TRIS RATING
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CreditNews ข่าวเครดิต

PRINSIRI PLC

No. 30/2019
13 March 2019

CORPORATES

Company Rating:	BBB-
Outlook:	Stable

Last Review Date: 21/02/18

Company Rating History:

Date	Rating	Outlook/Alert
21/02/18	BB+	Positive
17/03/16	BB+	Stable
03/07/15	BBB-	Alert Developing
29/10/14	BBB-	Negative
21/08/12	BBB-	Stable
24/11/11	BBB-	Negative
24/05/11	BBB-	Stable

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RATIONALE

TRIS Rating upgrades the company rating on Prinsiri PLC (PRIN) to “BBB-” from “BB+”, and revises the rating outlook to “stable” from “positive”. The upgrade reflects improvements in profitability and leverage. The rating continues to reflect PRIN’s small size, tight liquidity, and the concern over the high level of household debt, which limits the purchasing power of homebuyers. Recent regulatory changes, introduced by the Bank of Thailand (BOT), may also affect the availability of mortgage loans.

KEY RATING CONSIDERATIONS

Small size with limited number of projects

PRIN is smaller than most of the property developers rated by TRIS Rating. Revenue has ranged from Bt2,000-Bt3,000 million per year over the past seven years. Moreover, since 2016, PRIN has focused on selling the units in its existing projects in an attempt to reduce inventory. Thus, PRIN launched only two housing projects during the last three years, the City Sense Rama 2-Thakham in 2016 and the City Sense Rangsit in 2018. As of December 2018, PRIN had 17 active projects. The value of the unsold units was around Bt6,597 million. Of the value of the unsold units, as of the end of December 2018, about 63% was in the single detached house (SDH) and semi-detached house segments. The remaining portion was in the townhouse (TH) segment (23%), and the condominium segment (14%). The company has an insignificant backlog since its policy is to sell finished or nearly finished housing units.

PRIN plans to launch four new projects in 2019. The projects, worth Bt3,520 million, encompass three housing projects and one low-rise condominium project. More project launches are planned for 2020 and 2021. However, the projects may be delayed depending on market conditions. Assuming the projects proceed as planned, TRIS Rating forecasts revenues to range from Bt2,600-Bt3,000 million during 2019-2021.

Cost control and reorganization improve profitability

Profitability has improved continually since 2016 due to cost-cutting efforts. The company cut selling, general, and administrative expenses (SG&A), such as employee benefits and marketing expenses. PRIN now uses more online marketing, which is cheaper and more effective than traditional marketing efforts such as billboards. Marketing expenses also dropped because there were fewer new projects during the last three years. However, the company continued generate sales of around Bt2,500-Bt3,000 million each year. As a result, the operating margin (operating income before depreciation and amortization as a percentage of revenue) rose to 13% in 2016, up from 8% in 2015. The margin has continued to climb, reaching 15% in 2017, and 18% in 2018.

PRIN reorganized to improve internal operations. Before 2016, PRIN suffered from construction delays, which led to the inability to deliver housing units to customers as planned. The problem was solved after PRIN changed its policy to sell finished housing units. The average transfer period for low-rise housing units has declined steadily, and has been less than 30 days since 2016, down from more than 300 days in 2011. As a consequence, the cancellation rate dropped. The rate has stayed below 10% since 2016, down from above 20% during 2011-2015. PRIN has taken other steps to fasten the construction process and reduce defects. PRIN recently set up its own factory to make prebuilt housing components. In TRIS Rating's base case, we assume PRIN's operating margin is expected to stay around 15% over the next three years based on its sales of Bt2,500-Bt3,000 million per year. Cost control efforts and improving construction process should help the company sustain its operating performance in the long run.

Moderate financial leverage

PRIN's funding requirements have fallen during the past three years. It focused more on selling units in existing projects and purchased fewer new plots of land. As a result, the debt to capitalization ratio fell. The ratio peaked at 60% in 2014 and declined continuously to around 44% at the end of 2018. Leverage is not expected to rise significantly from the current level despite more new project launches and land purchases. This is because the company focuses only on landed residential projects and small low-rise condominium projects.

We forecast the company will spend around Bt700-Bt1,000 million per year to acquire new land plots. We assume debt to capitalization will climb, but stay below 50% throughout the next three years. The financial covenants require the interest-bearing debt to equity ratio to stay below 2 times and total liabilities to total equity (D/E) to stay below 2 times. The ratios at the end of December 2018 were 0.87 times and 0.98 times respectively. We believe PRIN should be able to comfortably comply with its financial covenants.

