

## Press Release

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### **TRIS Rating Affirms Company & Issue Ratings of "PS" at "A" with "Stable" Outlook**

TRIS Rating Co., Ltd. has affirmed the company rating of Prukha Real Estate PLC (PS) and the ratings of PS's senior debentures at "A" with "stable" outlook. The ratings 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, cost competitiveness, and strong backlog partly securing the company's future revenue stream. These strengths are partially offset by a deteriorated financial position during 2010 through the first quarter of 2011 as a result from an aggressive expansion and the acquisition of a large number of pieces of land. The ratings also take into consideration the cyclical nature of the property development industry and the expectation of more intense competition as many developers have been aggressively acquiring land since the second half of 2010.

The "stable" outlook reflects the expectation that PS will be able to maintain its current operating performance in the medium term. Cash flow protection should be strengthened when a large amount of the backlog is delivered on schedule. The operating profit margin is expected to improve. Despite continued aggressive expansion, PS's financial leverage should not be higher than its current level.

TRIS Rating reported that PS is one of the leading residential property developers in Thailand. The company was established in 1993 by Mr. Thongma Vjijtpongpun and was listed on the Stock Exchange of Thailand (SET) in December 2005. As of March 2011, the Vjijtpongpun family continued to be the largest shareholder, owning a 74% stake. PS has a huge project portfolio, which comprises 210 existing residential projects with the remaining value of Bt54,529 million available for sale and a backlog of approximately Bt36,000 million as of May 2011. The company offers a wide range of products including townhouses (45% of total project value), single-detached houses (SDH, 30%), condominiums (22%), and overseas projects (3%). Townhouses have remained the largest contribution of PS's total revenue, constituting 51% of total revenue during 2009-2010 and 59% in the first quarter of 2011. The revenue contribution from SDH units increased to 36% of revenue during the first three months of 2011 from 30%-33% during 2009-2010. Condominium units contributed only 5% of revenue in the first quarter of 2011. PS's competitive edge stems from the precast and prefabrication technologies the company uses and the construction process managed by itself. With large production volumes, these techniques enable the company to control construction costs and shorten the construction period. As a result, PS has been able to offer residential units at competitive prices.

TRIS Rating said, PS's presales reached a record high of Bt38,753 million in 2010, up 70% from Bt22,775 million in 2009. The growth was mainly driven by rising presales of condominiums. Condominium presales jumped to Bt12,340 million in 2010, a significant increase from Bt4,721 million in 2009. Presales of townhouse and SDH units also grew 54% and 24% year-on-year (y-o-y), respectively, in 2010. During the first five months of 2011, presales rose by 5% to Bt14,185 million, up from Bt13,451 million during the same period of 2010. Presales of townhouses and condominiums diminished in the first five months of 2011, but presales of SDH units drove the growth in presales. PS's total revenue was Bt23,307 million in 2010, a 23% increase from Bt18,966 million in 2009. Total revenue in the first quarter of 2011 slightly dropped to Bt5,422 million, down 19% from Bt6,655 million in the same period of 2010. The drop in revenue resulted from an expiration of government tax incentives in mid-2010, which caused the transfer of residential property in the first quarter of 2010 higher than normal. The gross profit margin had been comparatively high at 38%-39% during 2010 through the first three months of 2011. However, higher selling, general, and administrative expenses (SG&A) lowered the operating profit margin. Operating income as a percentage of sales decreased to 20.58% in 2010 and 19.16% in the first quarter of 2011 from 25%-26% during 2008-2009. Cash flow protection has weakened as the ratio of funds from operations (FFO) to total debt declined to 22.13% in 2010 and 4.91% (non-annualized) in the first three months of 2011, down from 167.11% in 2009 and 73.02% in 2008. An aggressive expansion and large land purchases pushed financial leverage higher. The debt to capitalization ratio jumped from 15.84% at the end of 2009 to 49.03% as of December 2010 and 52.13% as of March 2011.

Demand for housing depends mostly on consumer confidence and the economic environment. The government usually provides supports for this industry during an economic downturn. Due to the government tax incentives scheme offered during 2008-2010 and the domestic economy which recovered

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faster than expected, demand for residential property has improved significantly since the second half of 2009. However, the momentum was maintained throughout 2010. Several developers have stepped up land acquisitions since late 2009 which caused the industry-wide leverage level to increase significantly in 2010. The changes in the loan-to-value policy (LTV ratio) implemented by the Bank of Thailand (BOT) in 2011 and rising interest rates are expected to curb the speculative demand in the condominium segment and the affordability of housing for the low-income segment. Therefore, the growth rate of this industry is expected to be lower this year compared with the previous year. However, large developers are expected to gain more market share at the expense of smaller developers as several major developers have diversified by entering the low-priced housing segment. This move will cause the competition in this segment to be more intense than before, said TRIS Rating. -- End

### **Pruksa Real Estate PLC (PS)**

#### **Company Rating:**

Affirmed at A

#### **Issue Ratings:**

PS121A: Bt1,500 million senior debentures due 2012

Affirmed at A

PS136A: Bt1,500 million senior debentures due 2013

Affirmed at A

PS13NA: Bt3,000 million senior debentures due 2013

Affirmed at A

PS156A: Bt1,000 million senior debentures due 2015

Affirmed at A

PS15NA: Bt2,000 million senior debentures due 2015

Affirmed at A

#### **Rating Outlook:**

Stable

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