TRIS RATING
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LALIN PROPERTY PLC

No. 167/2022
30 September 2022

CORPORATES

Company Rating:	BBB+
Outlook:	Stable

Last Review Date: 23/09/21

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" rating outlook. The rating reflects LALIN's relatively small revenue and earnings base, together with limited product types and price range. However, LALIN's financial performance has been consistently satisfactory as its revenue and earnings before interest, taxes, depreciation, and amortization (EBITDA) have grown steadily over the past five years while its financial leverage has remained low. The rating also incorporates our concerns over the relatively high household debt level and rising inflation which could impact the purchasing power of homebuyers in the short- to medium-term while pushing up development and funding costs for developers.

KEY RATING CONSIDERATIONS

Small size with concentrated product types and market segmentation

Although LALIN's revenue and EBITDA have consistently grown during the past five years, we view its income and earnings base as comparatively small relative to peers in the same rating category. LALIN reported total operating revenue of THB6.6 billion and EBITDA of THB1.9 billion in 2021. Its revenue and EBITDA ranked 12th and 10th, respectively, out of the 25 developers rated by TRIS Rating. LALIN's revenue and EBITDA accounted for around 2%-3% of the total revenues and earnings generated by the 25 rated developers.

The company's product portfolio is relatively concentrated in the affordably priced segments. LALIN offers landed residential property, including single detached houses and semi-detached houses (SDH and semi-DH) under the "LANCEO" brand with a price range of THB3-THB6 million per unit, and townhouses under the "LIO" brand with selling prices in the THB2-THB3 million per unit range. Although the customer base in the middle- to low-priced segment is relatively large, the purchasing power of homebuyers in this segment is limited, and bank loan rejection rates are high. Accordingly, LALIN introduced two new brands in the higher-priced segment to widen its product portfolio and avoid the bank rejection issue. The company launched the "Baan Lalin the Prestige" brand for SDH and semi-DH, with prices ranging from THB4.5-THB8 million per unit, and townhouses under the "LIO Prestige" brand with selling prices in the THB2.6-THB3.5 million per unit range. Currently, revenue contribution from the new projects in higher-priced segments remains minimal.

As of June 2022, LALIN had 78 on-going projects. The value of the remaining unsold units (including built and un-built units) was THB22.3 billion. LALIN's key products are townhouses, contributing around 55% of total revenues during 2021 through the first half of 2022.

Strong operating results with favorable profitability

Despite the adverse economic condition caused by rising inflation and high household debt, we expect LALIN to maintain strong operating performance. Our base-case assumption forecasts LALIN's total operating revenue in 2022 to stay near the same level as the previous year, then reach THB6.7-THB7.0 billion per annum in 2023-2024 or a 3% year-on-year (y-o-y) growth, based on its plan to launch 10-12 new landed property projects worth THB7-THB8 billion per annum over the next couple of years.

We assess that LALIN's cost competitiveness in the next few years will be increasingly challenged by intense competition from leading and new players as well as rising land, construction material, and labor costs. We expect LALIN to sustain its favorable profit margin over the forecast period, with its gross profit margin to stay in the 37%-39% range. LALIN may incur higher selling, general, and administrative (SG&A) expenses resulting from its project expansion. Nonetheless, we expect LALIN to keep its SG&A expenses at 14%-15% of total operating revenue over the next three years. LALIN's EBITDA is expected to stay at THB1.7-THB1.8 billion per annum during 2022-2024, or an EBITDA margin of at least 25%. We anticipate its net profit margin to stay above 18% of total operating revenue over the forecast period.

Leverage to remain low

We expect LALIN to continue its prudent financial policy. LALIN's financial leverage has been significantly below the industry average as the company has focused solely on landed property projects. LALIN's debt to capitalization ratio as of June 2022 was 21%, while the average debt to capitalization ratio of the 25 rated developers was 52%. Our base-case scenario projects LALIN's debt to capitalization ratio to remain below 35% and the debt to EBITDA ratio to stay below 3.5 times over the next three years. This is based on our assumption that LALIN will launch new landed property projects worth THB7-THB8 billion per year in 2022-2024. We project the budget for land acquisition to be in the THB2-THB2.5 billion per annum range, with estimated annual construction expenditure of THB3-THB3.5 billion over the next three years.

At the end of June 2022, LALIN had total consolidated debts of THB3.1 billion. Nearly all the debts were senior unsecured debentures. Secured debt was only THB0.1 billion, which translates to a priority debt to total consolidated debt ratio of 3%.

