PROPERTY PERFECT PLC

No. 155/2023
18 August 2023

CORPORATES

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

Last Review Date: 10/08/22

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 expected improving performance in both residential property and hotel businesses as well as higher profitability. The ratings take into account the company's high financial leverage and tight liquidity. The ratings also incorporate the negative impacts from interest rate hikes and reimposition of the loan-to-value (LTV) rules which could negatively impact housing demands in the short to medium term.

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 for hybrid debentures issued by a non-investment grade issuer.

The equity content of PF17PA dropped to "nil" (0% equity credit) from "intermediate" (50% equity credit) as its effective maturity is less than 20 years. Also, the equity content of PF18PA decreased to "nil" (0% equity credit) as PF intends to repay it by either internal cash flow or senior debentures. As PF has no intention to retain hybrid securities as part of its long-term capital structure, we will no longer assign equity credit to the company's existing hybrid securities or any potential hybrid securities that may be issued in the future.

KEY RATING CONSIDERATIONS

Expected gradual improvement in residential property

We expect PF's residential sales to gradually increase to the THB10-THB12 billion level in 2023-2025 from THB8.4 billion in 2022, as the company plans to focus more on the middle- to high-end landed property segment. Demand in this segment remains resilient and its products are well-accepted. We project the revenue contribution from landed property to range from 75%-85% in 2023-2025. Revenue from condominiums will remain weak at THB1.2-THB2.0 billion per annum due to sluggish demand and a lack of new project launches in 2020-2022.

The transfer value from its own and joint-venture (JV) projects grew by 4% year-on-year (y-o-y) to THB9.3 billion in 2022 and continued increasing slightly in the first six months of 2023. PF has also begun recognizing shared profit from JV landed property and condominium projects from 2022 onwards.

As of June 2023, PF had 60 active landed property projects and 17 condominium projects, including owned and JV projects. The total remaining project value (including built and un-built units) was THB52 billion. PF's backlog was worth THB4.8 billion (including backlog from JVs worth THB2.3 billion). PF plans to deliver nearly all backlog to customers this year.

Ongoing recovery in hotel operations anticipated

We anticipate the recovery in hotel performance will continue throughout 2023, driven by the return of foreign tourists, especially from China. Our base-case scenario projects the average revenue per available room (RevPar) to reach the 2019 level of THB3,000 per room per night in 2023 and to surpass the 2019 level in 2024-2025 in tandem with our expectation of tourism fully returning to normal. We expect PF's revenue from hotel operations to be THB2.4-THB2.8 billion per annum in 2023-2025.

PF's hotel operations started recovering in 2022, thanks to the gradual lifting of COVID-19 entry requirements for international visitors in the first half of the year and an increase in tourist arrivals in the second half of the year. PF's hotels reported an average occupancy rate (OR) of 47% in 2022, reviving from 16% in 2021. Its RevPAR in 2022 was 39% below the 2019 level, significantly improving from 84% below the 2019 level in 2021.

Profitability expected to revive

PF reported an overall gross profit margin of 31% in 2022 and 39% in the first half of 2023 (6M23), up from around 25% in 2020-2021. Its higher profitability was the result of stronger hotel operations and improving profit margin from residential projects. However, PF carried relatively high selling, general, and administrative (SG&A) expenses, especially fixed costs from the hotel business, thus its operating margin remained thin. PF's return on permanent capital (ROPC) was in the 3%-5% range in 2022-2Q23.

In our base-case scenario, we expect PF's profitability to increase in 2023-2025, supported by our expectation of acceptable profit margin in residential property and a recovery in the hotel business. We view that PF should sustain the gross profit margin from residential property at the industry average of 30%-32% and improve the gross profit margin from the hotel business to around 40% in 2023-2025. We expect PF's gross profit margin from all businesses to stay around at 34% and ROPC to remain at the current level over the forecast period.

Negative impact from interest rate hikes and more stringent LTV rules

The Bank of Thailand (BOT) has already raised the policy rate four times this year, in January, March, May, and August. We view that rising interest rates will affect not only the funding costs of developers but also the debt servicing capacity of homebuyers, especially those in the middle- to low-income segments. Rising interest rates could also dampen demand from investors as their expected returns would be eroded by higher funding costs. However, we do not expect the proportion of demand from investors and/or speculative demand to increase.

The reimposition of LTV rules could also soften housing demand in the short to medium term. In our view, the LTV rules will generally have a greater impact on the middle- and high-end segments since these buyers may have more than one mortgage contract. However, the impact of LTV measures on PF is likely to be alleviated to some extent due to some proportion of cash buyer, especially for medium and premium products.

