

SENA DEVELOPMENT PLC

No. 89/2022
31 May 2022

CORPORATES

Company Rating:	BBB
Issue Ratings:	
Senior unsecured	BBB
Outlook:	Negative

Last Review Date: 08/03/22

Company Rating History:

Date	Rating	Outlook/Alert
08/03/22	BBB	Alert Negative
21/02/19	BBB	Stable
11/11/14	BBB-	Stable

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RATIONALE

TRIS Rating removes the “CreditAlert” with a “negative” implication on Sena Development PLC (SENA) and affirms the company rating and issue ratings at “BBB”. At the same time, TRIS Rating assigns a “negative” outlook to the ratings. The “negative” outlook reflects pressure on SENA’s financial profile after consolidating Sena J Property PLC (SENAJ)’s operations. SENA’s operating performance could deteriorate from its past record unless it manages to revive SENAJ’s operating performance as planned.

The ratings continue to reflect SENA’s acceptable track record in the middle-to low-income segment of the residential property market and the high income contribution from investments in joint ventures (JVs). The ratings also take into consideration Thailand’s high household debt level and rising inflation which could erode the purchasing power of homebuyers and raise costs of property developers in the short to medium term.

KEY RATING CONSIDERATIONS

SENAJ’s performance could hurt SENA’s profitability

Even before Coronavirus Disease 2019 (COVID-19) emerged, SENAJ’s gross profit margin during 2017-2019 was in the range of 25%-28%, significantly lower than SENA’s gross profit margin of 40%-49%. During the pandemic in 2020-2021, SENAJ’s operating performance dropped sharply with a slump in its gross profit margin, resulting in severe net losses.

We expect SENA to take time to restore SENAJ’s operations. After the SENAJ acquisition, SENA’s gross profit margin should decline to 37% in 2022 and improve gradually to 38%-39% in 2023-2024. SENA’s earnings before interest, taxes, depreciation, and amortization (EBITDA) will likely range from THB1.4-THB1.8 billion per annum, with an EBITDA margin of 28%-30%. Its net profit as a percentage of total operating revenue, net profit margin, should stay above 17% over the next three years. The recovery of SENA’s profitability could be slower than expected due to the slow recovery of the domestic economy and Thailand’s high household debt level.

Recovery in cashflow protection remains a challenge

SENA’s rapid expansion through its own and JV projects, together with the acquisition of SENAJ and several residential projects under development, has weakened its cashflow protection. SENA’s funds from operations (FFO) to debt ratio has declined to 7.9% in 2021 and 5.6% in the first quarter of 2022, from above 10% during the prior years. Its EBITDA interest coverage ratio decreased to 3.6 times in 2021 and 1.9 times in the first quarter of 2022, from above 5 times during the past several years.

We believe SENA’s cashflow protection will be at its weakest level this year and start to recover next year. Its FFO to debt ratio will likely stay below 6% throughout 2022 and improve to above 10% from 2023 onwards. The EBITDA interest coverage ratio should stay below 3 times this year, rising to about 4 times during 2023-2024. The recovery of SENA’s cashflow protection might be delayed if the company takes on higher debt burden and/or fails to generate cashflow as targeted.

We expect SENA to continue to aggressively expand its residential portfolio. Our base-case forecast assumes SENA will launch new residential projects of its own and through JVs worth THB17 billion in 2022 and THB7-THB9 billion per

annum during 2023-2024. The budget for land purchases, including for its own and JV projects, will be THB1.5-THB3.2 billion per annum while the company's equity injections into its JVs will be THB0.6-THB1.3 billion per annum during the forecast period. Capital expenditure for other businesses is projected to be around THB200 million annually.

SENAJ acquisition helps enlarge and balance SENA's residential property portfolio

In our view, the SENAJ acquisition not only enlarges SENA's business scale, but also expands its coverage into new locations like Rangsit Klong 1, Bangpakong, Bang Yai, and Bangpu. At the end of March 2022, SENAJ's residential property projects comprised 17 landed property projects and three condominium projects, with a total unsold value of THB6.9 billion. The prices of SENAJ's products range from THB3-THB7 million for landed property units and THB1-THB2 million for condominium units.

