

AP (THAILAND) PLC

No. 89/2023
22 May 2023

CORPORATES

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
Outlook:	Stable

Last Review Date: 10/02/23

Company Rating History:

Date	Rating	Outlook/Alert
13/05/22	A-	Positive
21/06/11	A-	Stable
12/07/10	BBB+	Positive
28/06/07	BBB+	Stable

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RATIONALE

TRIS Rating upgrades the company rating on AP (Thailand) PLC (AP) and the ratings on its outstanding senior unsecured debentures to “A” from “A-”. At the same time, TRIS Rating revises the outlook to “stable” from “positive”. The upgrades reflect our expectation that AP will consistently deliver strong operating performance while maintaining its financial metrics at the target levels.

The ratings continue to reflect AP’s strong market position in both landed and high-rise residential properties, its large and diverse product portfolio, as well as substantial shared profits from joint-venture (JV) projects. The ratings are weighed down by the cyclical nature of the residential property industry and our concerns over the reimposition of the loan-to-value (LTV) rules and interest rate hikes which could negatively impact demand for housing in the short to medium term.

KEY RATING CONSIDERATIONS

Steady growth in revenues and earnings

AP’s operating performance was rather resilient. The company delivered strong and steady growth in revenues and earnings despite the pandemic. AP’s revenues grew steadily to THB38.7 billion in 2022 from THB23.8 billion in 2019. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) also rose to THB8.0 billion in 2022, from THB4.5 billion in 2019. Its EBITDA margins during the same period were rather stable at around 20%. AP’s strong performance was supported by its improving market position in the landed property segment as well as a sizable share of profits from its investments in JV projects. The shared profit from its JV projects was THB1.2 billion in 2022, increasing from THB1.0 billion in 2021.

Looking forward, we expect AP to continue delivering strong performance. Its annual revenue is expected to range between THB42-THB47 billion with an EBITDA of THB7.5-THB8.4 billion per annum over the forecast period. The growth in revenues and earnings will be supported by the planned launches of a substantial number of new landed property projects coupled with the significant amount of backlog on hand.

At the end of March 2023, the backlog of AP’s own projects stood at THB16.3 billion, most of which will be recognized as revenue in 2023. The backlog of condominium projects under JVs was THB13.4 billion. Around THB9.2 billion of its JV backlog is expected to be transferred in 2023, THB1.9 billion in 2024, and the remainder from 2025 onwards. We project AP will realize shared profits from its JV investments of THB1.0-THB1.1 billion per annum over the next three years.

Leading market position in various product segments

TRIS Rating expects AP will maintain its solid market position over the forecast period. AP’s market share has been increasing over the past three years. Its revenue share in 2022 stood at 13.9% of total revenues from the real estate sales of 25 developers rated by TRIS Rating, increasing from only 8%-9% in pre-2020 levels. Its presales (including presales from JV projects) in 2022 jumped to THB50.4 billion, from THB35.0 billion in 2021. In our view, AP’s diversified product portfolio gives the company flexibility to adjust its product portfolio

to meet changing consumer preferences. Thus, its revenues and profitability were less volatile than other developers.

AP's products cover the low- to high-end market segments. Its major housing brands include "Pleno", "Baan Klang Muang", "The Centro", "The City", and "The Palazzo". The company has expanded its landed property projects upcountry under the "Api Town" brand. Last year, the company extended its housing products to the low-end segment under the "MODEN" and "Pleno Town" brands, with price ranging from THB1.7-THB5.0 million per unit. Its main condominium brands like "Aspire", "Life", "Rhythm", and "The Address" are also well accepted by homebuyers.

At the end of March 2023, AP's portfolio comprised 47 single detached house (SDH) projects, 74 townhouse (TH) projects, and 13 condominium projects (including 9 JV projects). The total units available for sale (both built and un-built) carried a value of around THB80 billion, comprising SDHs (33%), THs (37%), and condominiums (30%).

Able to maintain financial metrics as targeted

Despite strong growth, AP was able to maintain its financial metrics at satisfactory levels and in line with our targets. Its debt to capitalization ratio (including 51% of the debt carried by JV projects) has dropped below 50% since 2020. At the end of March 2023, AP's debt to capitalization ratio stood at 43.5%, slightly increasing from 41.3% at the end of 2022 as AP purchased more land plots to support its growth strategy. In our view, AP's good operating performance coupled with its effective inventory management should help keep its debt to capitalization ratio below 45% over the forecast period.

