TRIS RATING
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PROPERTY PERFECTPLC

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CORPORATES

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

Last Review Date: 06/11/18

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

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RATIONALE

TRIS Rating affirms the rating on Property Perfect PLC (PF) at "BB+" and also affirms the ratings on PF's unsecured subordinated perpetual debentures (hybrid debentures) at "B+". At the same time, we revise the rating outlook on PF to "negative" from "stable". The "negative" outlook reflects PF's higher leverage level and weaker profitability than our target. Despite the company has a plan to lower its debt level, the execution is yet to be seen.

The ratings continue to reflect PF's acceptable brand name in the middle- to high-income residential property segments and the higher revenues contribution from hotel business. The ratings are constrained by PF's relatively low profitability, high financial leverage, tight liquidity, and the concern over the introduction of new loan-to-value (LTV) rules by the Bank of Thailand (BOT) which may cause a slowdown in the industry.

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.

KEY RATING CONSIDERATIONS

Acceptable brand name in landed property segment

TRIS Rating views that PF's residential property brands are quite acceptable, especially in the middle- to high-income segments. Presales and revenues from landed property projects had been Bt6-Bt9 billion per annum during 2014-2018. Presales from condominium projects improved to Bt5.5 billion in 2018, from Bt4.7 billion in 2017 and Bt3.8 billion in 2016. Revenues from condominium projects were Bt4.8-Bt5.5 billion per annum during the past three years. Revenues from the sales of residential property in the first three months of 2019 grew by 29% year-on-year (y-o-y) to Bt3.9 billion.

As of March 2019, PF had 60 active landed property projects and 21 existing condominium projects, with total remaining project value of Bt51 billion (including built and un-built units). PF's backlog was worth Bt5.6 billion (including backlog from Yu Kiroro worth Bt1.2 billion) at the end of March 2019. PF will deliver its backlog to customers during the remainder of 2019 through 2020. Based on our assumption, we expect PF's residential sales will stay Bt14-Bt15 billion per annum during 2019-2022. Revenues from landed property projects will be 70% of total residential sales, while that from condominium projects will be accounted for the rest. PF had unsold completed condominium units worth Bt9.9 billion. We view that it may take more than two years to sell and transfer these finished condominium units.

Expected higher revenue contribution from hotel business

TRIS Rating expects that PF's revenue from hotel operations will increase to Bt3.7-Bt4.4 billion per annum during 2019-2022 from Bt2.9 billion in 2018 and Bt2.3 billion in 2017 after the acquisition of Royal Orchid Sheraton Hotel and Towers (ROH) in mid-2018 and the completion of Hyatt Regency Sukhumvit in late 2018. PF currently operates five hotels in Thailand under Grande Asset Hotels and Property PLC (GRAND) and one hotel, "Kiroro", in Japan, with 2,076 rooms in total.

The hotels in Thailand generated income of Bt1 billion per annum during 2016-2017 and rose to Bt1.7 billion in 2018. The earnings before interest, taxes, depreciation, and amortization (EBITDA) of hotels in Thailand were Bt0.3 billion per annum during 2016-2018. Revenue from Kiroro was Bt1.1-Bt1.2 billion per annum during 2016-2018. However, Kiroro had a net loss of Bt0.2-Bt0.3 billion per annum during 2014-2018. Its net loss negatively impacted the bottom line of PF. PF also launched a condominium project, "Yu Kiroro", nearby its hotel in Japan. The project value is around Bt4 billion. At the end of July 2019, this project was 50% sold and will be transferred to customers by the end of this year. PF expects the cash flow from the transfer of its condominium units will help lower the debt burden of the Kiroro hotel.

The acquisition of 98.48% of ROH shares worth around Bt3.6 billion in 2018 also raised the consolidated debt level of PF. In addition, the company will also need capital expenditures of Bt1 billion for the renovation of ROH in 2020. PF plans to divest some of its shareholding in ROH and use the proceeds to support its funding needs and lower debt level. However, the proceeds and timing of the divestment are still uncertain. Going forward, the company will have to renew the leasehold right of The Westin Grande Sukhumvit which will be expired in 2020. Thus, the company needs to set a budget for the upfront payment of leasehold renewal and the renovation cost of The Westin Grande Sukhumvit at Bt1 billion during 2019-2020. PF also plans to sell The Westin Grande Sukhumvit to the Grande Hospitality Real Estate Investment Trust (GAHREIT) with the sale value of Bt2.3 billion in 2020.

Low profitability

PF's profitability was lower than most of rated property developers. Its operating income was 13%-15% during 2016-2018, compared with 15%-17% of rated peers. Its net profit margin was only 3% of total operating revenue during 2014-2018, much lower than 10%-12% of rated peers. Despite the growth in its revenues from the residential property for sales and hotel businesses, the relatively high selling, general, and administrative (SG&A) expenses of its hotel business in Japan and the share loss from its investment in the discount store business kept its net profit at the relatively low level.

