

MAJOR DEVELOPMENT PLC

No. 112/2024
3 July 2024

CORPORATES

Company Rating: BB
Outlook: Stable

Last Review Date: 07/07/23

Company Rating History:

Date	Rating	Outlook/Alert
27/07/22	BB	Stable
09/07/21	BB+	Negative
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 weak and volatile operating performance due to its concentration in the high-priced housing segment, as well as its high financial leverage. The rating also acknowledges the company’s well-accepted brand in the high-end condominium segment. Additionally, the rating takes into account concerns over higher bank rejection rates for mortgage loan applications amid lingering high interest rates and elevated levels of household debt.

KEY RATING CONSIDERATIONS

Weak and volatile operating performance

MJD’s operating performance remains weak. Revenues in 2023 and the first quarter of 2024 fell below our previous forecast due to delays in launching and transferring the company’s housing projects and higher bank rejection rates of mortgage loan applications. MJD’s revenue dropped by 22% year-on-year (y-o-y) to THB2.2 billion in 2023 and by 4% y-o-y to THB620 million in the first quarter of 2024. The small revenue base, coupled with the company’s relatively high selling and administrative expenses, caused its EBITDA margin to remain below 15% during this period, despite some improvement.

Looking forward, MJD’s operating performance is expected to improve gradually. Presales in the first five months of 2024 (mainly from joint venture (JV) projects) totaled THB5 billion, up from THB3.5-THB3.8 billion per year during 2022-2023. About 70% of its presales came from Muniq Phrompong, which generated THB3.3 billion in presales against a total project value of THB3.7 billion.

As of May 2024, MJD’s backlog was THB6.9 billion, including THB2.5 billion from its own projects and THB4.4 billion from JVs. Around THB0.9 billion of its own backlog is expected to be transferred in the remainder of 2024, and THB1.6 billion in 2025. Most of the JV backlog is expected to be transferred in 2027-2028.

Expanding housing projects to enhance earnings

MJD aims to balance its portfolio by launching more landed property projects. This year, the company plans to launch four housing projects worth THB5.3 billion and five condominium projects under JVs worth THB19.5 billion, with a number of projects delayed from last year. Diversifying toward landed property products should help shorten development time and generate revenues in periods when no new condominium projects are being completed. However, the company continues to focus on the high-priced and luxury housing segments. In TRIS Rating’s view, MJD’s diversification toward the landed property segment, if successful, should help stabilize its revenues and earnings in the long term.

Based on the company’s plan to launch more projects and the expected recovery in demand for condominiums, we project MJD’s revenues to improve to THB3.0-THB4.2 billion per annum during 2024-2026. Additionally, 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 should help stimulate transfers this year. Revenue from the hotel and office businesses is expected to be only THB500-THB550 million per annum during 2024-2026. Overall, the higher revenue base should help increase MJD’s

EBITDA margin to around 15%-18% over the next three years. Furthermore, MJD's bottom line is expected to improve and turn positive no later than 2025.

Well-accepted brand name in the high-priced condominium segment

TRIS Rating views that MJD's brands are relatively strong in the high-end condominium segment. Its competitive edge is underpinned by its well-accepted product quality, prime locations, and functional unit sizes. Most of MJD's projects are located in downtown areas close to mass transit lines. The company develops condominium projects under various brands, including Muniq, M Series, Maru, Metris, and Maestro, with prices ranging from THB120,000 to THB350,000 per square meter (sq.m.).

The company has also developed landed property projects under the Malton and Mavista brands, targeting the high-end and luxury segments with starting prices from THB50 million per unit. The Mayfield brand caters to the middle to high segments, with prices ranging from THB12-THB20 million per unit. However, the number of landed property projects remains limited. As of May 2024, the company had just five landed property projects out of a total of 18 residential projects, which includes five JV condominium projects. About 73% of the unsold value was priced above THB12 million per unit. The value of remaining landed property units available for sale was THB4.6 billion, accounting for around 36% of the total remaining units available for sale.

Financial leverage remains high

MJD's financial leverage remains high. The company's debt to capitalization ratio, including 51% of the debt of the JVs, rose to around 71% from 2023 until March 2024, slightly higher than our threshold of 70%. Meanwhile, the ratio of its funds from operations (FFO) to debt stood at around negative 5%-6% in 2023 and the first quarter of 2024. With plans to develop several housing and condominium projects, MJD's debt to capitalization ratio will likely remain at a high level. However, the company intends to jointly develop projects with several partners to maintain its debt to capitalization ratio at around 70%. The company has already announced partners for most of its upcoming projects. A further rise in its debt to capitalization ratio will negatively affect its rating and/or outlook.