Under TRIS Rating's base case, we assume AP will launch its own residential property projects worth THB45-THB60 billion and JV projects worth THB8-THB12 billion annually over the next three years. The budget for land acquisitions (for both AP and JV projects) is set at THB18-THB20 billion per year. Based on our assumptions, AP's debt to capitalization ratio is expected to hover around 40% over the forecast period. Its debt to EBITDA ratio is expected to remain below 4 times while the ratio of its funds from operations (FFO) to total debt is also expected to hold above 20% over the next three years.

The financial covenants on bank loans and debentures require AP to keep its net interest-bearing debt to equity ratio below 2 times. The ratio at the end of March 2023 was 0.7 times. We believe that AP should have no problem complying with its financial covenants over the next 12 to 18 months. Most of AP's debts are unsecured debts at company level, with a very low level of priority debt.

Negative impact from reimposition of LTV rules and interest rate hikes

The reimposition of LTV rules and rising interest rates could dampen housing demand in the short to medium term. From January 2023, banks need to cap LTV at 80%-90% for second mortgage contracts and at 70% for third mortgage contracts. In our view, the LTV rules will generally have greater impact on the mid- to high-end housing segments since these buyers may have more than one mortgage contract. The impact of LTV measures to AP is partly alleviated by its well-balanced portfolio across price ranges.

On the other hand, rising interest rates will have greater impact on the debt servicing capacity of homebuyers, especially those in the lower-income segment. Interest rate hikes will also affect the funding costs of developers. However, given the easing pressure from both foreign exchange and inflation, we expect the Bank of Thailand (BOT) to raise the policy rate by only 2-3 times this year. The BOT has already raised the policy rate twice this year, by 25 basis points (bps) in January 2023 and by another 25 bps in March 2023.

Adequate liquidity

We assess AP will have adequate liquidity over the next 12 months. As of March 2023, the company's liquidity sources comprised cash on hand of THB2.9 billion and unused committed credit facilities of THB11.3 billion. We forecast AP's FFO over the next 12 months to be THB5.5-THB5.7 billion. AP's uses of funds will include THB12.6 billion of debt due over the next 12 months, THB5-THB6 billion of working capital, and dividend payments of around THB1.8-THB2.0 billion per annum. Debt due in the next 12 months comprises THB5.0 billion for short-term loans, THB7.1 billion for debentures, and the rest for project loans and financial leases. 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 while its maturing debentures are usually refinanced with new debenture issues.

BASE-CASE ASSUMPTIONS

- AP to launch its own residential property projects worth THB45-THB60 billion and JV projects worth THB8-THB12 billion per annum over the next three years.
- Revenue will be THB42-THB47 billion per annum during 2023-2025. Shared profits from JV investments will amount to THB1.0-THB1.1 billion annually.
- Land acquisition for AP's own projects is budgeted at around THB15-THB17 billion per annum and THB3-THB4 billion per annum for JV projects.

RATING OUTLOOK

The “stable” outlook reflects our expectation that AP will maintain its strong market position in both the landed property and condominium segments. The company is expected to sustain its revenues and earnings growth momentum as planned. Despite its aggressive expansion plan, we expect AP to maintain its debt to capitalization ratio to stay in the 40%-45% range while its FFO to debt ratio is expected to stay above 20% over the next three years.

RATING SENSITIVITIES

The ratings could be revised upward if the company’s operating performance and financial profile improve significantly, such that its EBITDA stays above THB10 billion and/or FFO to debt ratio stays above 40% on a sustained basis. Conversely, the ratings could be revised downward should the company’s financial profile deteriorate significantly from the current level, causing its debt to capitalization ratio to stay above 45% and FFO to debt ratio to drop below 20% on a sustained basis.

COMPANY OVERVIEW

AP was established in 1990 by Mr. Anuphong Assavabhokhin and Mr. Pichet Vipavasuphakorn to develop residential property projects in Bangkok. AP is engaged principally in residential property development. The company was listed on the Stock Exchange of Thailand (SET) in 2000. The founding members of AP hold the company’s top management positions and are also the major shareholders. As of March 2023, AP’s major shareholder was Mr. Anuphong Assavabhokhin, owning 21.3% of the company’s shares.

