TRIS RATING
A Strategic Partner of S&P Global

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PRUKSA HOLDING PLC

CORPORATES

Company Rating:	A
Issue Ratings:	
Guaranteed	A
Outlook:	Stable

Last Review Date: 26/03/20

Company Rating History:

Date	Rating	Outlook/Alert
27/04/18	A	Stable

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RATIONALE

TRIS Rating affirms the company rating on Pruksa Holding PLC (PSH) and the ratings on PSH's guaranteed debentures at "A", with a "stable" rating outlook. The debentures are unconditionally and irrevocably guaranteed by Pruksa Real Estate PLC (PS), PSH's subsidiary, rated "A" with a "stable" outlook by TRIS Rating. The guaranteed debentures are ranked pari passu to PS's senior unsecured debentures.

The ratings reflect PSH's creditworthiness as the holding company of PS, in which PSH holds a 98.23% equity stake, and the significant dividend stream PSH receives from PS. PS is considered a "core" subsidiary of PSH in accordance with TRIS Rating's "Group Rating Methodology".

The ratings on PSH take into consideration the strengths of PS as the largest player in the residential property market. PS's competitiveness is derived from its relatively diverse product portfolio, cost competitiveness, and large backlog which partly secure the company's future revenue stream. The ratings also take into account the group's moderate financial leverage level and concerns over the impacts of the coronavirus (COVID-19) pandemic, which has put more pressure on the domestic economy and suppressed demand in the residential property market.

KEY RATING CONSIDERATIONS

Reliable dividend stream from PS

As PSH is PS's major shareholder, with a 98.23% stake, TRIS Rating expects PSH to receive a stable stream of dividend payments from its investment in PS. According to the group's dividend policy, PS will pay dividends to PSH of not less than 50% of net profit. Dividends received from PS were Bt2 billion in 2018 and Bt3.8 billion in 2019.

As of March 2020, PS was PSH's only major subsidiary, representing 98% of the total assets of the group. PSH is in the process of developing its first private hospital. The hospital is expected to commence operation in mid-2021. Thus, we view that PS will continue to be PSH's only core subsidiary in the medium term.

Leading position in residential property business

We expect PSH to sustain its top-ranked market position in the residential property market over the next three years. PSH's total operating revenue, mainly from the residential property business, was recorded at 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. PSH's total operating revenue slashed 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, its revenues remained the highest among all listed residential property developers in Thailand.

Under TRIS Rating's base-case scenario, we assess PSH's revenue from the real estate business to decline by 30%-35% y-o-y this year to Bt25 billion and gradually recover to around Bt35-Bt45 billion per annum during 2021-2022. We believe that revenue from the real estate business will remain a key contributor of the group during the next three years. Revenue from the healthcare business will remain negligible and the loss recorded by the healthcare business should not significantly impact the overall performance of PSH.

Diversified products and well-accepted brands in the middle- to low-priced townhouse segments

TRIS Rating holds the view that PSH's real estate portfolio covers various product types and price ranges, which gives the company more flexibility to adjust its portfolio to meet the market demand. PSH offers townhouse, SDH, and condominium units across 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. PSH's townhouse portfolio mainly focuses on the Bt1.5-Bt3 million per unit price range and is 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 "Passorn", "The Plant", and "Pruksa Village" brands, with prices in the Bt4-Bt6 million per unit range. PSH'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, PSH's real estate business had 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 condominium projects 26%. PSH had a backlog 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. The backlog partly secures future operating revenues during the period of economic slowdown.

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

At the end of April 2020, PSH's unsold finished stock was worth around Bt22 billion. Due to a decline in both domestic and foreign demand, PSH may need more time to clear its finished units. This year the company will focus more on inventory management by controlling work-in-process construction, reducing the budget for land acquisitions, and selling some undeveloped land plots.

However, PSH's profitability may come under pressure from intense competition as more developers enter the landed property segment where demand is relatively stable. PSH's cost competitiveness from its speed of production may not benefit the company during this period of stagnant demand. In addition, as the utilization of precast factories has decreased, PSH still incurs some fixed costs at its precast factories. Thus, PSH's earnings before interest, tax, depreciation, and amortization (EBITDA) margin is expected to drop to as low as 15% from around 19%-22% of total operating revenue during 2016 through the first three months of 2020. Its net profit margin is expected to drop to around 10% of total operating revenue from 12%-13% 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 going 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, PSH has had to postpone the transfers of some foreign-buyer residential units for a few months. As of April 2020, PSH'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 this year.