SENAJ's projects increased the total unsold value of SENA's residential property portfolio by about 30%. At the end of March 2022, SENA's portfolio after the SENAJ acquisition comprised 23 owned and 18 JV condominium projects and 33 owned and two JV landed property projects, with a total unsold value of THB29.5 billion (including built and un-built units). SENA's portfolio was also more balanced between condominiums and landed property, with each making up about half of the total unsold value. We forecast SENA's consolidated revenue from residential property sales to bounce back to THB3.7-THB4.7 billion annually during 2022-2024. SENAJ's projects should generate revenue of THB0.9 billion this year, rising to THB1.6-THB1.7 billion per annum during 2023-2024.

Income contribution from JVs expected to remain high

Our base-case scenario assumes SENA will launch new condominium and landed property projects through JVs worth THB22.5 billion during 2022-2024. Revenue from project management fees for the JV residential property projects should be in the THB800-THB900 million per annum range, accounting for about 15% of the company's total operating revenue.

As of March 2022, the JV projects had a total unsold value of THB14.1 billion. The backlog under JVs was worth THB6.7 billion, most of which should be delivered this year. We project net shared profits from the JV residential properties to be THB150-THB250 million annually during 2022-2024. This amount will be topped up by shared profits from its solar farm and office rental businesses.

Heightened concerns over high household debt level and soaring inflation

As of December 2021, Thailand's household debt peaked at THB14.6 trillion. The household debt to gross domestic product (GDP) ratio stood at 90.1%, increasing slightly from 89.7% 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% year-on-year (y-o-y) in 2020 and grew only 1.6% y-o-y in 2021. In 2022, we expect the GDP will grow by 2%-3% y-o-y. Assuming household debt stays at the same level, the household debt to GDP ratio should remain at 87%-88% in 2022. The relatively high household debt level will adversely affect housing sales, especially in the lower-priced housing segment where bank rejection rates are high.

In addition, rising inflation since the last quarter of 2021 poses a threat to both property developers and homebuyers. The high inflation will push up the funding and development costs of property developers, including prices of construction materials and labor costs, while lowering the purchasing power of homebuyers. Thus, SENA's profit margins could decline if it cannot pass the rising costs through to homebuyers.

Manageable liquidity

We assess SENA's liquidity as manageable. At the end of March 2022, the company's maturing debts over the next 12 months amounted to THB7.2 billion, comprising THB2.2 billion in short-term bank loans, THB1.1 billion in long-term project loans, and THB3.9 billion in debentures. SENA plans to roll over the short-term bank loans, some of which will be converted into long-term bank loans. The debentures coming due will be repaid by the company's internally generated cash and/or replaced with a new debenture issuance. As of March 2022, SENA's sources of liquidity consisted of THB0.6 billion in cash and THB2 billion in undrawn unconditional credit facilities from banks. We forecast FFO to be about THB0.8 billion in 2022. The company also had unencumbered land banks worth THB0.9 billion and unsold finished units in its own debt-free projects worth THB2.7 billion, which can be pledged as collateral for new loans, if needed.

Improving capital structure

SENA's capital structure improved after consolidating with SENAJ in March 2022. SENA's debt to capitalization ratio declined to 53.2% at the end of March 2022, versus 58.4% at the end of 2021. SENAJ's debt to capitalization ratio was relatively lower, at about 33% as of March 2022. SENA's total liabilities to equity ratio also slid to 1.2 times at the end of March 2022 from 1.4 times at the end of 2021. The financial covenants on SENA's debentures and bank loans require the maintenance of its total liabilities to total equity ratio below 2.5 times and 1.75 times, respectively. Given the large headroom, we believe that SENA will be able to comply with the financial covenants over the next 12 to 18 months.

At the end of March 2022, SENA's total debt, as per our priority debt calculation, was about THB11 billion. SENA's priority debt, including secured debts at the company and total debt at the subsidiaries was about THB4 billion. This translates to a priority debt to total debt ratio of 38%.

BASE-CASE ASSUMPTIONS

These are the key assumptions for SENA's operations in our base-case forecast during 2022-2024:

- SENA to launch new residential projects inclusive of its own and JV projects worth THB17 billion in 2022 and THB7-THB9 billion per annum during 2023-2024.
- Annual budget for land purchases, including its own and JV projects, to be THB1.5-THB3.2 billion.
- Total operating revenue to rise to THB5-THB6 billion per annum with an EBITDA margin of 28%-30%.
- Shared profits from its investments in all JVs to be THB200-THB300 million per annum.

