

PROPERTY PERFECT PLC

No. 127/2021
9 August 2021

CORPORATES

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

Last Review Date: 26/08/20

Company Rating History:

Date	Rating	Outlook/Alert
26/08/20	BB	Stable
09/08/19	BB+	Negative
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

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RATIONALE

TRIS Rating affirms the company rating on Property Perfect PLC (PF) at “BB” and the ratings on PF’s unsecured subordinated perpetual debentures (hybrid debentures) at “B”, with a “stable” outlook. The ratings reflect PF’s weak operating performance resulting from the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, its high financial leverage, and tight liquidity. The ratings also reflect PF’s well accepted brands in the residential property market, its large land bank holdings, and good-quality hotel properties.

The ratings on the hybrid debentures were notched down by three notches from PF’s company rating, reflecting the deep subordination and heightened interest payment deferral risks.

KEY RATING CONSIDERATIONS

COVID-19 to continue to put pressure on condominium segment

We expect PF’s residential sales performance to remain under pressure due to successive waves of COVID-19 outbreaks. PF’s revenue from residential property development is expected to remain flat year-on-year (y-o-y) in 2021 before increasing by 17% y-o-y in the following year. Revenue from landed property projects is expected to sustain at around THB8-THB9 billion per annum during 2021-2023 while revenue from condominium projects is projected to stay around THB1.8 billion in 2021 and edge up to around THB3.1 billion in 2022, lower than the THB5-THB6 billion per annum recorded in 2016-2019 due to a contraction in domestic demand and absence of foreign demand.

The economic fallout from the COVID-19 pandemic has greatly affected residential demand, especially in the condominium segment. PF’s revenue from the condominium segment fell sharply, by 58% y-o-y to THB2.5 billion in 2020, and dropped further to THB339 million in the first three months of 2021, a 60% decrease from the same period last year. The drop was partly because the company has not launched new condominium projects during the past two years. Revenue from the landed property segment sustained at around THB7.6 billion in 2020 and THB1.6 billion in the first three months of 2021. PF’s housing brands are well-accepted in the middle- to high-income segments. Its residential sales have ranked in the top 10 among leading property developers in Thailand for the past several years.

Slow recovery for hotel business

We expect PF’s hotel performance to deteriorate further in 2021 and gradually recover in 2022-2023. The pace of recovery is slower than we previously expected due to the successive outbreaks of COVID-19 in Thailand. Our base case assumes PF’s hotel revenue per available room (RevPar) to drop sharply by around 60% y-o-y in 2021, or around 80% below the pre-COVID-19 level. RevPar is forecast to gradually recover to around 70% and 30% below the pre-COVID-19 level in 2022 and 2023, respectively, and fully recover to the pre-COVID-19 level in 2024.

PF’s hotel in Japan, “Kiroro”, has continued to feel the pain from the COVID-19 pandemic as well. The resurgence of new COVID-19 cases in Japan prompted the government to extend its state of emergency in Tokyo and Okinawa and impose quasi-emergency measures in several other prefectures including Hokkaido where the Kiroro hotel is located. TRIS Rating views that a

recovery of the tourism industry in both Thailand and Japan remains uncertain and is largely dependent on the rollout and effectiveness of vaccination programs in most parts of the world. The expected slow recovery of the hotel business could continue to be a significant impediment to PF's overall operating performance for the next 2-3 years.

Investment in rubber glove business, if successful, will benefit PF's credit profile

In late 2020, PF's subsidiary, Grande Asset Hotels and Property PLC (GRAND), set up a joint venture (JV), Grande Global Gloves Co., Ltd. (GGG), to produce nitrile gloves for export. GRAND holds a 50.5% stake in the JV while the balance is held by representatives from its business partner, W.A. Rubbermate Co., Ltd. (WA). WA has more than 30 years of experience in the manufacture of rubber gloves. The total investment cost in GGG is around THB1 billion, with a production capacity of 4.8 million boxes per annum. GRAND has invested around THB180 million in the equity of GGG. The factory is slated to start operations around mid-2021. GGG has secured pre-orders for most of the production capacity from its clients. If the investment in GGG is successful, it will contribute a meaningful share of profit to the company. Under PF's target, GGG will contribute a share of profit of around THB1-1.5 billion per annum to the company.