PF's SG&A expenses increased from 25% of total operating revenue in 2016 to 27% in 2018. The company had a share loss of Bt63 million in 2017 and Bt95 million in 2018 from the investment in the "All D" discount store business. Also, PF plans to develop mix-used complex in Trad province. The company currently has to pay the leasehold right of Bt20 million per annum for this land plot. PF may need more investment in this project. The size of investments and time frame is still uncertain. However, the company is in the process of findings partners to jointly develop this project.

Going forward, the company plans to curb its investment in the discount store business. In addition, the company expects to get higher income from its hotel business. Thus, TRIS Rating expects that PF's EBITDA margin should not further deteriorate from its current level. Under TRIS Rating's base case, PF's EBITDA margin should stay above 15% over the next three years.

Plan to jointly develop residential property projects with foreign partners and divest some land banks to lower leverage

In 2018, PF set up several joint ventures (JVs) with partners; HKL Thai Development Co., Ltd., Sekisui Chemical Co., Ltd., and Sumitomo Forestry Co., Ltd., to develop landed property and condominium projects. PF plans to sell land plots to the JV and other parties within the end of 2019. The proceeds from selling its land plots worth around Bt3 billion will be used to repay debts and invest in its new residential property projects. Thus, we expect PF's debt to capitalization ratio should decline to below 65% by the end of this year, from its peak of 69% at the end of March 2019. Its funds from operations (FFO) to total debt ratio should also improve to around 3%-5% in order to maintain its rating at this level.

TRIS Rating expects the JVs to help enlarge residential portfolio, alleviate the project risk, and lower its debt financing needs. In our base-case scenario, we assume that these JVs will launch the projects in the second half of this year. In addition, we expect the company to recognize some share profit from JV landed property projects in late 2019. In our base case scenario, we assume that PF will launch new landed property projects worth Bt15-Bt18 billion per annum over the next three years. We expect PF to open new condominium projects under its own and JVs worth Bt7.4 billion in 2019, Bt17 billion in 2020, and Bt3 billion per annum during 2021-2022. We assume the budget for land acquisition will be Bt2-Bt3 billion per annum during 2019-2022.

Exposure to cyclical and highly competitive residential property business

The residential property market closely follows the domestic economy. However, the volatility in this market is much more pronounced than in the overall economy. Slow recovery in the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the affordability of middle- to low-income homebuyers. In addition, the implementation of the new LTV rules by the BOT should impact the sales of condominium units in the short term. Under the new LTV rules, homebuyers can borrow up to 70%-80% of the collateral value, down from 90%-100%, for their second and subsequent mortgage loans. Therefore, PF may have to lengthen the down payment period for some homebuyers. The delay in transfer may impact the company's revenue recognition in the second half of 2019. However, PF plans to focus more on the landed property projects which will be less affected the new LTV rules.

The slow growth in the domestic market has driven the company to expand its foreign customer base. PF's sales to foreign buyers were minimal, but the company plans to sell its condominium units to the foreign buyers at Bt0.4 billion (or less than 5% of revenue from condominium projects) per annum over the next few years. Most foreign buyers are Chinese. However, slower growth in the Chinese economy and concerns over the global trade tension may negatively affect demand from foreign buyers.

Tight liquidity

PF's liquidity is tight. As of March 2019, PF had Bt10.7 billion of debt due over the next 12 months, comprising Bt8.9 billion in debentures, Bt1.3 billion in short-term loans from financial institutions, and Bt0.5 billion in long-term project loans. PF's sources of liquidity comprised cash on hand of Bt2.9 billion, undrawn unconditional committed credit facilities of Bt1.6 billion, unencumbered land plots at book value worth around Bt3.1 billion, and projected FFO over the next 12 months of Bt1.2 billion.

PF normally refinances the maturing bonds with new bond issues. Short-term promissory notes (P/Ns) and bills of exchange (B/Es) are either repaid or rollover. Project loans will be repaid with cash flow from the transfers of residential units.

According to the key financial covenants in bank loans and debentures, PF has to maintain its net interest-bearing debt to equity ratio below 2 times. The ratio at the end of March 2019 was 1.87 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.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base case forecast:

- PF will launch new landed property projects worth Bt15-Bt18 billion per annum over the next three years as well as new condominium projects worth Bt7.4 billion in 2019, Bt17 billion in 2020, and Bt3 billion per annum during 2021-2022
- Land acquisition is budgeted at Bt2-Bt3 billion per annum during 2019-2022
- Capital expenditures for the hotel business will be around Bt2 billion during 2019-2020 and its equity investments in the JV projects will be around Bt2 billion over the next three years
- Total operating revenue will stay around Bt19-Bt22 billion per annum during 2019-2022, and the operating income should stay 13%-15%.

RATING OUTLOOK

The "negative" outlook reflects PF's weaker financial profile than expected. Its debt to capitalization ratio is expected to remain high if the company cannot deliver its deleveraging plan. Its ability to improve profitability is still uncertain. In addition, the company has very limited headroom on the financial covenants of its bonds and bank loans.

