

# PRUKSA REAL ESTATE PLC

No. 79/2020

8 June 2020

## CORPORATES

|                        |        |
|------------------------|--------|
| <b>Company Rating:</b> | A      |
| <b>Issue Ratings:</b>  |        |
| Senior unsecured       | A      |
| <b>Outlook:</b>        | Stable |

Last Review Date: 27/05/19

### Company Rating History:

| Date     | Rating | Outlook/Alert |
|----------|--------|---------------|
| 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+    | -             |

### Contacts:

Jutamas Bunyanichkul

jutamas@trisrating.com

Auyporn Vachirakanjanaporn

auyporn@trisrating.com

Hattayanee Pitakpatapee

hattayanee@trisrating.com

Suchada Pantu, Ph. D.

suchada@trisrating.com



WWW.TRISRATING.COM

## RATIONALE

TRIS Rating affirms the company rating on Pruksa Real Estate PLC (PS) and the ratings on PS's senior unsecured debentures at "A", with a "stable" rating outlook. The ratings reflect PS's leading position in the residential property market, diversified product portfolio, cost competitiveness, and large backlog partly securing the company's future revenue stream. The ratings also take into consideration the company's moderate financial leverage level and concerns over the impacts of the coronavirus (COVID-19) pandemic which have put more pressure on the domestic economy and suppressed demand in the residential property market.

## KEY RATING CONSIDERATIONS

### Remains leading market player despite expected temporary drop in performance

We expect PS to sustain its top-ranked position in the residential property market over the next three years. PS's total operating revenue was recorded as Bt44-Bt47 billion per annum during 2016-2018. Its total operating revenue dropped by 11% year-on-year (y-o-y) to Bt40.2 billion in 2019. Revenue from the townhouse segment was Bt17.9 billion in 2019, down from Bt23 billion per annum during 2016-2018. Revenue from the single-detached house (SDH) segment decreased by 12% y-o-y, while revenue from condominiums increased by 7% y-o-y. PS's total operating revenue plummeted by 40% y-o-y to Bt7.2 billion in the first three months of 2020 amid the slowdown in the residential property market and the high base effect in the first quarter of 2019. However, PS's total operating revenue remained the highest among all listed residential property developers.

Under TRIS Rating's base case, we assess PS's total operating revenue to decline by 30%-35% y-o-y this year and gradually recover in the following years. Total operating revenue should hover in the Bt35-Bt45 billion per annum range during 2021-2022. We believe that revenue from residential properties for sales will remain a key contributor of the group over the next three years.

### Diversified products and well-accepted brands, especially in the middle- to low-priced segments

TRIS Rating views that PS has great flexibility to adjust its portfolio to meet market demand given its wide-ranging product portfolio. PS offers townhouse, SDH, and condominium units in different market segments. Its townhouse products cover the low- to middle-income segments, with selling prices ranging from Bt1 million to Bt5 million per unit. PS's townhouses are well-recognized under the "Baan Pruksa" and "Pruksa Ville" brands. SDH products are priced from Bt3 million to Bt10 million per unit. Most SDH projects are developed under the "Passorn", "The Plant", and "Pruksa Village" brands. PS's condominium portfolio covers the low- to high-end segments, with selling prices ranging from Bt40,000 to Bt270,000 per square meter (sq.m.).

As of April 2020, PS had a large project portfolio, with around 200 existing projects. The total unsold value of these projects was Bt103.1 billion (including built and un-built units). Townhouse projects comprised 46% of total remaining value, SDH 28%, and condominiums 26%. PS's backlog was worth Bt26.1 billion. The company plans to deliver backlog worth Bt8.8 billion to customers during the remainder of 2020, Bt7 billion in 2021, Bt10 billion in 2022, and Bt0.3 billion

in 2023. TRIS Rating expects PS to deliver the units in backlog as targeted.

### **Inventory and cost efficiency management during downside demand is a key challenge**

PS's unsold finished stock was worth around Bt22 billion at the end of April 2020, comprising Bt10 billion in condominium units, Bt7 billion in townhouse units, and Bt5 billion in SDH units. With the expected contraction in the domestic economy in 2020, PS may need more time to clear its completed units. Thus, PS plans to reduce new project launches and to focus on selling its finished units. This year the company will concentrate more on inventory management by controlling work-in-process construction, reducing the budget for land acquisitions, and selling undeveloped land plots.