High level of household debt remains a concern

Demand for residential property is cyclical and is affected greatly by the domestic economy. The slow growth of the domestic economy has kept the demand for residential property low. In addition, the high level of household debt nationwide limits the purchasing power of home buyers. As a result, banks retain stringent lending policies, especially for buyers in the middle- to low-income segment. PRIN's main customers are homebuyers in the middle- to low-income segment. PRIN has screened potential customers more rigorously. According to the management, the bank rejection rate for PRIN's customers dropped to 1% from around 5% in 2017 since most of its housing units were ready to move in and the company's screening process was quite stringent.

Slight impact of regulatory changes

The BOT will implement a new macro prudential policy in April 2019. Under the new rules, homebuyers can borrow up to 70%-80% of the collateral value or loan-to-value (LTV) ratio for a second and subsequent mortgage loan. The LTV ratio had been 90%-100% previously. TRIS Rating expects that the new LTV rules should affect demand for condominiums more than demand for landed properties. This is because people usually buy condominium units as a second or third home.

We expect the impact from the new LTV rules on PRIN is not so significant. The majority of PRIN's products are landed residential properties, and most of PRIN's customers are first-time homebuyers. However, there is a portion of homebuyers that may need loan more than 100% of collateral value in order to cover all transfer expenses. These buyers may need more time to save their money. However, PRIN should be able to lengthen the down payment period for these homebuyers to match with their timing need for saving money.

Liquidity is tight but manageable

Cash flow protection has improved over the past three years because profitability increased and leverage fell. The funds from operations (FFO) to adjusted debt ratio increased to 6.2% in 2016, 12.1% in 2017, and 9.8% in 2018, from a bottom of minus 0.81% in 2014. However, PRIN's liquidity remains tight. As of December 2018, the company had Bt1,528 million in debt due in the next 12 months. The amounts due comprise debentures of Bt850 million, long-term project loans of Bt341 million, bills of exchange (B/Es) of Bt200 million, and other loans of Bt137 million.

The company has already issued Bt500 million of three-year senior unsecured bonds to replace a Bt350 million of bond due in February 2019. PRIN plans to refinance the remaining maturing debentures with a new debenture issue, and plans to roll over the outstanding B/Es. The project loans will be repaid with the cash received from the transfers of residential property units to customers. Sources of funds include cash of Bt196 million, FFO of around Bt250-Bt340 million, and undrawn committed credit facilities of around Bt42 million. In addition, the company plans to sell some non-core assets in order to support liquidity. Moreover, as of December 2018, PRIN had unpledged land held for development worth approximately Bt517 million as another source of liquidity. TRIS Rating expects PRIN will manage its liquidity prudently, given the ongoing improvements in its financial profile.

BASE-CASE ASSUMPTIONS

- Revenue will grow to around Bt2,500-Bt3,000 million per annum during 2019-2021.
- The gross profit margin will stay at around 30% and the operating margin will hover around 15% over the next three years.
- Budget for land acquisition is expected to be Bt700 million per annum in 2019-2021.
- FFO is expected to range from Bt250-Bt340 million per annum during 2019-2021. The FFO to adjusted debt ratio is forecast to range between 7%-9% in 2019-2021. The earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio is expected to stay at 2-3 times.

RATING OUTLOOK

The "stable" outlook reflects the expectation that PRIN will be able to sustain its operating performance as its target, plus the ability to maintain its financial position at the current levels. TRIS rating expects PRIN's revenue should be Bt2,500-Bt3,000 million over the next three years, while maintaining the debt to capitalization ratio lower than 50%. The operating margin should stay at around 12%-15%.

RATING SENSITIVITIES

The rating and/or outlook of PRIN could be under downward pressure if its operating performance and/or financial profile significantly deteriorate from the target levels. The rating upgrades are unlikely in the near term.