Our base case assumes the company will launch new projects worth around THB24.8 billion in 2024, with approximately 80% developed under JVs. Additionally, we assume the company will launch new projects worth around THB5-THB10 billion per annum during 2025-2026. The company has already acquired land plots for its own projects in 2024. The budget for land acquisitions for its own projects is set at THB0.5-THB1.0 billion per year in 2025-2026. According to the company's loan covenants, MJD must maintain its net interest-bearing debt (IBD) to equity ratio below 3.5 times. At the end of March 2024, the ratio was 2.4 times. We believe the company should remain in compliance with its financial covenants over the next 12 to 18 months.

Tightening liquidity

We assess MJD to have tight liquidity. As of March 2024, MJD had THB2.3 billion of debt due over the next 12 months, comprising THB0.1 billion short-term loans, THB0.9 billion long-term loans and project loans, and THB1.3 billion debentures. Its sources of liquidity at the end of March 2024 were only THB0.3 billion in cash on hand. The company plans to repay its project loans with cash from the transfers of property units, while its maturing debentures will be refinanced with new secured debentures issuance. The new bond issuances will be backed by assets freed up from its bank loans.

Debt structure

As of March 2024, MJD's consolidated debt, excluding lease liabilities, amounted to THB11.4 billion. The company's priority debt, including secured debts at the company and total debts of its subsidiaries, was THB6 billion. The priority debt to total debt ratio was 53%, exceeding our 50% threshold. Thus, we consider MJD's unsecured creditors to be significantly disadvantaged to its priority debt holders with respect to the priority of claims against the company's assets.

BASE-CASE ASSUMPTIONS

- Residential property project launches (including JV projects) of THB24.8 billion in 2024 and THB5-THB10 billion per annum during 2025-2026.
- Revenue of THB3-THB4 billion per annum during 2024-2026.
- EBITDA margin to recover to above 15%.
- Budget for land acquisitions of THB0.5-THB1.0 billion per annum in 2025 and 2026.

RATING OUTLOOK

The “stable” outlook reflects our expectation that MJD will be able to sustain its operating performance as targeted and deliver units in its backlog as scheduled. Based on its business plans, we expect the company’s EBITDA margin to recover to approximately 15% while its debt to capitalization ratio is projected to remain around 70% over the forecast period.

RATING SENSITIVITIES

We could revise the rating or outlook upward if the company can improve its operating performance and lower 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 financial leverage deteriorate from our base-case targets, resulting in its EBITDA margin remaining below 15% and/or the debt to capitalization ratio staying above 70% for a prolonged period.

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 March 2024, the Poolvorlaks family held a 50% 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.

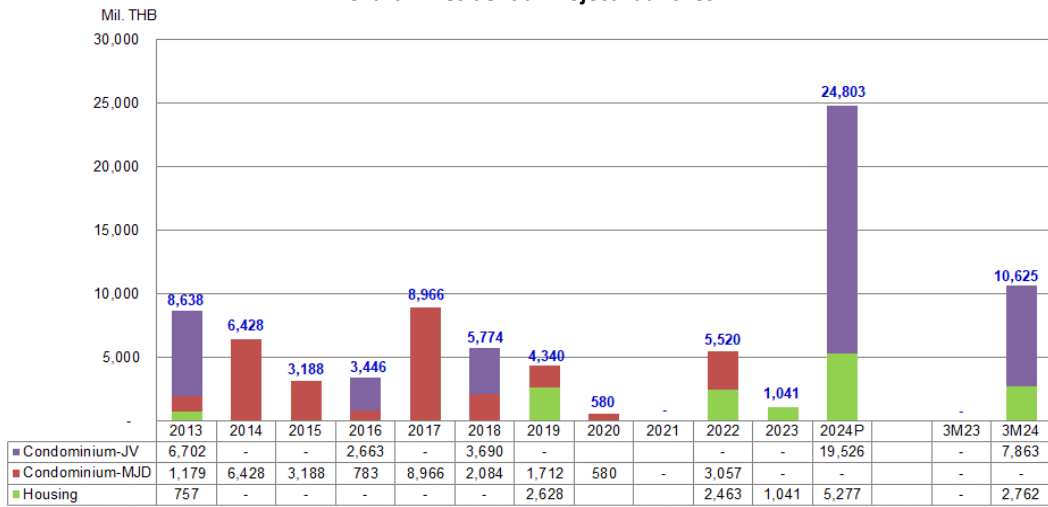
In 2013, MJD invested 51% in a JV with private equity funds, including Must International Trading Pte. Ltd. (22%), GMM Singapore Real Estate Pte. Ltd. (22%), and GRG Global Investments Ltd. (5%). The JV developed two condominium projects: Marque Sukhumvit, launched in 2013, and Muniq Sukhumvit 23, launched 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, comprising 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 launched housing projects under the Malton and Mavista brands in 2019.