Adequate liquidity

We assess LALIN to have adequate liquidity to cover its debt repayments until the end of 2023. As of June 2022, the company had debts of THB1.5 billion coming due in the next 18 months, comprising THB1.4 billion debentures and THB100 million of short-term aval for land purchases and short-term loans from financial institutions. The company already repaid the debentures due in the third quarter of 2022 by bill of exchange (B/Es) issuance and internal cash. LALIN's sources of liquidity at the end of June 2022 comprised cash on hand of THB358 million, investments in fixed-income funds of THB775 million, and undrawn committed bank loan facilities of THB2.4 billion. We forecast LALIN's funds from operations (FFO) to be THB1.2-THB1.3 billion per annum. These sources of liquidity should be sufficient to cover the maturing debts over the next 18 months even if the company is unable to rollover any maturing debts. We expect LALIN's cash flow protection to remain strong over the next three years, with its FFO to debt ratio to stay above 25%, and the EBITDA interest coverage ratio of not less than 9 times.

The financial covenant on LALIN's debt obligations requires the company to maintain its total interest-bearing debt to equity ratio below 2 times. The ratio at the end of June 2022 was 0.4 times. We believe the company should have no problems complying with the financial covenant over the next 18 months.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base case forecast for LALIN's operations during 2022-2024:

- LALIN to launch new landed property projects worth THB7-THB8 billion per year
- Annual budget for land acquisition to be THB2-THB2.5 billion
- Total operating revenue of around THB6.5-THB7 billion per annum

RATING OUTLOOK

The "stable" outlook reflects our expectation that LALIN will be able to deliver operating performance as targeted and maintain its prudent financial policies. Despite intense competition in the residential property industry coupled with an unfavorable economic environment from rising inflation and relatively high household debt, we expect LALIN to sustain a favorable profit margin and low financial leverage.

RATING SENSITIVITIES

The rating and/or outlook could be revised downward should the company's operating results and/or financial profile significantly deteriorate from our base-case expectations. A rating and/or outlook downward revision could also occur if LALIN's competitive position weakened considerably in the future. On the contrary, a substantially larger revenue and earnings base comparable to higher-rated peers, while maintaining a prudent financial policy could be a positive development for consideration of rating and/or outlook upward revision.

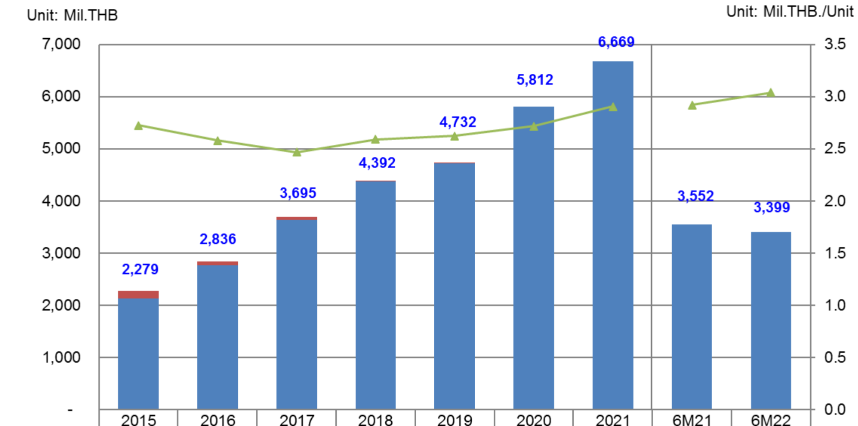
COMPANY OVERVIEW

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 71% equity stake as of March 2022. LALIN focuses on the middle- to low-income housing segment. In 2009, the company launched two housing brands: "LANCEO" and "LIO". The LANCEO brand offers SDH and semi-DH units with prices ranging from THB3-THB6 million. The LIO brand offers townhouses at prices of THB2-THB3 million per unit. LALIN launched 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. Currently, it has upcountry projects in Chonburi, Rayong, Chachoengsao, and Nakorn Ratchasima provinces. Most upcountry projects target customers living near industrial estates. During the second half of 2021, LALIN launched the "Baan Lalin the Prestige" brand for SDH and semi-DH to expand its property development portfolio into the higher-priced segment, with prices ranging between THB4.5-THB8 million per unit. LALIN also launched the "LIO Prestige" brand for TH with prices ranging between THB2.6-THB3.5 million per unit. In 2021, the revenue contributions from projects in the Greater Bangkok area and other provinces were around 94% and 6%, respectively.

As of June 2022, LALIN's residential project portfolio comprised 78 on-going projects, with a remaining value of THB22.3 billion and a backlog value of THB2.2 billion. Over the past five years, almost all revenue has been derived from landed property projects.

