

VILLA KUNALAI PLC

No. 6/2025
13 February 2025

CORPORATES

Company Rating: BB-
Outlook: Negative

Last Review Date: 15/02/24

Company Rating History:

Date	Rating	Outlook/Alert
15/02/24	BB-	Stable
24/02/22	BB	Stable

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RATIONALE

TRIS Rating revises the rating outlook on Villa Kunalai PLC (KUN) to “negative” from “stable.” At the same time, we affirm the company rating on KUN at “BB-.”

The “negative” outlook reflects KUN’s weaker-than-expected operating results as well as its heightened refinancing and liquidity risks. The rating also considers the adverse effects of persistently high interest rates and elevated household debt levels, which have led to higher mortgage rejection rates and diminished purchasing power among homebuyers.

The rating continues to reflect KUN’s small business scale, portfolio concentration across a limited number of projects, locations, and segments, as well as its high financial leverage.

KEY RATING CONSIDERATIONS

Operating performance short of expectations

KUN’s operating performance in the first nine months of 2024 (9M24) fell well below our expectations. The company’s total operating revenue was THB479 million in 9M24, achieving about half of our previous full-year forecast. KUN’s EBITDA in 9M24 reached only one-fourth of our prior full-year target while funds from operations (FFO) remained negative. This shortfall was mainly due to weak market sentiment in the residential property sector and high rejection rates for mortgage loans from banks, particularly affecting the medium- to low-income segments, which constitute KUN’s main customer base.

Additionally, intense competition among property developers continues to pressure KUN’s profitability. The company had to sacrifice profit margins in some projects to boost sales and reduce inventory. Consequently, its gross profit margin in 2023-9M24 declined to 24%-25%, down from 27%-33% in previous years. The EBITDA margin weakened to 11%-14%, compared with more than 18% observed in 2020-2022.

Future revenue, earnings rely on limited projects

KUN’s limited operational scale, with a few projects in specific locations, has significantly constrained its credit profile. As of December 2024, KUN had 11 ongoing projects across Rangsit, Bang Khun Thian, and Bang Bua Thong, with a total unsold project value of THB11.7 billion (including both built and unbuilt units). Two major projects constitute 80% of this value: Kunalai Navara Rama 2 and Kunalai Navara Rangsit Klong 2. Due to their size, the company prioritizes development in these locations and has no plans for any new project launches in 2025-2026.

We project KUN’s total operating revenue to decrease by 7% year-on-year (y-o-y) in 2024, before rebounding to THB800-THB900 million in 2025-2026. We estimate revenue from two large projects to account for around half of the projected revenue in 2024 and will increase to around three-fourths of the projected revenue in 2025-2026. EBITDA is expected to decline to around THB90 million in 2024 from THB100 million in 2023, with an EBITDA margin of 13%. However, profitability is anticipated to improve in subsequent years due to the relatively low land costs of the two large projects. We expect KUN’s EBITDA to recover to THB160-THB180 million in 2025-2026, with an EBITDA margin of 18%-20%. KUN’s bottom line is expected to improve to 10%-12% of

total operating revenue in the next two years, up from an expected low point of 5% in 2024.

Relatively high financial leverage, but improvement anticipated

We expect KUN's financial leverage at the end of 2024 to remain at a high level and its cash flow protection to continue in negative territory, following its aggressive expansion in 2021-2023 and recent deterioration in operating performance. KUN's debt-to-capitalization ratio rose to 70% by September 2024, up from 62% in 2022 and 56% in 2021. Its FFO to debt ratio remained negative in 2023-9M24, down from 8% in 2022 and 19% in 2021.

Looking ahead, we expect KUN's financial leverage to improve gradually as the company implements its deleveraging plan. No new projects are planned for the next two years, as KUN will focus on selling and developing the two large projects. We assume KUN will spend only THB40 million in 2024-2025 on small land plots within existing projects, and around THB400-THB500 million per annum on project construction in 2024-2026. Also, since KUN raised THB50 million in new equity in the fourth quarter of 2024, the company's debt-to-capitalization ratio is expected to improve to 60%-65%. Its FFO to debt ratio is further expected to recover to around 2% in 2025-2026.

Tight liquidity

We assess KUN's liquidity to be tight over the next 15 months. Debt maturing in the fourth quarter of 2024 through 2025 will amount to around THB1.4 billion, comprising THB640 million debentures, THB631 million long-term project loans, THB118 million short-term promissory notes (P/N), and THB34 million long-term loans. At the end of September 2024, KUN's sources of liquidity included cash on hand of THB61 million, an undrawn short-term loan of THB26 million, and undrawn conditional committed credit facilities of THB1.4 billion. Also, KUN possessed unencumbered land banks with a book value of THB174 million, which could be pledged as collateral for new loans if needed.

