TRIS RATING
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PROPERTY PERFECT PLC

No. 124/2024
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CORPORATES

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

Last Review Date: 18/08/23

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 revises the rating outlook on Property Perfect PLC (PF) to "negative" from "stable". We also affirm the company rating on PF at "BB" and the ratings on PF's unsecured subordinated perpetual debentures (hybrid debentures) at "B".

The "negative" outlook reflects PF's deteriorating operating and financial metrics, primarily attributable to lower-than-anticipated residential transfers and elevated financial leverage. PF intends to lower its leverage by divesting some of its non-core assets. Failing to materialize the contemplated divestment transactions could potentially lead to a rating downgrade.

The company rating on PF continues to reflect the moderate market position of its residential property business and the improving performance of its hotel business. However, the rating is weighed down by the company's tightening liquidity and the negative impacts of lingering high interest rates and elevated household debt levels, which have led to higher mortgage rejection rates.

The rating on the hybrid debentures (hybrids) is 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 its hybrids, PF17PA, has dropped to "nil" (0% equity credit) from "intermediate" (50% equity credit) as its effective maturity is less than 20 years.

Also, PF has already repaid its PF18PA hybrid securities using internal cash flow. 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

Lower-than-expected residential sales

PF's overall operations in 2023 through the first quarter of 2024 (1Q2024) were affected by unfavorable sentiment in the residential property market. Increasing bank mortgage rejection rates, especially in the middle-income segments, have had a material impact on the company's residential sales. Although PF's hotel business has improved since 2023, the weaker performance of its residential property business has dragged overall performance.

PF's total operating revenue was THB11 billion in 2023, achieving around 80% of our prior target. Revenue from residential sales dropped by 6% year-on-year (y-o-y) to THB7.9 billion in 2023, reaching around three-fourths of our forecast. Revenue from residential sales in 1Q2024 continued to contract, declining to THB1.5 billion and achieving only 14% of our prior full-year target. On the contrary, revenue from hotel operations rose by 54% y-o-y to THB2.4 billion in 2023. It continued growing by 21% y-o-y in 1Q2024, reaching THB740 million. The overall occupancy rate (OR) increased to 63% in 2023 from 47% in 2022, with an 18% y-o-y growth in average room rate (ARR).

Despite an improving gross profit margin from residential property and hotel operations, PF's relatively high selling, general, and administrative (SG&A) expenses, especially fixed costs from hotel operations, caused its operating margin to remain thin. Shared profit derived from joint-venture (JV) investments remained modest. As a result, PF's EBITDA in 2023 was only THB2.2 billion, falling short of our prior target of THB2.6 billion. Its EBITDA in 1Q2024 also achieved only 17% of our target. PF's EBITDA failed to cover adjusted interest and current tax expenses throughout each period. Thus, funds from operations (FFO) persistently showed a negative position.

Asset divestment, if successful, would lower leverage

Over the past several years, PF has taken steps to reduce its debt burden and improve liquidity through the disposal of several land plots and the Kiroro Hotel. However, the company's debt level at the end of 2023 remained high at around THB30 billion, resulting in total interest costs of THB2.5 billion, while EBITDA amounted to only THB2.2 billion.

Recently, the company introduced a concrete plan for the sale of two hotels, the Royal Orchid Sheraton Hotel (ROH) and the Hyatt Regency Bangkok Sukhumvit Hotel (Hyatt). In our base case, we have incorporated the divestment plan for the two hotels from late 2024 to early 2025. The proceeds from the contemplated hotel divestment is expected to total approximately THB11 billion. We also anticipate that PF will realize revenue from land sales of THB400-THB1,000 million per annum in 2024-2026, with an expected gross profit margin of 30%-40%. However, there remains some uncertainty surrounding the divestment plan, particularly regarding the timing and scale of the transactions. Failing to materialize these contemplated transactions could potentially lead to a rating downgrade.

Operating performance to remain stagnant

Looking forward, we anticipate PF's operating performance will remain stagnant. We project total operating revenue from all businesses will range from THB9-THB12 billion per annum in 2024-2026. We have also revised our projection for transfers of residential projects (both owned and JV) downwards by 20%-25% from our previous target to an annual range of THB9-THB10 billion for 2024-2026. We expect PF's hotel operations to continue recovering in 2024-2026, buoyed by continued increasing number of tourist arrivals in Thailand and the extension of visa-free stays for travelers. However, revenues from hotel operations are projected to decrease from THB2.5 billion in 2024 to THB1.1-THB1.2 billion per annum in 2025-2026, following the potential disposal of the two hotels.

