

PROPERTY PERFECT PLC

No. 97/2018

10 July 2018

CORPORATES

Company Rating:	BB+
Issue Rating:	
Hybrid	B+
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
20/05/15	BB+	Stable
19/06/14	BB+	Developing
06/12/13	BB+	Stable
18/11/11	BBB-	Negative
18/09/09	BBB-	Stable

Contacts:

Jutamas Bunyanichkul

jutamas@trisrating.com

Auyporn Vachirakanjanaporn

auyporn@trisrating.com

Rapeepol Mahapant

rapeepol@trisrating.com

Suchada Pantu, Ph. D.

suchada@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the rating on Property Perfect PLC (PF) at “BB+” and also affirms the rating on PF’s unsecured subordinated perpetual debentures (hybrid debentures) at “B+”. The rating on hybrid debentures was notched down by three notches from PF’s company rating, two notches for subordination and one notch for an option to defer the coupon payment at the discretion of the issuer. The two-notch differential for subordination reflects the low recovery of principal of hybrid debentures issued by a non-investment grade issuer.

The ratings on PF reflect the company’s acceptable brand name in the middle- to high-income housing segments, expected higher income from rental assets, and weak financial profile resulting from its aggressive expansion in residential property and hotel businesses and its relatively low profitability. The ratings also take into consideration the cyclical and competitive environment in the residential property development business and the concern over the high level of Thailand’s household debt which impacts the affordability of homebuyers, especially in the middle- to low-income segments.

KEY RATING CONSIDERATIONS

Acceptable brand name

PF’s housing brands, especially landed property projects, are quite acceptable in the middle- to high-income segments. Its residential sales have ranked top-10 largest among all leading property developers in Thailand for past several years. Landed property generated sales of around Bt6,500-Bt7,500 million per annum during 2015-2017. Sales from condominium projects were around Bt4,800-Bt4,900 million per annum during 2016-2017. PF’s residential sales in the first quarter of 2018 grew by 57% year-on-year (y-o-y) to Bt3,021 million.

TRIS Rating expects PF’s residential sales in 2018-2020 to stay around Bt13,000-Bt15,000 million per annum. As of March 2018, PF had 47 existing landed property projects and 18 active condominium projects, with total remaining project value of Bt33,000 million (including built and un-built units). PF set a budget for land acquisition of Bt5,000 million in 2018. The company plans to launch nearly 30 residential projects worth Bt38,000 million this year, much higher than the 10 residential projects worth Bt8,300 million launched last year. Around 60% of the new project value in 2018 will be landed property projects. The rest will be condominium projects under its own and joint ventures (JVs).

Exposed to cyclical and highly competitive residential property business

The residential property market closely follows trends in the overall economy. However, the volatility in this market is much more pronounced than in the general economy. Slow recovery in the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the affordability of the middle- to low-income homebuyers. Thus, several property developers have shifted their focus towards the higher-income segment, intensifying competition in this segment due to increased supply. In 2018-2020, PF will face more challenge in maintaining its market share in the middle- to high-income segments. Lower residential sales and higher post-financing rejection rate may cause its leverage to hang at a high level for a longer period.

Expected higher recurring income from new hotels

PF currently operates three hotels in Thailand and one hotel in Japan, with 1,077 rooms in total. The hotels in Thailand generated income of about Bt1,000 million per annum and earnings before interest, tax, depreciation, and amortization (EBITDA) of Bt270 million per annum during 2016-2017. Revenue from Kiroro, a hotel in Japan, was around Bt1,100-Bt1,200 million per annum during 2016-2017. The net losses from Kiroro were around Bt200-Bt300 million per annum. The net losses negatively impacted the bottom line of PF. However, the operating performance of Kiroro improved in 2017 from higher occupancy rate and more revenue per available room (RevPar).

