

MAJOR DEVELOPMENT PLC

No. 105/2020

10 July 2020

CORPORATES

Company Rating: BB+
Outlook: Stable

Last Review Date: 19/07/19

Company Rating History:

Date	Rating	Outlook/Alert
02/08/18	BB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Major Development PLC (MJD) at “BB+” with a “stable” outlook. The rating reflects MJD’s relatively volatile operating performance, the concentration of its products in the high-end condominium segment, and high financial leverage. In addition, most of its assets are pledged as collateral for bank loans. Its unsecured creditors could therefore be in an inferior position to bank lenders.

The rating continues to reflect the company’s well-accepted brand name in the luxury condominium segment, as well as its fairly sizeable backlog, which is expected to partly secure its revenue during 2020-2021. The rating also takes into consideration a slowdown in demand for condominiums, and concerns over the impacts of the coronavirus (COVID-19) pandemic which is further suppressing demand for residential properties.

KEY RATING CONSIDERATIONS

Well-accepted brands in the high-end segment

MJD’s brands are widely accepted in the high-end residential property segment. MJD’s condominium projects are developed under the “Muniq”, “M Series”, “Maru”, “Metris”, and “Maestro” brands. Its brand recognition is quite strong in the high-priced condominium segment, especially condominium projects with prices in the THB120,000-THB170,000 per square meter (sq.m.) range.

The company’s competitive edge in the high-end condominium segment is underpinned by its focus on quality, functional unit sizes, and prime locations. Most of MJD’s projects are located in prime areas close to stations on the existing mass transit lines. The rest are located in tourist destinations like Pattaya and Hua Hin. In the last couple of years, the company has diversified toward smaller projects such as 8-storey condominiums and detached houses in order to shorten construction periods. However, its products still target high-income homebuyers.

Concentration in high-rise condominiums, but gradual diversification toward low-rise condominium and landed property projects

In TRIS Rating’s view, MJD’s portfolio is quite concentrated in the high-rise condominium segment. At the end of March 2020, the company had 27 residential projects (including joint-venture (JV) projects), with remaining units available for sale worth THB10.9 billion. About 72% of the value of its unsold units was high-rise projects. As high-rise condominium projects have a relatively high value and require a long development period, MJD’s revenue recognition depends largely on the number of projects completed each year. At the same time, the company has a certain amount of fixed operating expenses. That partly explains MJD’s rather volatile operating performance. MJD’s earnings before interest, tax, depreciation, and amortization (EBITDA) margin jumped from 13% in 2017 to 38% in 2018 before dropped to 18% in 2019.

MJD is working to mitigate its portfolio concentration risk by developing more low-rise condominium projects under the “Maestro” brand. The company has also developed townhomes and single detached houses under the “Malton” and “Mavista” brands. Average housing prices range from THB70-THB100 million per unit. MJD plans to launch landed property projects worth THB3-THB4 billion in the next two years. These landed property projects should take

less time to develop and transfer to customers. The success of its portfolio diversification should help smooth out its earnings and will be a plus for its rating. MJD's investments in the hotel and office businesses are still marginal compared with its residential property business.

Sizeable backlog will partly secure earnings in the next two years

In TRIS Rating's view, MJD's operating performance should be less volatile in the next two years. The company's fairly sizeable backlog should help secure and smooth out its revenue and profitability. At the end of March 2020, MJD's condominium backlog comprised THB5.3 billion of its own projects and THB4.7 billion under JVs. MJD's backlog is expected to be recognized as revenue of around THB3.0 billion in the remainder of 2020, and THB2.3 billion in 2021. The backlog JV projects are expected to be recognized as revenue of around THB1.6 billion within this year, and the rest in 2022.

Based on its backlog and completed units available for sale, we expect MJD's revenue from its residential property business to maintain at around THB4-THB5 billion per annum during 2020-2022. Revenues from the hotel and office businesses will likely remain to be only THB0.3-THB0.5 billion per annum. MJD's EBITDA margin is expected to remain at 17%-19% in the next three years. The consistency of new project launches and the increasing diversity of its products should help alleviate the volatility of earnings and cash flow that the company faced in the past.