Under TRIS Rating's base case, we assume that the company will successfully divest the assets mentioned above. We also assume that the company will launch only landed property projects through its own and JV projects totaling THB2 billion in 2024 and THB8 billion annually in 2025-2026. The budget for land acquisition is expected to range from THB100-THB500 million annually in 2024-2025, before escalating to THB1 billion in 2026. Capital expenditures for the construction of the company's office building and retail space for rent, amounting to around THB1.7 billion in 2024-2025. Based on our assumptions, ROH and Hyatt would be excluded from the hotel portfolio starting from late 2024 and early 2025.

Overall, PF's debt to capitalization ratio should improve to around 60% in 2024 and 50%-55% in 2025-2026, down from 68% as of March 2024. Its debt to EBITDA ratio is expected to decline from 14 times in 1Q2024 to around 9-10 times over the forecast period. We expect the FFO to debt ratio to rebound into positive territory in 2024-2026. PF's EBITDA from normal operation (excluding gains on asset disposals) is likely to decrease to THB1.6-THB2.2 billion per annum, reflecting an EBITDA margin of 17%-19%. FFO should revive to around THB200 million per annum over 2024-2026.

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 March 2024 was 1.6 times. We expect PF to remain in compliance with the financial covenants over the next 12 to 18 months.

Tight liquidity

We assess PF's liquidity as tight over the next 12 months. The company's debt coming due in the next 12 months amounted to THB13.5 billion as of March 2024, consisting of THB10.9 billion debentures (mostly secured debentures), THB1.2 billion long-term project loans, THB0.8 billion short-term borrowings, and THB0.6 billion lease liabilities.

Sources of liquidity comprised cash on hand of THB2.5 billion and undrawn unconditional committed project loan facilities of THB1 billion. PF also had unencumbered land at book value of THB1 billion and available-for-sale residential units in debt-free projects with an aggregate selling price of THB4 billion, which can be pledged as collateral for new loans if needed.

PF already refinanced and repaid debentures worth THB4.7 billion (GRAND244A, PF244A, and GRAND246A) due in April-June 2024. However, PF still has large amounts of debenture obligations of THB4 billion maturing in the remainder of 2024 as well as THB9 billion in 2025. The company intends to partly refinance the maturing debentures through new secured and unsecured debenture issuances and partly repay them using the proceeds of land and asset disposals. Although PF is exposed to a higher degree of refinancing risk under the current bond market condition, we consider this risk is partly mitigated by the nature of secured debentures, which are more appealing to a certain group of investors compared to unsecured debentures.

Debt structure

As of March 2024, PF's total debt, as per our priority debt calculation, was THB29.6 billion. Priority debt, including secured debts at the company and total debt at the subsidiaries, was THB25.8 billion. This translates to a priority debt to total debt ratio of 87%. Given that its priority debt ratio is well above our threshold of 50%, we view that PF's senior unsecured creditors are significantly disadvantaged 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 in 2024-2026:

- New residential project launches worth THB2 billion in 2024 and THB8 billion per annum in 2025-2026
- Budget for land acquisition of THB100-THB500 million per annum in 2024-2025, before increasing to THB1 billion in 2026
- Capital expenditures for the retail business of THB1.7 billion
- Total operating revenue to hover in the THB9-THB12 billion range, with an EBITDA margin from normal operations (excluding gains on asset disposals) of 17%-19%
- Implementation of asset disposals with expected proceeds of THB11 billion from late 2024 through early 2025

RATING OUTLOOK

The "negative" outlook reflects PF's recent weaker-than-expected operating results and the uncertainty surrounding its of deleveraging plan, which could lead to a further deterioration in the company's credit profile.

RATING SENSITIVITIES

The ratings on PF could be revised downward if the company's operating performance continues to fall short of our expectations, or its debt reduction plan does not materialize as planned, or its liquidity depletes faster than anticipated. Conversely, the rating outlook could be revised to "stable" if the company is able to deliver operating and financial results in line with our expectations, including the successful execution of planned asset divestments.