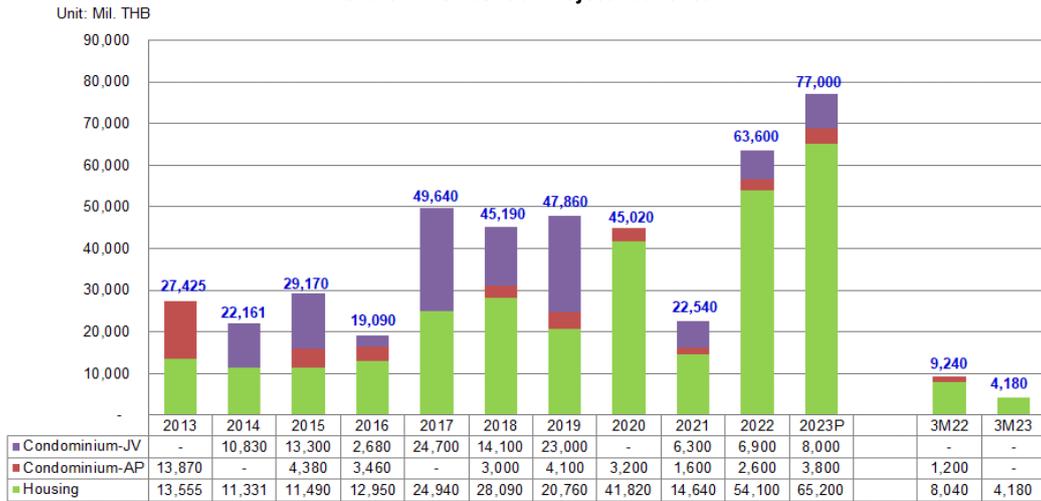
AP’s product portfolio covers a wide range of price points and product segments. The company’s revenue mix has been split approximately 50:50 between the housing and condominium segments since the past few years. Most of AP’s projects are located within the Greater Bangkok Area.

AP’s primary SDH brands include: “Centro”, “The City”, and “The Palazzo”, with unit prices range from THB5 million to THB100 million. Its TH projects are developed under brand names like “The Pleno”, “Baan Klang Muang”, and “Baan Klang Krung”. Home office projects are sold under the brand name “Biztown”. Its condominium brands include “Aspire”, “Life”, “Rhythm”, and “The Address”. Most of the condominium projects are located in Bangkok.

In 2013, AP started to develop condominium projects together with a subsidiary of Mitsubishi Estate Co., Ltd. (MEC), one of the three largest property developers in Japan. AP holds a 51% stake in the JV projects while MEC’s subsidiary holds 49%.

