

ASSETWISE PLC

No. 129/2024
31 July 2024

CORPORATES

Company Rating: BBB-
Outlook: Positive

Last Review Date: 31/08/23

Company Rating History:		
Date	Rating	Outlook/Alert
31/08/21	BBB-	Stable

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RATIONALE

TRIS Rating revises up the rating outlook on Assetwise PLC (ASW) to “positive” from “stable”. We also affirm the company rating on ASW at “BBB-”.

The “positive” outlook reflects ASW’s improving business scale and more diversified portfolio. With a substantial backlog, ASW’s revenue is expected to exceed THB10 billion annually from 2025 onwards. Additionally, its leverage is anticipated to gradually decline, with its fund from operation (FFO) to debt ratio expected to stay above 10% over the next 2-3 years.

The rating continues to reflect ASW’s strengthening position within the middle- to low-priced condominium segments and satisfactory profit margins. However, the rating is partly constrained by the company’s relatively high financial leverage resulting from an aggressive expansion. The rating also takes into consideration our concerns over higher bank rejection rates for mortgage loan applications amid lingering high interest rates and elevated levels of household debt.

KEY RATING CONSIDERATIONS

Improving revenue and earnings base

Despite economic challenges and higher mortgage rejection rates, ASW has demonstrated strong performance. In 2023, presales, including presales from joint-venture (JV) projects, rose to THB15 billion, up from THB11 billion in 2022. In the first half of 2024, presales surged by 51% year-on-year (y-o-y) to THB9.8 billion. ASW’s revenues peaked at THB6.9 billion in 2023, marking a 24% y-o-y increase, and reached THB1.8 billion in the first quarter of 2024 (1Q24), an 8% y-o-y increase. Its EBITDA margin has remained satisfactory at around 23%-26% over the past few years.

Looking forward, ASW’s annual revenue is expected to grow from THB8.0-THB8.5 billion in 2024 to more than THB10 billion during 2025-2026. Additionally, its EBITDA is projected to increase from THB1.8 billion to more than THB3 billion per annum during the same periods. This growth will be supported by a sizeable backlog and the planned launch of numerous new projects.

At the end of June 2024, ASW’s backlog stood at THB23.7 billion, including THB5.7 billion of backlog under JVs. ASW’s backlog is likely to be recognized as revenue of around THB6.4 billion in the second half of 2024, THB6.1 billion in 2025, and THB5.5 billion in 2026. Backlog from the JV projects will be transferred to customers from this year onwards. Thus, ASW will realize share profit from JV projects of THB150-THB300 million per annum during 2024-2026. Government measures to reduce transfer and mortgage fees from 2% and 1%, respectively, to 0.01% for housing priced up to THB7 million per unit, which is the main customer group of ASW, should also help stimulate transfers this year.

More diversified portfolio

ASW’s business risk profile is improving, supported by its expanding revenue base and more diversified portfolio. ASW has strengthened its position within the middle- to low-priced condominium segments. The company’s condominium projects developed under the Kave, Atmoz, and Modiz brands are gaining traction among college students and young professionals. ASW’s expansion into developing condominium projects in Phuket under The TITLE

brand, through its subsidiary, Rhom Bho Property PLC (TITLE), also helps enhance its revenues and diversify its customer base. The TITLE's main customers are foreign buyers, especially Russians and Chinese.

Additionally, the company is increasing its proportion of landed property projects, with major housing brands including the Arbor, CHANN, and The Honor, spanning the low- to high-priced housing segments, with prices ranging from THB3 million to THB60 million per unit. Looking forward, revenues from landed property sales are expected to be around THB1-THB2 billion per annum. Moreover, ASW is venturing into luxury villas in Phuket by investing in a 30% stake in Botanica Grand Avenue Co., Ltd. (BGA) to develop a project worth around THB10 billion. This diversification, if successful, will provide the company with greater flexibility to meet market demand and sustain long-term growth.