Heightened financial leverage during pandemic

PF's recent weak operating performance amid the COVID-19 pandemic drove the company's leverage higher. PF's ratio of funds from operations (FFO) to total debt turned negative in 2020 and the first three months of 2021 due mainly to a severe deterioration in hotel business performance. Its debt to capitalization ratio rose to 72% as of March 2021, from a pre-COVID-19 level of 69% in 2019. The key financial covenants on PF's bank loans and debentures require the company to maintain its net interest-bearing debt to equity ratio below 2.5 times. The ratio at the end of March 2021 was 2.12 times. PF has to carefully manage its financial metrics in order to remain in compliance with the bank loan and bond covenants.

Going forward, PF plans to launch only landed property projects in 2021-2022 while focusing on selling completed condominium units, which should help reduce its funding needs. As of March 2021, PF had 57 active landed property projects and 18 condominium projects, including owned and JV projects. The total remaining project value (including built and un-built) was THB51.6 billion. The company had non-moving landed property stock units worth THB2.5 billion and remaining finished condominium units of THB9.1 billion. We expect PF's new launches (both owned and JV projects) will worth around THB10 billion per annum during 2021-2022. The budget for land acquisition is expected to be around THB1-THB2.5 billion per annum over the next three years.

Divestment of assets should improve PF's capital structure and alleviate liquidity concerns

PF plans to unload its debt burden and improve its liquidity by selling some land plots and divesting some of its investments. In July 2021, the company, through its indirect subsidiary, Royal Orchid Hotel PLC (ROH), sold "Royal Orchid Sheraton Hotel & Towers" to Grande Royal Orchid Hospitality Real Estate Investment Trust (GROREIT). GROREIT is the first real estate investment trust (REIT) with buy-back conditions. The proceeds from asset sales of around THB4.5 billion were used to support ROH's working capital and GRAND's liquidity. ROH also leased back the assets to operate. Under the REIT buy-back scheme, ROH has an obligation to buy back its assets at the prespecified price at the end of the fifth year. In addition, PF also plans to divest its Kiroro hotel in Japan to a foreign investor. The proceeds from the divestment are expected to amount to around THB4.5 billion. The divestment of Kiroro hotel, if successful, will help stem losses from hotel operations and lower the debt burden of the group. In addition, PF plans to sell some land plots over the next 2-3 years.

In TRIS Rating's view, the divestment of PF's assets, if successful, should help improve its capital structure and lower its liquidity concerns. As of March 2021, PF's debt coming due over the next 12 months amounted to THB14.7 billion, consisting of THB12.2 billion in debentures, THB1.1 billion in short-term borrowings, THB1 billion in project loans, and THB0.4 billion in financial lease. PF's sources of liquidity comprised cash on hand of THB2.5 billion and undrawn unconditional committed credit facilities of THB0.8 billion. PF had unencumbered land plots worth THB5.3 billion at book value and remaining stock units worth THB5.9 billion in debt-free projects, which can be used as collateral for new loans, if needed.

At the end of March 2021, PF's priority debt to total debt ratio was 49%. Its priority debt included secured debt of THB10.2 billion and unsecured debt at the subsidiary level of THB5.5 billion. If its priority debt ratio rises above our trigger level of 50%, in our view, PF's unsecured creditors could be at a significantly disadvantaged position to its priority debt holders with respect to claims against the company's assets.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for PF's operations during 2021-2023:

- PF to launch new landed property projects, both owned and under JVs, worth THB10 billion per annum in 2021-2023.
- PF to launch new condominiums worth THB2 billion in 2023.
- Budget for land acquisition to range around THB1-THB2.5 billion per annum.

- Total operating revenues to decline to THB12 billion this year and to improve to THB13-THB15 billion per annum during 2022-2023.

RATING OUTLOOK

The “stable” outlook reflects our expectation that PF’s financial profile will not deteriorate further from its current level. We expect its operating performance to gradually recover over the next two years.

RATING SENSITIVITIES

PF’s ratings and/or outlook could be revised downward should there be clear signs that lead us to believe the company’s operating performance and/or financial profile are heading for a deeper deterioration than expected. We could also lower the ratings if PF’s liquidity depletes faster than we expect. On the contrary, the credit upside would materialize if the company’s operating performance recovers to the pre-COVID-19 level and its financial profile improves, such that the debt to capitalization ratio stays below 65% and the FFO to total debt ratio stays above 3%, on a sustainable basis.