KEY OPERATING PERFORMANCE

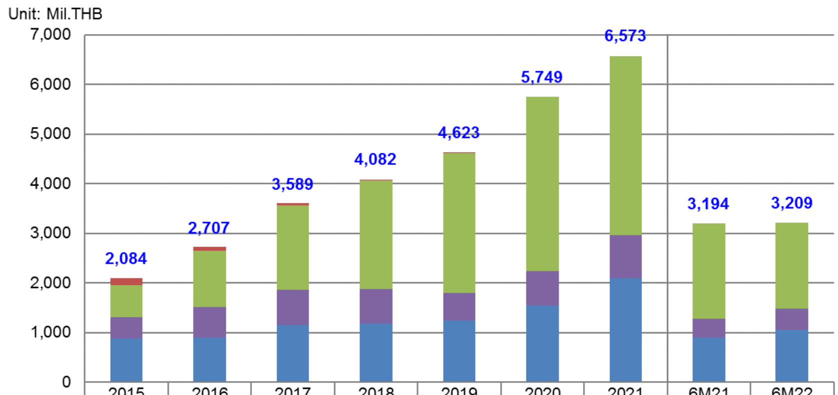
Chart 1: Presales Performance



	2015	2016	2017	2018	2019	2020	2021	6M21	6M22
Condo (LHS)	156	69	62	14	2				
Housing (LHS)	2,122	2,767	3,633	4,379	4,721	5,812	6,669	3,552	3,399
Avg. Price (RHS)	2.7	2.6	2.5	2.6	2.6	2.7	2.9	2.9	3.0

Source: LALIN

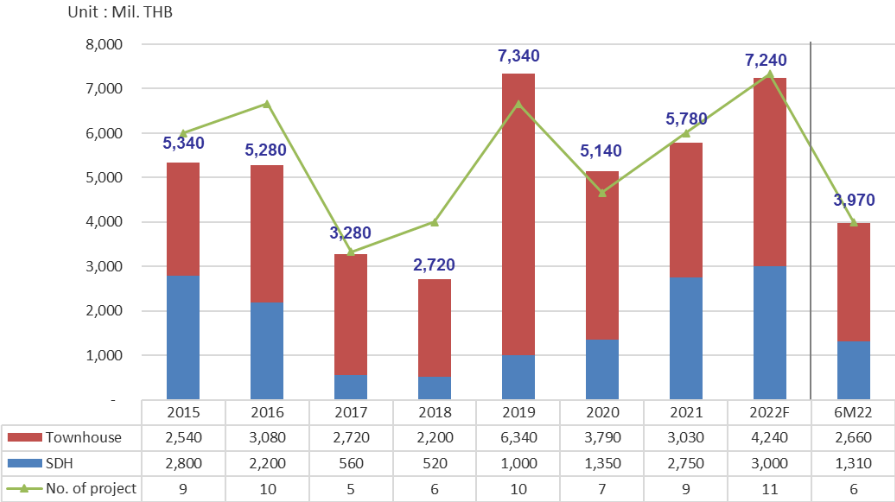
Chart 2: Revenue Breakdown by Product



	2015	2016	2017	2018	2019	2020	2021	6M21	6M22
Condo	130	66	57	13	2	0	0	0	0
Townhouse	646	1,137	1,687	2,197	2,819	3,507	3,615	1,917	1,733
Semi-DH	438	623	718	692	554	690	854	383	417
SDH	875	893	1,149	1,180	1,248	1,552	2,103	894	1,059
Total Revenue	2,084	2,707	3,589	4,082	4,623	5,749	6,573	3,194	3,209

Source: LALIN

Chart 3: New Project Launches



Source: LALIN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

		------------Year Ended 31 December ----------			
	Jan-Jun 2022	2021	2020	2019	2018
Total operating revenues	3,209	6,573	5,749	4,623	4,082
Earnings before interest and taxes (EBIT)	874	1,827	1,594	1,201	1,043
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	895	1,875	1,645	1,252	1,104
Funds from operations (FFO)	675	1,418	1,192	892	805
Adjusted interest expense	52	108	117	125	103
Real estate development investments	11,928	11,431	10,916	10,831	9,360
Total assets	13,627	13,209	12,454	11,502	10,429
Adjusted debt	2,302	2,242	2,652	3,355	2,877
Adjusted equity	8,612	8,256	7,472	6,564	5,996
Adjusted Ratios					
EBITDA margin (%)	27.90	28.53	28.62	27.08	27.04
Pretax return on permanent capital (%)	15.80 **	16.32	15.23	12.43	11.56
EBITDA interest coverage (times)	17.32	17.39	14.11	10.04	10.71
Debt to EBITDA (times)	1.24 **	1.20	1.61	2.68	2.61
FFO to debt (%)	61.18 **	63.22	44.95	26.58	27.97
Debt to capitalization (%)	21.09	21.36	26.20	33.83	32.42

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

RELATED CRITERIA

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Lalin Property PLC (LALIN)

Company Rating:	BBB+
Rating Outlook:	Stable

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