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AREEYA PROPERTY PLC

CORPORATES

Company Rating: BB
Outlook: Negative

Last Review Date: 09/01/19

Company Rating History:

Date	Rating	Outlook/Alert
04/01/18	BB	Stable
30/12/16	BB+	Negative
13/01/15	BB+	Stable
10/01/14	BBB-	Negative
13/03/13	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Areeya Property PLC (Areeya) at "BB" and revises downward the outlook to "negative" from "stable". The "negative" outlook reflects TRIS Rating's concern over Areeya's high financial leverage, and weaker-than-expected liquidity and profitability. Areeya could face liquidity shortfalls in the next 6-12 months if the company continues to make losses and its plan to sell some assets is delayed. The rating also takes into consideration the sluggish demand for residential property given concerns over a slowdown in the domestic economy and the stringent bank lending policies.

KEY RATING CONSIDERATIONS

Weaker-than-expected profitability and liquidity

Areeya's profitability and cash flow in the first nine months of 2019 were lower than TRIS Rating's previous projections. The weaker profitability and cash flow were mainly due to the delays in transfers of the "Chalermnit" condominium project and land sales. Areeya's revenue dropped to Bt2.37 billion in the first nine months of 2019, from Bt3.02 billion for the same period in 2018. Almost 90% of its revenues came from landed property sales. Its earnings before interest, taxes, depreciation and amortization (EBITDA) in the first nine months of 2019 dropped to Bt175 million, declining by 60% year-on-year (y-o-y). The company's funds from operations (FFO) also deteriorated to minus Bt316 million from minus Bt32 million in the same period last year.

As of September 2019, Areeya's total backlog stood at Bt6.08 billion, which were scheduled to transfer at around Bt927 million in 2020, Bt2.5 billion in 2021, and Bt2.1 billion in 2022. Due to the small amount of backlog to be transferred, the company's revenue stream during 2019 through 2022 will depend largely on its ability to generate new sales. The company's funds from operations (FFO) in 2019 is expected to be around minus Bt470 million, down from minus Bt154 million in 2018. However, Areeya's plan to transfer Bt927 million worth of units in the "Chalermnit" project and sell some assets in 2020, if successful, should enable the company's FFO to bounce back to around Bt300 million in 2020. The FFO to debt ratio could improve to 2.9% in 2020 from -4.4% in 2019 while the earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio is expected to be around 0.3 times in 2019 and 1.6 times in 2020.

However, a slowdown in the residential property market coupled with delays in transferring its backlog could cause a further drop in the company's revenues and profitability in 2020. Areeya could face liquidity shortfalls in the next 6-12 months if it continues to incur losses and its plan to sell some assets is delayed.

High financial leverage may lead to a breach of financial covenants

Areeya's debt-to-capitalization ratio has stayed above 70% since 2014. The operating loss in 2019 is expected to cause its leverage to rise further. Thus, there is a possibility that the company may breach the financial covenant on its bonds. According to the bonds' covenant, the company is required to maintain its reported net debt to equity ratio below 3 times. This ratio stood at 2.9 times at the end of September 2019. Due to the limited headroom on its financial covenant, Areeya recently issued Bt300 million of subordinated perpetual debentures to its major shareholders to prevent a breach of its financial covenant by the end of 2019.

However, in TRIS Rating's view, there is still a strong likelihood of Areeya breaching its financial covenant should the company continues to operate at a loss. A marginal drop in retained earnings could cause further deterioration of its capital structure. In addition, capital expenditures for the construction of three condominium projects launched in prior years will also cause its debt level to increase further. The total construction costs of these projects will be Bt1.1 billion in 2020 and Bt455 million in 2021. The company may also have to postpone its investment in the "Soontareeya Residence" project, a high-end condominium worth around Bt8 billion on the Ratchadamri road.

As a result of the company's small equity base, TRIS Rating expects Areeya's debt to capitalization ratio to stay in the 73%-76% range. At the end of September 2019, the ratio stood at 75%. The persistently high level of leverage heightens concerns over the company's ability to comply with its bond covenants. Areeya has to manage its capital structure carefully so as to avoid breaching the financial covenant. The company intends to increase its equity base by finding a partner which, if successful, would strengthen the company's financial position.

Rising liquidity risk

Areeya's liquidity risk is rising. As of September 2019, the company had Bt2.95 billion in debt due over the next 12 months, comprising debentures of Bt2.19 billion, long-term project loans of Bt108 million, and other short-term loans of Bt649 million. Around Bt655 million of its debentures will come due at the end of January 2020 and a further Bt1.5 billion at the beginning of April 2020. Areeya plans to refinance these debentures mainly by new debentures issuance. However, a slowdown in the residential property market coupled with the weak operating performance of the company has raised a concern over the amount could be raised in the debentures market.