Financial leverage to remain high

We expect PF's financial leverage, as measured by the debt to capitalization ratio, to remain high at 65%-67% in 2023-2025. The ratio of its funds from operations (FFO) to debt should improve but remain weak at below 3% over the forecast period. Despite expected improvement of residential property and hotel operations, together with its asset divestment plans, we expect PF to continue using debt financing to fund its residential project expansion, hotel operations, and investments in the retail business.

PF's debt to capitalization ratio was relatively high at 66%-67% as of December 2022 and June 2023. Its debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio remained at a high level of 10-12 times in 2022-2Q23 while FFO to debt ratio remained in negative territory. These were the result of softer-than-expected operating performance of both residential property and hotel businesses over the past three years as well as a high debt level with costly interest rates.

Our base-case scenario assumes PF will launch new residential projects through its own projects and JVs worth THB12-THB14 billion per annum in 2023-2025. Nearly all of these will be landed property projects. We view that PF will slow down its expansion in the condominium segment and focus on releasing finished stock units. Given its holding of several land plots, we project the budget for land acquisition to be THB0.5 billion in 2023 and THB2 billion per annum in 2024-2025. We also incorporate capital expenditures in the retail business totaling THB2 billion in 2023-2024 in our assumption.

The key financial covenants on PF's bank loans and debentures require the company to maintain its net interest-bearing debt to equity ratio (excluding lease liabilities) below 2.5 times. The ratio at the end of June 2023 was 1.47 times. We believe that PF should remain in compliance with the financial covenants over the next 12 to 18 months.

Continuing asset divestments should improve capital structure and ease liquidity concerns

PF is continuing with its plans to reduce its debt burden and improve its liquidity by disposing land plots and divesting some of its investments. Apart from the sale of Kiroro Hotel in Japan in November 2021 to a foreign investor, the company plans to sell more freehold and leasehold land plots and other assets over the next three years. In our view, the divestment of these assets, if successful, should help improve PF's capital structure and alleviate its liquidity concerns.

As of June 2023, PF's debt coming due over the next 12 months amounted to THB11.4 billion, consisting of THB9.6 billion in debentures (mostly secured debentures) and THB1.8 billion in short-term borrowings, project loans, and lease liability. PF's sources of liquidity comprised cash on hand of THB2.4 billion and undrawn conditional committed project loan facilities of THB3.2 billion. PF had unencumbered land plots worth THB1.3 billion at book value and remaining stock units worth THB1.9 billion in debt-free projects, which can be used as collaterals for new loans, if needed.

PF plans to refinance debentures coming due in the remainder of 2023 by new secured and unsecured debenture issuances. However, given a large amount of its debentures of around THB12 billion maturing in 2024, we view that PF is likely to be exposed to a heightened degree of refinancing risk in the wake of the current bond market situation. The refinancing risk for PF should be partly mitigated by the nature of secured debentures, which has easier access to the bond market than unsecured debentures.

At the end of June 2023, PF's total debt, as per our priority debt calculation, was approximately THB29.3 billion. PF's priority debt, including secured debts at the company and total debt at the subsidiaries, was about THB25.9 billion. This translates to a priority debt to total debt ratio of 88%. The increase in priority debt ratio was mainly attributable to higher secured debts of hotel business. We expect the ratio to improve over the next three years supported by expected improvement in hotel operations and improved debt capital market sentiment. Notwithstanding, as its priority debt ratio was above our trigger level of 50%, we view that PF's senior 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 our key assumptions for PF's operations during 2023-2025:

- PF to launch new residential projects, both owned and under JVs, worth THB12-THB14 billion per annum
- Annual budget for land acquisition to range from THB0.5-THB2.0 billion
- Capital expenditures for its retail business of THB2 billion
- Total operating revenues to increase to THB13-THB15 billion per annum
- Average gross profit margin from all businesses of 34% and EBITDA margin of 18%-22%

RATING OUTLOOK

The "stable" outlook reflects our expectation that PF's financial profile will not deteriorate further from its current level. We also expect the company's operating performance in both residential property and hotel businesses to gradually recover in line with our targets.

RATING SENSITIVITIES

The ratings and/or outlook on PF could be revised downward should the company's operating results and/or financial position significantly deviate from our expectations. We could also lower the ratings if PF's liquidity depletes faster than anticipated. On the contrary, the credit upside scenario could emerge if the company's operating performance and financial profile improve significantly, such that the debt to capitalization ratio stays below 65% and the FFO to total debt ratio stays above 3%, on a sustained basis.