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

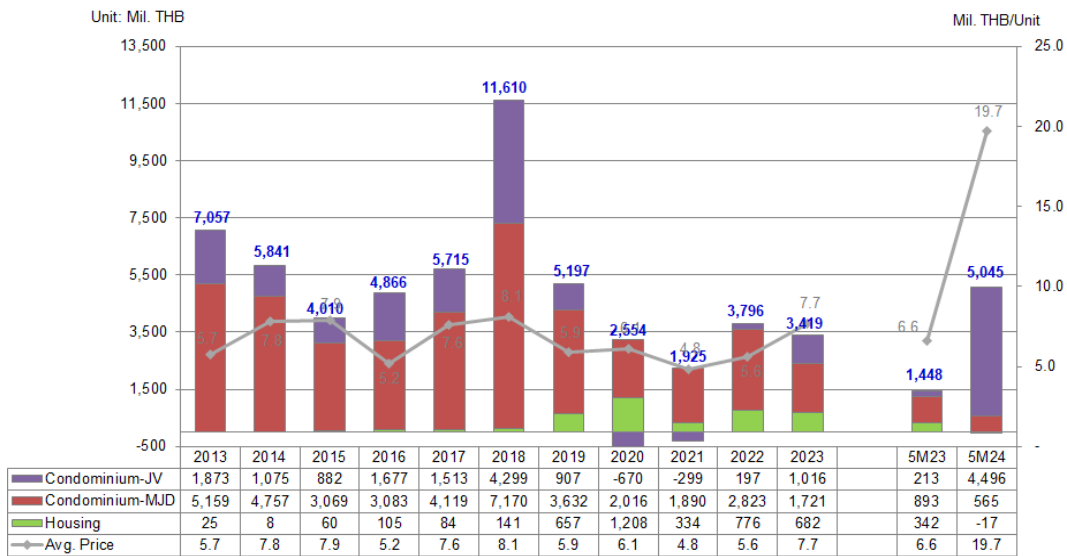
KEY OPERATING PERFORMANCE

Chart 1: Residential Project Launches



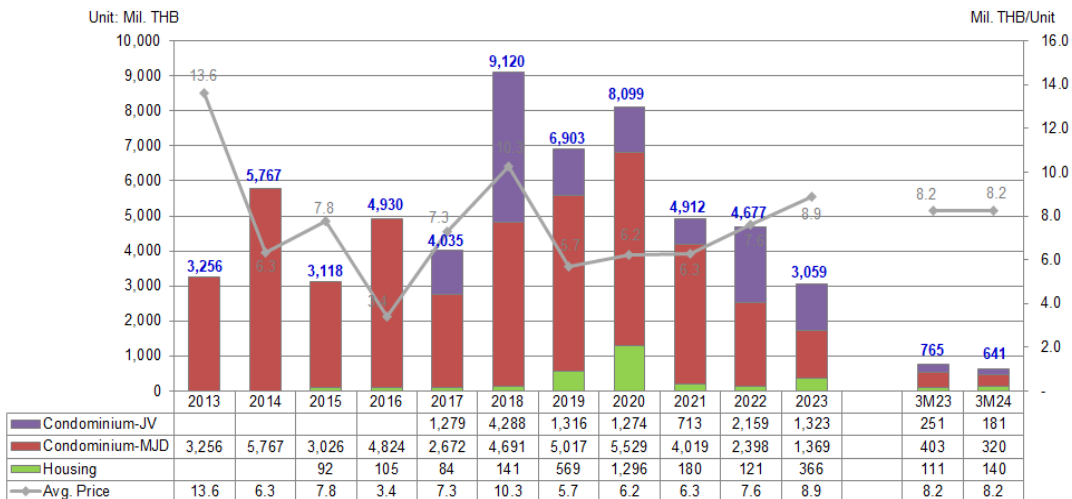
Source: MJD

Chart 2: Presales Performance



Source: MJD

Chart 3: Transfer Performance



Source: MJD

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	620	2,217	2,847	4,404	7,335
Earnings before interest and taxes (EBIT)	42	92	111	388	953
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	65	193	219	511	1,087
Funds from operations (FFO)	(156)	(612)	(414)	(193)	357
Adjusted interest expense	221	783	594	678	619
Real estate development investments	10,238	10,119	6,677	7,030	8,445
Total assets	17,396	17,368	16,467	15,967	18,763
Adjusted debt	11,273	11,225	9,498	9,648	9,749
Adjusted equity	4,575	4,642	4,960	5,310	5,654
Adjusted Ratios					
EBITDA margin (%)	10.4	8.7	7.7	11.6	14.8
Pretax return on permanent capital (%)	0.5 **	0.6	0.7	2.4	5.6
EBITDA interest coverage (times)	0.3	0.2	0.4	0.8	1.8
Debt to EBITDA (times)	61.8 **	58.3	43.4	18.9	9.0
FFO to debt (%)	(5.9) **	(5.4)	(4.4)	(2.0)	3.7
Debt to capitalization (%)	71.1	70.7	65.7	64.5	63.3

* 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

Major Development PLC (MJD)

Company Rating:	BB
Rating Outlook:	Stable

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