KUN typically refinances its maturing debentures through new issuances. Of the company's THB640 million in debentures due over the next 15 months, THB200 million has already been repaid. The remaining THB440 million in debentures, due in July 2025, is expected to be partially replaced by a new THB120 million convertible bond issued in February 2025, new debenture issuances in the second quarter of 2025, and credit facilities from banks. Given KUN's weak operating results and the current risk-averse bond market sentiment, the company may face elevated refinancing risks. However, KUN plans to sell certain land plots in 2025 to ease its liquidity pressure. If successful, this would alleviate the pressure on the company's liquidity.

The financial covenants on KUN's debentures require the company's net interest-bearing debt to equity (net IBD/E) ratio to remain below 3 times. The ratio at the end of September 2024 was 2.4 times. We believe that the company should be able to comply with the financial covenants over the next 12 to 18 months.

Debt structure

At the end of September 2024, KUN's total debt stood at around THB1.9 billion. Priority debt, including secured debt at the company and its subsidiaries, was THB988 million. This translates to a priority debt to total debt ratio of 51%. Thus, in our view, KUN's unsecured creditors are significantly disadvantaged to its priority debt holders with respect to the priority of claims against the company's assets.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for KUN's operations during 2024-2026:

- KUN launched new landed property projects worth THB400 million in 2024. However, there are no plans for any new project launches in 2025-2026.
- Only THB40 million in land purchases over 2024-2025.
- Total operating revenue to decline by 7% y-o-y in 2024 before reviving to THB800-THB900 million in 2025-2026.
- EBITDA margin to drop to 13% for the full year of 2024, but to improve to 18%-20% in 2025-2026.

RATING OUTLOOK

The "negative" outlook reflects KUN's recent underperformance, tighter liquidity, and elevated refinancing risk. Furthermore, there is uncertainty surrounding the operating environment, which may affect its future revenue and earnings.

RATING SENSITIVITIES

The rating on KUN could be revised downward if KUN's operating results and/or financial profile are worse than our expectations, or its liquidity depletes faster than anticipated. Conversely, the rating outlook could be revised to "stable" if KUN delivers significantly stronger operating results than the target levels and the liquidity concerns are alleviated.

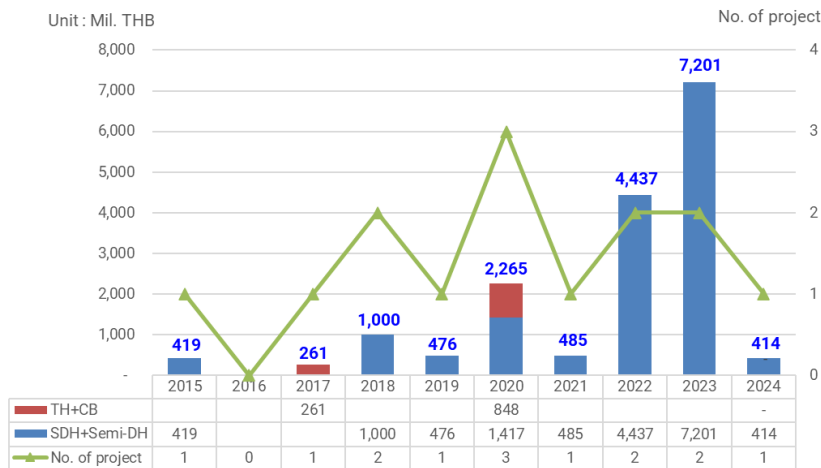
COMPANY OVERVIEW

KUN was established in 2007 by Mrs. Praweerat Dheva-aksorn and Mr. Kuna Dheva-aksorn to operate the property development for sale business. The company became a public company in February 2019 and was listed on the Stock Exchange of Thailand (SET) in December 2019. The Dheva-aksorn Family and Sangkawanich Family, the company’s founders and major shareholders, held a combined 74% equity stake as of September 2024. KUN focuses on the middle- to low-income housing segments. The company offers single detached house (SDH) and semi-DH units with an average selling price of THB3-THB6 million per unit, TH with a unit price of around THB2 million, and CB with a unit price of THB3-THB4 million. Before 2022, KUN’s housing projects were in the Bang Bua Thong area and Chachoengsao Province. Since then, the company has explored other areas to diversify its project locations and product segments. The company expanded its property portfolio in the Bang Khun Thian area in 2022 and in the Rangsit area in 2023 as well as tapped the higher-income segment with unit prices of THB6-THB10 million.

