

PRUKSA REAL ESTATE PLC

No. 108/2021

6 July 2021

CORPORATES

Company Rating: A
Outlook: Stable

Last Review Date: 08/06/20

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+	-

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RATIONALE

TRIS Rating affirms the company rating on Pruksa Real Estate PLC (PS) at “A”, with a “stable” rating outlook. The rating reflects PS’s leading market position in the residential property industry, diversified product portfolio, and large backlog partly securing the company’s future revenue stream. The rating also takes into consideration PS’s moderate financial leverage and concerns over the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, which could put further pressure on the demand for residential properties and the profitability of property developers.

KEY RATING CONSIDERATIONS

Expected operation revival in 2022

We believe the residential property industry will continue to be affected by the lengthy COVID-19 pandemic throughout 2021. Demand for residential properties from local homebuyers will remain inert, while demand from foreign buyers is likely to be halted for a longer period. As the majority of PS’s portfolio is in the middle- to low-end market segments, we foresee that a recovery is likely to take some time amid weak demand and intensifying competition.

As a result, we expect PS’s total operating revenue to reach around THB30 billion this year and recover to around THB37-THB38 billion during 2022-2023. This level remains lower than the pre-COVID-19 level of THB40-THB45 billion per annum during 2017-2019. We expect revenue from landed property projects to contribute 70% of the company’s total operating revenue over the forecast period, while revenue from condominium projects will account for the rest.

Our base-case forecast projects PS to deliver its backlog as scheduled. PS’s backlog at the end of April 2021 stood at THB22.5 billion, around 90% of which was in condominium projects. We expect PS to deliver backlog worth THB10.3 billion during the remainder of 2021, THB10.9 billion in 2022, and the rest during 2023-2024.

Earnings to come under pressure with lower profit margin

With stagnant demand during the second half of 2021, we believe that PS will continue with its inventory clearance strategy to release slow-moving stock and boost sales. We foresee PS’s profit margin to remain under constraints as price based promotional campaigns continue. PS’s lower sales volume has also resulted in minimal utilization rates at its precast concrete factories, which has hurt the profitability of each project. However, lower selling, general, and administrative (SG&A) expenses, with leaner costs and more outsourcing of services, should partly offset the slim gross profit margin.

We expect PS’s gross profit margin will drop to 28% of total operating revenue this year before recovering to 30% during 2022-2023. SG&A should remain at 15% of total operating revenue, down from 17%-19% in the past. PS’s earnings before interest, taxes, depreciation, and amortization (EBITDA) are expected to reach THB4.8 billion in 2021, before rebounding to around THB7 billion per annum during 2022-2023. We expect PS to sustain its EBITDA margin of at least 15% over the forecast period. PS’s net profit margin may remain below 10% of

total operating revenue in 2021 but should recover to around 10% in the following years.

Diversified product portfolio and well-accepted brands in the middle- to low-end segments

We consider PS's product portfolio to be well-diversified in terms of products and price range. PS offers townhouses, single-detached houses (SDH), and condominium units across different market segments. PS's townhouse products cover the low- to middle-income segments, with selling prices ranging from THB2 million to THB7 million per unit. SDH products are priced from THB3 million to THB10 million per unit. PS's condominium portfolio covers the low- to high-end segments, with selling prices ranging from THB40,000 to THB260,000 per square meter (sq.m.). PS's brand recognition is dominant in townhouse product, especially in the THB2 -THB3 million segment, in which it has held the largest market share for several years.

In our view, PS's broad project portfolio and well-recognized brands give the company sufficient flexibility to adjust its portfolio to meet demand and retain its market position. As of April 2021, PS had a large project portfolio, with around 200 existing projects. The total unsold value of these projects was THB79 billion (including built and un-built units). Townhouse projects comprised 46% of total remaining value, SDHs 32%, and condominiums 22%.

Moderate leverage level

We foresee that the severe impacts from the ongoing COVID-19 pandemic will continue to hinder growth in demand for residential properties for an extended period. Most property developers slowed down land purchases and new project launches, especially condominium projects, during 2020-2021. In our base-case scenario, we project PS to launch new landed property projects worth THB25 billion per annum during 2021-2023. We expect PS to slim down its new condominium project launches to THB4 billion this year and to increase to around THB8-THB10 billion per annum during 2022-2023. The new projects are expected to focus on the affordable-price segment. The budget for land acquisition is set at THB3 billion in 2021 and THB10 billion annually during 2022-2023.

