TRIS RATING
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ORIGIN PROPERTY PLC

No. 112/2018
3 August 2018

CORPORATES

Company Rating:	BBB-
Outlook:	Positive

Company Rating History:

Date	Rating	Outlook/Alert
29/09/17	BBB-	Stable
23/05/17	BBB-	Alert Developing
12/09/16	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Origin Property PLC (ORI) at "BBB-". At the same time, TRIS Rating revises the company's outlook to "positive" from "stable". The "positive" outlook reflects ORI's higher-than-expected growth in revenue and profitability. Based on its large backlog, ORI's revenue base is expected to grow to more than Bt10,000 million per annum while its operating margin (operating income before depreciation and amortization as a percentage of revenue) is expected to maintain above 20% over the next three years.

The rating reflects ORI's improving market position in the middle- to low-priced condominium segment. Its expansion into the high-priced condominium segment and landed housing property also received a good response. However, the rating is partly constrained by ORI's relatively high financial leverage as a result of its aggressive expansion. The rating also takes into consideration the relatively high level of household debt nationwide and the cyclical and competitive nature of the residential property industry.

KEY RATING CONSIDERATIONS

Outperforming operations

ORI's operating performance during 2017 through the first quarter of 2018 was higher than TRIS Rating's expectation. ORI's revenue grew sharply over the past few years. Revenue in 2017 rose to Bt9,253 million, from Bt3,153 million in 2016 and Bt2,010 million in 2015. In the first quarter of 2018, revenue was Bt2,395 million, up 178% from the same period last year. The strong growth in revenue was driven by the acquisition of Proud Residence Co., Ltd. (PROUD), the owner of the Park 24 project, in 2017. The large backlog of Park 24 project will help support the revenue growth of ORI during 2018-2020.

Despite the lower gross profit margin of the Park 24 project, ORI was able to maintain its profitability at a satisfactory level, reflecting its ability to control costs and adjust selling prices. The operating margin stayed in the range of 24.5%-25.5% during 2015-2017, this ratio improved to 34.8% in the first quarter of 2018.

Improving competitive position

ORI's competitive position in the condominium segment is improving over time. ORI develops condominium projects under the "Knightsbridge", "Notting Hill", and "Kensington" brands. Its products target mainly the middle- to low-income segments. After the acquisition of PROUD, ORI will use the "Park" brand to target the higher income segment. ORI also diversified into the housing segment under the "Britania" brand to capture the medium-priced housing segment. In addition, the company plans to invest more in commercial properties, such as hotels, serviced apartments, and office space.

ORI's revenues and presales have grown steadily since inception. Presales increased from Bt5,130 million in 2015 to Bt9,193 million in 2016 and jumped to Bt12,363 million in 2017. Presales in 2017 comprised presales of ORI's owned projects of Bt7,976 million and presales from joint venture (JV) projects of Bt4,387 million. Presales in the first quarter of 2018 was Bt3,846 million (including presales from JV projects of Bt1,636 million), up from Bt1,045 million in the same period last year.

Large backlog and plans to launch new projects will support top-line growth

ORI has a large condominium backlog securing growth over the next 2-3 years. At the end of March 2018, the value of ORI's backlog stood at Bt23,237 million and is expected to be recognized as revenue of around Bt10,000 million in the remainder of 2018, Bt7,300 million in 2019, Bt4,000 million in 2020, and the rest in 2021. The backlog of the projects under the JVs is currently worth around Bt6,023 million. This backlog will be transferred from 2020 onwards. ORI's sizable backlog will help secure its revenues and earnings over the next three years. TRIS Rating's base-case assumes ORI's revenue will range from Bt12,000-Bt13,000 million per annum during 2018-2020. The operating margin is expected to stay above 20%.