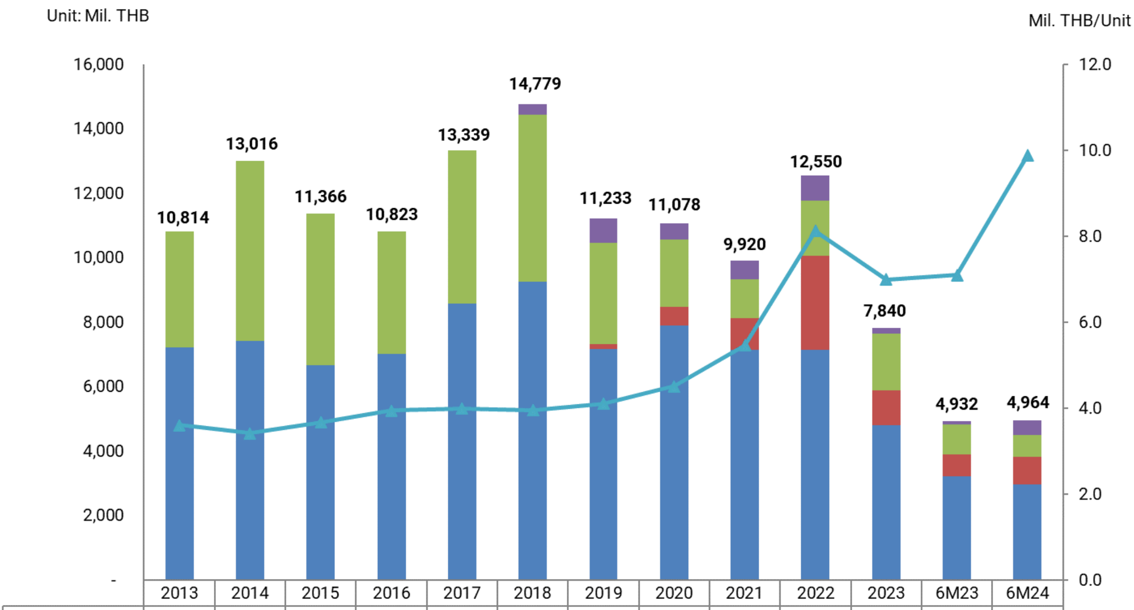
COMPANY OVERVIEW

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. The company 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 2018-2022 before decreasing to around 70% in 2023. The revenue contribution from hotel operations increased to 22% in 2023 from 7%-15% in 2020-2022, following the rising number of tourist arrivals in Thailand after the pandemic. The revenue contribution from rentals and services remained negligible.

KEY OPERATING PERFORMANCE

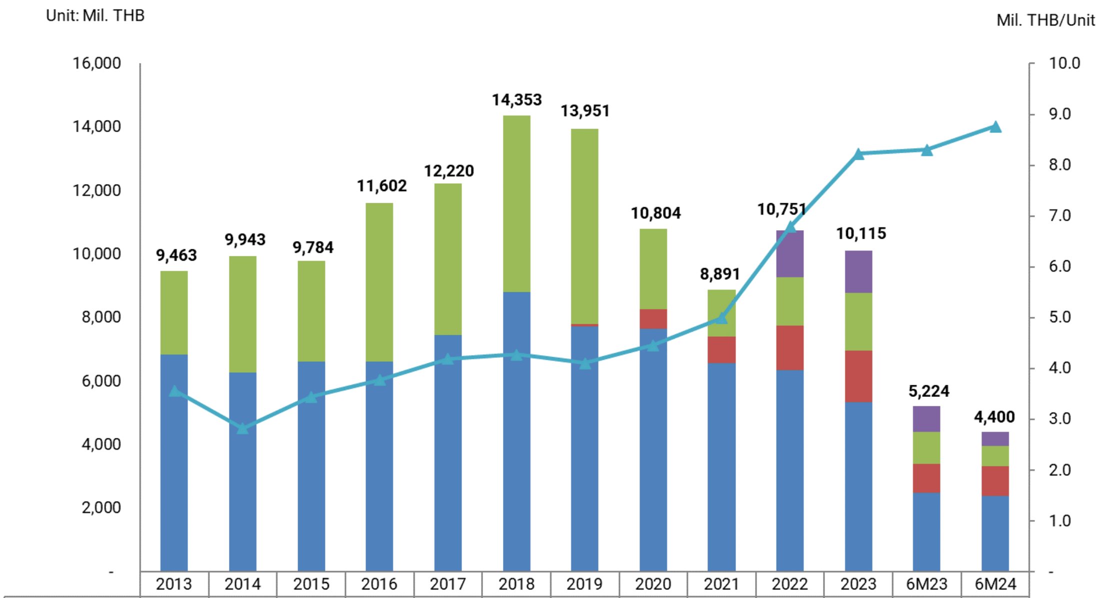
Chart 1: Presales



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	6M23	6M24
Condo - JV						336	760	517	572	781	185	98	441
Condo	3,582	5,591	4,700	3,800	4,747	5,179	3,143	2,082	1,211	1,709	1,764	936	689
Housing - JV							149	570	992	2,906	1,088	670	863
Housing	7,232	7,425	6,666	7,023	8,593	9,265	7,180	7,908	7,145	7,153	4,802	3,228	2,972
Avg. Price	3.6	3.4	3.7	3.9	4.0	4.0	4.1	4.5	5.5	8.1	7.0	7.1	9.9