Moderate financial leverage

TRIS Rating expects PSH will take a conservative policy in launching and developing new residential projects during the property market downturn. We expect PSH to launch landed property projects worth Bt10 billion and condominium projects worth Bt5 billion in 2020. During 2021-2022, we assume PSH 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. For the healthcare business, we anticipate PSH to invest around Bt1 billion per annum during 2020-2021.

Although PSH continues to expand its residential property portfolio at the same time as its investment in the healthcare business, we expect PSH to keep its debt to capitalization ratio below 50%, or the interest-bearing debt to equity ratio below 1 times. As of March 2020, PSH's debt to capitalization ratio was 42% and its interest-bearing debt to equity ratio was 0.85 times.

Adequate liquidity

On a consolidated basis, we assess PSH to have adequate liquidity over the next 12 months. As of March 2020, PSH's sources of funds consisted of Bt6 billion in cash on hand, committed credit facilities of Bt6.4 billion, uncommitted credit facilities of Bt5.3 billion, and unencumbered land at book value of Bt6.6 billion. PSH's funds from operations (FFO) over the next 12 months are forecast at around Bt3 billion. 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.

Generally, PSH's short-term loans will either be rolled over or repaid. Under normal circumstances, PSH is able to issue new debentures to replace PS's maturing bonds and provide intercompany loans to PS. However, the COVID-19 induced risk-off sentiment in the corporate bond market could pose a refinancing risk for the group's maturing bonds. Thus, we expect PSH to maintain adequate committed credit facilities from banks to cover short-term debts and bonds maturing in the next 12 months.

Regarding the key financial covenants on PSH's debentures, PSH is required to maintain its interest-bearing debt to equity ratio (based on a consolidated basis) at lower than 2 times. The ratio at the end of March 2020 was 0.85 times. TRIS Rating expects PSH should have no problem complying with its financial covenants over the next 12 to 18 months.

BASE-CASE ASSUMPTIONS

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

- PSH to launch landed property projects worth Bt10 billion and condominium projects worth Bt5 billion in 2020. We expect PSH 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, recovering 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.
- Capital expenditures for the healthcare business to be around Bt1 billion per annum during 2020-2021.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that PSH will be able to deliver operating performance as targeted. PSH's property subsidiary 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 PSH to keep its FFO to total debt ratio at around 10% this year. The ratio should improve to 15%-20% during 2021-2022. PSH's debt to capitalization ratio should stay below 50% on a sustained basis.

RATING SENSITIVITIES

PSH's ratings will depend on the operating performance and financial position of the group. A successful diversification into new businesses will be positive for the group. On the contrary, the ratings on PSH will be negatively affected if the operating performance of its property subsidiary significantly deviates from the target level and/or investments in new businesses drag down the financial position of the group.

COMPANY OVERVIEW

PSH was established in March 2016 as a holding company, in accordance with the restructuring plan of PS. PSH made a tender offer for all securities of PS at a swap ratio of 1:1. After the completion of the tender offer, the holding company became the major shareholder of PS and its securities have been listed on the Stock Exchange of Thailand (SET) since December 2016 in place of PS, 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.

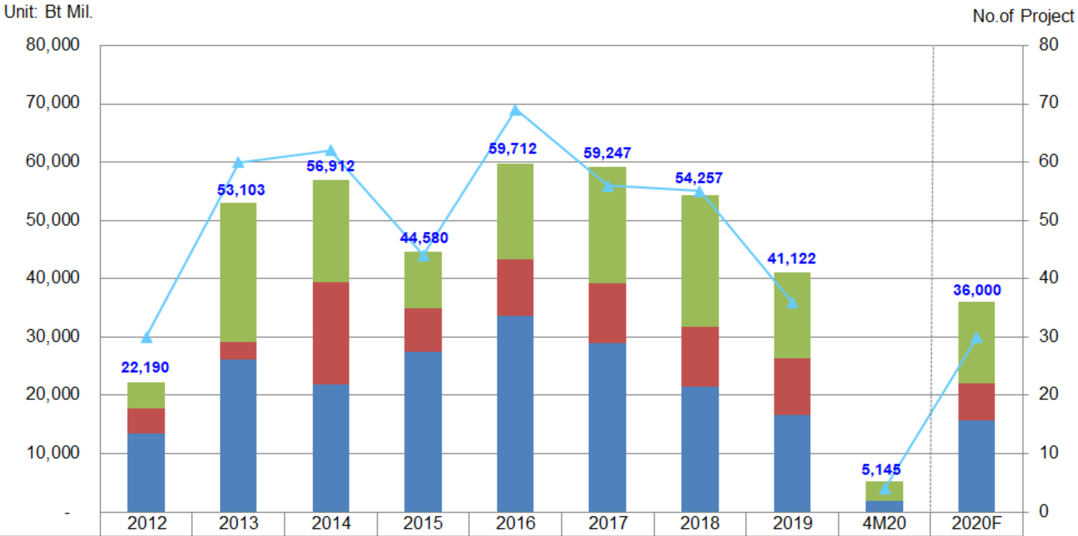
After the reorganization, PSH became a holding company while PS retained its focus on residential property for sale. All operating assets and key members of the management team remained intact. Since the residential property business will continue to be the major revenue contributor to the group over 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 the construction of residential units. The company owns precast factories and manages the construction of most residential projects by itself. PS's property portfolio is welldiversified. 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.