As of March 2018, ORI had 36 projects with a total project value of Bt53,319 million. The average selling price across the entire portfolio was Bt3.3 million per unit. ORI had Bt16,596 million worth of units available for sale across the project portfolio. The company also had four condominium projects developed under four JVs. The total project value of the JVs was Bt8,800 million, with an average price of Bt4.2 million per unit. The JVs had Bt2,777 million worth of units available for sale.

Aggressive expansion led to high financial leverage

Under its 5-year business plan, ORI plans to expand its portfolio towards low-rise housing projects and rental properties. In 2018, ORI plans to launch new projects, including both owned and JV projects, worth Bt28,050 million, up from Bt15,150 million in 2017. The new projects will include three landed property projects worth around Bt3,650 million. In addition, the company plans to invest around Bt1,200-Bt2,400 million per year in hotels, serviced apartments, and offices. The diversification into the landed property segment will help fulfill its portfolio and smooth its earnings in the long run.

However, due to its aggressive expansion, ORI's leverage is expected to maintain at a relatively high level during the investment period. At the end of March 2018, the adjusted debt to capitalization ratio (including a proportionate 51% of debt from the joint venture and considering the net present value of operating leases as debt and netting out preferred shares from equity) was 69.03%, up from 64.96% in 2017. Going forward, ORI's leverage is expected to remain high since the company plans to launch a number of residential property projects and mixed-use projects. Under TRIS Rating's base case, ORI's adjusted debt to capitalization ratio is expected to stay around 60%-65% over the next three years, or the net debt to equity ratio staying at 1.5-2.0 times.

Exposure to cyclical and competitive industry

Demand for housing is cyclical and depends largely on the economy. Due to a slowdown in the domestic economy and concerns over the high level of household debt nationwide, lending policies at banks have tightened. Rejection rates for mortgage loans have increased significantly, especially in the low-priced housing segment (units priced at less than Bt3 million). To avoid the problem of rising rejection rates, several developers, including ORI, focus more on the higher-priced segments. However, demand in the higher-priced segments is much lower than in the lower-priced segment. More competition among developers will result from an increased supply of housing units in this segment.

Adequate liquidity

ORI's liquidity position is adequate. Its sources of funds comprised cash on hand of Bt1,639 million and undrawn project loans of Bt6,304 million at the end of March 2018. TRIS Rating forecasts ORI's funds from operations (FFO) over the next 12 months will be around Bt2,000 million. Debts due over the next 12 months (excluding project loans) will be Bt1,382 million. ORI plans to repay its project loans of Bt5,745 million with cash received from transferring finished condominiums to its customers.

In TRIS Rating's base case forecast, the ratio of FFO to total debt is expected to maintain at around 10%-15%, 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 "positive" outlook reflects TRIS Rating's expectation that ORI will continue to grow as planned. The outlook is also based on the expectation that ORI will continue to maintain its good operating performance and keep the adjusted debt to capitalization ratio at around 60%-65% over the next three years.

TRIS Rating's base case forecast assumes ORI's revenue will be around Bt12,000-Bt13,000 million yearly during 2018-2020. The Park 24 project will greatly contribute to revenue over the next two years. The operating margin is expected to stay above 20%, despite the higher operating expenses needed to support the increase in the value 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.

RATING SENSITIVITIES

The ratings could be revised upward if ORI's revenue base and cash flow grow as planned while its adjusted debt to capitalization ratio stays lower than 65%. On the other hand, the ratings and/or outlook could be revised downward should ORI's operating performance and financial leverage deteriorate significantly from the current levels.

COMPANY OVERVIEW

ORI was established in 2009 by the Jaroon-ek family. The company became a public company in November 2014 and was listed on the Stock Exchange of Thailand (SET) in October 2015. After the initial public offering (IPO), the Jaroon-ek family continued to be ORI's largest shareholder. As of May 2018, the Jaroon-ek family held a 59% stake in the company.

