TRIS RATING
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PRUKSA HOLDING PLC

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CORPORATES

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

Last Review Date: 06/05/21

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 creditors.

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 as a "core" subsidiary of PSH in accordance with our "Group Rating Methodology".

The ratings on PSH are derived from the strengths of PS as one of the largest players in the Thai residential property market. PS's competitiveness is derived from its relatively diverse product portfolio and large backlog, which partly secures the company's future revenue stream. The ratings also take into account the PS Group's moderate financial leverage and concerns over the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, which could put more pressure on the demand for residential properties and the profitability of property developers.

KEY RATING CONSIDERATIONS

Reliable dividend stream from PS

As PSH is PS's major shareholder, with a 98.23% stake, we expect 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 PSH received from PS amounted to THB3.8 billion in 2019 and THB2.9 billion in 2020.

As of March 2021, PS was PSH's only major subsidiary, representing 95% of the total assets of the group. PSH also commenced the operation of "Vimut Hospital", its first private hospital in May 2021, for its entry into healthcare business. The revenue contribution from VIMUT is still minimal. Thus, we view that PS will continue to be PSH's only core subsidiary in the medium term.

Operations to recover next year

We believe the residential property industry will continue to be affected by the ongoing COVID-19 pandemic throughout 2021. We anticipate that demand for residential properties from local homebuyers is likely to remain slack, while demand from foreign buyers will essentially be halted for an extended period. We expect PSH's revenue from the real estate business to reach around THB30 billion this year, the same level as recorded in 2020. As the majority of PSH's residential portfolio is in the middle- to low-end segments, its recovery is likely to take some time amid an overall weak market and more intense competition.

As a result, we forecast PSH's residential sales to slowly recover to the THB37-THB38 billion per annum level during 2022-2023. This level remains lower than the pre-COVID-19 level of THB40-THB45 billion per annum achieved during 2017-2019. For the healthcare business, we expect the first hospital to generate revenue of only THB0.2-THB0.4 billion per annum during 2021-2023.

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

Profitability under pressure

As we expect sluggish demand during the second half of 2021, PSH may have to continue its pricing strategies to clear slow-moving stock and boost sales. PSH's gross profit margin in the residential property business may drop below 30% this year. PSH's lower sales volume has also resulted in a minimal utilization rate of its precast concrete factories, which hurts the profitability of each project. In addition, we view that PSH will absorb the loss occurred by Vimut Hospital over the next three years. However, the loss recorded by the healthcare business should not significantly weigh down the profitability of the group. Lower selling, general, and administrative (SG&A) expenses, with tighter cost control and more outsourced services, should partly offset the company's lower gross profit margin.

We project PSH's average gross profit margin to drop to 27% of total operating revenue this year before improving to 29% during 2022-2023. SG&A should stay in the range of 15%-17% of total operating revenue. We forecast PSH's earnings before interest, taxes, depreciation, and amortization (EBITDA) to stay around THB4.3 billion in 2021, 15% below the 2020 level. The company's EBITDA should rebound to THB6.5 billion per annum during 2022-2023 or around 25% lower than the pre-COVID-19 level. We expect PSH to sustain an EBITDA margin of at least 15% and a net profit margin of 8%-10% of total operating revenue over the forecast period.

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

We consider PSH's real estate portfolio to be well-diversified in terms of products and price range. PSH offers townhouses, single-detached houses (SDH), and condominium units in different market segments. Townhouse products cover the low- to middle-income segments, with selling prices ranging from THB2 million to THB7 million per unit. PSH's SDH products are priced from THB3 million to THB10 million per unit. Its condominium portfolio covers the low- to high-end segments, with selling prices ranging from THB40,000 to THB260,000 per square meter (sq.m.). PSH'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, PSH's broad project portfolio and well-recognized brands give the company sufficient flexibility to adjust its portfolio to meet market demand and retain market position. As of April 2021, PSH 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, SDH products 32%, and condominiums 22%.

Modest financial leverage

Since demand in residential properties will continue to be affected by the ongoing COVID-19 pandemic, PSH has slowed down land purchases and new project launches since last year. In our base-case scenario, we project PSH to launch new landed property projects worth THB25 billion per annum during 2021-2023. The company is expected to launch new condominium projects worth only THB4 billion in 2021 and then around THB8-THB10 billion per annum during 2022-2023. The new projects are expected to focus on the affordably priced segment. The budget for land acquisitions should be around THB3 billion in 2021 and THB10 billion annually during 2022-2023, while investment in the healthcare business is expected to be around THB1.2 billion in total during 2021-2023.