TRIS Rating forecasts PF's revenue from hotel operations will be around Bt3,500 million per annum during 2019-2020, up from Bt2,323 million in 2017. The two new hotels; Hyatt Regency Sukhumvit and Royal Orchid Sheraton Hotel and Towers, with total 999 rooms, will drive the revenue growth. PF will complete the construction and start operating the Hyatt Regency Sukhumvit in September 2018. Also, the acquisition of the Royal Orchid Sheraton Hotel and Towers will complete in the third quarter of 2018.

Concerns over expansion into various businesses

Apart from residential property and hotel businesses, PF operates two office buildings for rent, one community mall, and 16 branches of discount store under JV with a retail partner. The company also plans to invest in wind and solar energy businesses and develops mix-used projects in Eastern Economic Corridor area in Trad province with partners. TRIS Rating raises concerns over PF's diversification into various businesses. The company's investments in these businesses were around Bt970 million. PF may invest more in these businesses. However, the size of investments and timeframe is still uncertain.

Weak financial profile

PF's financial profile is considered weak. PF's large investments in residential projects through its own and JV projects, new recurring-income assets, and other businesses may increase financial leverage and weaken cash flows from the current levels. The company's debt to capitalization ratio was 67% as of December 2017 and as of March 2018. The ratio of funds from operations (FFO) to total debt was 4%-5% during 2016 through the first three months of 2018. TRIS Rating expects PF to keep its debt to capitalization ratio at around 65% and FFO to total debt ratio at above 3% in order to satisfy the current ratings.

PF's profitability was lower than rated peers. Its operating profit margin, as measured by operating income before depreciation and amortization as a percentage of sales, was around 12%-13% during 2016 through the first quarter of 2018, compared with around 15%-17% of rated peers. The company's net profit margin was in the range of 2%-5% of total revenues, much lower than around 10%-12% of rated peers.

TRIS Rating forecasts PF's operating profit margin should stay between 12%-15% in 2018-2020. The net profit margin should not further deteriorate from the current level. A further decline in its profitability will negatively affect the ratings.

Tight liquidity

PF's liquidity profile is tight. As of March 2018, the sources of funds comprised cash on hand of Bt2,970 million, undrawn unconditional committed credit facilities of Bt1,800 million, and unencumbered land plots at book value worth around Bt5,300 million. PF already signed agreements to sell a portion of its land bank at selling price of Bt4,000 million to JVs during 2018-2019. This will help enhance its liquidity and improve its profitability. TRIS Rating forecasts PF's FFO over the next 12 months will be around Bt500 million. These sources should be sufficient to cover the debt service needs over the next 12 months. PF has scheduled to repay short-term borrowings of Bt1,052 million, debentures of Bt5,745 million, and long-term project loans of Bt710 million, coming due in the next 12 months.

According to the key financial covenants in bank loans, PF has to maintain its net interest-bearing debt to equity ratio below 2 times. The ratio at the end of March 2018 was 1.7 times. Thus, the company was in compliance with its financial covenants. Due to its aggressive expansion plan, PF has to carefully manage its capital structure to avoid the covenant breach.

RATING OUTLOOK

The "stable" outlook reflects the expectation that PF will sustain its financial position during aggressive business expansion. PF's debt to capitalization ratio should stay at around 65% and its operating profit margin should be 12%-15%. Also, PF has to find adequate sources of funds in order to mitigate liquidity risk.

RATING SENSITIVITIES

PF's ratings and/or outlook could be revised downward if the financial profile falls below expectations. If the debt to capitalization ratio stays above 66% on sustainable basis and there is more pressure on liquidity risk, this will lead to a downward revision. On the contrary, the ratings and/or outlook would be upgraded if its financial profile improves significantly from the current level and less concern on liquidity risk.