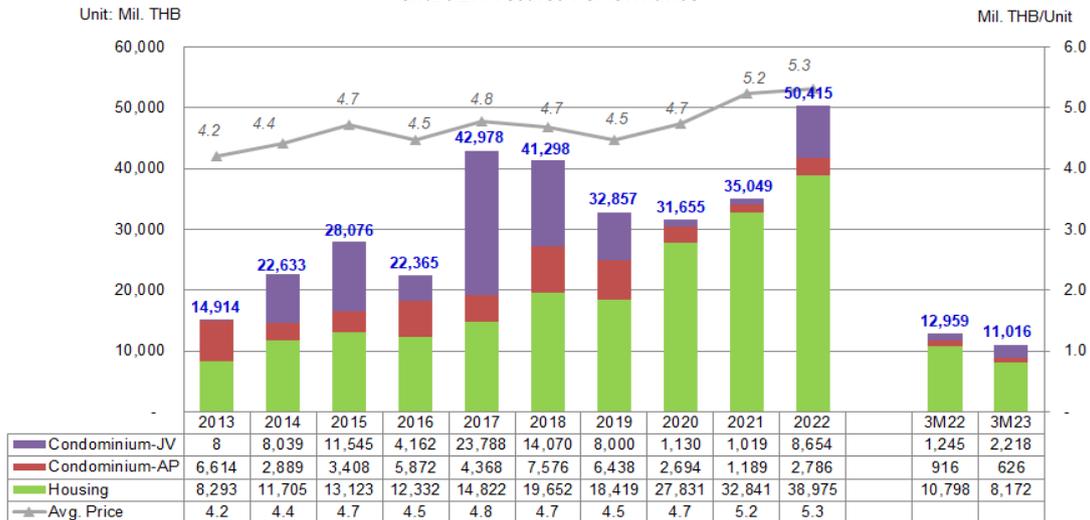
KEY OPERATING PERFORMANCE

Chart 1: Residential Project Launches



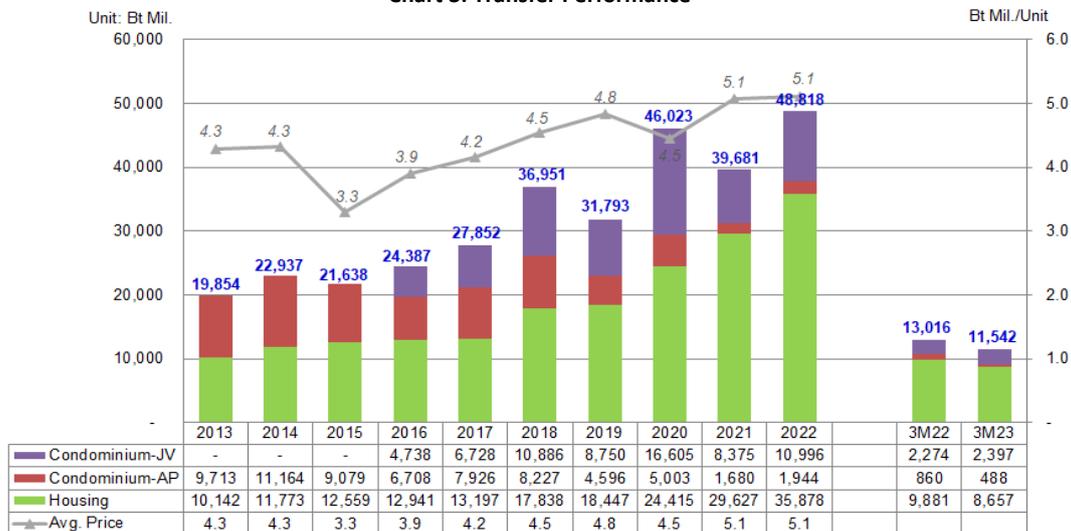
Source: AP

Chart 2: Presales Performance



Source: AP

Chart 3: Transfer Performance



Source: AP

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

	Jan-Mar 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	9,441	38,697	31,973	29,952	23,881
Earnings before interest and taxes (EBIT)	1,863	7,685	6,089	5,717	4,318
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,938	7,988	6,388	6,088	4,584
Funds from operations (FFO)	1,346	6,092	4,840	4,602	3,161
Adjusted interest expense	240	599	601	733	743
Real estate development investments	62,272	56,453	48,497	46,737	50,394
Total assets	75,162	68,227	60,409	58,724	58,794
Adjusted debt	29,387	25,861	24,315	25,561	34,123
Adjusted equity	38,206	36,728	32,423	29,263	26,296
Adjusted Ratios					
EBITDA margin (%)	20.53	20.64	19.98	20.33	19.20
Pretax return on permanent capital (%)	11.31 **	12.49	10.46	9.64	7.84
EBITDA interest coverage (times)	8.07	13.34	10.62	8.31	6.17
Debt to EBITDA (times)	3.87 **	3.24	3.81	4.20	7.44
FFO to debt (%)	19.60 **	23.56	19.91	18.00	9.26
Debt to capitalization (%)	43.48	41.32	42.85	46.62	56.48

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Homebuilders and Real Estate Developers Rating Methodology, 12 January 2023
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

AP (Thailand) PLC (AP)

Company Rating:	A
Issue Ratings:	
AP238A: THB1,230 million senior unsecured debentures due 2023	A
AP238B: THB400 million senior unsecured debentures due 2023	A
AP241A: THB2,500 million senior unsecured debentures due 2024	A
AP247A: THB1,500 million senior unsecured debentures due 2024	A
AP248A: THB770 million senior unsecured debentures due 2024	A
AP251A: THB2,000 million senior unsecured debentures due 2025	A
AP251B: THB1,000 million senior unsecured debentures due 2025	A
AP257A: THB2,000 million senior unsecured debentures due 2025	A
AP258A: THB850 million senior unsecured debentures due 2025	A
AP261A: THB1,500 million senior unsecured debentures due 2026	A
AP262A: THB1,500 million senior unsecured debentures due 2026	A
AP267A: THB500 million senior unsecured debentures due 2026	A
AP26DA: THB1,500 million senior unsecured debentures due 2026	A
Rating Outlook:	Stable

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