

Press Release

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TRIS Rating Affirms Company Rating and Outlook of "SENA" at "BBB-/Stable"

TRIS Rating has affirmed the company rating of Sena Development PLC (SENA) at "BBB-" with "Stable" outlook. The rating reflects the company's acceptable track record in the middle-to-low-income segment of the residential property market, its experienced key executives, and expected growth in its revenue and net profit. These strengths are partly constrained by SENA's relatively small revenue base and its rapid business expansion plan amid a slowdown in domestic economy, which may lead to higher financial leverage than expected. The rating also takes into consideration the concern over the high level of household debts nationwide, which may impact the demand in the residential property market in the short to medium term.

The "stable" outlook reflects the expectation that SENA will be able to develop and deliver its existing and future projects as planned. With its rapid business expansion, SENA's financial leverage is expected to increase. However, the debt to capitalization ratio should stay below 60%. The operating margin should be held at around 20%.

SENA's rating and/or outlook could be revised upward should the company successfully expand its business while its financial profile does not significantly decline from the current level. On the contrary, a significant decline in operating performance and/or financial position during expansion periods could lead to a rating downgrade and/or an outlook revision.

SENA was established by Mr. Theerawat Thanyalakphark in 1993 and listed on the Stock Exchange of Thailand (SET) in 2009. As of August 2016, the Thanyalakphark family continued to be the company's largest shareholder, owning a 50% stake. SENA focuses on the residential property development business. Its products mainly target the middle-to-low-income segment, with an average unit price of Bt2.1 million for condominium units and Bt5 million for housing units. As of September 2016, SENA had eight condominium projects and 13 housing projects in its portfolio, with total project value of Bt14,000 million. The value of the remaining unsold units (including built and un-built units) was around Bt6,700 million. The total backlog was valued at Bt2,800 million. Condominium units comprised nearly all the backlog. The backlog was scheduled to be transferred during the remainder of 2016 through 2017. SENA's presales reached Bt3,700 million in 2015 and Bt3,100 million in the first nine months of 2016, driven by presales from The Niche Pride Thonglor Phetchaburi and The Niche Mono Ratchavipha projects.

SENA's revenue base is relatively small compared with other rated developers. Its revenue decreased by 21% year-on-year (y-o-y) to Bt2,177 million in 2015. The drop followed the transfer of lower condominium units to customers. Revenue during the first nine months of 2016 was Bt3,198 million, sharply increasing from the full-year revenue of 2015 due to the transfer of one large condominium project, The Niche Mono Ratchavipha. Currently, the company is in an expansion phase. In December 2016, SENA established a joint venture (JV), named SENA Hankyu 1 Co., Ltd., with Hankyu Realty Co., Ltd., a Japanese property developer, to develop condominium project. SENA holds a 51% stake in the JV, while the partner holds 49%. The first JV condominium project will be launched in the beginning of 2018. In addition, SENA plans to launch several new projects worth Bt8,000-Bt10,000 million per annum. Thus, total revenue during the next three years is expected to reach Bt4,000-Bt5,000 million per year. However, due to the slowdown in domestic economy and the oversupply in some areas, the success of its new project launches remains a challenge for the company.

Apart from residential property development business, SENA also entered several JVs during 2015 in order to develop office building for rent, operate solar farms, and do the engineering, procurement, and construction (EPC) work of solar rooftop. Net profit from solar farms during the first nine months of 2016 was Bt110 million, 51% of which or Bt56 million was allocated to SENA's share profit. The higher contribution from the power business will help improve the stability of its earnings and will benefit its credit profile. Share profit from JVs was Bt55 million during the first nine months of 2016.

SENA's operating margin, as measured by operating income before depreciation and amortization as a percentage of sales, was 20%-23% during 2012-2014. The operating margin dropped to 18% in 2015, but rebounded to 27% during the first nine months of 2016. Its condominium projects generated higher profit margin. However, the sluggish demand and intense competition in residential property

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market may pressure SENA's operating margin over the next couple of years. However, its operating margin is expected to keep at around 20%.

SENA's debt to capitalization ratio improved to 43% as of September 2016 from 53%-55% during 2013-2015, as total debt declined and equity base increased. The interest-bearing debt to equity ratio decreased from 1.1-1.2 times during 2013-2015 to 0.8 times as of September 2016. With improving operating performance during the first nine months of 2016, the funds from operations (FFO) to total debt ratio increased to 29% (annualized with trailing 12 months) from 9% in 2015. The EBITDA interest coverage rose to 9 times in the first nine months of 2016 from 3-5 times during 2013-2015. However, over the next three years, SENA's financial leverage is expected to rise due to its business expansion. Thus, its financial profile may drop from the current level.

SENA's liquidity profile is adequate. At the end of September 2016, SENA had cash on hand of Bt390 million and undrawn unconditional loan facilities of around Bt4,000 million, which should be sufficient for covering its debt due over the next 12 months of around Bt2,200 million.

Sena Development PLC (SENA)

Company Rating:

BBB-

Rating Outlook:

Stable

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