As of December 2024, KUN’s residential project portfolio comprised 11 on-going projects, with a remaining value of THB11.7 billion and a backlog value of THB96 million. Around 60% of the remaining value is in the Rangsit area, 30% in the Bang Khun Thian area, and the remainder in the Bang Bua Thong area.

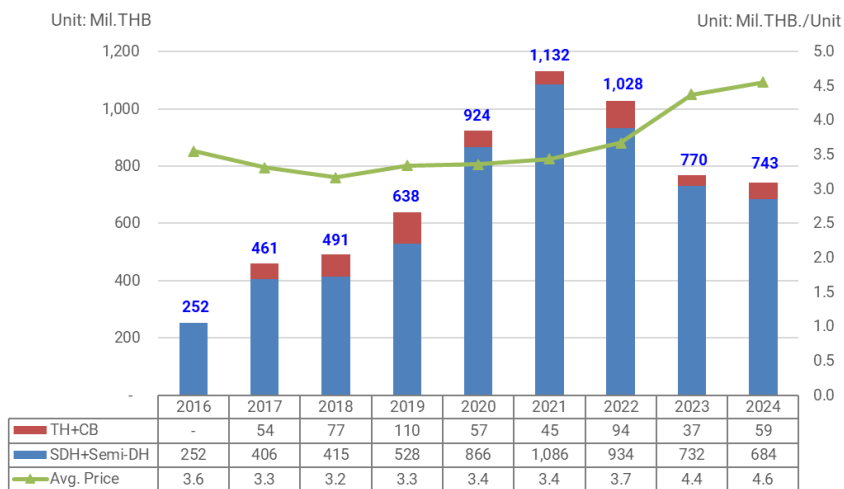
KEY OPERATING PERFORMANCE

Chart 1: New Project Launches



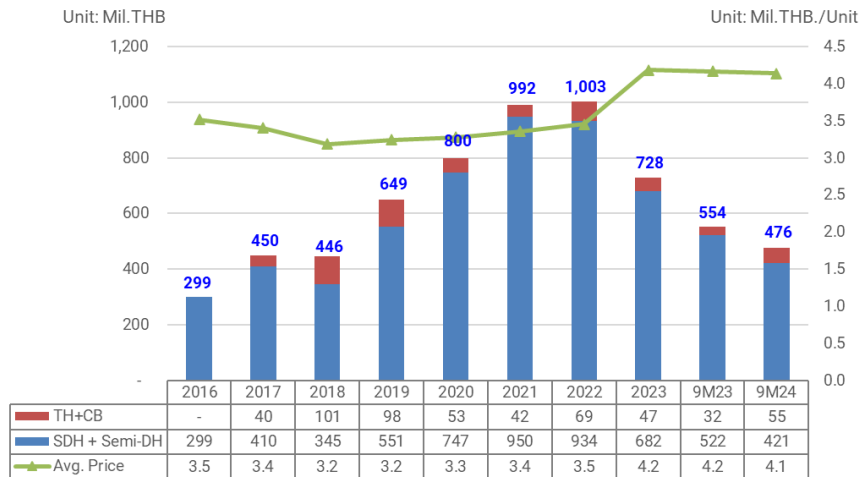
Source: KUN

Chart 2: Presales



Source: KUN

Chart 3: Transfers



Source: KUN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2024	2023	2022	2021	2020
Total operating revenues	479	737	1,005	996	804
Earnings before interest and taxes (EBIT)	48	101	175	223	141
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	53	107	182	230	148
Funds from operations (FFO)	(49)	(22)	85	151	99
Adjusted interest expense	98	115	70	39	27
Real estate development investments	2,627	2,577	1,678	1,481	797
Total assets	2,917	2,874	2,267	1,822	1,035
Adjusted debt	1,891	1,807	1,050	780	246
Adjusted equity	795	779	641	623	513
Adjusted Ratios					
EBITDA margin (%)	11.0	14.5	18.1	23.1	18.4
Pretax return on permanent capital (%)	2.7 **	4.3	9.9	18.3	16.7
EBITDA interest coverage (times)	0.5	0.9	2.6	5.9	5.5
Debt to EBITDA (times)	23.8 **	16.9	5.8	3.4	1.7
FFO to debt (%)	(3.1) **	(1.2)	8.1	19.4	40.2
Debt to capitalization (%)	70.4	69.9	62.1	55.6	32.4

* 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

Villa Kunalai PLC (KUN)

Company Rating:	BB-
Rating Outlook:	Negative

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