High financial leverage but a gradual decline expected

ASW's rapid expansion, including the acquisition of TITLE in 2023 and the launch of new projects in 2023 and 1Q24, has resulted in a significant increase in its debt burden. As of March 2024, ASW's debt to capitalization ratio (including proportionate debt from JVs) stood at 63.9%, up from 57.5% in 2022 and 42% in 2021. This ratio exceeded our target of 60%. However, the ratio is expected to drop below 60% by the end of 2025, as several condominium projects are completed and transferred to buyers. Additionally, favorable conditions for collecting contract money and progress payments for condominium projects in Phuket, which total approximately 75% of the unit price, with the remaining 25% due upon transfer, have significantly reduced the company's borrowing needs for project development.

Under TRIS Rating's base case, we assume ASW will launch new projects worth around THB28 billion in 2024 and around THB15-THB17 billion per annum during 2025-2026. The budget for land acquisition is set at around THB3-THB5 billion per annum. Based on these assumptions, ASW's debt to capitalization ratio is projected to gradually decrease to below 60% by 2025. The FFO to debt ratio is expected to improve from around 5%-6% in 2024 to more than 10% in the following years. ASW is expected to remain in compliance with the financial covenants on its debt obligations, which require maintaining a net interest-bearing debt to equity ratio below 2.5 times. The ratio was 1.6 times at the end of March 2024. We expect ASW to have no problem complying with the financial covenants over the next 12 to 18 months.

Manageable liquidity

We view ASW's liquidity as manageable over the next 12 months. As of March 2024, the company's liquidity sources comprised cash on hand of THB1.1 billion and available credit facilities of THB4.0 billion. We forecast the company's FFO over the next 12 months to be around THB1.0 billion. ASW's uses of funds over the next 12 months will amount to THB4.1 billion, comprising repayments of THB0.9 billion for short-term loans, THB1.2 billion for project loans, and THB2.0 billion for debentures.

ASW's short-term loans are mostly for working capital and bridging loans for land purchases which are expected to be converted to project loans over time. Its project loans will be repaid with cash received from the transfers of finished units to customers. The company might need to partially refinance the debentures that will mature in the next 12 months through the issuance of new debentures.

Debt structure

As of March 2024, ASW's consolidated debt, excluding lease liabilities, amounted to THB13.8 billion. The company's priority debt, including secured debts at the company and total debts of its subsidiaries, was THB9.6 billion. The priority debt to total debt ratio was 70%. As its priority debt ratio was above our threshold of 50%, we view that ASW's senior unsecured creditors could be at a significantly disadvantaged position to its priority debt holders with respect to claims against the company's assets.

BASE-CASE ASSUMPTIONS

- ASW to launch residential property projects worth around THB28 billion in 2024 and THB15-THB17 billion per annum in 2025-2026.
- Revenue forecast at around THB8.0-THB8.5 billion in 2024, increasing to around THB10-THB15 billion per annum in 2025-2026.
- EBITDA margin to stay in the 20%-25% range.
- Land acquisition budget of around THB3-THB5 billion per annum over the next three years.
- Dividend payment at around 40% of net profit.

RATING OUTLOOK

The "positive" outlook reflects our expectation that ASW will continue to grow as planned. The outlook is also based on the expectation that ASW will continue to sustain its revenues and earnings growth momentum while its FFO to debt ratio should stay above 10% over the next three years.

RATING SENSITIVITIES

We could revise the rating upward if the company can enlarge its revenue base and cash flow while maintaining its FFO to debt ratio above 10% on a sustained basis. On the other hand, we would revise the rating and/or outlook downward should the company's operating performance fall significantly short of our expectations while its financial leverage does not improve as targeted, resulting in its debt to capitalization ratio rising above 60% and/or its FFO to debt ratio remaining below 10%.

COMPANY OVERVIEW

ASW was established in 2005 by the Vipapong family. The company became a public company in May 2020 and was listed on the Stock Exchange of Thailand (SET) in April 2021. After the initial public offering (IPO), the Vipapong family continued to be ASW's largest shareholder, holding a 68% stake in the company as of June 2024.