COMPANY OVERVIEW

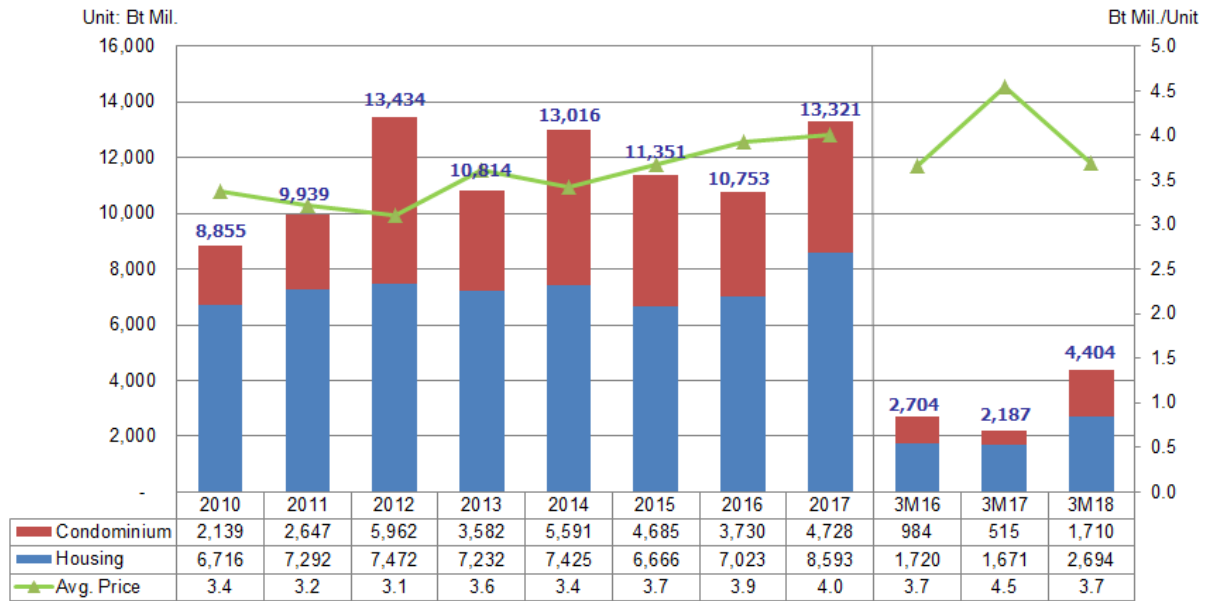
PF was founded in 1985 by Mr. Chainid Adhyanasakul, and was listed on the Stock Exchange of Thailand (SET) in 1993. The company focuses on the middle- to high-income segments of the residential property market in the Bangkok suburbs. PF offers landed property units under the Perfect Masterpiece, Perfect Residence, Perfect Place, Perfect Park, Modi Villa, The Metro, and Metro Biz Town brands. Its landed property products range in price from Bt2 million to Bt60 million per unit. Condominium units are sold under the Hyde, The Sky, Metro Sky, Metro Luxe, Metro Park, Bella Costa, and I Condo brands, with selling prices ranging from Bt40,000 to Bt200,000 per square meter (sq.m.). In 2018, PF set up several JVs with partners; HKL Thai Development Co.,Ltd., Sekisui Chemical Co.,Ltd., and Sumitomo Forestry Co.,Ltd., to enlarge its residential portfolio.

Apart from core business, the company operates four hotels, two office buildings for rent, one community mall, and 16 branches of discount store. Also, PF is in the initial stage of investments in wind and solar energy businesses and in mix-used projects in Eastern Economic Corridor area at Trad.

PF's revenue contribution from residential sales constituted 75%-80% of total revenue during the past five years. Revenue contribution from hotel operations increased to around 15% of total revenue, from lower than 10%, after the acquisition of Grande Asset Hotels and Property PLC (GRAND) in mid-2015. Revenue from land plot sales, rental and services, and construction services remained negligible.

