the past five years.

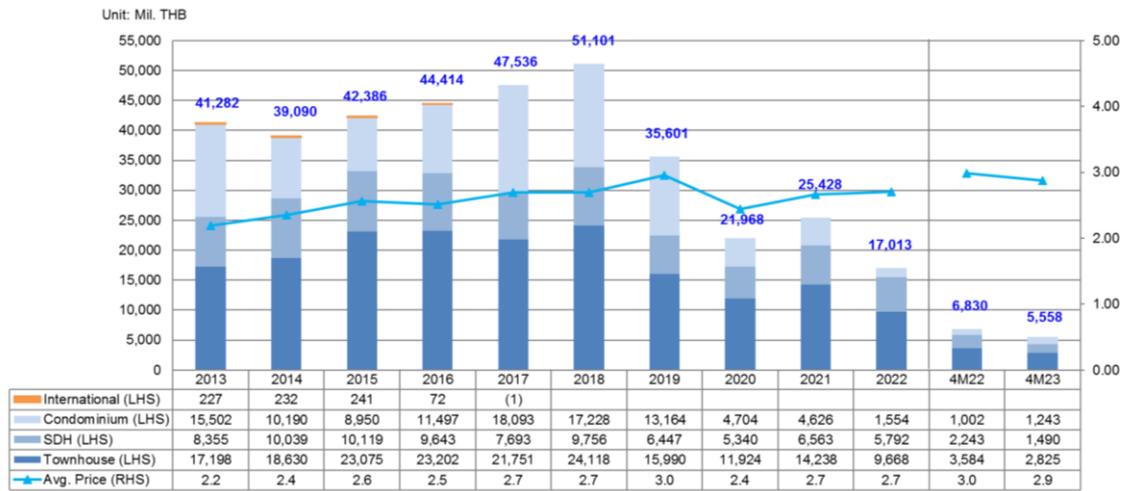
**KEY OPERATING PERFORMANCE**

**Chart 1: New Residential Project Launches**



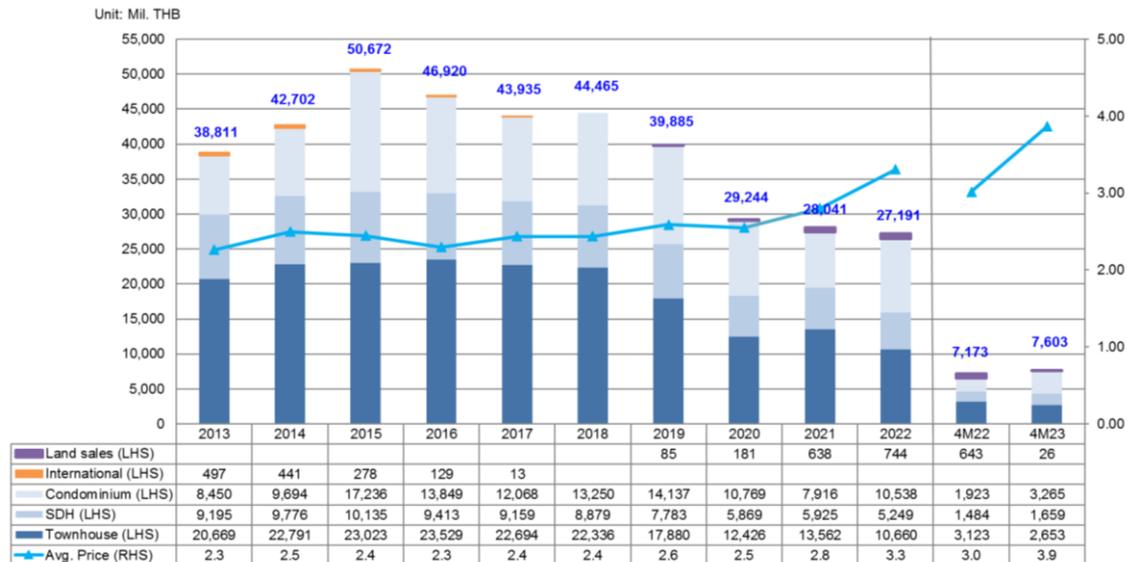
Source: PS

**Chart 2: Presales Performance**



Source: PS

**Chart 3: Transfer Performance**



Source: PS

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	Jan-Mar 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	6,106	27,416	28,155	29,528	40,156
Earnings before interest and taxes (EBIT)	1,067	4,661	4,319	4,668	7,893
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,128	5,019	4,712	5,114	8,649
Funds from operations (FFO)	872	3,426	3,219	3,694	6,133
Adjusted interest expense	66	690	734	612	1,013
Real estate development investments	46,660	49,362	57,463	67,380	76,464
Total assets	55,931	59,209	67,953	75,930	85,075
Adjusted debt	2,318	4,863	14,534	24,570	31,964
Adjusted equity	44,301	43,574	42,728	42,254	42,066
<b>Adjusted Ratios</b>					
EBITDA margin (%)	18.48	18.31	16.74	17.32	21.54
Pretax return on permanent capital (%)	9.05 **	8.33	6.72	6.49	10.74
EBITDA interest coverage (times)	17.21	7.27	6.42	8.36	8.54
Debt to EBITDA (times)	0.45 **	0.97	3.08	4.80	3.70
FFO to debt (%)	152.83 **	70.44	22.15	15.03	19.19
Debt to capitalization (%)	4.97	10.04	25.38	36.77	43.18

\* 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

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**Pruksa Real Estate PLC (PS)**

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<b>Company Rating:</b>	A-
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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