Financial leverage remains high

MJD's leverage has continued to linger at high levels over the past five years. Outstanding debts (including a proportionate 51% of debt from the JV projects) remained in the range of THB10-THB13 billion during 2016-2019. As of March 2020, MJD's total debt stood at THB11.2 billion. The company's debt to capitalization ratio stayed in the 65%-76% range during 2016 through the first quarter of 2020. Interest payments were around THB0.4 billion a year. MJD's EBITDA interest coverage ratio consequently remained low at 1.5 times in 2019 and 3 times in the first quarter of 2020. The funds from operations (FFO) to debt ratio was only at 2.8% as of 2019, and 4% (annualized, based on the trailing 12 months) in the first quarter of 2020.

TRIS Rating expects MJD's leverage to hang at a high level. Leverage is expected to improve temporarily once the company delivers the condominium units in its backlog. However, the company's plan to purchase more land and invest more in condominiums and landed property projects will cause its debt to capitalization ratio to stay at around 63%-67%, or the debt to equity ratio at around 1.8-2.0 times. According to the company's loan covenants, MJD has to keep its interest-bearing debt to equity ratio below 3.5 times. At the end of March 2020, the ratio was 1.93 times. The company should be able to comply with its financial covenants over the next 12 months.

Concerns over softening demand and impacts of COVID-19

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 slowdown of the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the purchasing power of local homebuyers. Negative impacts from the global trade war and appreciation of the Thai baht have also brought about a drop in demand for condominiums from foreign investors, especially Chinese investors, since 2019.

For 2020, the economic fallout from the COVID-19 pandemic is likely to further suppress market demand. Most developers are adopting a wait-and-see approach as demand from local and foreign buyers is expected to drop sharply in 2020. In addition, due to the travel restrictions in several countries, MJD may have to postpone the transfers of foreign-buyer residential units for a few months. The company's backlog of units sold to foreign buyers which are ready for transfer this year amounts to THB0.9-THB1.0 billion, or 30%-33% of total backlog to be transferred in the year. MJD need to prudently manage the transfers of its condominium units since any delay in transfers could significantly impact the company's revenue recognition this year.

Tightening liquidity

TRIS Rating assesses MJD to have tight liquidity over the next 12 months. As of March 2020, MJD had THB3.8 billion of debt due over the next 12 months, comprising THB0.3 billion in short-term loans, THB1.3 billion in debentures, and THB2.2 billion in project loans. Its sources of funds comprised cash on hand of THB1.0 billion and undrawn committed credit facilities of around THB0.4 billion at the end of March 2020. TRIS Rating forecasts funds from operations (FFO) over the next 12 months of THB0.3-Bt0.4 billion.

MJD usually finances its land acquisition and construction costs with project loans from banks and debenture issuances. MJD refinances most of the maturing debentures with new debentures issues. However, due to the liquidity crunch in the bond market this year, MJD may need to seek bank financing. Project loans are generally repaid with cash from the transfers of residential units. We see the need for MJD to manage its liquidity carefully.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for MJD's operations during 2020-2022:

- MJD to launch residential property projects in 2020 and 2021 worth THB10-THB12 billion in total. Going forward, the company to launch new residential projects worth THB5 billion per annum.
- MJD's revenue to be THB4.5-THB6.0 billion per annum. Share profit from JV projects to amount to THB130-THB160 million per annum.
- Land acquisition to be THB1.5-THB2.0 billion yearly.
- Capital expenditure for rental assets of THB250 million in 2020 and THB100 million per annum in 2021 and 2022.

RATING OUTLOOK

The "stable" outlook reflects our expectation that MJD will deliver the condominium units in its backlog as scheduled. Backed by the projected transfers of backlog units during 2020-2021, MJD's financial profile should improve over the next two years. However, as MJD plans substantial investments in residential projects, both condominium and landed property projects, we expect its financial leverage to remain high. We expect MJD's debt to capitalization ratio (including a proportionate 51% of debt from JVs) to stay in the range of 63%-67%, with EBITDA margins of 17%-20%.

RATING SENSITIVITIES

TRIS Rating could revise MJD's rating or outlook upward if the company delivers its projects as planned and lowers its debt to capitalization ratio to 60%-65% on a sustainable basis. However, we would revise the rating and/or outlook downward should MJD's operating performance and its financial leverage deteriorate significantly from the current levels. A decline in EBITDA margin to below 17% and/or the debt to capitalization ratio staying above 70% for a sustained period may also lead to a rating downgrade.

