

# LALIN PROPERTY PLC

No. 142/2020  
22 September 2020

## CORPORATES

**Company Rating:** BBB+  
**Outlook:** Stable

**Last Review Date:** 17/09/19

### Company Rating History:

Date	Rating	Outlook/Alert
03/11/17	BBB+	Stable
14/10/15	BBB+	Negative
20/06/13	BBB+	Stable
03/06/11	BBB	Positive
15/02/08	BBB	Stable
12/09/07	BBB+	Negative

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## RATIONALE

TRIS Rating affirms the company rating on Lalin Property PLC (LALIN) at “BBB+” with a “stable” outlook. The rating reflects LALIN’s relatively small revenue base, its limited product types and narrow price range. However, LALIN’s financial performance is considered satisfactory. Its revenues have grown steadily over the past several years with favorable profit margins while its financial leverage has remained relatively low compared with its rated peers in the industry. The rating also takes into consideration our concerns over the adverse effects of the Coronavirus Disease 2019 (COVID-19), which could put more pressure on the domestic economy and demand for housing in the short to medium term.

## KEY RATING CONSIDERATIONS

### Small size with limited product types and market segmentation

LALIN’s revenue base is relatively small compared with other rated property developers. Its revenue in 2019 ranked 17<sup>th</sup> out of the 22 developers rated by TRIS Rating. LALIN’s revenue in 2019 was THB4.62 billion, accounting for 1.5% of the total revenues generated by the 22 rated developers.

In addition, the company offers a relatively narrow range of product types with limited market segmentation. The company focuses mainly on the development of landed residential property, including detached houses (SDH and DH) under the “LANCEO” brand with unit prices in the range of THB3-THB6 million, and townhouses under the “LIO” brand with selling prices in the THB2-THB3 million per unit range. LALIN’s key products are townhouses, contributing 61% of total revenues in 2019 and 65% of total revenues in the first half of 2020.

### Operating performance remains strong

LALIN’s operating performance remains strong. Despite the negative impacts from the implementation of new loan-to-value (LTV) rules by the Bank of Thailand (BOT) in April 2019 and the outbreak of COVID-19 since late March 2020, LALIN has been able to increase its sales. Its revenue grew consistently from THB4.08 billion in 2018 to THB4.29 billion in 2019. Revenue during the first half of 2020 also increased by 17% year-on-year (y-o-y), to THB2.56 billion.

As the company focuses mainly on the development of landed property projects, its backlog is marginal. LALIN’s revenues depend on its ability to generate new sales and transfers each year. In order to maintain its revenue growth, LALIN plans to launch 8-10 new landed property projects worth THB4-THB5 billion per annum over the next three years. LALIN has already launched five housing projects worth THB3.59 billion in the first half of 2020 and plans to launch three or four more new housing projects worth THB2-THB3 billion in the second half of the year. Besides, the company intends to accelerate sales in some old projects by using sales agents.

As of June 2020, LALIN had 66 on-going projects. The value of the remaining unsold units (including built and un-built units) was THB22.82 billion. We forecast LALIN’s revenue to be THB4.85-THB5.35 billion per annum over the next three years.

### **Sustaining profitability is key**

We expect LALIN to be able to maintain its profitability consistent with the current level over the next three years, given its cost efficiency. LALIN excels at controlling land cost and construction cost, which has helped the company maintain its satisfactory gross profit margin for years. Its gross profit margin has stayed in the 39%-40% range. The company has also been able to manage its selling, general and administrative (SG&A) expenses at around 15%-17% of total revenues. As a result, LALIN has been able to keep its operating margin (operating income as a percentage of total operating revenues) in the 24%-26% range during the past few years.

As part of its corporate strategy, the company aims to sustain its profit margin at the current level. We expect LALIN to continue focusing on effective cost control, and a steady pace of sales. Due to its relatively low leverage and with no liquidity concerns in the near term, the company does not need to lower its selling prices to boost sales. Based on that, we view the company should be able to maintain its operating margin at 23%-24% over the next 2-3 years.

### **Concerns over softening demand and impacts of COVID-19**

The residential property market closely follows trends in the domestic economy. However, the volatility in this market is much more pronounced than in the overall economy. A prolonged outbreak of COVID-19 could cause a severe economic downturn and further suppress market demand. In addition, the number of non-performing mortgage loans (NPL) could rise further. The weakening purchasing power of homebuyers and stringent bank lending policies have been the key factors affecting the demand for housing, especially in the middle- to low-income segments which are LALIN's main target customers. With this backdrop, LALIN needs to be more cautious in launching new projects as well as screening its customers.