PSH is expanding into the healthcare business. The company set up its healthcare subsidiary, "Vimut Hospital Holding Co., Ltd.", to invest in a private hospital. The investment cost for this flagship hospital is around Bt5 billion during 2017-2021. The hospital is expected to start operation in May 2021.

KEY OPERATING PERFORMANCE

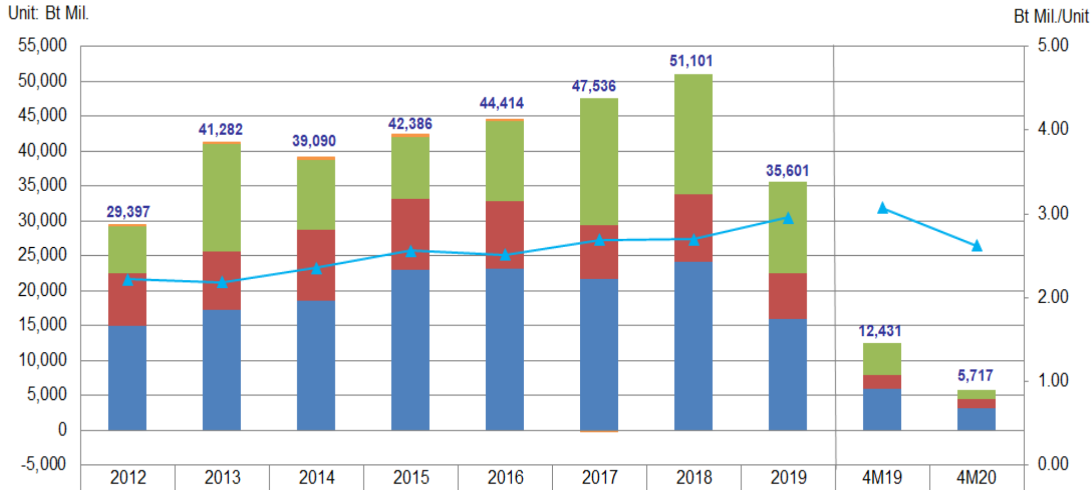
Chart 1: New Residential Project Launches



	2012	2013	2014	2015	2016	2017	2018	2019	4M20	2020F
Condominium (LHS)	4,435	23,897	17,481	9,611	16,363	20,125	22,486	14,847	3,251	14,000
SDH (LHS)	4,322	2,996	17,509	7,598	9,763	10,180	10,311	9,608		6,400
Townhouse (LHS)	13,433	26,210	21,922	27,371	33,586	28,942	21,460	16,667	1,894	15,600
No. of project (RHS)	30	60	62	44	69	56	55	36	4	30