RATING OUTLOOK

The "negative" outlook reflects our view that SENA's credit profile will remain under pressure, with uncertainty over the pace of recovery of the operating and financial performance of SENA and SENAJ amid unfavourable market sentiment and intense competition in the residential property industry.

RATING SENSITIVITIES

The outlook could be revised to "stable" if SENA's operating performance and financial profile are in line with our expectations. We expect SENA's operations and financial results to recover steadily from 2023 onwards, with a FFO to debt ratio above 10% and an EBITDA interest coverage ratio above 3 times. We also anticipate SENA will keep its debt to capitalization ratio below 55% over the forecast period.

In contrast, downward pressure on the ratings could emerge if the deterioration in SENA's operating performance and/or financial position deepens materially, such that the FFO to debt ratio stays below 10% and the EBITDA interest coverage ratio stays below 3 times, with no signs of improvement.

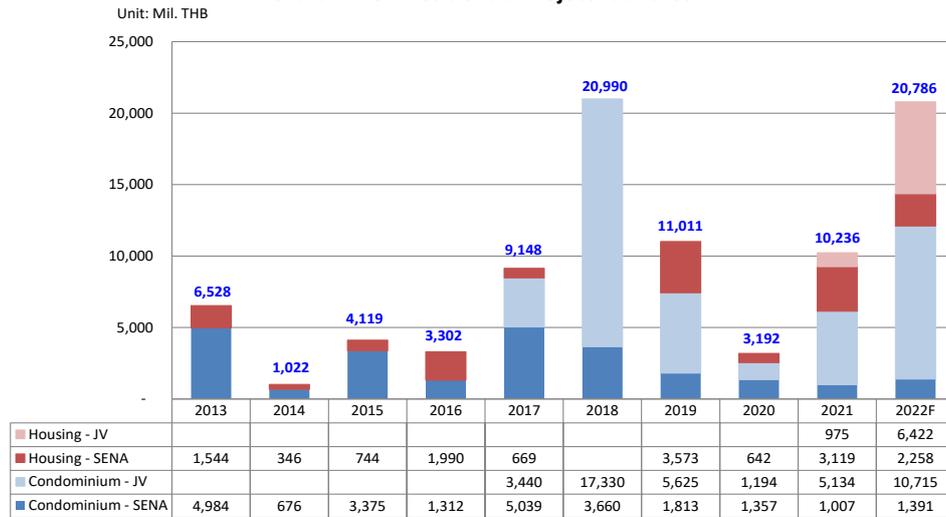
COMPANY OVERVIEW

SENA was established by Mr. Theerawat Thanyalakphark in 1993 and listed on the Stock Exchange of Thailand (SET) in 2009. As of March 2022, the Thanyalakphark family continued to be the company's largest shareholder, owning a 56.1% stake. SENA focuses on the residential property development business. Its products cover condominiums, single-detached houses (SDH), twin houses, townhouses, and commercial units. SENA's products mainly target the middle- to low-income segment, with selling prices ranging from THB30,000 to THB200,000 per sq.m. for condominiums and an average price per unit of THB4-THB5 million for landed properties. Its products comprise condominium projects, sold under the PITI, The Niche Pride, The Niche Mono, The Niche ID, Flexi, The Kith, SENA Kith, and SENA Eco Town brands; and landed property projects under the Sena Park Grand, Sena Grand Home, Sena Ville, Viva, Sena Shophouse, Sena Avenue, and Sena Town brands.

Revenue from condominium projects constituted 55%-65% of total operating revenue during 2017-2019, decreasing to 40%-50% during 2020-2021. Revenue from landed property projects has contributed 12%-24% of total operating revenue during the past five years. The revenue contribution from project management fees through JV projects increased to about 20% of total operating revenue during 2019-2021, from 9% in 2018, as SENA launched more JV projects. Revenue from other rental and service income as well as the solar business remains negligible.

