TRIS RATING
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ORIGIN PROPERTY PLC

No. 36/2022
24 March 2022

CORPORATES

Company Rating:	BBB+
Issue Rating:	
Senior unsecured	BBB+
Outlook:	Stable

Last Review Date: 30/04/21

Company Rating History:

Date	Rating	Outlook/Alert
30/04/21	BBB	Positive
05/04/19	BBB	Stable
03/08/18	BBB-	Positive
29/09/17	BBB-	Stable
23/05/17	BBB-	Alert Developing
12/09/16	BBB-	Stable

Contacts:

Auyporn Vachirakanjanaporn

auyporn@trisrating.com

Hattayanee Pitakpatapee

hattayanee@trisrating.com

Jutamas Bunyawanichkul

jutamas@trisrating.com

Preeyaporn Kosakarn

preeyaporn@trisrating.com

Suchada Pantu, Ph.D.

suchada@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating upgrades the company rating on Origin Property PLC (ORI) to "BBB+" from "BBB" and revises the outlook to "stable" from "positive". At the same time, TRIS Rating assigns a rating of "BBB+" to ORI's proposed issue of up to THB6 billion in senior unsecured debentures due within five years. The issue rating is equal to the company rating since ORI's priority debt to total debt ratio at the end of 2021 was 41.5%, less than the 50% threshold according to TRIS Rating's "Issue Rating Criteria". The proceeds from the debenture issuance will be used to repay some of the company's existing loans and fund business expansion.

The upgrade reflects ORI's improving market position, its solid earnings, and lower leverage level. Despite the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, the company was able to increase its sales and maintain its earnings before interest, taxes, depreciation, and amortization (EBITDA) and funds from operations (FFO) to around THB4-THB5 billion and THB2.6-THB3.2 billion, respectively. ORI's debt to capitalization ratio (including the proportionate amount of debt carried by joint venture (JV) projects) also declined steadily to around 56% in 2021 from around 67% in 2019.

The ratings continue to reflect ORI's above average profitability, its sizable backlog, and the expected large contribution of share profits from its JVs over the next 2-3 years. The ratings also take into consideration the company's moderately high financial leverage as a result of its aggressive expansion in both residential and commercial property segments, and concerns over the lingering impact of COVID-19, which is likely to continue to pressure the demand for condominiums.

KEY RATING CONSIDERATIONS

Gaining market share in both condominium and landed property segments

ORI's market position in both the condominium and landed property segments has been improving over time. The company has been able to generate presales and transfers of more than THB10 billion per year over the last five years. Despite stagnant demand and the negative impacts of the COVID-19 pandemic, ORI's presales (including presales from JV projects) in 2021 jumped to THB16.5 billion from only THB10.9 billion in 2020, thanks to strong sales of landed property projects. Presales in the landed property segment grew sharply to THB4.7 billion in 2021 from THB2.5 billion in 2020 and from almost none in 2017. Based on the remaining units available for sales and the sizable value of new residential projects in the pipeline, ORI's presales are expected to grow by 20%-25% year-on-year (y-o-y) in 2022 and then by 5%-10% y-o-y in 2023 and 2024.

ORI's products cover a wide price range. Its condominium prices range from THB60,000 to THB200,000 per square meter (sq.m.) while landed property prices range from THB2.5 million to THB50 million per unit. Condominium brands like *"Brixton", "The Origin", "Origin Plug and Play"* target the entry to mid-level pricing segment while *"Knightsbridge", "So Origin",* and *"Park Origin"* target the high end to luxury segments. These condominium brands are well-accepted among homebuyers. For landed properties, housing brands like *"Brighton" and "Britania"* target the entry to mid-price segments while the *"Grand Britania"* and *"Belgravia"* brands target the high to luxury price segments. The acceptance of its housing brands is also increasing over time.

At the end of 2021, ORI's portfolio comprised 19 landed property projects, 34 owned condominium projects, and 16 condominium projects under JVs. The total units available for sale (both built and un-built) carried a value of around THB44.1 billion, comprising landed property projects (31%), owned condominiums (40%), and JV condominiums (29%). The company plans to launch residential property projects worth THB42 billion in 2022, comprising new landed property projects worth THB13.4 billion and condominium projects (including JVs) worth THB28.6 billion.

Solid earnings despite the COVID-19 resurgence

Despite the COVID-19 resurgence, ORI's operating performance in 2021 exceeded TRIS Rating's forecast. Revenue in 2021 rose to THB15.3 billion, from THB10.9 billion in 2020 and THB13.7 billion in 2019. The rising revenue was driven by the strong growth in landed property sales as mentioned earlier. ORI's EBITDA also improved to THB5.1 billion in 2021 from around THB4.1-THB4.8 billion per annum in 2019 through 2020. ORI's EBITDA margin has been in the 34%-37% range over the past three years, higher than the industry average of 20%-25%.