Source: PF

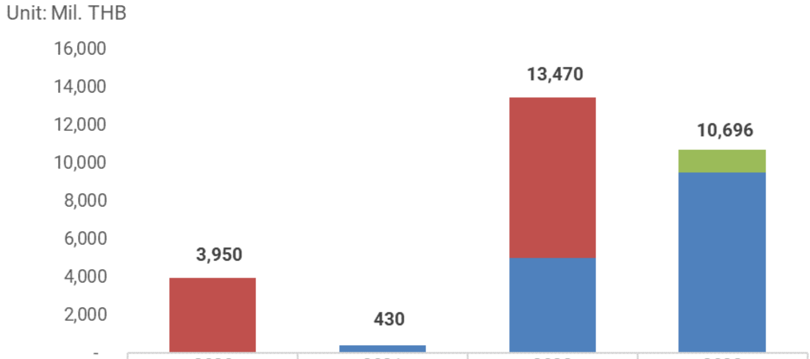
Chart 2: Transfers



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	6M23	6M24
Condo - JV										1,469	1,323	829	428
Condo	2,626	3,667	3,160	4,988	4,766	5,535	6,141	2,549	1,483	1,537	1,827	1,007	640
Housing - JV							84	599	836	1,397	1,621	888	942
Housing	6,836	6,276	6,624	6,614	7,455	8,818	7,726	7,656	6,572	6,348	5,344	2,500	2,390
Avg. Price	3.6	2.8	3.4	3.8	4.2	4.3	4.1	4.5	5.0	6.8	8.2	8.3	8.8

Source: PF

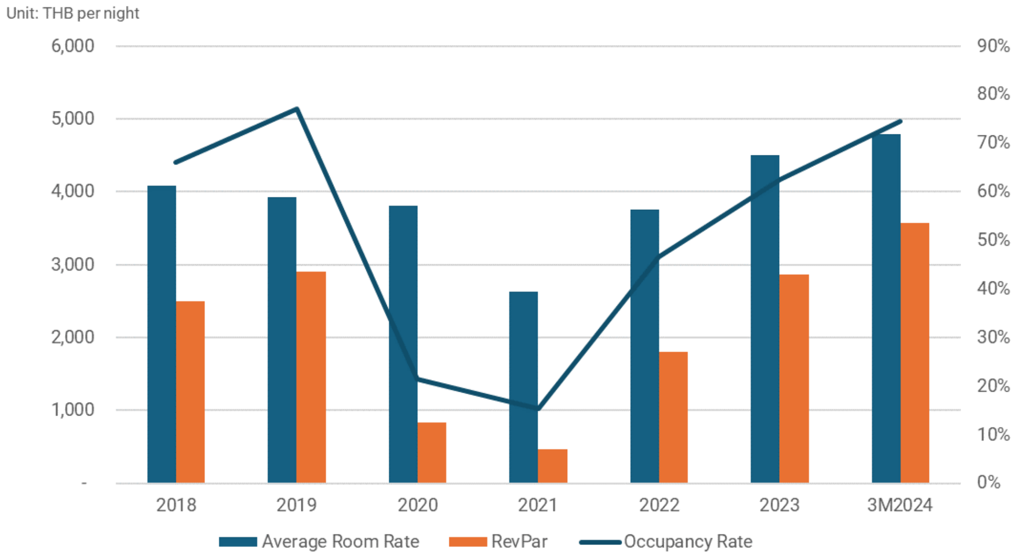
Chart 3: New Project Launches



	2020	2021	2022	2023
Condo - JV				
Condo				1,218
Housing - JV	3,950		8,470	
Housing	-	430	5,000	9,478

Source: PF

Chart 4: Hotel Performance



Source: PF

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS *

Unit: Mil. THB

	Jan-Mar 2024	-----------------Year Ended 31 December 2023	2022	2021	2020 --------------
Total operating revenues	2,526	11,099	10,607	9,895	12,730
Earnings before interest and taxes (EBIT)	424	1,502	1,790	1,635	(26)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	574	2,151	2,562 ***	2,623 ***	1,320
Funds from operations (FFO)	(102)	(602)	(145)	30	(1,276)
Adjusted interest expense	656	2,551	2,565	2,356	2,415
Real estate development investments	25,381	25,551	26,516	27,429	29,604
Total assets	52,587	53,222	54,348	52,023	53,390
Adjusted debt	30,308	30,316	30,172	31,657	34,908
Adjusted equity	14,364	14,537	15,459	13,321	13,700
Adjusted Ratios					
EBITDA margin (%)	22.7	19.4	24.2	26.5	10.4
Pretax return on permanent capital (%)	3.3 **	3.0	3.6	3.3	0.0
EBITDA interest coverage (times)	0.9	0.8	1.0	1.1	0.5
Debt to EBITDA (times)	13.7 **	14.1	11.8	12.1	26.4
FFO to debt (%)	(1.9) **	(2.0)	(0.5)	0.1	(3.7)
Debt to capitalization (%)	67.8	67.6	66.1	70.4	71.8

* *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 Rating:	
PF17PA: THB447.7 million subordinated capital debentures	B
Rating Outlook:	Negative

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