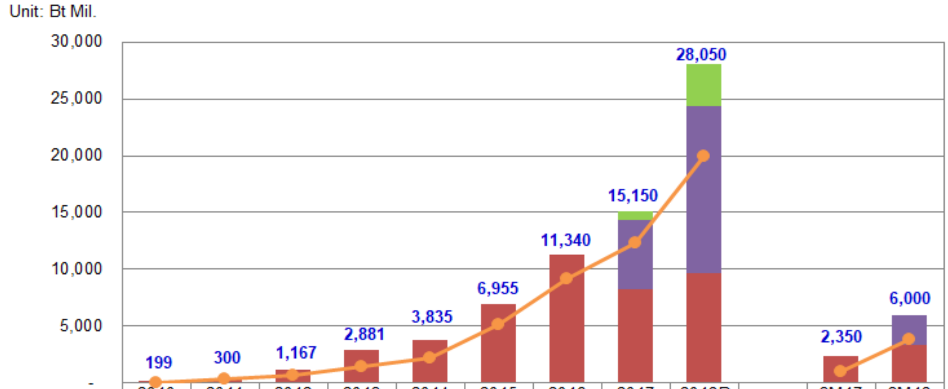
ORI focuses on the middle- to low-end condominium segment. The average selling price ranges between Bt45,000-Bt95,000 per square meter (sq.m.) or Bt1.5-Bt3.5 million per unit. Most of its condominium projects are located in the suburbs of Bangkok, especially along the skytrain route from Bearing to Samut Prakan and the route from the Kasetsart University intersection to Saphan Mai. The company recently expanded into Sri Racha and Laem Chabang districts in Chonburi Province.

In 2017, ORI acquired all stake of Proud Residence Co., Ltd. (PROUD) in order to enter into the high-end condominium segment. In addition, ORI set up four joint ventures with Nomura Real Estate Development Co., Ltd. (NRED), a property developer in Japan. The JVs developed four condominium projects, with a combined project value of Bt8,800 million. ORI held a 51% stake in the JVs while NRED held 49%. ORI also launched a single detached house (SDH) project under the "Britania" brand in 2017, to capture housing market, pricing between Bt5-Bt8 million per unit. In addition, the company plans to invest more in commercial properties, such as hotels, serviced apartments, and office space. The investment budget will total Bt5,000-Bt6,000 million over the next three years.

ORI's major brands comprise "Park", "Knightsbridge", "Notting Hill", and "Kensington". The "Park" is a condominium brand with selling prices above Bt200,000 per sq.m., while the "Knightsbridge" brand has selling prices between Bt120,000-Bt200,000 per sq.m., the "Notting Hill" brand has selling prices between Bt80,000-Bt120,000 per sq.m., and the "Kensington" brand was introduced to capture the middle- to low-income segment, with selling prices below Bt80,000 per sq.m.

KEY OPERTING PERFORMANCE

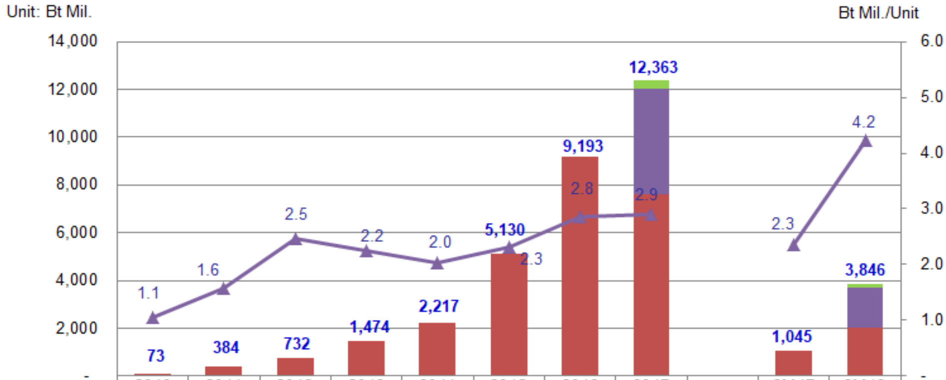
Chart 1: New Residential Project Launches



