

# PRUKSA REAL ESTATE PLC

No. 8/2016

25 February 2016

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

## 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
31/07/03	BBB	-
19/06/03	BBB	-
05/02/02	BB+	-

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## Rating Rationale

TRIS Rating affirms the company rating and the senior unsecured debenture ratings of Pruksa Real Estate PLC (PS) at “A” with “stable” outlook. At the same time, TRIS Rating assigns the rating of “A” to PS’s proposed issue of up to Bt4,000 million in new senior unsecured debentures. The proceeds from the new debentures will be used to refinance the Bt3,000 million worth of debentures maturing in March 2016, and the rest will be used as working capital. PS’s ratings are not impacted by the company’s announcement that it will reorganize its corporate structure. In TRIS Rating’s view, both new and existing debenture holders will not be materially affected as a result of the reorganization.

On 19 February 2016, the board of directors of PS approved the resolution to propose restructuring plan to PS’s shareholders. Under the restructuring plan, the company will establish a holding company. The holding company will make a tender offer for all securities of PS at the swap ratio of 1:1. After the completion of the tender offer, the holding company will become the major shareholder of PS and its securities will be listed on the Stock Exchange of Thailand (SET) in place of PS, whose securities will be delisted from the SET simultaneously. The new structure will provide more flexibility to the company in expanding into new businesses and facilitate alliance with strategic partners. However, the restructuring plan and the listing of the holding company’s common shares in place of the common shares of PS are subject to PS shareholders’ approval.

Under the reorganization, PS still focuses on the residential real estate for sale. The restructuring will not impact PS’s financial position and performance. All operating assets and key management team of PS remain intact. PS’s listing status will be terminated after PS sells all of its shares to the holding company. Thus, PS has to get the consent from the bondholders to get the waiver for this issue. When the restructuring can proceed as expected, the process should be completed by the end of 2016. Currently, the holding company is in the process of exploring new business opportunities, especially ones that can generate recurring income to the group. However, in order to maintain the ratings of PS, the investment in new business should not materially weaken the financial profile of the group.

PS’s ratings continue to reflect its leading position in the middle- to low-priced townhouse segment, proven track record in the middle- to low-income residential property market, cost competitiveness, and large backlog, which partly secures the company’s future revenue stream. The ratings also take into consideration the relatively high level of household debts nationwide coupled with the slowdown in the domestic economy which may impact the demand in the housing market in the short to medium term.

PS’s performance in 2015 is better than projected. The company’s presales in 2015 grew by 8% year-on-year (y-o-y) to Bt42,386 million. Presales from

*CreditUpdate reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company’s current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been “upgraded,” “downgraded,” “affirmed” or “cancelled.” The update includes information to supplement the previously published ratings.*

*CreditUpdates are part of TRIS Rating’s monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.*

townhouses and single detached houses (SDHs) increased by 24% y-o-y and 1% y-o-y, respectively, while presales from condominiums dropped by 12% y-o-y. Total revenue in 2015 reached a record high of Bt51,240 million, a 20% y-o-y growth. PS's revenue over the past three years ranked the first among those of all the property developers and hit a new record high for the industry. PS's revenue in 2016 is partly secured by a backlog worth around Bt15,000 million. The remaining backlog worth Bt11,000 million is expected to be realized as revenue during 2017-2018.

PS's operating profit margin, as measured by operating income before depreciation and amortization as a percentage of sales, ranged from 18%-21% during 2010-2015. The ratio remained higher than the industry average of around 15%. The debt to capitalization ratio improved to 45% in 2014 and 42% in 2015, from 47%-55% during 2010-2013. Despite a sluggish demand in the residential property market, TRIS Rating expects PS to be able to maintain the operating profit margin of at least 15% over the next three years. The debt to capitalization ratio of PS and the holding company should be kept at around 50%. PS's liquidity remained acceptable as the ratio of funds from operations (FFO) to total debt was 26%-34% during 2013-2015. Its financial flexibility was enhanced by a sizable undrawn credit facility worth around Bt22,000 million as of December 2015.

### Rating Outlook

The "stable" outlook reflects the expectation that PS will sustain its operating performance over the next three years. The company is expected to deliver a large number of the units in its backlog as scheduled. Total debt to capitalization ratio of PS and the holding company should stay at around 50%. PS's future outlook depends on not only its performance but also the financial position of the group. A successful diversification into new businesses will be positive for the group. On the contrary, the ratings of PS will be negatively affected, if the investment in new businesses of the holding company drags down the financial position of the group.

## Pruksa Real Estate PLC (PS)

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
PS163A: Bt600 million senior unsecured debentures due 2016	A
PS163B: Bt2,400 million senior unsecured debentures due 2016	A
PS166A: Bt3,000 million senior unsecured debentures due 2016	A
PS171A: Bt2,000 million senior unsecured debentures due 2017	A
PS176A: Bt2,000 million senior unsecured debentures due 2017	A
PS179A: Bt600 million senior unsecured debentures due 2017	A
PS179B: Bt1,400 million senior unsecured debentures due 2017	A
PS183A: Bt2,000 million senior unsecured debentures due 2018	A
PS185A: Bt3,000 million senior unsecured debentures due 2018	A
PS18NA: Bt1,000 million senior unsecured debentures due 2018	A
PS205A: Bt2,000 million senior unsecured debentures due 2020	A
Up to Bt4,000 million senior unsecured debentures due within 2023	A
<b>Rating Outlook:</b>	Stable

### Financial Statistics and Key Financial Ratios\*

Unit: Bt million

	Year Ended 31 December					
	2015	2014	2013	2012	2011	2010
Revenue	51,240	42,781	38,848	27,023	23,263	23,307
Gross interest expense	1,039	1,105	1,090	942	865	269
Net income from operations	7,680	6,655	5,802	3,898	2,835	3,488
Funds from operations (FFO)	8,317	7,287	6,333	3,449	2,806	3,249
Inventory investment	(2,976)	(4,491)	(10,649)	(679)	(7,678)	(14,638)
Total assets	65,309	61,029	56,194	43,821	41,982	34,091
Total debts	24,783	24,395	24,160	17,995	20,703	14,683
Shareholders' equity	34,218	29,707	24,933	20,081	16,997	15,263
Operating income before depreciation and amortization as % of sales	19.56	20.93	20.07	20.64	18.16	20.38
Pretax return on permanent capital (%)	17.32	17.14	17.47	14.06	11.96	20.27
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	9.84	8.32	7.33	6.04	5.07	18.06
FFO/total debt (%)	33.56	29.87	26.21	19.17	13.55	22.13
Total debt/capitalization (%)	42.00	45.09	49.21	47.26	54.92	49.03

\* Consolidated financial statements

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