Source: PS

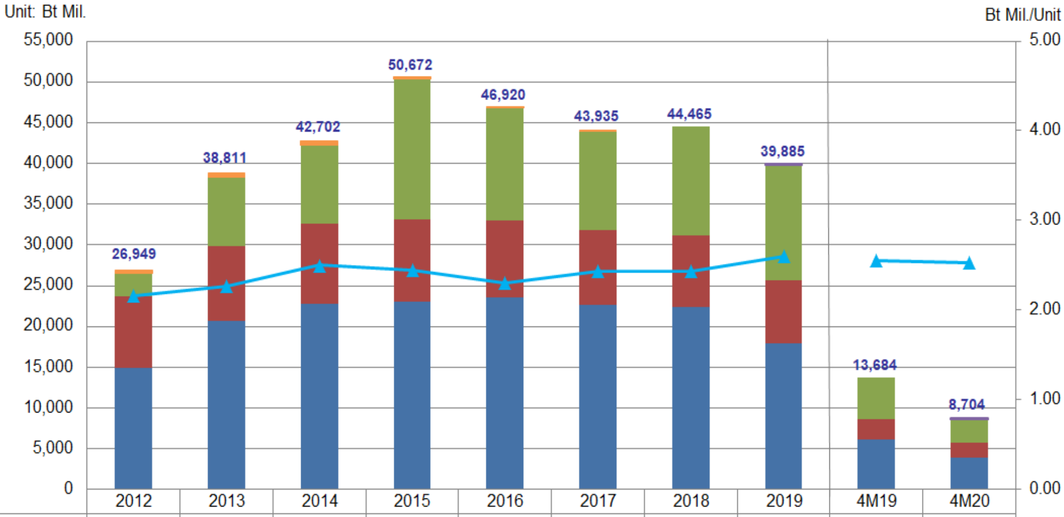
Chart 2: Presales Performance



	2012	2013	2014	2015	2016	2017	2018	2019	4M19	4M20
International (LHS)	116	227	232	241	72	(1)				
Condominium (LHS)	6,730	15,502	10,190	8,950	11,497	18,093	17,228	13,164	4,494	1,238
SDH (LHS)	7,655	8,355	10,039	10,119	9,643	7,693	9,756	6,447	2,025	1,396
Townhouse (LHS)	14,896	17,198	18,630	23,075	23,202	21,751	24,118	15,990	5,913	3,083
Avg. Price (RHS)	2.2	2.2	2.4	2.6	2.5	2.7	2.7	3.0	3.1	2.6

Source: PS

Chart 3: Transfer Performance



	2012	2013	2014	2015	2016	2017	2018	2019	4M19	4M20
Land sales (LHS)								85		20
International (LHS)	429	497	441	278	129	13				
Condominium (LHS)	2,837	8,450	9,694	17,236	13,849	12,068	13,250	14,137	5,116	2,996
SDH (LHS)	8,775	9,195	9,776	10,135	9,413	9,159	8,879	7,783	2,418	1,733
Townhouse (LHS)	14,908	20,669	22,791	23,023	23,529	22,694	22,336	17,880	6,150	3,956
Avg. Price (RHS)	2.2	2.3	2.5	2.4	2.3	2.4	2.4	2.6	2.6	2.5

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	40,152	45,071	44,118	47,174
Earnings before interest and taxes (EBIT)	1,420	7,823	8,384	7,820	8,324
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,541	8,589	9,094	8,327	8,893
Funds from operations (FFO)	1,128	6,218	6,749	5,974	6,597
Adjusted interest expense	149	816	788	771	818
Real estate development investments	76,916	76,244	71,960	63,791	59,838
Total assets	92,611	86,782	81,845	72,244	66,344
Adjusted debt	32,671	31,835	29,303	25,589	23,189
Adjusted equity	44,740	43,792	41,874	38,660	36,164
Adjusted Ratios					
EBITDA margin (%)	21.47	21.39	20.18	18.87	18.85
Pretax return on permanent capital (%)	8.68 **	10.43	12.13	12.44	13.92
EBITDA interest coverage (times)	10.37	10.53	11.53	10.80	10.87
Debt to EBITDA (times)	4.35 **	3.71	3.22	3.07	2.61
FFO to debt (%)	16.49 **	19.53	23.03	23.34	28.45
Debt to capitalization (%)	42.20	42.09	41.17	39.83	39.07

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

RELATED CRITERIA

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

Pruksa Holding PLC (PSH)

Company Rating:	A
Issue Ratings:	
PSH215A: Bt4,750 million guaranteed debentures due 2021	A
PSH223A: Bt3,500 million guaranteed debentures due 2022	A
PSH225A: Bt2,000 million guaranteed debentures due 2022	A
PSH22NA: Bt3,500 million guaranteed debentures due 2022	A
PSH235A: Bt750 million guaranteed debentures due 2023	A
PSH24NA: Bt3,000 million guaranteed debentures due 2024	A
Up to Bt2,500 million guaranteed debentures due within 5 years	A
Rating Outlook:	Stable

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