	2010	2011	2012	2013	2014	2015	2016	2017	2018P		3M17	3M18
Housing								800	3,650		-	-
Condominium-JV								6,100	14,700		-	2,700
Condominium-ORI	199	300	1,167	2,881	3,835	6,955	11,340	8,250	9,700		2,350	3,300
Presales	73	384	732	1,474	2,217	5,130	9,193	12,363	20,000		1,045	3,846

Source: ORI

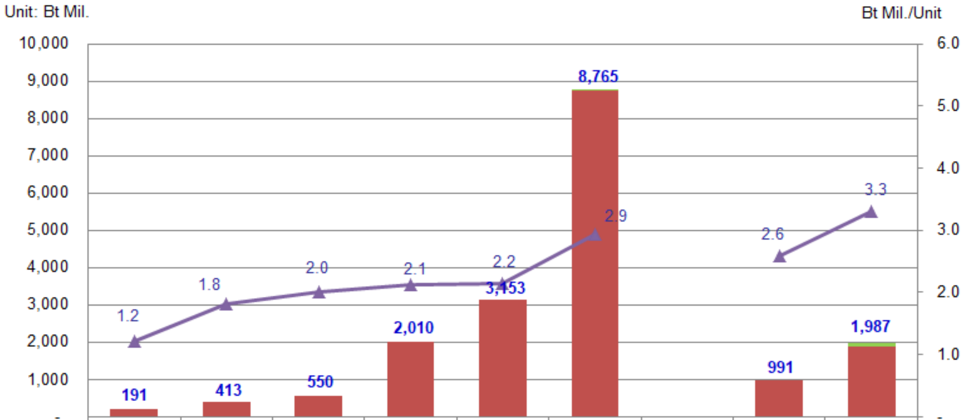
Chart 2: Presales Performance



	2010	2011	2012	2013	2014	2015	2016	2017		3M17	3M18
Housing								347		-	172
Condominium-JV								4,387		-	1,636
Condominium-ORI	73	384	732	1,474	2,217	5,130	9,193	7,629		1,045	2,038
Avg. Price	1.1	1.6	2.5	2.2	2.0	2.3	2.8	2.9		2.3	4.2

Source: ORI

Chart 3: Revenue Breakdown by Product



	2012	2013	2014	2015	2016	2017		3M17	3M18
Housing						11			102
Condominium	191	413	550	2,010	3,153	8,753		991	1,885
Avg. Price	1.2	1.8	2.0	2.1	2.2	2.9		2.6	3.3

Source: ORI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		---------------- Year Ended 31 December ---------------			
	Jan-Mar 2018	2017	2016	2015	2014
Revenue	2,395	9,253	3,153	2,010	550
Gross interest expense	102	306	92	87	46
Net income from operations	489	1,380	638	386	70
Funds from operations (FFO)	837	1,996	736	447	65
Inventory investment (-increase/+decrease)	(603)	(2,531)	(1,996)	(703)	(852)
Total assets	25,509	22,925	6,758	3,347	1,910
Total debts	12,117	9,071	2,577	691	1,034
Total adjusted debts	12,565	9,497	2,577	691	1,034
Shareholders' equity	6,928	6,412	2,743	1,748	287
Adjusted shareholders' equity	5,638	5,122	2,193	1,748	287
Operating income before depreciation and amortization as % of sales	34.81	24.87	25.49	24.13	16.74
Pretax return on permanent capital (%)	21.09 **	20.86	22.43	26.70	9.04
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	7.14	6.90	9.22	6.07	2.21
FFO/total debt (%)	22.00 **	21.73	28.58	64.62	6.33
Total debt/capitalization (%)	69.03	64.96	54.02	28.34	78.28

Note: All ratios have been adjusted by debt from the joint venture of 51% since 2017, 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*

Origin Property PLC (ORI)

Company Rating:	BBB-
Rating Outlook:	Positive

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