At the end of September 2019, Areeya's other sources of funds included cash on hand of Bt56.5 million, undrawn committed credit facilities of around Bt256 million, non-bank back-up facilities of around Bt300 million, and the proceeds from the issuance of subordinated perpetual debentures of Bt300 million on 18 December 2019. In addition, the company plans to sell a couple of assets worth around Bt1.6 billion in total and find strategic partners in order to alleviate its tight liquidity and increase its equity base by the first quarter of 2020. If the aforementioned plans succeed, the cash from assets sales and capital increase could alleviate its liquidity risk. However, our concern over the company's liquidity remains high, owing to the uncertainties over the execution of the planned transactions. Areeya's rating could be revised downward if the company fails to demonstrate concrete results of its refinancing plan.

Exposure to cyclical and highly competitive residential property business

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 sluggish domestic economy, coupled with a rise in the number of non-performing mortgage loans, has raised concerns among banks over the affordability of homebuyers. Therefore, bank lending policies remain stringent, especially in the middle- to low-income segment, which constitutes Areeya's main customers group. In addition, the implementation of the new loan-to-value (LTV) rules by the Bank of Thailand (BOT) in April 2019 is also expected to cause a slowdown in demand for residential properties, especially demand for condominiums.

Areeya has grappled with high rejection rates for mortgage loans and the declining purchasing power of prospective buyers. According to the company's records, the cancellation and rejection rate has ranged between 35%-46% over the past five years. During the first nine months of 2019, the figure remained high at 36%. The high cancellation and rejection rate has had a significant impact on Areeya's revenue recognition. Recently, the government announced a property stimulus measure to boost demand for housings. Under this measure, the government offers 100,000 homebuyers Bt50,000 cash-back each on their down payment with the condition that their monthly salary should not exceed Bt100,000. In our view, this measure should not help much if the affordability of homebuyers and their confidence remain weak.

BASE-CASE ASSUMPTIONS

- Under the base-case scenario, TRIS Rating assumes that in 2020 Areeya will sell a couple of condominium projects at a selling price of Bt1.6 billion with gross profit of Bt714 million.
- Operating revenue to hover around Bt3.4 billion in 2019 and in the range of Bt4.1-Bt5.7 billion per annum during 2020-2022.
- Gross profit margin (excluding assets sales) to range between 34%-35% and EBITDA margin (excluding assets sales) to be in the range of 8%-10% during 2020-2022.
- Budget for land acquisition is expected to be Bt300 million in 2019 and Bt500 million per annum in 2020-2022.

RATING OUTLOOK

The “negative” outlook reflects Areeya’s high financial leverage, and weaker-than-expected profitability and liquidity. Areeya could face liquidity shortfalls in the next 6-12 months if the company continues to make losses and its plan to sell some assets is delayed. The rating could be revised downward multiple notches if the company cannot secure financing as planned.

RATING SENSITIVITIES

The rating of Areeya could be revised downward if the company does not demonstrate concrete results of its refinancing plan. Moreover, the further deterioration in its operating performance and/or capital structure beyond expectations leading to a breach in its financial covenant will also negatively impact the rating of the company. A rating upgrade is unlikely in the near term, given the company’s current financial position. However, the rating and/or outlook could be revised upward if the capital structure improves from an enlarged equity base. The company’s debt to capitalization ratio needs to fall below 70% on a sustained basis and its near-term liquidity concern has been clearly addressed.

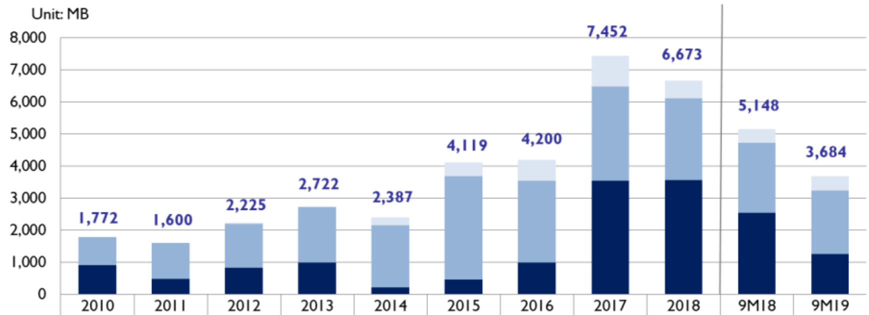
COMPANY OVERVIEW

Areeya was established by the Laohapoonrungsee family in 2000 and listed on the Stock Exchange of Thailand (SET) in April 2004. The Laohapoonrungsee family has been the company’s major shareholder since its inception, owning a 46% stake as of September 2019. Mr. Wisit Laohapoonrungsee remains Areeya’s chairman and chief executive officer (CEO).