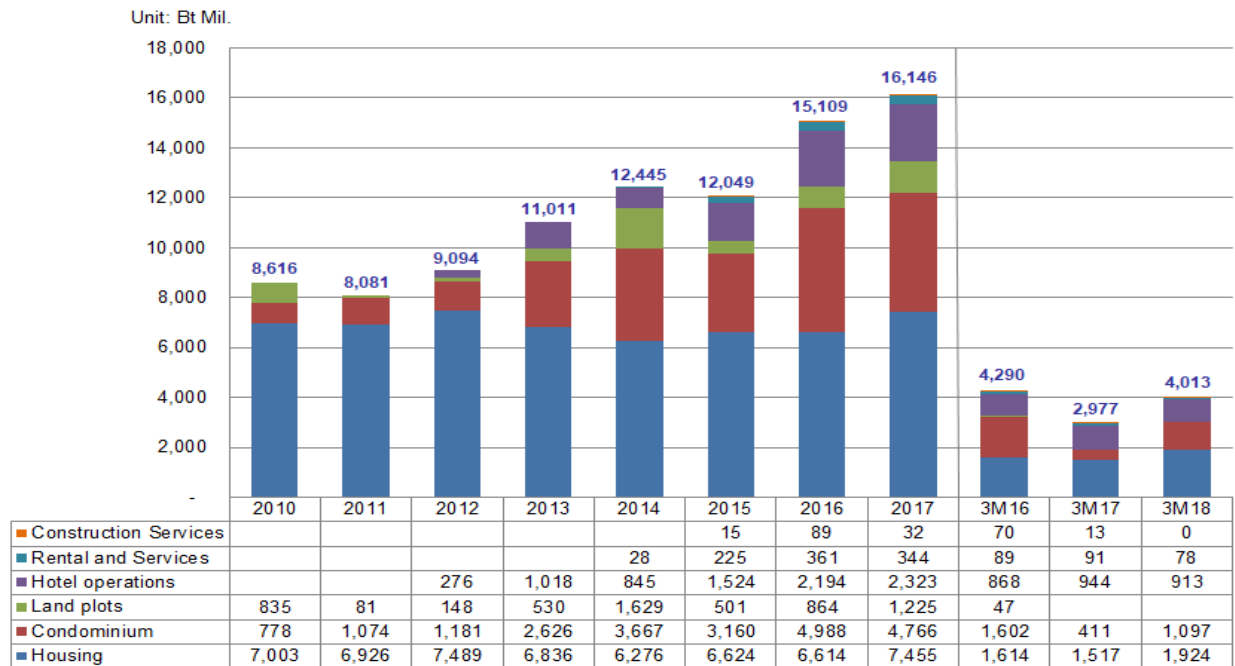
KEY OPERATING PERFORMANCE

Chart 1: Presales Performance



Source: PF

Chart 2: Revenue Breakdown



Source: PF

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Revenue	4,013	16,146	15,109	12,049	12,445
Gross interest expense	385	1,688	1,453	1,285	1,151
Net income from operations	195	64	281	(169)	322
Funds from operations (FFO)	427	1,239	1,129	202	656
Inventory investment	(612)	3,643	(3,425)	(2,633)	1,800
Total assets	48,553	47,487	48,790	43,277	31,406
Total debts	30,390	29,483	31,397	25,667	20,150
Shareholders' equity	14,995	14,768	13,937	13,664	8,972
Operating income before depreciation and amortization as % of sales	12.94	12.31	12.94	5.20	8.52
Pretax return on permanent capital (%)	3.07 **	3.47	3.86	1.70	4.43
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	1.74	1.42	1.67	0.83	1.27
FFO/total debt (%)	4.60 **	4.21	3.60	0.77	3.25
Total debt/capitalization (%)	66.96	66.63	69.26	65.26	69.19

* Consolidated financial statements

** Annualized with trailing 12 months

Property Perfect PLC (PF)

Company Rating: BB+**Issue Rating:**

PF17PA: Bt447.7 million subordinated capital debentures B+

Rating Outlook: Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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