Despite continued expansion amid an uncertain domestic and global economy, we expect PSH to keep the ratio of funds from operations (FFO) to total debt of at least at 15%, while its debt to EBITDA ratio is expected to improve to around 3 times next year. PSH's interest-bearing debt to equity ratio should stay below 1 time over the forecast period.

The financial covenants on PSH's bonds and bank loans require the company's interest-bearing debt to equity ratio to remain below 2 times. As of March 2021, the ratio was 0.54 times. We believe that PSH should have no problems complying with the financial covenants over the next 12 to 18 months.

Adequate liquidity

On a consolidated basis, we assess PSH to have adequate liquidity over the next 12 months. As of March 2021, PSH's sources of funds consisted of THB1.5 billion cash on hand, THB11.3 billion undrawn committed short-term facilities, and THB12.8 billion undrawn uncommitted short-term facilities. We forecast PSH's FFO in 2021 to be THB3.1 billion. PSH 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 THB8.7 billion, comprising THB8.3 billion in debentures, THB0.3 billion in long-term bank loans, and THB0.1 billion in lease liability.

As of March 2021, PSH had THB23.5 billion in debt (per priority debt consideration), including THB3.1 billion of priority debt. PSH's priority debt was secured debt at the subsidiary level. This means the ratio of priority debt to total debt was 13%. Although its priority debt ratio is less than 50%, we prefer PSH's debentures to be guaranteed by PS since PS or other subsidiaries may incur more debt in the future.

BASE-CASE ASSUMPTIONS

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

- PSH to launch new landed property projects worth around THB25 billion per annum.
- PSH to launch new condominium projects worth THB4 billion in 2021 and THB8-THB10 billion annually during 2022-2023.
- Annual budget for land acquisition to be THB3 billion in 2021 and THB10 billion per annum during 2022-2023.
- Capital expenditures for the healthcare business to total around THB1.2 billion.
- Total operating revenue to stay around THB31 billion in 2021, recovering to THB38-THB39 billion per annum during 2022-2023

RATING OUTLOOK

The "stable" outlook reflects our expectation that PSH will be able to deliver operating performance as targeted. PSH's property subsidiary should be able to transfer its backlog as scheduled. Despite the continued sluggish demand in the residential property market caused by the prolonged COVID-19 pandemic and slow pace of vaccinations, we expect PSH to keep its FFO to total debt ratio at a level of at least 15%. We also expect PSH to improve its debt to EBITDA ratio to around 3 times in 2022.

RATING SENSITIVITIES

PSH's ratings will depend largely on the operating performance and financial position of the group. Successful diversification into new businesses would be a positive factor for the ratings. On the contrary, a downward revision could emerge if the operating performance of PSH's property subsidiary significantly deviates from the target level and/or the operation of the healthcare business materially weighs down the credit profile of the group.