With the unfavorable environment in the residential property market, we expect PS to be more cautious in its new residential portfolio expansion. We also expect PS to improve its debt to EBITDA ratio to 3 times in 2022 and keep the ratio of funds from operations (FFO) to total debt of at least 15% over the forecast period. PS is expected to retain its conservative financial policy by keeping its interest-bearing debt to equity ratio below 1 time.

The financial covenants on PS's bank loans require the company's interest-bearing debt to equity ratio to remain below 2 times. As of March 2021, the ratio was 0.52 times. We believe that PS should have no problems complying with the financial covenants over the next 12 to 18 months.

Adequate liquidity

We assess PS's liquidity as adequate over the next 12 months. As of March 2021, PS's sources of funds consisted of THB1.2 billion cash on hand, THB11.3 billion undrawn committed short-term facilities, and THB12.8 billion undrawn uncommitted short-term facilities. We forecast PS's FFO in 2021 to be THB3.7 billion. PS also had unencumbered land at book value of THB9.1 billion, which could be pledged as collateral for new loans, if needed. Debt due over the next 12 months will amount to THB20.8 billion, comprising THB20.5 billion in short-term loans from the parent company, THB0.2 billion in long-term bank loans, and THB0.1 billion in lease liability. The holding company of the PS Group, Pruksa Holding PLC (PSH), is responsible for the investment and financial management of the whole group. PSH mainly finances its investments in both residential property and healthcare businesses by debenture issuance and providing intercompany loans to its subsidiaries.

As of March 2021, PS had THB20.5 billion inter-company loans from PSH and THB1.1 billion long-term loans from banks in debt. The ratio of secured debt to total debt was 5%.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base case forecast for PS's operations during 2021-2023:

- PS to launch new landed property projects worth around THB25 billion per annum.
- PS to launch new condominium projects worth THB4 billion in 2021 and THB8-THB10 billion annually during 2022-2023.
- Budget for land acquisition to be THB3 billion in 2021 and THB10 billion per annum during 2022-2023.
- Total operating revenue to remain around THB30 billion in 2021, recovering to THB37-THB38 billion per annum during 2022-2023.

RATING OUTLOOK

The "stable" outlook reflects our expectation that PS will be able to deliver operating performance as targeted. We expect PS to be able to transfer the units in its backlog as scheduled. Although the prolonged COVID-19 pandemic and slow vaccine

rollout are leading to stagnant growth in residential property demand for an extended period, we expect PS to sustain a FFO to total debt ratio of at least 15% and debt to EBITDA ratio of around 3 times in 2022.

RATING SENSITIVITIES

PS's outlook will hinge not only on its operating performance but also on the financial position of the group. A successful diversification made by the holding company into new businesses will be positive for the group. On the contrary, PS's credit metrics 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 profile of the group.

COMPANY OVERVIEW

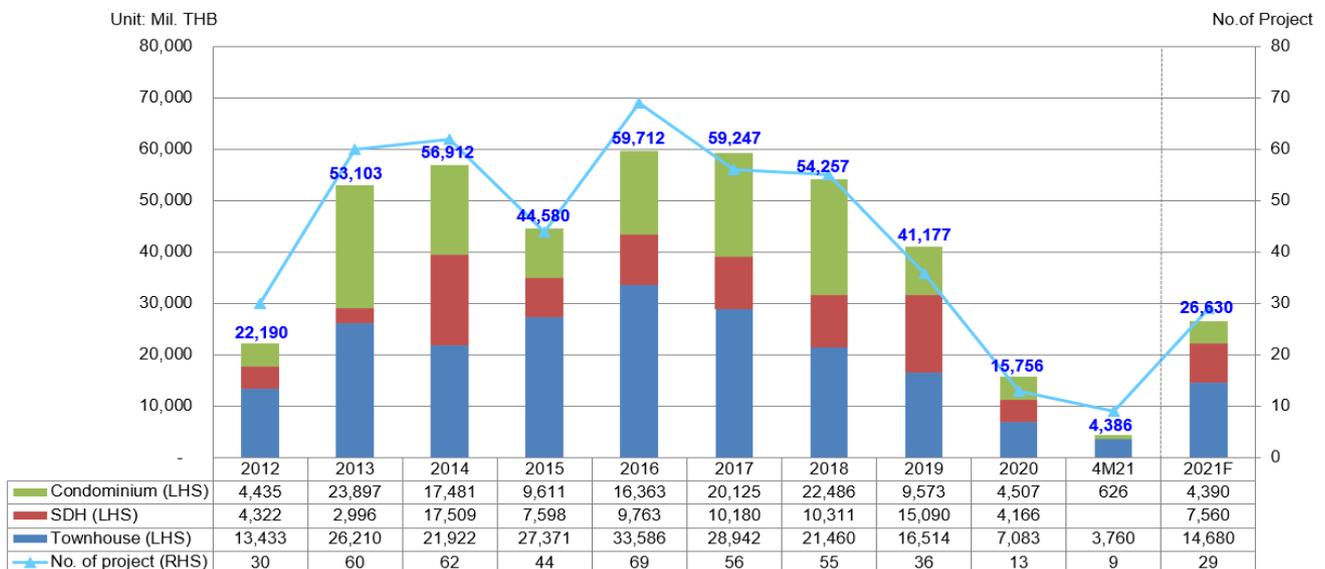
PS was founded in 1993 by Mr. Thongma Vijitpongpun and listed on the Stock Exchange of Thailand (SET) in December 2005. After the completion of the tender offer following the restructuring plan in November 2016, PSH became the major shareholder of PS. On 1 December 2016, PSH's securities were listed on the SET in place of PS's shares, whose securities were simultaneously delisted. As of March 2021, the Vijitpongpun family was PSH's largest shareholder, owning a 76% stake. PSH holds a 98.23% stake in PS.