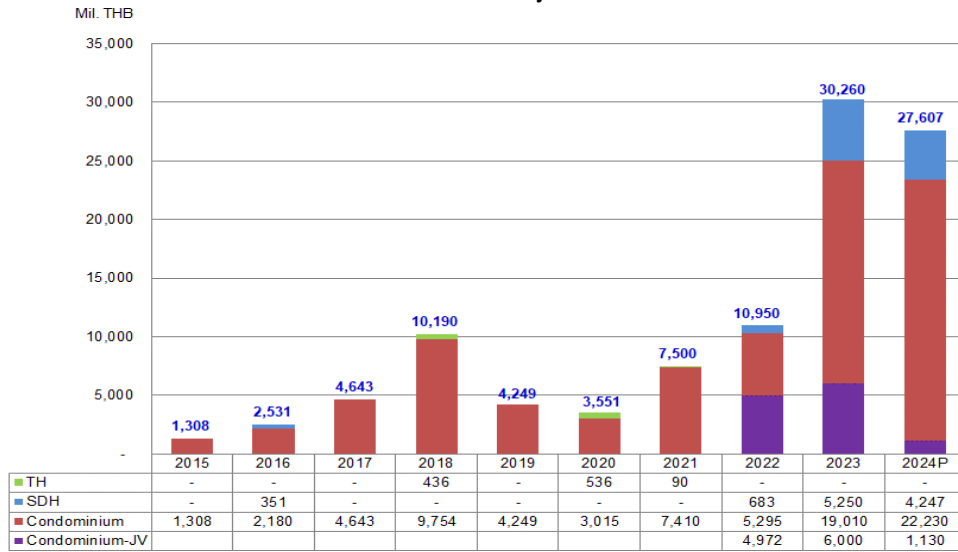
ASW focuses on the middle- to low-priced condominium segments. ASW's condominium brands include: Kave, Atmoz, and Modiz. Modiz is a middle- to high-priced condominium brand with selling prices of THB90,000-THB130,000 per square meter (sq.m.). The Atmoz brand has selling prices of THB65,000-THB90,000 per sq.m. while the Kave brand was introduced to capture the middle- to low-income segments, with selling prices from THB60,000-THB75,000 per sq.m. ASW's condominium projects are located mostly in the Lat Phrao and Ramindra areas. It also has several projects located near universities in the Rangsit and Salaya areas and has expanded its condominium projects into Sri Racha in Chonburi Province.

The company's single detached house projects are developed under the Esta, The Arbor, and The Honor brands, with unit prices from THB3-THB60 million. Its townhouse projects are developed under brand names like Glam and Baan Puri Puri, with prices ranging from THB10-THB17 million per unit.

ASW aggressively expanded its portfolio in 2022. Additionally, the company started to develop condominium projects in alliance with strategic partners in JVs, primarily Japanese property developers. ASW holds 51% stakes in the JVs while its partners hold 49%. In 2023, the company invested in a 30% stake in BGA to develop luxury villas in Phuket. ASW also acquired a 57.8% stake in TITLE from a major shareholder to expand the development of condominium projects in Phuket.