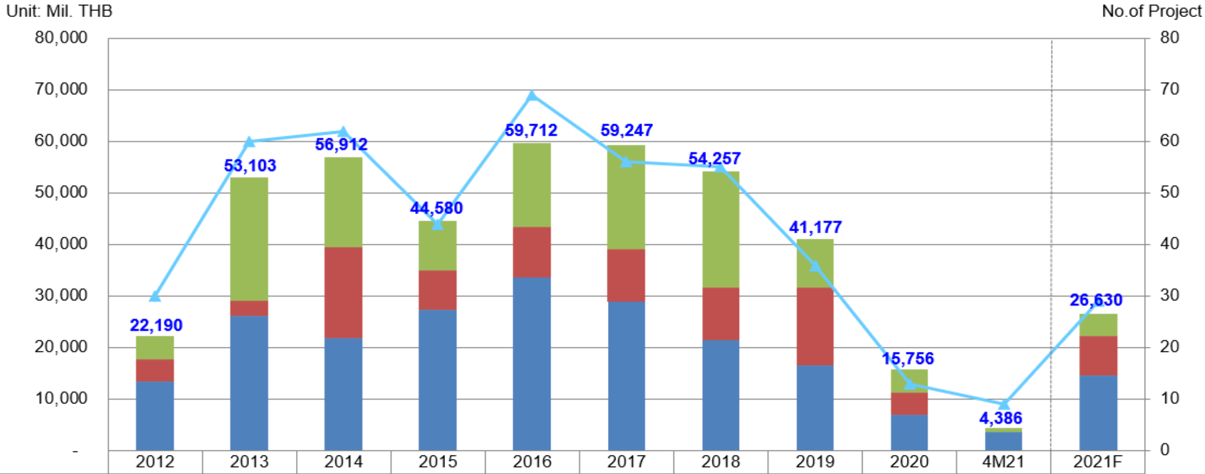
COMPANY OVERVIEW

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 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 2021, the Vijitpongpun family was PSH's largest shareholder, owning a 76% stake. PSH holds a 98.23% stake in PS.

PSH operates as a holding company which currently invests in residential property for sale and healthcare businesses. PSH's residential property portfolio is well-diversified, covering landed property and condominium products across broad price ranges. Its main products target the middle- to low-priced market segments. PSH has expanded into the healthcare business by launching "Vimut Hospital", its first flagship hospital, in May 2021, and by investing in a 51% stake in "Theptarin Hospital" in February 2021. Revenue and earnings from the residential property business will continue to be a key contributor to the group over the next several years, thus PS is considered a "core" subsidiary of the group. The issuer ratings on PS and the group are equivalent.

KEY OPERATING PERFORMANCE

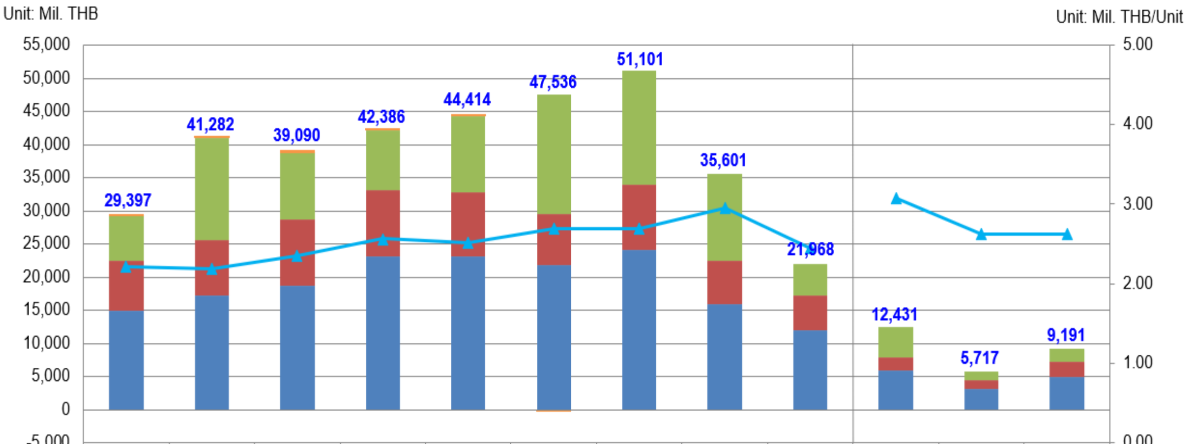
Chart 1: New Residential Project Launches



	2012	2013	2014	2015	2016	2017	2018	2019	2020	4M21	2021F
Condominium (LHS)	4,435	23,897	17,481	9,611	16,363	20,125	22,486	9,573	4,507	626	4,390
SDH (LHS)	4,322	2,996	17,509	7,598	9,763	10,180	10,311	15,090	4,166		7,560
Townhouse (LHS)	13,433	26,210	21,922	27,371	33,586	28,942	21,460	16,514	7,083	3,760	14,680
No. of project (RHS)	30	60	62	44	69	56	55	36	13	9	29