Looking forward, we expect ORI's annual revenue to range from THB13-THB16 billion, with revenue from landed property projects accounting for 40%-50% of total revenues. Its EBITDA is expected to range from THB4.3-THB5.7 billion per annum over the next 2-3 years. The earnings forecast is supported by ORI's sizable condominium backlog and the expected recovery of the property industry. As of December 2021, ORI's backlog was worth around THB34.6 billion, comprising THB7.6 billion of ORI's projects and THB27.0 billion of JV projects. Units from its own projects will be recognized as revenue of around THB5.2 billion in 2022, THB0.2 billion in 2023, and THB2.2 billion in 2024. For the JV projects, backlog worth around THB11-THB12 billion per annum will be transferred to customers in 2022 and 2023, and the rest in 2024. The shared profit from JV projects is expected to be around THB1.3-THB1.8 billion per annum during 2022-2024.

Challenging year for residential property industry

TRIS Rating expects the demand for residential properties in 2022 to grow by 5%-10% from the previous year, supported by improving economic prospects as the impacts of COVID-19 show signs of abating. In addition, the extended relaxation of the loan-to-value (LTV) limit to 100% from 70%-90% for all housing units and the reduction in the transfer and mortgage registration fees for homes priced below THB3 million until the end of 2022 should help support the growth in demand for housing this year.

However, there remain several key challenges to property developers in the short to medium term. Competition among residential property developers remains intense, especially in the affordably priced segment. The company needs to constantly update its products to match demand in order to maintain its competitive position in the market. Besides, the relatively high household debt level and rising inflation rates could weaken the purchasing power of homebuyers, especially in the middle- to low-income segments. Stringent bank lending policies are also a challenge for all residential property developers.

Contributions from other businesses remain minimal

ORI diversified into the hospitality business in 2017 and the office rental business this year. The company has completed and started operations of two hotels: “Holiday Inn Siracha” and “Staybridge Thonglor”. Three more hotels and one office building: “Intercontinental Sukhumvit”, “Staybridge Phromphong”, “Holiday Inn Express Phayathai”, and an office building at Sanampao will start operations during 2022-2024. In February 2022, ORI also purchased three hotels from the Erawan Group PLC (ERW), with a value of around THB1 billion. The revenue contribution from the hotel business is expected to be around THB200-THB300 million per annum over the next three years.

In addition, ORI has invested in several other businesses including warehouse for rent, asset management, health and wellness, and energy. The company has joined hands with specialists in each business segment, for example, JWD Infologistics PLC (JWD) for the warehouse business, Kin and Senizens for the health and wellness business, and Gunkul Engineering PLC (GUNKUL) for the energy business. ORI's expansion into these new businesses is still in its initial stage and the success of the investments remains to be seen.

In our view, the residential property business will likely remain the major driver of ORI's earnings, contributing more than 80% of total earnings over the next few years. However, the diversification into other businesses, if successful, will broaden ORI's business mix and enhance earnings stability in the long run.

Debt to capitalization ratio expected to stay below 60%

ORI's debt to capitalization ratio is expected to stay below 60% over the next three years. ORI's debt to capitalization ratio was 55.6% at the end of 2021, decreasing from the 63%-67% range in the past several years. Based on its plan to launch more residential projects and invest in new businesses, ORI's debt to capitalization ratio could rise to 58%-59%. The financial covenants on its bank loans and debentures require ORI to maintain its interest-bearing debt to equity ratio below 2.5 times.

The ratio at the end of 2021 was 0.97 times. The company should have no problem complying with its financial covenants over the next 12-18 months.

In our base-case forecast, we assume ORI to launch residential projects worth THB42 billion (including JV projects) in 2022 and THB15-THB20 billion per annum in 2023-2024. The budget for land acquisition is projected to be THB5-THB7 billion per annum while construction costs to be around 35%-40% of the project value. The investment budget for commercial properties such as hotels and offices is set at around THB300 million per annum. The investment budget for the new businesses such as warehouses for rent, asset management, and health and wellness, is set at THB1.5-THB2.0 billion in total over the next three years. The company plans to invest in these businesses mostly through JVs, which will help lessen the capital needed.

Liquidity manageable

We assess ORI's liquidity to be manageable. ORI's sources of funds comprised cash on hand of THB2 billion and available credit facilities of THB1.6 billion at the end of 2021. ORI's FFO is forecast to be THB3.0-THB3.2 billion per annum. ORI's uses of funds over the next 12 months will amount to THB8.5 billion, comprising THB2.3 billion short-term loans, THB2.7 billion project loans, and THB3.5 billion debentures. Short-term loans are mostly for working capital and bridging loans for land purchases which are expected to be converted to project loans over time. We expect project loans to be repaid with internally generated cash from the transfers of residential units. The company plans to refinance maturing debentures with new debenture issuances.