COMPANY OVERVIEW

PF was founded in 1985 by Mr. Sanith Adhyanasakul, and 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 “Lake Legend”, “Perfect Masterpiece”, “Perfect Residence”, “Perfect Place”, “Perfect Park”, “Modi Villa”, and “The Metro” brands. Its landed property products range in price from THB2 million to THB80 million per unit. Condominium units are sold under the “Hyde”, “Yu Kiroro”, “The Sky”, “Metro Sky”, “Metro Luxe”, “Metro Park”, “Bella Costa”, “I Condo”, and “Yu Ruay” brands, with selling prices ranging from THB40,000 to THB400,000 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 its core business, PF operates six hotels, five located in Thailand and one in Japan, and one community mall.

Revenue from the residential property business (including landed properties, condominiums, and land plot sales) contributed around 80% of the company’s total revenue from sales and services during 2016-2019 and rose to around 87% in 2020 through the first three months of 2021. The revenue contribution from the hotel business fell to around 10% of total revenue in 2020 and the first three months of 2021, from 18% in 2019 due to the impacts of the COVID-19. The revenue contribution from the rental and service segment remained negligible.

KEY OPERATING PERFORMANCE

Chart 1: Presales Performance

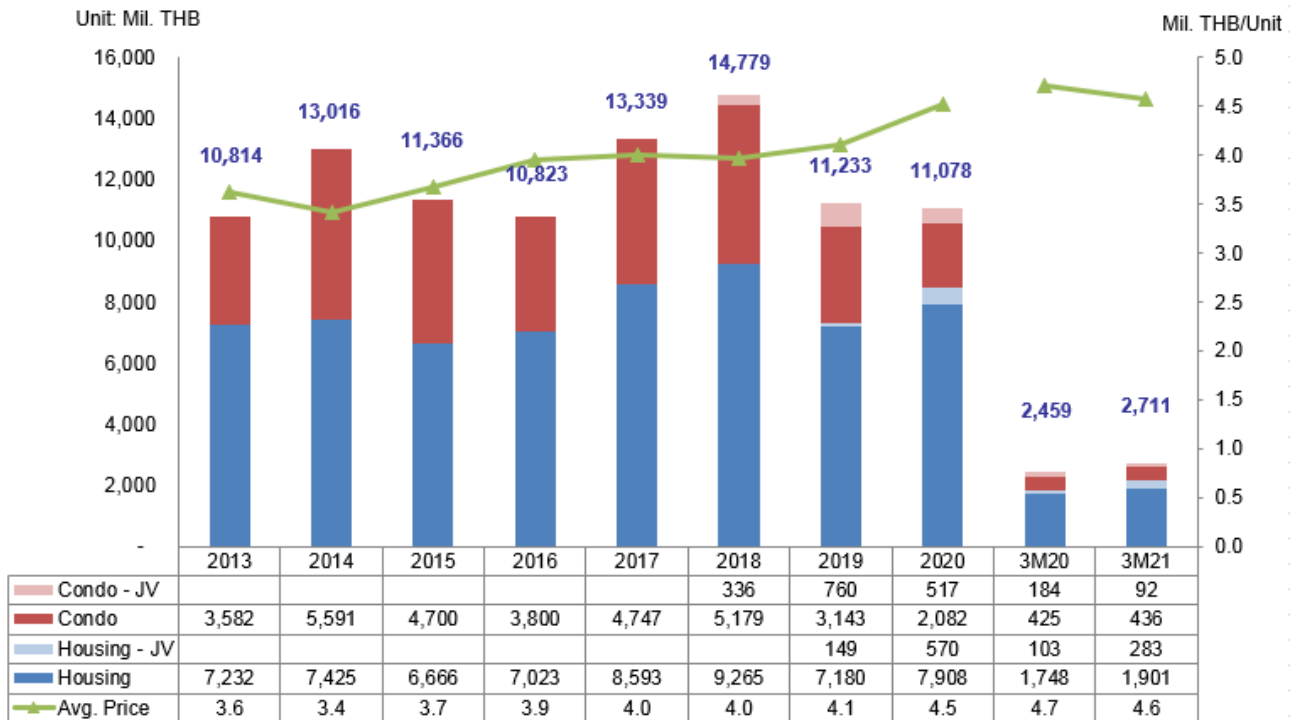
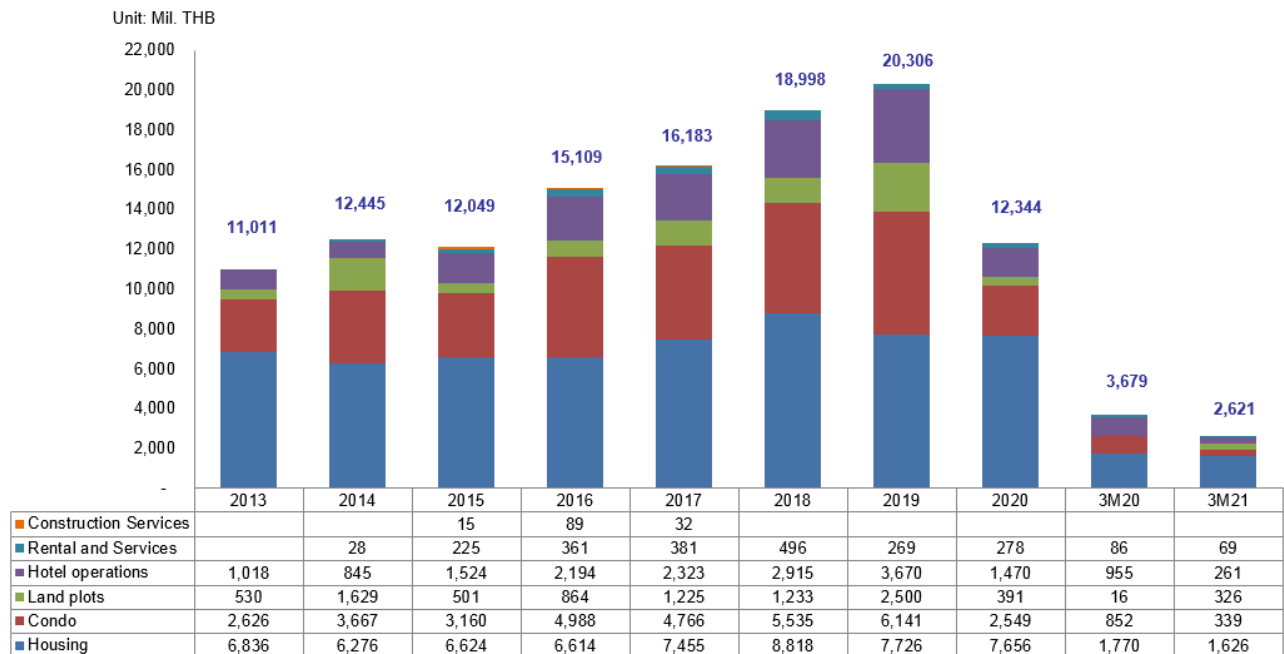