However, PS's profitability may come under pressure from the intense competition as more developers enter the landed property segment, while growth in demand remains relatively slow. PS's cost competitiveness from its speed of production may not benefit the company during this period of stagnant demand. In addition, although the utilization of precast factories has decreased, PS still incurs some fixed costs at its precast factories. Thus, PS's earnings before interest, tax, depreciation, and amortization (EBITDA) margin is expected to drop to as low as 15% from 19%-22% of total operating revenue during 2016 through the first three months of 2020. Its net profit margin could also drop to around 10% of total operating revenue from 13%-14% during the past four years.

### **Concerns over softening demand and impacts of COVID-19**

The residential property market closely follows trends in the domestic economy. However, volatility in this market is much more pronounced than in the overall economy. The slowdown of the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the purchasing power of local homebuyers. Negative impacts from the global trade war and appreciation of the Thai baht have also caused a drop in demand for condominiums from foreign investors, especially Chinese investors, since 2019.

For 2020, the economic fallout from the COVID-19 pandemic is likely to further suppress market demand. Most developers are adopting a wait-and-see approach as demand from local and foreign buyers is expected to drop during the first half of 2020. In addition, due to the travel restrictions in several countries, PS has had to postpone the transfers of foreign-buyer residential units for a few months. As of April 2020, PS's backlog of units sold to foreign buyers was Bt8.1 billion, or 31% of total backlog. Around Bt2.2 billion of its backlog is scheduled to be transferred this year. The delay in transfer may cause lower revenue and profit recognition than our expectation. In addition, a prolonged outbreak could hurt the operating performance of the company more than expected and could impact the ratings and/or outlook of the company.

### **Moderate financial leverage**

TRIS Rating expects that PS will take a conservative policy in launching and developing new residential projects during the property market downturn. This year, we expect PS to lower its new launches to be around Bt15 billion, comprising landed property projects worth Bt10 billion and condominium projects worth Bt5 billion. During 2021-2022, PS is expected to launch landed property projects worth Bt20 billion per annum and condominium projects worth Bt10-Bt20 billion per annum. The budget for land acquisition is forecast to be Bt1 billion in 2020 and Bt3-Bt8 billion per annum during 2021-2022. During the slowdown period, PS is expected to focus more on its liquidity and capital structure in order to maintain its ratings at the current levels. We expect PS to keep the debt to capitalization ratio below 50%, or the interest-bearing debt to equity ratio below 1 times. As of March 2020, PS's debt to capitalization ratio was 43% and its interest-bearing debt to equity ratio was 0.89 times.

### **Adequate liquidity**

We assess PS to have adequate liquidity over the next 12 months. As of March 2020, PS's sources of funds consisted of Bt5.9 billion in cash on hand, committed credit facilities from banks of Bt6.4 billion, and uncommitted short-term facilities of Bt5.3 billion. PS's funds from operations (FFO) over the next 12 months are forecast at around Bt3 billion. The company also had unencumbered land at book value of Bt6.6 billion, which can be used to pledge as collateral for new loans, if needed. Debt due over the next 12 months will amount to Bt21.3 billion, comprising Bt12.2 billion in short-term loans from banks and Bt9.1 billion in debentures. PS also had Bt16.1 billion in short-term loans from the parent company, Pruksa Holding PLC (PSH). After the reorganization of the group, PSH is responsible for the investments and financial management of the whole group. As a result, subsequent debentures will be issued by the holding company and lend to its subsidiaries. Going forward, PS's bonds coming due will be refinanced by new bonds issued by the holding company. Short-term loans will either be rolled over or repaid.

According to the key financial covenants on its debentures, PS is required to maintain its interest-bearing debt to equity ratio at lower than 2 times. The ratio as of March 2020 was 0.89 times. TRIS Rating believes that PS should have no problem complying with its financial covenants over the next 12 to 18 months.