COMPANY OVERVIEW

MJD was established in 1999 by the Poolvorlaks family. The company became public in December 2005 and was listed on the Stock Exchange of Thailand (SET) in November 2007. After the initial public offering (IPO), the Poolvorlaks family continued to be MJD's largest shareholder. As of April 2020, the Poolvorlaks family held a 63% stake in the company.

MJD focuses on the high-end condominium segment. Selling prices across the portfolio are in the range of THB4-THB10 million per unit. Its major brands comprise the M Series and the Maestro. The M Series projects are high-rise condominiums located near mass transit lines. The Maestro projects are low-rise condominiums on smaller land plots in good locations. The company also has signature projects targeting the super-luxury segment.

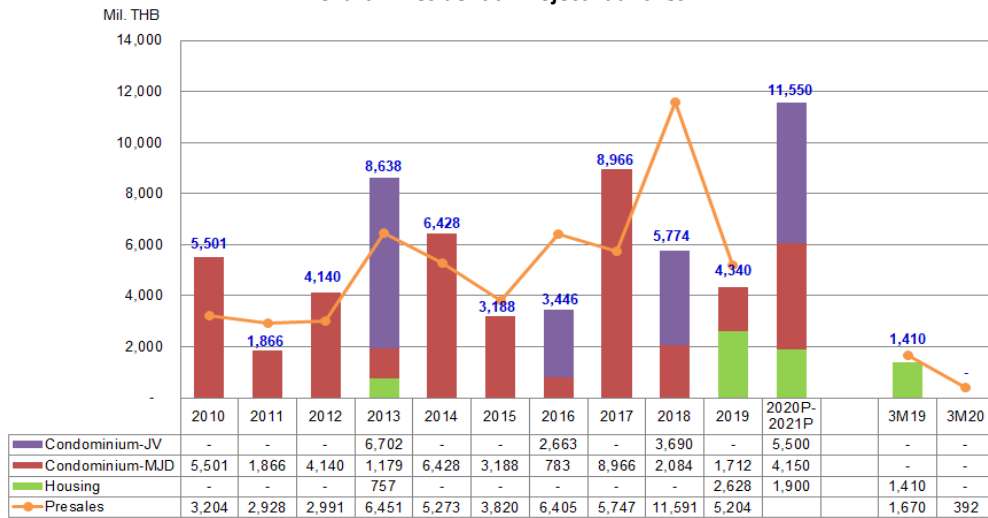
In 2013, MJD invested 51% in a JV with private equity funds, including Must International Trading Pte. Ltd. (22%), GMM Singapore Real Estate Pte. Ltd. (22%), and GRG Global Investments Ltd. (5%). The JV developed two condominium projects: "Marque Sukhumvit", launched in 2013, and "Muniq Sukhumvit 23", launched in 2016, with a combined project value of THB9.4 billion. The JV also launched "Muniq Langsuan" in 2018, with a project value of THB3.7 billion.

In 2017, MJD launched two new condominium brands, including Metris, with prices ranging from THB4-THB6 million per unit, and Maru, with prices ranging from THB6-THB8 million per unit, to capture the lower-priced segment. In addition, the company also launched housing projects under the "Malton" and "Mavista" brands in 2019.

MJD has expanded its business to generate more recurring income. MJD developed three hotels, "Marrakesh Hua Hin Resort and Spa" in 2011, "Centra Maris Resort Jomtien" in 2016, and "Maven Stylish Hotel Bangkok" in 2018. MJD commenced operation of its first office building, "Major Tower Thonglor 10", in 2015. The second office building "Major Tower Rama 9-Ramkumhang", is under construction and will be in operation in 2020. These rental assets generate revenue of around THB350-THB450 million per annum.