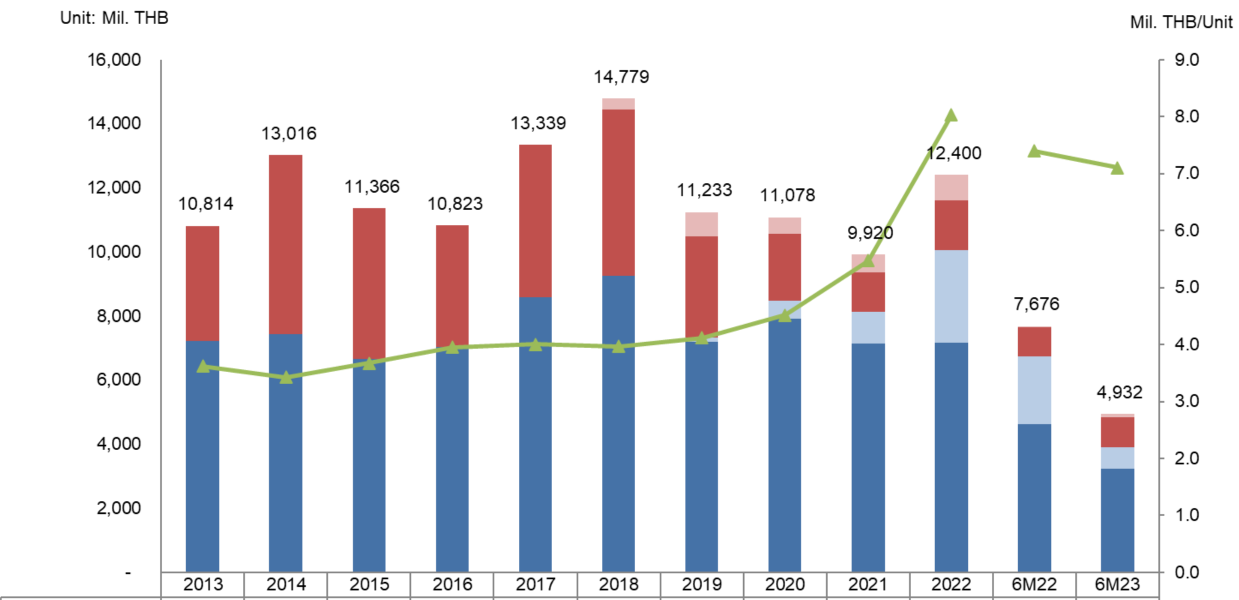
COMPANY OVERVIEW

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, Penton, Vavila, 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 THB150 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 THB420,000 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 five hotels in Thailand, and one community mall. PF has also invested in the wind and solar energy businesses as well as nitrile rubber glove manufacturing and sale businesses through JVs.

Revenue from the residential property business (including landed property, condominiums, and land plot sales) contributed 80%-90% of total revenue from sales and services in the past five years and around 70% in the first six months of 2023. The revenue contribution from the hotel business increased to 15% in 2022 and 23% in the first half of 2023 from 7%-12% in 2020-2021, following the recovery of hotel operations after the pandemic. The revenue contribution from rentals and services remained negligible.