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## BASE-CASE ASSUMPTIONS

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These are the key assumptions in TRIS Rating's base case forecast for PS's operations during 2020-2022:

- PS to launch landed property projects worth Bt10 billion and condominium projects worth Bt5 billion in 2020. We expect PS to launch landed property projects worth Bt20 billion per annum and condominium projects worth Bt10-Bt20 billion per annum during 2021-2022.
- Total operating revenue is forecast to be Bt25 billion in 2020, and should recover to Bt35-Bt45 billion per annum during 2021-2022.
- Annual budget for land acquisition to be Bt1 billion in 2020 and Bt3-Bt8 billion per annum during 2021-2022.

## RATING OUTLOOK

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The "stable" outlook reflects TRIS Rating's expectation that PS will be able to deliver operating performance as targeted. The company should be able to transfer a large number of the units in its backlog as scheduled. Despite the stagnant growth in demand from both domestic and foreign homebuyers coupled with the impacts from the COVID-19 pandemic, we expect PS to keep its FFO to total debt ratio at around 10% this year. The ratio should improve to 15%-20% during 2021-2022. PS's debt to capitalization ratio should stay below 50% on a sustained basis.

## RATING SENSITIVITIES

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PS's future outlook will depend not only on its operating performance but also on the financial position of the group. A successful diversification of the holding company into new businesses will be positive for the group. On the contrary, the ratings on PS will be negatively affected if its operating performance significantly deviates from the target level and/or the investments in new businesses by its holding company drag down the financial position of the group.

## 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 the 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 from the SET. As of March 2020, the Vijitpongpun family was PSH's largest shareholder, owning a 75% stake. PSH holds a 98.23% stake in PS.

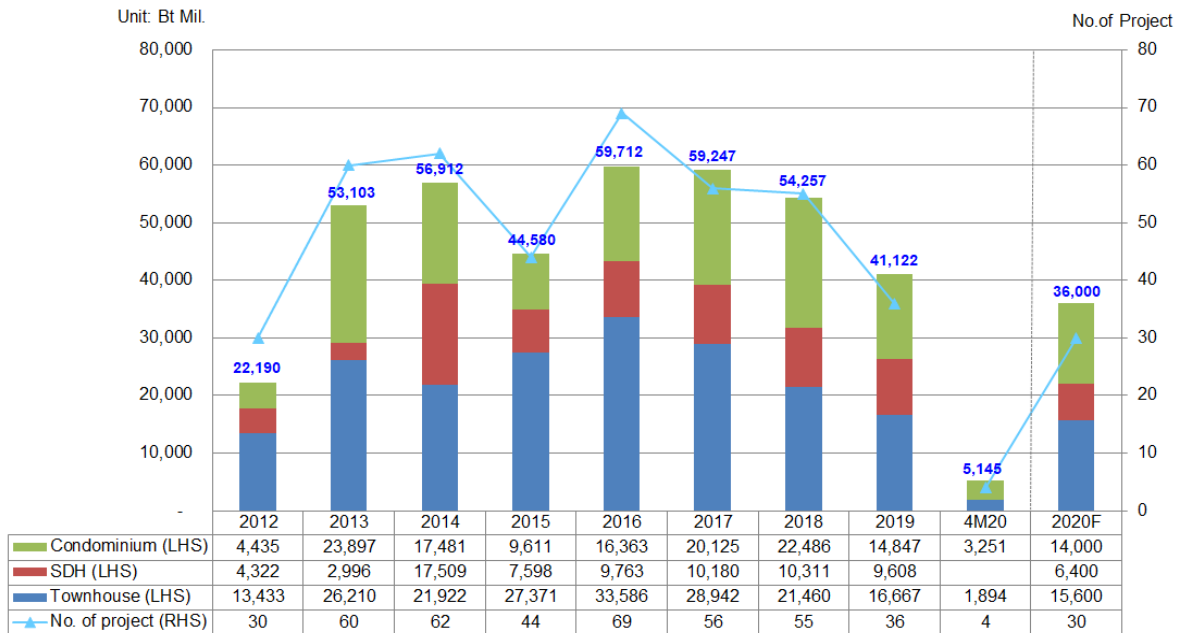
After the reorganization, PS retained its focus on residential property for sale. All operating assets and key members of the management team remained intact. Since the residential property business will continue to be the major revenue contributor to the group over the next several years, PS is considered to be a "core" subsidiary of the group. Thus, the company 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 is the leader in employing precast and prefabrication techniques in constructing residential units. The company owns precast factories and manages the construction of most residential projects by itself. PS's property portfolio is well-diversified. Its products cover townhouses, SDHs, and condominiums in various price ranges. PS's main focus is the middle-to low-end segments of the residential property market.