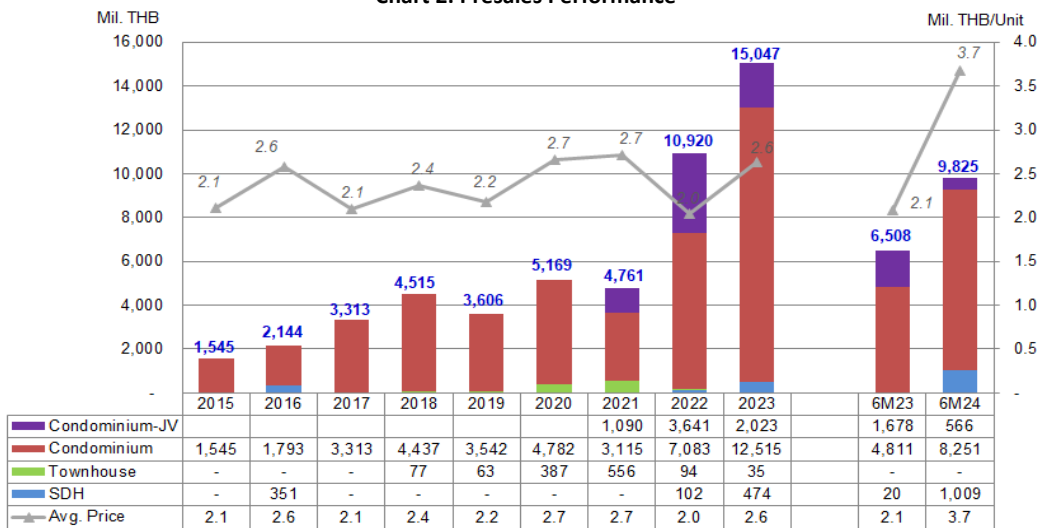
KEY OPERATING PERFORMANCE

Chart 1: Residential Project Launches



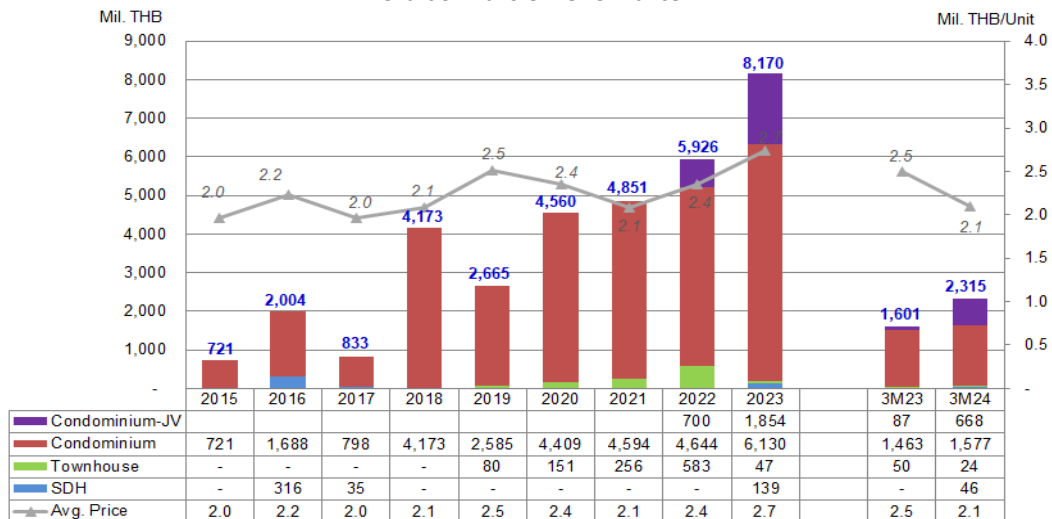
Source: ASW

Chart 2: Presales Performance



Source: ASW

Chart 3: Transfer Performance



Source: ASW

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	1,750	6,873	5,538	4,966	4,228
Earnings before interest and taxes (EBIT)	373	1,445	1,329	1,410	1,142
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	420	1,593	1,437	1,513	1,191
Funds from operations (FFO)	274	665	817	1,035	726
Adjusted interest expense	56	617	290	179	205
Real estate development investments	19,920	17,741	11,768	8,289	6,751
Total assets	26,884	24,362	15,537	11,335	8,160
Adjusted debt	13,673	12,716	8,052	3,573	3,757
Adjusted equity	7,733	7,484	5,953	4,937	2,297
Adjusted Ratios					
EBITDA margin (%)	24.0	23.2	25.9	30.5	28.2
Pretax return on permanent capital (%)	8.1**	8.0	10.9	17.6	19.1
EBITDA interest coverage (times)	7.5	2.6	4.9	8.4	5.8
Debt to EBITDA (times)	8.3**	8.0	5.6	2.4	3.2
FFO to debt (%)	4.8**	5.2	10.2	29.0	19.3
Debt to capitalization (%)	63.9	63.0	57.5	42.0	62.1

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Homebuilders and Real Estate Developers Rating Methodology, 12 January 2023
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Assetwise PLC (ASW)

Company Rating:	BBB-
Rating Outlook:	Positive

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