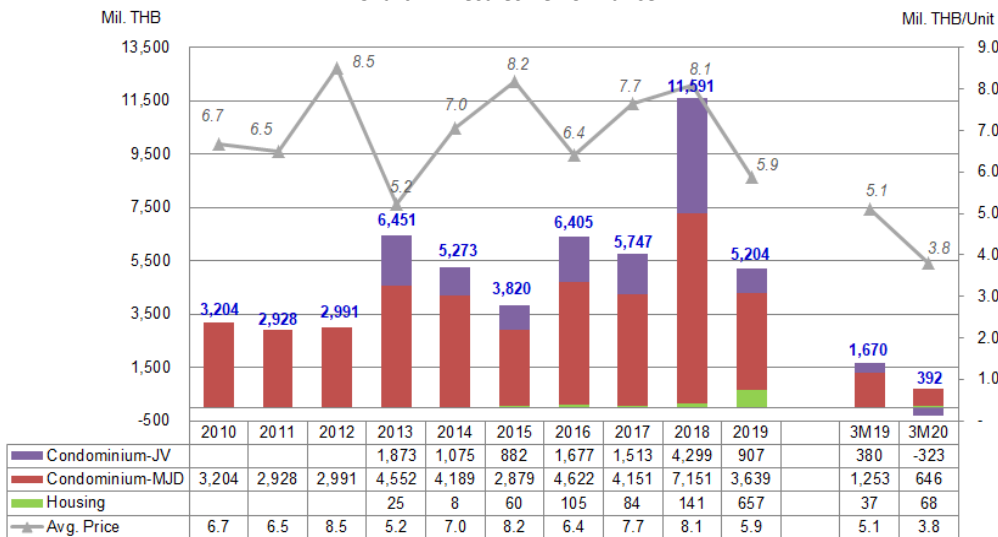
KEY OPERATING PERFORMANCE

Chart 1: Residential Project Launches



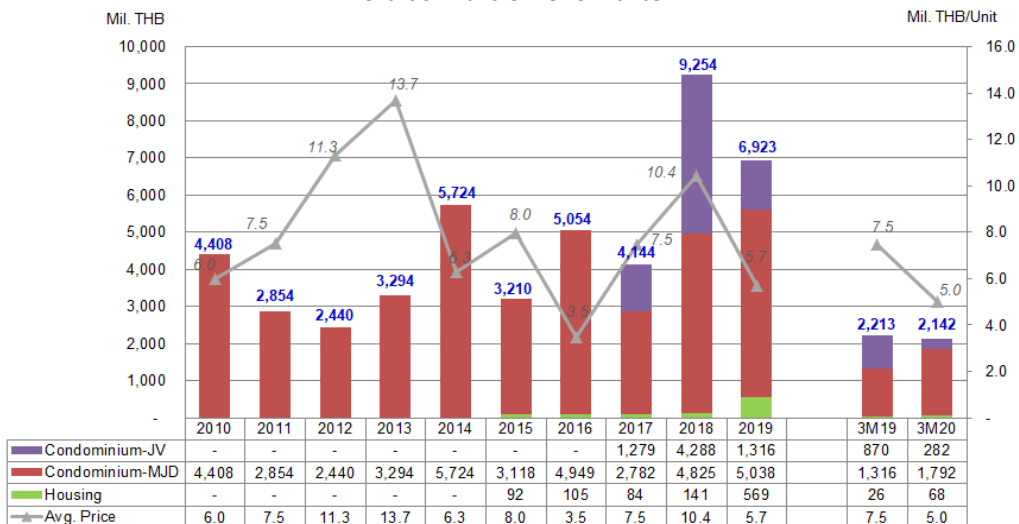
Source: MJD

Chart 2: Presales Performance



Source: MJD

Chart 3: Transfer Performance



Source: MJD

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	1,988	6,028	5,306	3,300	5,357
Earnings before interest and taxes (EBIT)	441	925	1,873	338	1,139
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	473	1,072	2,018	436	1,238
Funds from operations (FFO)	266	311	1,189	(98)	614
Adjusted interest expense	160	725	647	556	400
Real estate development investments	9,995	10,502	11,121	12,263	8,925
Total assets	19,777	19,593	19,807	19,493	15,895
Adjusted debt	10,634	11,002	10,462	12,489	9,803
Adjusted equity	5,655	5,456	5,086	3,785	3,963
Adjusted Ratios					
EBITDA margin (%)	23.82	17.78	38.02	13.20	23.11
Pretax return on permanent capital (%)	6.40 **	5.55	11.21	2.14	8.32
EBITDA interest coverage (times)	2.96	1.48	3.12	0.78	3.10
Debt to EBITDA (times)	8.82 **	10.26	5.19	28.67	7.92
FFO to debt (%)	4.04 **	2.82	11.37	(0.79)	6.26
Debt to capitalization (%)	65.28	66.85	67.29	76.74	71.21

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

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

Major Development PLC (MJD)

Company Rating:	BB+
Rating Outlook:	Stable

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