Areeya offers a wide range of residential property products including single detached houses (SDHs), semi-detached houses (semi-DHs), townhouses, and condominiums. Its products target the middle-income segment. Across Areeya’s product portfolio, the average selling price was Bt3 million per unit. Townhouses are the company’s biggest product, contributing more than half of revenue. As of September 2019, Areeya had about 40 active projects with a total project value of Bt34.6 billion. The value of the remaining unsold units, across all of its active projects, was about Bt14.6 billion. About 19% of the value was in condominium projects, 48% in townhouse projects, and 33% in SDH projects. About 49% of the remaining value of condominiums was ready to transfer. Areeya’s backlog stood at about Bt6.08 billion as of September 2019. Nearly 91% of the value of the backlog was in condominium projects.

KEY OPERATING PERFORMANCE

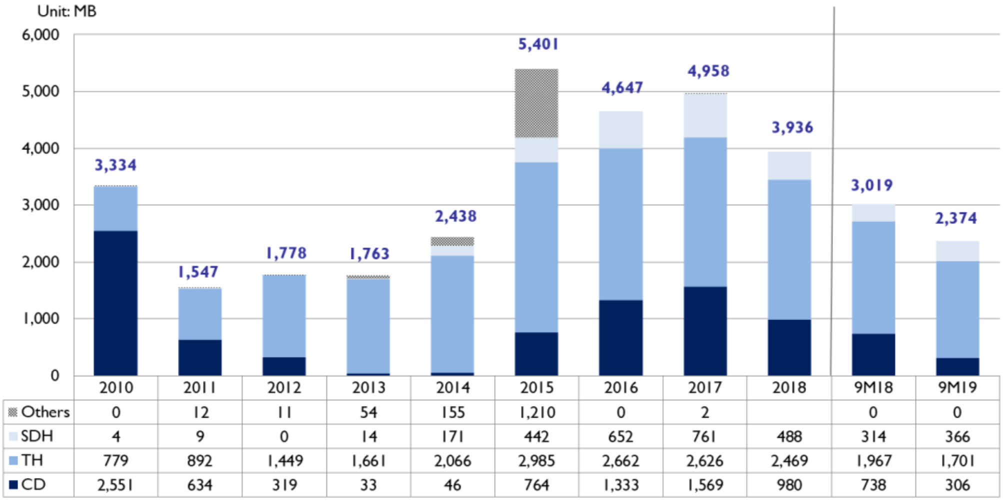
Chart 1: Presales Performance



	2010	2011	2012	2013	2014	2015	2016	2017	2018	9M18	9M19
SDH			27		239	436	656	978	549	415	455
TH	875	1,132	1,378	1,735	1,935	3,231	2,567	2,936	2,567	2,188	1,981
CD	897	468	819	987	212	452	977	3,538	3,556	2,545	1,248
Avg. Price SDH			6.8		6.3	5.9	5.0	5.3	5.8	5.7	6.3
Avg. Price TH	2.3	2.3	2.7	3.0	2.7	2.6	2.6	2.6	2.8	2.7	3.2
Avg. Price CD	2.0	1.9	1.5	2.2	1.7	1.6	2.0	2.4	2.5	2.5	3.3
Avg. Price Overall	2.1	2.2	2.1	2.7	2.7	2.5	2.6	2.7	2.8	2.7	3.4

Source: Areeya

Chart 2: Revenue Breakdown by Product



Source: Areeya

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		--------------Year Ended 31 December -----------			
	Jan-Sep 2019	**2018**	**2017**	**2016**	**2015**
Total operating revenues	2,374	3,936	4,958	4,643	5,401
Earnings before interest and taxes (EBIT)	120	396	536	719	560
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	175	464	605	773	611
Funds from operations (FFO)	(316)	(154)	(67)	164	68
Adjusted interest expense	518	583	627	531	488
Real estate development investments	11,664	11,492	10,717	11,396	10,931
Total assets	14,890	14,297	13,510	13,516	12,861
Adjusted debt	9,808	9,713	9,075	8,931	8,500
Adjusted equity	3,212	3,332	3,340	3,314	3,090
Adjusted Ratios					
EBITDA margin (%)	7.38	11.80	12.20	16.65	11.31
Pretax return on permanent capital (%)	1.05 **	3.02	4.17	5.78	4.81
EBITDA interest coverage (times)	0.34	0.80	0.96	1.45	1.25
Debt to EBITDA (times)	46.20 **	20.91	15.00	11.55	13.91
FFO to debt (%)	(4.46) **	(1.58)	(0.74)	1.83	0.80
Debt to capitalization (%)	75.33	74.46	73.09	72.93	73.34

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

RELATED CRITERIA

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

Areeya Property PLC (Areeya)

Company Rating:	BB
Rating Outlook:	Negative

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