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ORIGIN PROPERTY PLC

No. 122/2017 29 September 2017

Company Rating: BBB-

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
23/05/17	BBB-	Alert Developing
12/09/16	BBB-	Stable

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Rating Rationale

TRIS Rating affirms the company rating of Origin Property PLC (ORI) at "BBB-". At the same time, TRIS Rating replaces ORI's "developing" CreditAlert with a "stable" outlook. ORI was placed on CreditAlert with a "developing" implication on 23 May 2017, following the company's 17 May 2017 announcement that the board of directors approved the acquisition of Proud Residence Co., Ltd. (PROUD). On 12 July 2017, ORI's shareholders also approved the acquisition of PROUD. The transaction is expected to be completed in October 2017.

The ratings of ORI reflect the company's evolving brand recognition in the middle- to low-priced condominium segment, high profit margin, and the increase in the backlog after the acquisition of PROUD. However, these strengths are partly offset by the company's limited track record, concentration in just a few product segments, and looming rise in financial leverage brought about by an aggressive expansion plan. The ratings also take into consideration the high level of household debt nationwide, and the cyclical and competitive nature of the residential property industry.

ORI was established in 2009 by the Jaroon-ek family. The company was listed on the Stock Exchange of Thailand (SET) in late 2015. The Jaroon-ek family has been the major shareholder of the company since inception, owning a 62% stake as of June 2017. ORI focuses on the middle- to low-end condominium segments. Most of ORI's condominium projects are located in the suburbs of Bangkok, especially along the Skytrain route from Bearing to Samut Prakan and the route from Chatuchak to Saphan Mai. The company also expanded into Sri Racha and Laem Chabang, both in Chonburi province. In July 2017, ORI set up four joint ventures (JVs) with Nomura Real Estate Development Co., Ltd. (NRED), a property developer in Japan. Plans for the JVs call for them to develop four condominium projects, with a combined project value of around Bt8,600 million. ORI held a 51% stake in the JVs while NRED held 49%.

ORI's condominium projects are developed under the "Knightsbridge", "Notting Hill", and "Kensington" brands. Its products target mainly the middle- to low-income segments. PROUD, on the other hand, owns "Park 24", a condominium project, located in the Central Business District (CBD), which targets a higher income segment. After the acquisition of PROUD, ORI plans to develop more higher-priced condominium projects under the "Park" brand. ORI's competitive position in the condominium segment is improving over time. Revenues and presales have grown steadily since inception. In addition, ORI plans to diversify into the housing segment and invest more in rental assets.

As of June 2017, ORI had 31 condominium projects with a total project value of Bt34,300 million. The average selling price across the entire portfolio was Bt2.4 million per unit. ORI had Bt13,400 million worth of units available for sale across the project portfolio. Presales was Bt9,193 million in 2016, jumping from Bt5,130 million in 2015. Presales in the first half of 2017 was Bt3,507 million, up 50% from the same period last year. At the end of June 2017, the value of ORI's condominium backlog stood at Bt14,368 million and is expected to be recognized as revenue of around Bt3,000 million in the second half of 2017, Bt4,400 million in 2018, Bt2,400 million in 2019, and Bt4,500 million in 2020. In addition, the value of the backlog at the Park 24 project was Bt10,917 million. A portion of the backlog, worth around Bt2,000-Bt3,000 million will be ready to transfer to buyers by the end of this year. ORI's sizeable backlog will help secure some of its revenues over the next three years.

ORI's revenue grew sharply over the past few years. Revenues in 2016 rose to Bt3,153 million, from Bt2,010 million in 2015 and Bt400-Bt500 million per annum during 2013 and 2014. In the first half of 2017, revenue was Bt2,024 million, up 104% from the same period last year. ORI's profitability also improved in the past two years. The operating margin (operating income before depreciation and amortization as a percentage of revenue) in the first half of 2017 was 29.38%, increasing from 25.49% in 2016 and 24.13% in 2015.