After the reorganization, PS has retained its concentration on residential properties for sale. PS is considered as a "core" subsidiary of the PS Group since the residential property business is likely to remain a key contributor to the revenue and earnings of the group over the next several years. Thus, the issuer 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's property portfolio is well-diversified. Its products cover townhouses, SDHs, and condominiums across various price ranges. PS's main products target the middle- to low-end segments of the residential property market. As of April 2021, PS had a sizable project portfolio worth THB212.2 billion in total project value. The total project portfolio was 63% sold and 52% transferred. Townhouses remain the largest source of income, constituting around half of total operating revenue for the past several years. Revenue from condominiums and SDHs contributed around 30% and 20%, respectively, during the past five years.

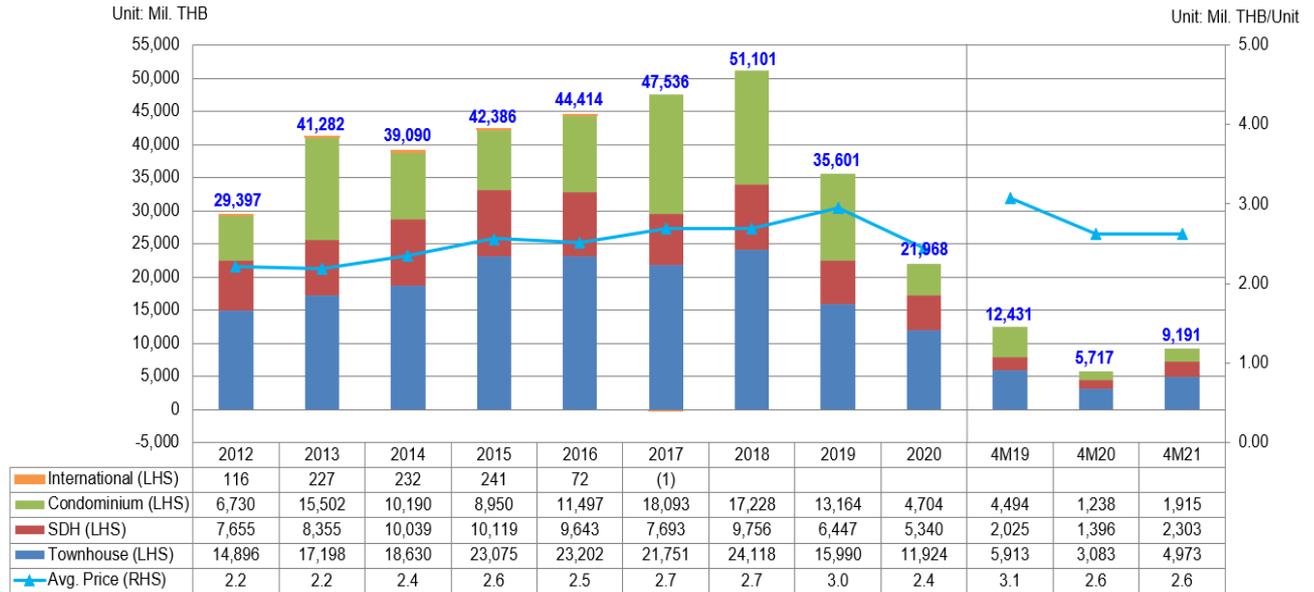
KEY OPERATING PERFORMANCE

Chart 1: New Residential Project Launches



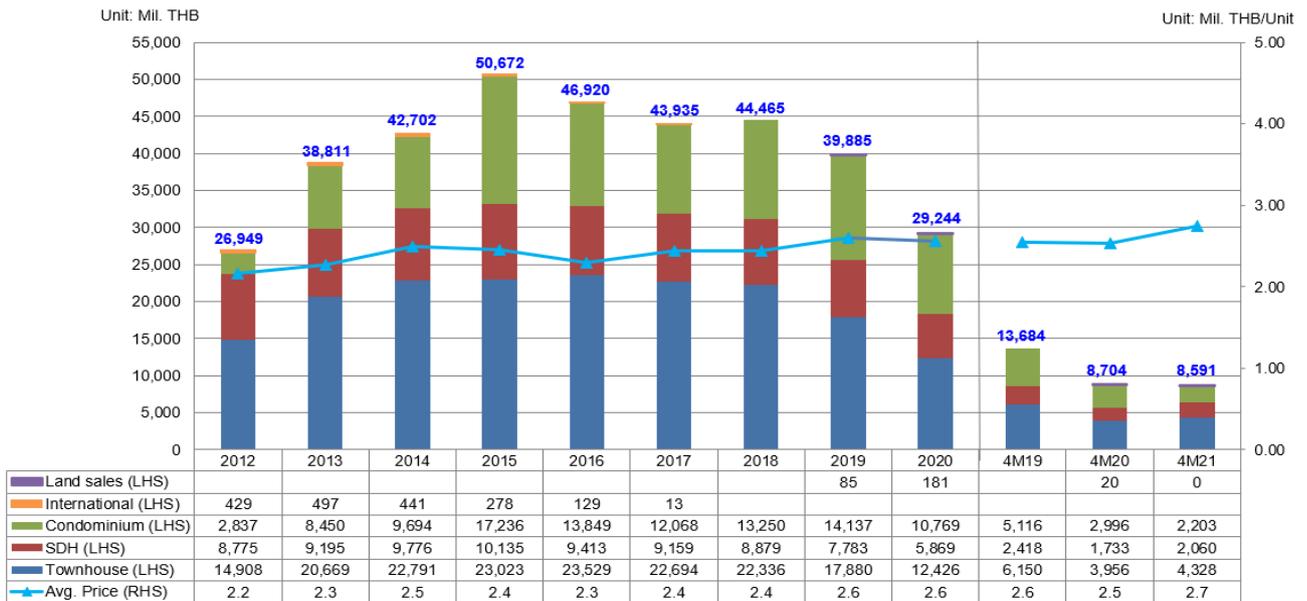
Source: PS

Chart 2: Presales Performance



Source: PS