However, we expect some positive effects from several stimulus measures launched by the government to boost housing demand. Recently the BOT relaxed the LTV regulations by allowing first-time homebuyers to take out a top-up of 10% on their housing loans, constituting 110% for the mortgage bundled with the top-up. Another measure is a cut in housing transfer and mortgage fees to 0.01% for homes priced below THB3 million, effective till the end of December 2020. Nonetheless, with the current market situation, many developers have shifted their focus toward landed property projects, particularly in the middle- to low-income segments which still have real demand. As a result, competition in this market segment appears to have intensified.

### **Low leverage**

We expect LALIN to maintain its prudent financial policy. The company aims to keep its total liabilities to total equity (D/E) ratio below one time in the medium to long term. LALIN's leverage has stayed lower than the industry average as the company has focused solely on housing projects, which require less capital investment than high-rise condominium projects. Its debt to capitalization ratio was 34% in 2019, while the average debt to capitalization ratios of the 22 rated developers was 52% in 2019. As of June 2020, LALIN's ratio was 34.5%.

Under our base case forecast, we expect LALIN's debt to capitalization ratio to stay in the 35%-40% range and its debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio to remain below 4 times over the next three years, taking into account the company's plans to launch only landed property projects worth approximately THB4-THB5 billion. The budget for land will likely range from THB1.0-THB1.2 billion per annum.

### **Strong liquidity profile**

We assess LALIN to have sufficient liquidity to cover its debt repayments until the end of 2021. From June 2020 to December 2021, the company has debts of THB2.29 billion coming due, comprising THB1.44 billion in debentures, THB845 million in bills of exchange (B/Es), and the remainder in short-term loans from financial institutions. As of June 2020, LALIN's sources of liquidity included cash on hand of THB483 million and undrawn committed credit facilities of around THB2.05 billion. The company has already refinanced THB440 million of bonds due in July 2020 with a one-year-nine-months bond issue. We forecast funds from operations (FFO) to hover around THB900 million per annum. These sources of funds should be sufficient to cover the debts coming due over the next 18 months even if the company could not rollover any of its debts. We believe LALIN's cash flow protection to remain strong over the next three years. The FFO to debt ratio is projected to be 24%-25%, and the EBITDA interest coverage ratio to hover around 10 times.

The financial covenants of its bank loans and bonds require LALIN to maintain its total interest-bearing debt to equity ratio below 2 times. The ratio at the end of June 2020 was 0.5 times. TRIS Rating believes that the company should have no problem complying with the financial covenant.

## BASE-CASE ASSUMPTIONS

- Revenue to grow by 5% per annum during 2020-2022.
- Gross profit margin to hover around 38% and operating margin to range 23%-24% over the next three years.
- Budget for land acquisition of THB1.00-THB1.20 billion per annum in 2020-2022.

## RATING OUTLOOK

The “stable” outlook reflects our expectation that LALIN will be able to sustain its operating performance at the target level, and continue to maintain its prudent financial policies. We expect LALIN’s revenue to be THB4.85-THB5.35 billion per annum over the next three years, its debt to capitalization ratio to be maintained in the 35%-40% range while its net interest-bearing debt to EBITDA ratio to stay below 4 times during the same period.

## RATING SENSITIVITIES

The rating and/or outlook of LALIN could be under downward pressure if its operating performance and/or financial profile significantly deteriorate from the target levels. A weakening competitive position in the future may also lead to a downward rating or outlook revision. In contrast, we could raise the rating if LALIN is able to enlarge its business scale while maintaining a conservative financial policy.