As of March 2020, PS had a sizable project portfolio worth Bt248.4 billion in total project value. The total project portfolio was 58% sold and 48% transferred. Townhouses remain the largest source of its income, constituting around half of total operating revenue for the past several years. Revenue from condominium and SDH units contributed around 30% and 20%, respectively, during the past five years.

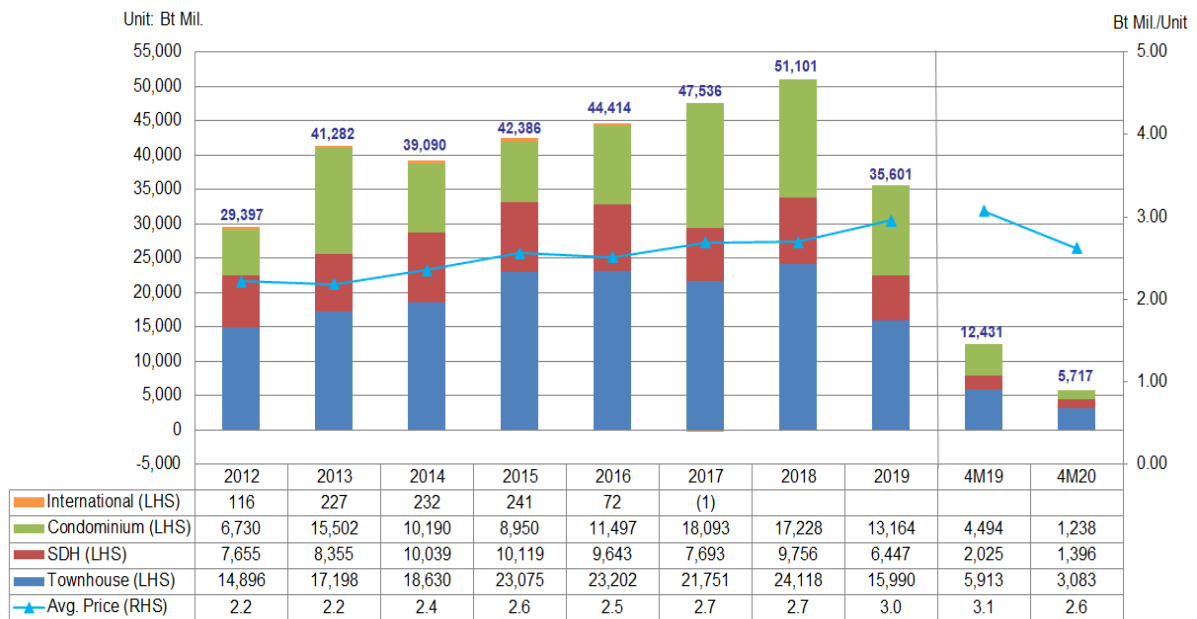
**KEY OPERATING PERFORMANCE**

**Chart 1: New Residential Project Launches**

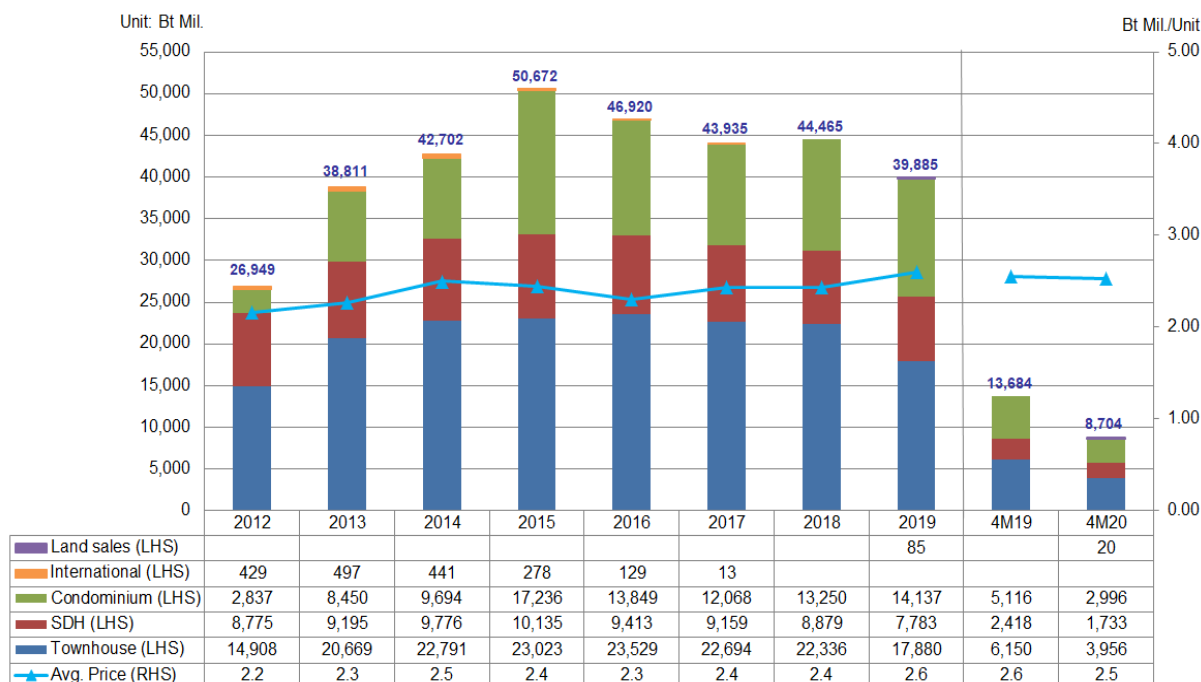


Source: PS

**Chart 2: Presales Performance**



Source: PS

**Chart 3: Transfer Performance**


Source: PS

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Bt million

|  | Jan-Mar 2020 | -----Year Ended 31 December ----- |        |        |        |
|--|--------------|-----------------------------------|--------|--------|--------|
|  |              | 2019                              | 2018   | 2017   | 2016   |
| Total operating revenues   | 7,176        | 40,156                            | 45,075 | 44,129 | 47,172 |
| Earnings before interest and taxes (EBIT)                                | 1,442        | 7,893                             | 8,453  | 7,887  | 8,361  |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 1,561        | 8,649                             | 9,158  | 8,395  | 8,930  |
| Funds from operations (FFO)  | 1,122        | 6,113                             | 6,705  | 6,019  | 6,634  |
| Adjusted interest expense  | 185          | 1,013                             | 903    | 794    | 818    |
| Real estate development investments                                      | 77,234       | 76,464                            | 71,960 | 63,791 | 59,838 |
| Total assets   | 90,850       | 85,075                            | 80,503 | 71,228 | 66,382 |
| Adjusted debt  | 32,729       | 31,964                            | 29,624 | 27,083 | 23,189 |