Chart 3: Transfer Performance



Source: PS

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

	Jan-Mar 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	6,900	29,528	40,156	45,075	44,129
Earnings before interest and taxes (EBIT)	888	4,668	7,893	8,453	7,887
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	987	5,114	8,649	9,158	8,395
Funds from operations (FFO)	721	3,670	6,112	6,705	6,019
Adjusted interest expense	111	612	1,013	903	794
Real estate development investments	63,944	67,380	76,464	71,960	63,791
Total assets	72,870	75,930	85,075	80,503	71,228
Adjusted debt	21,339	24,570	31,964	29,624	27,083
Adjusted equity	42,849	42,254	42,066	40,208	36,155
Adjusted Ratios					
EBITDA margin (%)	14.30	17.32	21.54	20.32	19.02
Pretax return on permanent capital (%)	5.59 **	6.49	10.74	12.45	12.65
EBITDA interest coverage (times)	8.88	8.36	8.54	10.15	10.58
Debt to EBITDA (times)	4.70 **	4.80	3.70	3.23	3.23
FFO to debt (%)	15.32 **	14.94	19.12	22.63	22.22
Debt to capitalization (%)	33.24	36.77	43.18	42.42	42.83

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Pruksa Real Estate PLC (PS)

Company Rating:**A****Rating Outlook:****Stable**

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