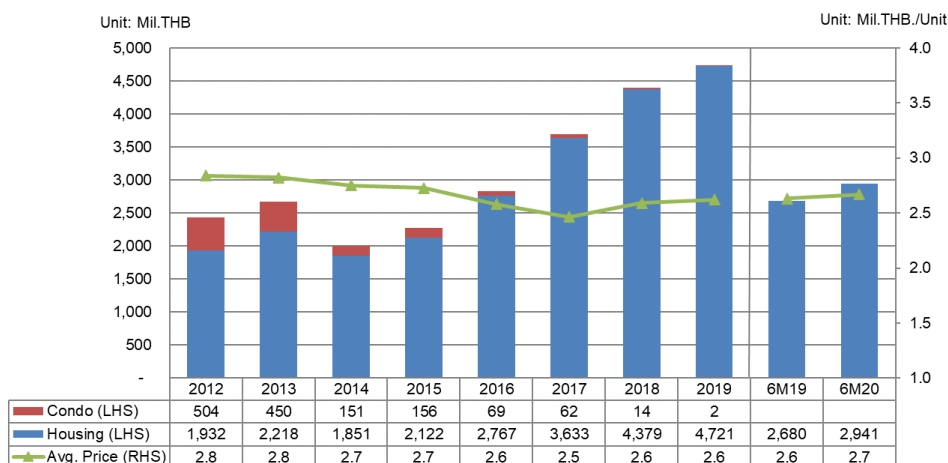
## COMPANY OVERVIEW

LALIN was established in 1988 by Mr. Taveesak Watcharakkawongse and Mr. Chaiyan Chakarakul, and listed on the Stock Exchange of Thailand (SET) in 2002. The Chakarakul and Watcharakkawongse families, the company’s founders and major shareholders, held a combined 70% stake in total as of June 2020. LALIN focuses on the middle- to low-income housing segment. In 2009, the company launched two new housing brands: “LANCEO” and “LIO”. The LANCEO brand offers SDH and semi-DH units with unit prices ranging from THB2.5-THB4.0 million. The LIO brand offers townhouses at prices of THB1.5-THB 2.5 million per unit. LALIN opened its first condominium project in late 2011. Its condominium projects use the “LEVO” and “LIB” brands, with unit prices ranging from THB1.4- THB3.0 million. LALIN expanded upcountry in late 2012. Presently, its upcountry projects are located in Chonburi, Rayong, Chachoengsao, and Nakorn Ratchasima provinces. Most upcountry projects target customers living near industrial estates. In 2019, the revenue contributions from projects in the Greater Bangkok area and other provinces were around 86% and 14%, respectively.

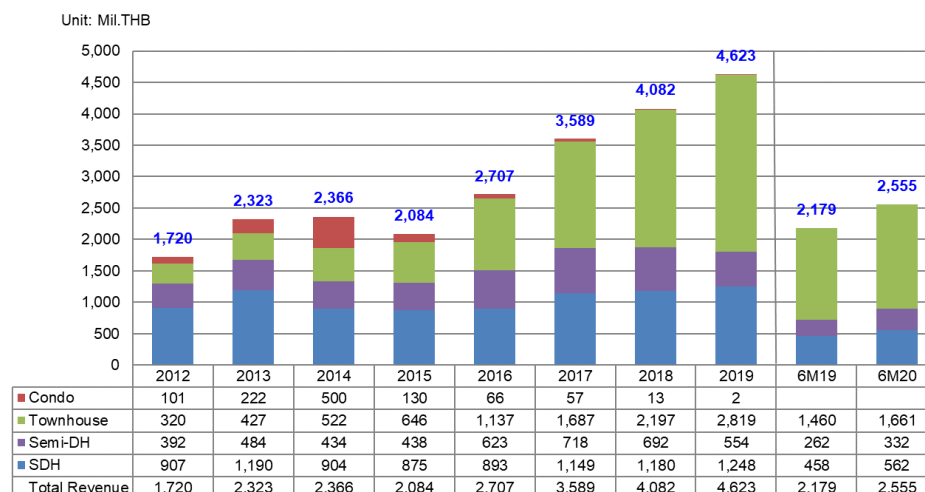
As of June 2020, LALIN’s residential project portfolio comprised 66 on-going projects, with a remaining value of THB22.82 billion and a backlog value of THB1.99 billion. Over the past three years, almost all revenue has been derived from landed property projects.

## KEY OPERATING PERFORMANCE

Chart 1: Presales Performance



Source: LALIN

**Chart 2: Revenue Breakdown by Product**


Source: LALIN

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Bt million

	Jan-Jun 2020	2019	2018	2017	2016
Total operating revenues	2,555	4,623	4,082	3,589	2,707
Earnings before interest and taxes (EBIT)	686	1,201	1,043	911	662
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	712	1,252	1,104	968	710
Funds from operations (FFO)	513	897	806	691	521
Adjusted interest expense	36	125	103	105	63
Real estate development investments	11,458	10,831	9,360	9,319	8,608
Total assets	12,427	11,502	10,429	9,894	9,185
Adjusted debt	3,692	3,431	3,197	3,145	3,174
Adjusted equity	7,013	6,564	5,996	5,524	4,968
<b>Adjusted Ratios</b>					
EBITDA margin (%)	27.86	27.08	27.04	26.98	26.22
Pretax return on permanent capital (%)	12.91**	12.43	11.56	10.76	8.60
EBITDA interest coverage (times)	19.52	10.04	10.71	9.21	11.33
Debt to EBITDA (times)	2.66**	2.74	2.90	3.25	4.47
FFO to debt (%)	26.68**	26.13	25.20	21.96	16.41
Debt to capitalization (%)	34.48	34.33	34.77	36.28	38.98

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

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

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**Lalin Property PLC (LALIN)**

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<b>Company Rating:</b>	BBB+
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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