| Adjusted equity  | 43,096       | 42,066                            | 40,208 | 36,155 | 36,203 |
| <b>Adjusted Ratios</b>   |              |                                   |        |        |        |
| EBITDA margin (%)  | 21.75        | 21.54                             | 20.32  | 19.02  | 18.93  |
| Pretax return on permanent capital (%)                                   | 8.93 **      | 10.74                             | 12.45  | 12.65  | 13.98  |
| EBITDA interest coverage (times)   | 8.42         | 8.54                              | 10.15  | 10.58  | 10.92  |
| Debt to EBITDA (times)   | 4.33 **      | 3.70                              | 3.23   | 3.23   | 2.60   |
| FFO to debt (%)  | 16.17 **     | 19.12                             | 22.63  | 22.22  | 28.61  |
| Debt to capitalization (%)   | 43.16        | 43.18                             | 42.42  | 42.83  | 39.04  |

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

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**RELATED CRITERIA**

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- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

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**Pruksa Real Estate PLC (PS)**

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|  |        |
|--|--------|
| <b>Company Rating:</b>                                       | A      |
| <b>Issue Ratings:</b>  |        |
| PS207A: Bt2,600 million senior unsecured debentures due 2020 | A      |
| PS20NA: Bt2,500 million senior unsecured debentures due 2020 | A      |
| PS213A: Bt2,000 million senior unsecured debentures due 2021 | A      |
| <b>Rating Outlook:</b>                                       | Stable |

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**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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