Source: PS

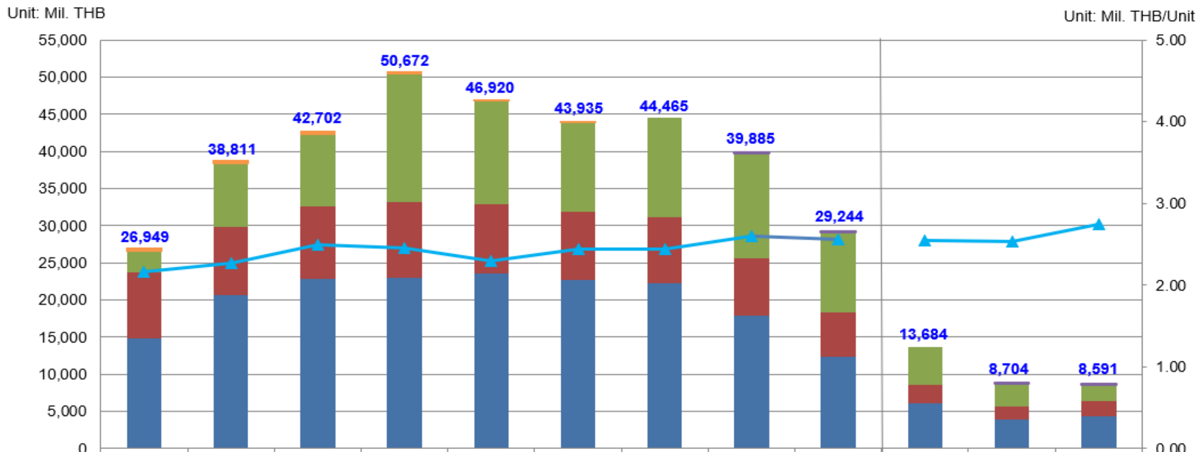
Chart 2: Presales Performance



	2012	2013	2014	2015	2016	2017	2018	2019	2020	4M19	4M20	4M21
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	4,704	4,494	1,238	1,915
SDH (LHS)	7,655	8,355	10,039	10,119	9,643	7,693	9,756	6,447	5,340	2,025	1,396	2,303
Townhouse (LHS)	14,896	17,198	18,630	23,075	23,202	21,751	24,118	15,990	11,924	5,913	3,083	4,973
Avg. Price (RHS)	2.2	2.2	2.4	2.6	2.5	2.7	2.7	3.0	2.4	3.1	2.6	2.6

Source: PS

Chart 3: Transfer Performance



	2012	2013	2014	2015	2016	2017	2018	2019	2020	4M19	4M20	4M21
Land sales (LHS)								85	181		20	0
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	10,769	5,116	2,996	2,203
SDH (LHS)	8,775	9,195	9,776	10,135	9,413	9,159	8,879	7,783	5,869	2,418	1,733	2,060
Townhouse (LHS)	14,908	20,669	22,791	23,023	23,529	22,694	22,336	17,880	12,426	6,150	3,956	4,328
Avg. Price (RHS)	2.2	2.3	2.5	2.4	2.3	2.4	2.4	2.6	2.6	2.6	2.5	2.7

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	6,897	29,513	40,152	45,071	44,118
Earnings before interest and taxes (EBIT)	871	4,559	7,823	8,384	7,820
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	972	5,013	8,589	9,094	8,327
Funds from operations (FFO)	676	3,394	6,218	6,749	5,974
Adjusted interest expense	144	761	816	788	771
Real estate development investments	63,404	66,863	76,244	71,960	63,791
Total assets	76,741	78,273	86,782	81,845	72,244
Adjusted debt	22,963	25,193	31,835	29,303	25,589
Adjusted equity	44,416	43,786	43,792	41,874	38,660
Adjusted Ratios					
EBITDA margin (%)	14.10	16.99	21.39	20.18	18.87
Pretax return on permanent capital (%)	5.27 **	6.17	10.43	12.13	12.44
EBITDA interest coverage (times)	6.75	6.59	10.53	11.53	10.80
Debt to EBITDA (times)	5.17 **	5.03	3.71	3.22	3.07
FFO to debt (%)	12.81 **	13.47	19.53	23.03	23.34
Debt to capitalization (%)	34.08	36.52	42.09	41.17	39.83

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

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Pruksa Holding PLC (PSH)

Company Rating:	A
Issue Ratings:	
PSH223A: THB3,500 million guaranteed debentures due 2022	A
PSH225A: THB2,000 million guaranteed debentures due 2022	A
PSH22NA: THB3,500 million guaranteed debentures due 2022	A
PSH22NB: THB500 million guaranteed debentures due 2022	A
PSH235A: THB750 million guaranteed debentures due 2023	A
PSH23NA: THB2,000 million guaranteed debentures due 2023	A
PSH245A: THB3,000 million guaranteed debentures due 2024	A
PSH24NA: THB3,000 million guaranteed debentures due 2024	A
Rating Outlook:	Stable

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