Chart 2: Revenue from Sales and Services Breakdown



FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	2,756	12,730	20,828	19,290	16,426
Earnings before interest and taxes (EBIT)	39	(347)	2,923	2,127	1,544
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	287	883	3,815	3,018	2,390
Funds from operations (FFO)	(234)	(1,224)	1,035	786	407
Adjusted interest expense	526	2,302	2,460	1,902	1,763
Real estate development investments	29,298	29,604	31,822	32,780	29,985
Total assets	53,285	53,390	59,065	57,566	47,684
Adjusted debt	34,584	34,876	35,559	35,187	27,399
Adjusted equity	13,429	13,700	15,688	15,474	15,031
Adjusted Ratios					
EBITDA margin (%)	10.40	6.94	18.32	15.64	14.55
Pretax return on permanent capital (%)	(1.30)**	(0.65)	5.19	4.15	3.35
EBITDA interest coverage (times)	0.54	0.38	1.55	1.59	1.36
Debt to EBITDA (times)	73.89**	39.49	9.32	11.66	11.46
FFO to debt (%)	(4.44)**	(3.51)	2.91	2.23	1.48
Debt to capitalization (%)	72.03	71.80	69.39	69.46	64.57

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Hybrid Securities Rating Criteria, 28 June 2021
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Property Perfect PLC (PF)

Company Rating:	BB
Issue Ratings:	
PF17PA: THB447.7 million subordinated capital debentures	B
PF18PA: THB60.3 million subordinated capital debentures	B
Rating Outlook:	Stable

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