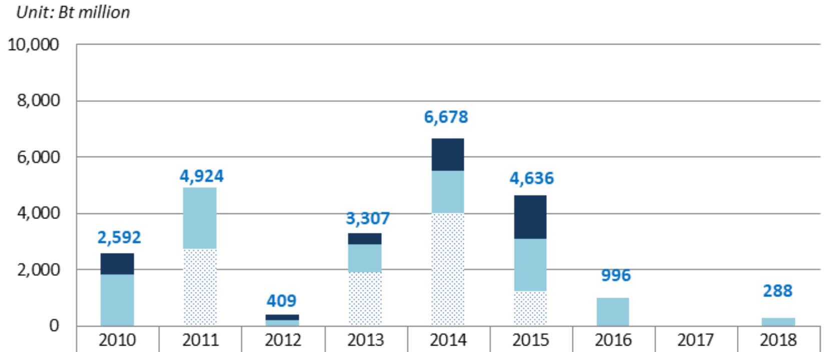
COMPANY OVERVIEW

PRIN was established by the Kovitchindachai family in 2000 and listed on the Stock Exchange of Thailand (SET) in 2005. The Kovitchindachai family has been the company's major shareholder since inception, owning a 35% stake as of December 2018. PRIN focuses on developing low-rise housing projects and targets the middle-income segment in the Greater Bangkok area, with the average selling price was Bt4 million per unit. The company offers a wide range of residential property products, including SDH, semi-detached houses (Semi-DH), townhouses, and low-rise condominiums. The residential property development segment remains the centerpiece of PRIN. PRIN's revenue from residential sales mainly derived from landed property, constituting 90% in 2018. Revenue from condominium contributed 10% in 2018. The revenue contribution from rental and services business was 5% in 2018.

As of December 2017, PRIN had a few legal disputes. One of those was the case concerned that one building of the existing condominium project obstructed the sidewalk. The Court of First Instance ordered the company to remove the building. PRIN believed the construction complied with the related laws, and it filed a petition with the Court of Appeals. At the end of November 2018, the Court of Appeal decided to dismiss the petition. However, the counterparty filed an appeal with the Supreme Court. TRIS Rating expects this civil case will take quite some time to conclude. However, the company expects no significant damage to the company.

KEY OPERATING PERFORMANCE

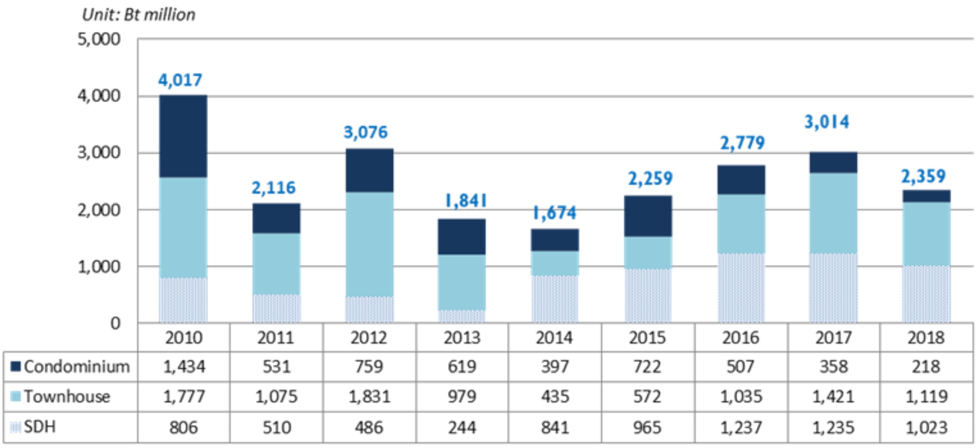
Chart 1: New Project Launches



	2010	2011	2012	2013	2014	2015	2016	2017	2018
Condominium	743	-	181	385	1,171	1,511	-	-	-
Townhouse	1,849	2,175	229	991	1,484	1,884	996	-	288
SDH	-	2,749	-	1,931	4,023	1,241	-	-	-

Source: PRIN

Chart 2: Presales



Source: PRIN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	---------------------Year Ended 31 December ------------------				
	2018	**2017**	**2016**	**2015**	**2014**
Total operating revenues	2,487	3,155	3,018	2,639	2,459
Operating income	435	480	400	206	137
Earnings before interest and taxes (EBIT)	547	642	521	295	266
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	608	702	577	350	277
Funds from operations (FFO)	336	395	247	(4)	(44)
Adjusted interest expense	195	220	262	309	291
Capital expenditures	57	6	14	36	717
Total assets	8,422	8,431	9,035	9,842	10,435
Adjusted debt	3,430	3,263	3,978	4,855	5,379
Adjusted equity	4,264	4,147	3,977	3,895	3,890
Adjusted Ratios					
Operating income as % of total operating revenues (%)	17.47	15.22	13.27	7.81	5.57
Pretax return on permanent capital (%)	6.86	7.82	5.87	3.10	2.91
EBITDA interest coverage (times)	3.12	3.19	2.20	1.13	0.95
Debt to EBITDA (times)	5.64	4.65	6.89	13.87	19.40
FFO to debt (%)	9.80	12.10	6.21	(0.08)	(0.81)
Debt to capitalization (%)	44.58	44.04	50.01	55.49	58.04

* *Consolidated financial statements*

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Company Rating:	BBB-
Rating Outlook:	Stable

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