BASE-CASE ASSUMPTIONS

- Residential property project launches of THB42 billion in 2022 and THB15-THB20 billion per annum during 2023-2024.
- Revenue will be THB13-THB16 billion during 2022-2024. Shared profits from JV investments will amount to THB1.3-THB1.8 billion annually, as JVs are expected to deliver condominium units worth around THB10-THB12 billion per annum over the next three years.
- Land acquisition, including land for JV projects, is budgeted at THB5-THB7 billion yearly over the next three years.
- Capital expenditures for commercial properties and other business investments are set at THB3.0-THB3.5 billion in total during 2022-2024.

RATING OUTLOOK

The "stable" rating outlook embeds our expectation that ORI will sustain its competitive edge and market position, and deliver its sizable backlog as scheduled. Given its aggressive expansion plan, we expect ORI to maintain good operating performance and keep its debt to capitalization ratio below 60% while its FFO to debt ratio is maintained at the 10%-15% level over the next three years, despite sluggish demand and economic fallout from the COVID-19 pandemic.

RATING SENSITIVITIES

The ratings could be revised upward if the company continues to expand its revenue base and cash flow significantly while maintaining profitability. Its debt to capitalization ratio should stay around 50%-55% on a sustained basis. On the other hand, the ratings and/or outlook could be revised downward should operating performance or financial leverage deteriorate significantly from the current levels, causing its debt to capitalization ratio to rise above 60% and/or its FFO to debt ratio to drop below 10% on a sustained basis.

COMPANY OVERVIEW

ORI was established in 2009 by the Jaroon-ek family. The company became a public company in November 2014 and was listed on the Stock Exchange of Thailand (SET) in October 2015. After the initial public offering, the Jaroon-ek family continued to be ORI's largest shareholder, holding a 60% stake in the company as of March 2022.

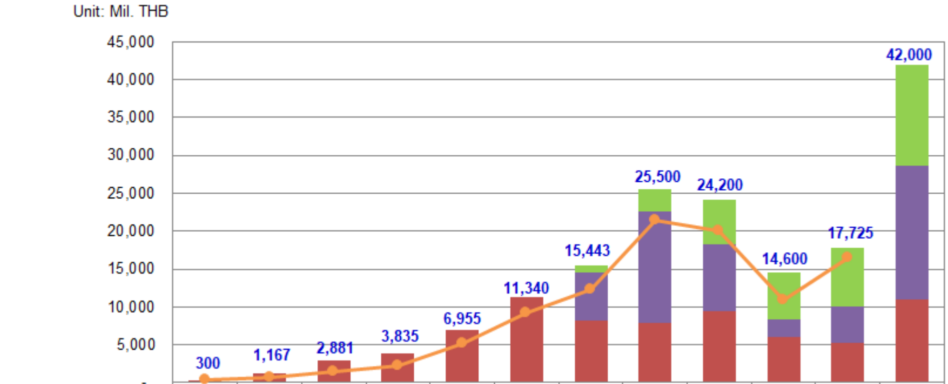
ORI focuses on the residential property development business. The company's condominium projects are developed under the "Brixton", "The Origin", "Origin Plug and Play", "So Origin", and "Park Origin" brands. Its condominium products cover the low- to high-end segments, with selling prices ranging from THB60,000 to more than THB200,000 per square meter. Most of its condominium projects are located in the suburbs of Bangkok, especially along the Skytrain route from Bearing to Samut Prakan and the route from the Kasetsart University intersection to Saphan Mai. The company recently expanded into Sri Racha and Laem Chabang districts in Chonburi province.

ORI began diversification into the landed property segment in 2017. ORI's single detached house (SDH) brands include: "Britania", "Grand Britania", and "Belgravia", with unit prices from THB4-THB50 million. Its townhouse projects are developed under brand names like "Brighton", with selling prices of THB2.5-THB4.0 million per unit.

ORI has expanded launches of condominiums and commercial property projects by joining hands with strategic partners in JVs. The company has developed 11 condominium projects and two commercial properties in partnership with Nomura Real Estate Development Co., Ltd. (NRED), a Japanese property developer. At the end of 2021, 16 condominium projects, with a combined project value of THB44.4 billion, and five commercial properties had been developed under JVs.

