

PRUKSA REAL ESTATE PLC

No. 57/2011

24 November 2011

Company Rating: A

Outlook: Negative

New Issue Rating: -

Rating History:

Date	Company	Issue (Secured/ Unsecured)
07/05/10	A/Sta	-/A
30/06/09	A-/Pos	-/A-
25/06/08	A-/Sta	-/A-
18/04/06	BBB+/Pos	-/BBB+
12/07/04	BBB/Sta	-/BBB
31/07/03	BBB	-/BBB
19/06/03	BBB	-
05/02/02	BB+	-

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Rating Rationale

TRIS Rating revises the rating outlook of Pruksa Real Estate PLC (PS) to “negative” from “stable”. The revision reflects a sharp rise in PS’s financial leverage and an expected decline in its operating performance since a high proportion of its projects that have not been transferred are located in heavy flooded areas. At the same time, TRIS Rating affirms the company rating of PS and the ratings of PS’s senior debentures at “A”. The ratings continue to reflect PS’s leading position in the middle- to low-priced townhouse segment, proven track record in the middle- to low-income residential property segment, and cost competitiveness. The ratings also take into consideration the cyclical nature of the property development industry and increasing raw materials and labor costs.

PS is one of the leading residential property developers in Thailand. The company was established in 1993 by Mr. Thongma Vijitpongpan and was listed on the Stock Exchange of Thailand (SET) in December 2005. As of March 2011, the Vijitpongpan family continued to be the largest shareholder, owning a 74% stake. PS has a huge project portfolio with the total un-transferred value of Bt97,317 million as of October 2011. Around 70% of total un-transferred value are in low-rise housing projects while almost 30% of its un-transferred value are directly impacted by the flood.

PS’s revenue during the first nine months of 2011 was Bt18,604 million, up 14% from Bt16,333 million during the same period of 2010. The growth was mainly driven by rising revenue from townhouses. During the first nine months of 2011, townhouses generated revenue of Bt10,279 million, 21% higher than Bt8,508 million during the same period of 2010. Revenue from single detached houses (SDH) and condominiums slightly grew by 7%-8% in the first nine months of 2011. Despite satisfactory gross profit margin at 37%-38% during 2010 through the first nine months of 2011, higher selling, general, and administrative expenses (SG&A) caused a lower operating profit margin. Operating income as a percentage of sales dropped to 19%-21% during 2010 through the first nine months of 2011, down from 25%-26% during 2008-2009. Cash flow protection also weakened as the ratio of funds from operations (FFO) to total debt declined to 12.65% (non-annualized) in the first nine months of 2011 from 17.81% (non-annualized) in the same period of 2010. With the continued aggressive expansion during the first nine months of 2011, PS’s financial leverage sharply increased. The debt to capitalization ratio peaked at 54.79% as of September 2011, up from 49.03% in December 2010 and 15.84% in December 2009.

Due to the heavy flooding which started to hit Bangkok and vicinity in October 2011, the sale of residential properties is expected to slow down, especially for the heavy flooded zones. Several developers might have a negative growth in revenue or even net losses in the last quarter of 2011. The government’s tax incentive scheme and zero-rate mortgage financing plans may not have a significant effect on the demand for residential property in the coming quarters, due to the negative consumer sentiment. Global economic uncertainties, the threat of rising costs from

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the possible enactment of the minimum-wage hike, and elevated leverage levels of most property developers, are key downside risks for the industry.

Rating Outlook

The “negative” outlook reflects PS’s weakening financial profile, resulting from higher financial leverage. In addition, most of un-transferred value are in low-rise housing projects, which demand is expected to slowdown in the short to medium term. Thus, the ratings could be downgraded if PS’s financial leverage continues to increase and the recovery of its operating performance is slower than projected. On the other hand, the outlook could be revised back to “stable” should its sales recover as planned and the company is able to bring down its debt to capitalization ratio to be lower than 50%.

PRUKSA REAL ESTATE PLC (PS)

Company Rating:	A
Issue Ratings:	
PS121A: Bt1,500 million senior debentures due 2012	A
PS136A: Bt1,500 million senior debentures due 2013	A
PS13NA: Bt3,000 million senior debentures due 2013	A
PS156A: Bt1,000 million senior debentures due 2015	A
PS15NA: Bt2,000 million senior debentures due 2015	A
Rating Outlook:	Negative

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