The rapid expansion, however, has put ORI's leverage on the rise. At the end of June 2017, the adjusted debt to capitalization ratio (considering the net present value of operating leases as debt and netting out preferred shares from equity) was 64.18%, up from 54.02% in 2016. Going forward, leverage is expected to remain high since the company plans to launch a number of new projects. In addition, ORI plans to invest more in commercial properties, such as hotels, serviced apartments, and office space. The investment budget will total Bt4,000-Bt5,000 million over the next three years.

TRIS Rating's base case forecast assumes OR's revenue will reach around Bt8,000 million in 2017 and then increase to Bt12,000-Bt13,000 million yearly during 2018-2020. The Park 24 project will make a greater revenue contribution over the next three years. The operating margin is expected to decline but should stay above 15%, despite the higher operating expenses needed to support the sharp increase in the number of new projects launched. Despite its aggressive expansion plan, ORI's debt to equity ratio should stay below 2 times, in order to comply with the financial covenants specified in the bank loans and bonds.

Liquidity is adequate. The company had Bt523 million in cash, plus undrawn credit lines of Bt5,130 million, at the end of June 2017. Debts coming due over the next 12 months will be around Bt973 million. In TRIS Rating's base case forecast, the ratio of funds from operations (FFO) to total debt is expected to maintain at around 15% on average, while the EBITDA (earnings before interest, tax, depreciation, and amortization) interest coverage ratio is expected to stay above 3 times over the next three years.

Rating Outlook

The "stable" outlook reflects the expectation that ORI will continue to grow as planned. The operating margin is expected to stay above 15% while the adjusted debt to equity ratio should not be significantly higher than 2 times for too long.

The possibility of a rating upgrade is quite limited during the next two to three years. However, the ratings or outlook could be revised upward if the revenue base or cash flow grows significantly while the adjusted debt to equity ratio is maintained at lower than 1.5 times, or the adjusted debt to capitalization ratio is lower than 60% on a sustained basis. On the contrary, the ratings and/or outlook could be revised downward should ORI's operating performance and financial leverage deteriorate significantly from the current levels.

Origin Property PLC (ORI)

Company Rating:	BBB-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios *

Unit: Bt million

		------------------------ Year Ended 31 December ------------------------				
	Jan-Jun 2017	**2016**	**2015**	**2014**	**2013**	**2012**
Revenues	2,024	3,153	2,010	550	413	191
Finance cost	101	92	87	46	16	6
Net income from operations	411	638	386	70	64	28
Funds from operations (FFO)	442	736	447	65	69	35
Inventory investment (-increase/+decrease)	(2,618)	(1,996)	(703)	(852)	(525)	(143)
Total assets	9,573	6,758	3,347	1,910	1,011	460
Total debts	4,325	2,577	691	1,034	393	131
Total adjusted debts	4,605	2,577	691	1,034	393	131
Total liabilities	6,452	4,015	1,599	1,623	710	247
Shareholders' equity	3,121	2,743	1,748	287	301	213
Adjusted shareholders' equity	2,571	2,193	1,748	287	301	213
Depreciation & amortization	24	41	28	10	6	5
Dividends	44	193	251	84	0	0
Operating income before depreciation and amortization as % of sales	29.38	25.49	24.13	16.74	20.16	18.82
Pretax return on permanent capital (%)	10.50 **	22.43	26.70	9.04	16.06	15.67
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	5.18	9.22	6.07	2.21	5.73	6.24
FFO/total debt (%)	10.80 **	28.58	64.62	6.33	17.46	27.08
Total debt/capitalization (%)	64.18	54.02	28.34	78.28	56.62	38.12

Note: All ratios have been adjusted by the net present value of operating leases as debt since 2017 and netting out preferred shares from equity since 2016

* *Consolidated financial statements*

** *Annualized with trailing 12 months*

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