KEY OPERATING PERFORMANCE

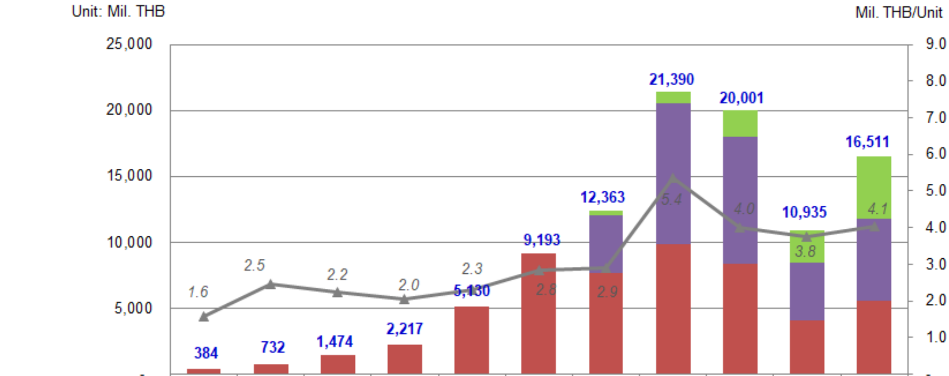
Chart 1: Residential Project Launches



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022P
Housing							859	2,900	6,000	6,200	7,750	13,400
Condominium-JV							6,334	14,700	8,800	2,400	4,800	17,600
Condominium-ORI	300	1,167	2,881	3,835	6,955	11,340	8,250	7,900	9,400	6,000	5,175	11,000
Presales	384	732	1,474	2,217	5,130	9,193	12,363	21,390	20,001	10,935	16,511	

Source: ORI

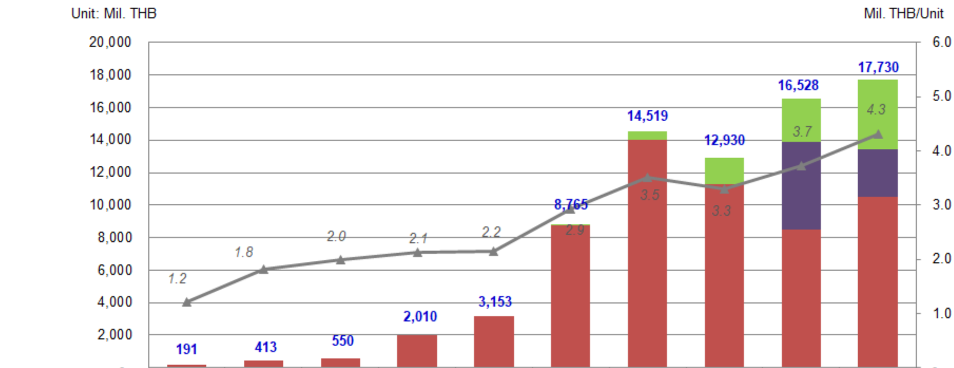
Chart 2: Presales Performance



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Housing							347	808	1,978	2,485	4,704
Condominium-JV							4,387	10,702	9,637	4,349	6,246
Condominium-ORI	384	732	1,474	2,217	5,130	9,193	7,629	9,879	8,386	4,101	5,561
Avg. Price	1.6	2.5	2.2	2.0	2.3	2.8	2.9	5.4	4.0	3.8	4.1

Source: ORI

Chart 3: Transfer Performance



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Housing						11	514	1,627	2,662	4,304
Condominium-JV									5,372	2,931
Condominium	191	413	550	2,010	3,153	8,753	14,006	11,303	8,494	10,495
Avg. Price	1.2	1.8	2.0	2.1	2.2	2.9	3.5	3.3	3.7	4.3

Source: ORI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-------------------------Year Ended 31 December -----------------				
	2021	**2020**	**2019**	**2018**	**2017**
Total operating revenues	15,260	10,917	13,663	16,011	9,347
Earnings before interest and taxes (EBIT)	4,954	3,916	4,646	5,219	3,026
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,137	4,129	4,850	5,353	3,185
Funds from operations (FFO)	3,299	2,614	3,154	3,649	2,205
Adjusted interest expense	916	950	728	663	358
Real estate development investments	22,874	23,458	22,610	20,180	18,206
Total assets	35,398	33,694	32,079	27,203	22,925
Adjusted debt	18,733	19,104	19,607	15,436	10,826
Adjusted equity	14,937	11,373	9,657	7,437	5,123
Adjusted Ratios					
EBITDA margin (%)	33.66	37.82	35.50	33.43	34.08
Pretax return on permanent capital (%)	14.78	12.64	16.80	25.17	27.01
EBITDA interest coverage (times)	5.61	4.35	6.66	8.07	8.89
Debt to EBITDA (times)	3.65	4.63	4.04	2.88	3.40
FFO to debt (%)	17.61	13.68	16.09	23.64	20.37
Debt to capitalization (%)	55.64	62.68	67.00	67.49	67.88

* *Consolidated financial statements*

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

Origin Property PLC (ORI)

Company Rating:	BBB+
Issue Rating:	
Up to THB6,000 million senior unsecured debentures due within 5 years	BBB+
Rating Outlook:	Stable

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