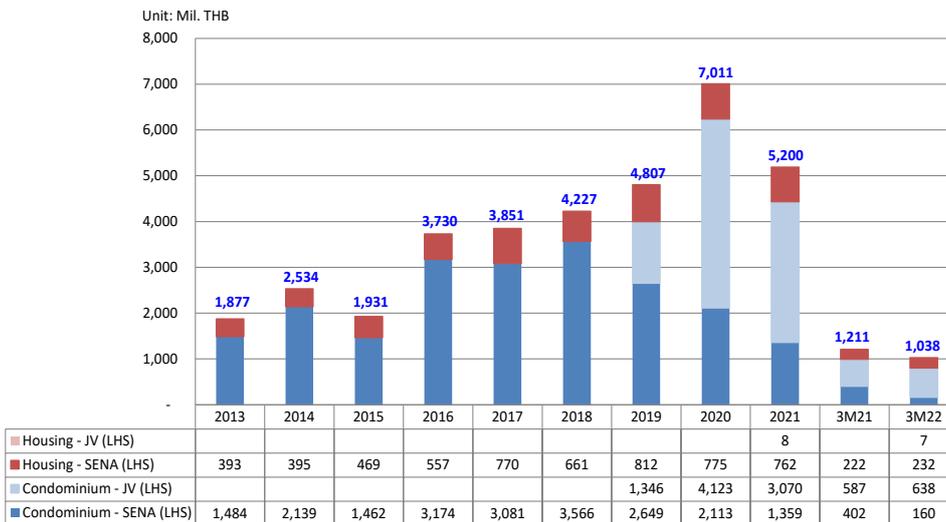
KEY OPERATING PERFORMANCE

Chart 1: New Residential Project Launches



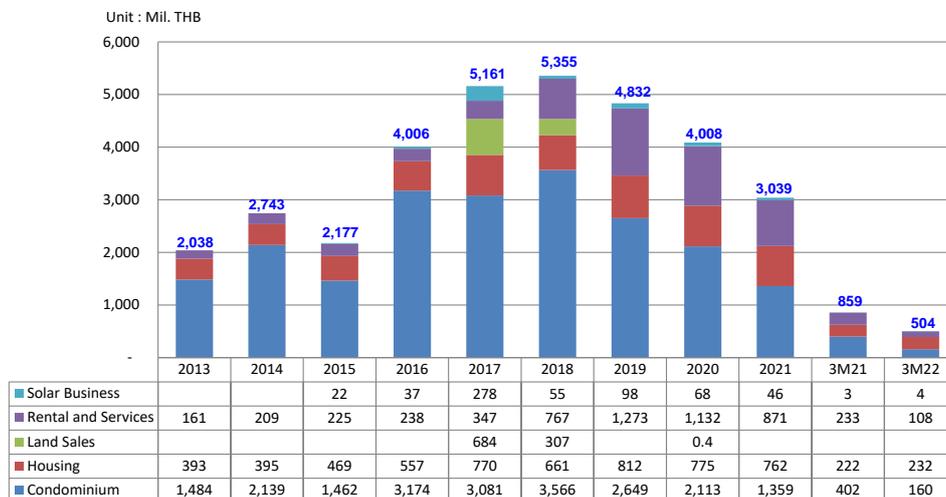
Source: SENA

Chart 2: Transfer Performance



Source: SENA

Chart 3: Revenue from Sales and Services Breakdown



Source: SENA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	619	3,190	4,228	4,989	5,540
Earnings before interest and taxes (EBIT)	224	1,216	1,681	1,478	1,433
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	257	1,325	1,788	1,577	1,558
Funds from operations (FFO)	147	864	1,263	942	1,012
Adjusted interest expense	138	369	355	315	234
Real estate development investments	13,448	8,251	7,910	8,052	7,726
Total assets	23,229	18,620	17,927	15,098	13,698
Adjusted debt	12,259	10,931	8,227	8,536	6,607
Adjusted equity	10,787	7,802	7,167	6,502	5,903
Adjusted Ratios					
EBITDA margin (%)	41.57	41.52	42.30	31.62	28.13
Pretax return on permanent capital (%)	5.75 **	6.18	9.53	9.95	12.41
EBITDA interest coverage (times)	1.87	3.59	5.03	5.01	6.67
Debt to EBITDA (times)	10.60 **	8.25	4.60	5.41	4.24
FFO to debt (%)	5.63 **	7.90	15.35	11.04	15.32
Debt to capitalization (%)	53.19	58.35	53.44	56.76	52.81

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

Sena Development PLC (SENA)

Company Rating:	BBB
Issue Ratings:	
SENA253A: THB1,200 million senior unsecured debentures due 2025	BBB
Up to THB6,800 million senior unsecured debentures due within 5 years	BBB
Rating Outlook:	Negative

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