KEY OPERATING PERFORMANCE

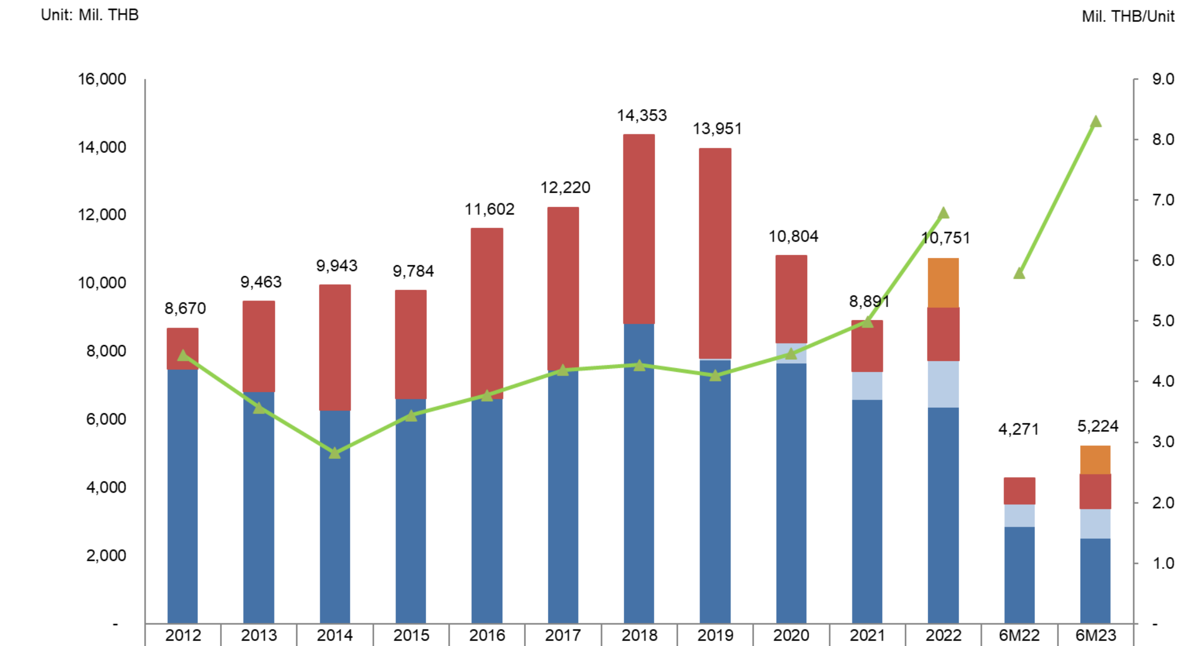
Chart 1: Presales Performance



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	6M22	6M23
Condo - JV						336	760	517	572	781	35	98
Condo	3,582	5,591	4,700	3,800	4,747	5,179	3,143	2,082	1,211	1,559	916	936
Housing - JV							149	570	992	2,906	2,108	670
Housing	7,232	7,425	6,666	7,023	8,593	9,265	7,180	7,908	7,145	7,153	4,617	3,228
Total presales	10,814	13,016	11,366	10,823	13,339	14,779	11,233	11,078	9,920	12,400	7,676	4,932
Avg. Price	3.6	3.4	3.7	3.9	4.0	4.0	4.1	4.5	5.5	8.0	7.4	7.1

Source: PF

Chart 2: Transfer Performance



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	6M22	6M23
Condo - JV											1,469		829
Condo	1,181	2,626	3,667	3,160	4,988	4,766	5,535	6,141	2,549	1,483	1,537	740	1,007
Housing - JV								84	599	836	1,397	684	888
Housing	7,489	6,836	6,276	6,624	6,614	7,455	8,818	7,726	7,656	6,572	6,348	2,846	2,500
Total transfer	8,670	9,463	9,943	9,784	11,602	12,220	14,353	13,951	10,804	8,891	10,751	4,271	5,224
Avg. Price	4.4	3.6	2.8	3.4	3.8	4.2	4.3	4.1	4.5	5.0	6.8	5.8	8.3

Source: PF

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2023	------------Year Ended 31 December --------- 2022	2021	2020	2019
Total operating revenues	5,229	10,604	9,895	12,730	20,828
Earnings before interest and taxes (EBIT)	599	1,790	1,635	(26)	2,923
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	919	2,527 ***	2,596 ***	1,202	3,815
Funds from operations (FFO)	(343)	(173)	3	(1,394)	723
Adjusted interest expense	1,262	2,558	2,356	2,415	2,452
Real estate development investments	26,250	26,516	27,429	29,604	31,822
Total assets	52,586	54,348	52,023	53,390	59,065
Adjusted debt	30,075	30,172	31,657	34,908	35,559
Adjusted equity	14,829	15,459	13,321	13,700	15,688
Adjusted Ratios					
EBITDA margin (%)	17.57	23.83	26.23	9.45	18.32
Pretax return on permanent capital (%)	5.02 **	3.59	3.27	(0.05)	5.19
EBITDA interest coverage (times)	0.73	0.99	1.10	0.50	1.56
Debt to EBITDA (times)	9.92 **	11.94	12.20	29.03	9.32
FFO to debt (%)	(1.10) **	(0.57)	0.01	(3.99)	2.03
Debt to capitalization (%)	66.98	66.12	70.38	71.82	69.39

* *Consolidated financial statements*
** *Annualized with trailing 12 months*
*** *Including gains on hotel disposal*

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
- Hybrid Securities Rating Criteria, 28 June 2021
- Issue Rating Criteria, 15 June 2021

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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