RATING SENSITIVITIES

PF's ratings could be revised downward if its operating performance and/or financial profile fall below expectations. The debt to capitalization ratio higher than 65% and/or the FFO to total debt ratio lower than 3% could lead to the rating downgrade. On the contrary, the outlook would be revised back to "stable" if its financial profile improves to the target level.

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 Bella Del Monte brands. Its landed property products range in price from Bt2 million to Bt80 million per unit. Condominium units are sold under the Hyde, Yu Kiroro, The Sky, Metro Sky, Metro Luxe, Metro Park, Bella Costa, and I Condo brands, with selling prices ranging from Bt40,000 to Bt400,000 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.

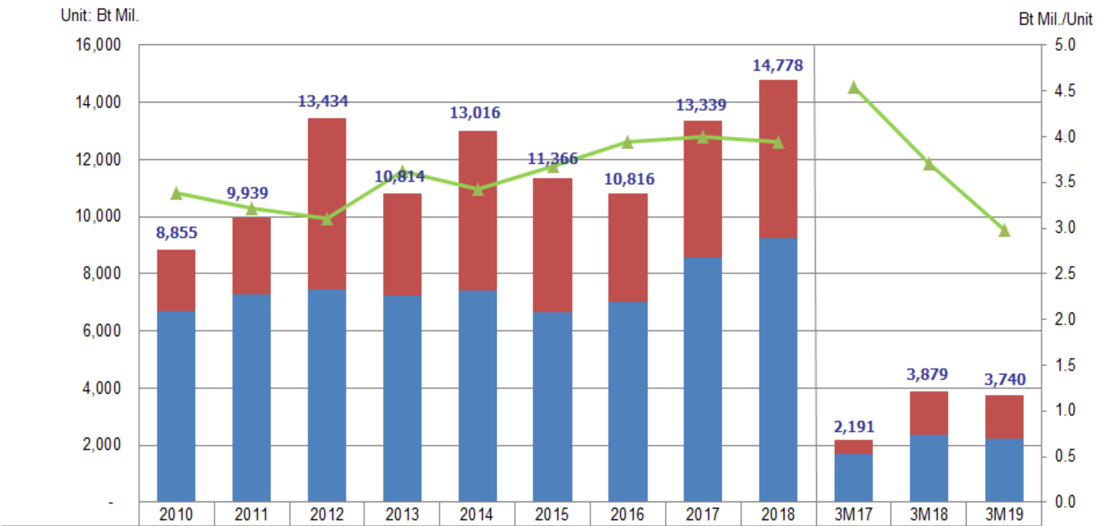
Apart from core business, the company operates six hotels, one community mall, and 17 branches of discount store. Also, PF is in the initial stage of investments in wind and solar energy businesses and in mix-used projects in Eastern Economic

Corridor area in Trad province.

PF's revenue contribution from real estate sales (including landed property, condominium, and land plot sales) constituted 75%-80% of total operating revenue during 2015 through the first three months of 2019. Revenue contribution from hotel operations increased to 14%-15% during 2016-2018 and 22% in the first quarter of 2019, from 12% in 2015 and 7% in 2014 after the acquisition of GRAND in mid-2015. Revenue from rental and services as well as construction services remained negligible.

KEY OPERATING PERFORMANCE

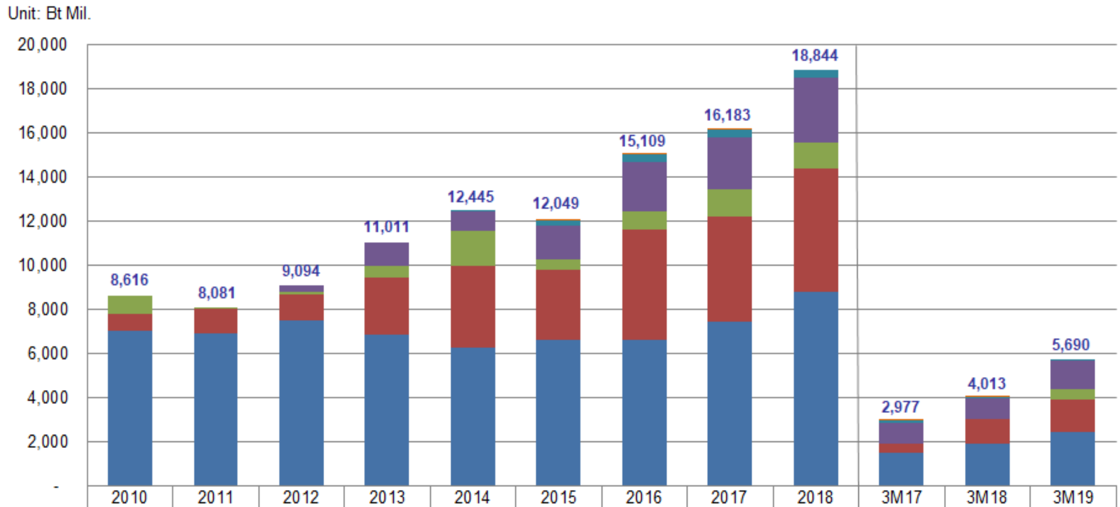
Chart 1: Presales Performance



	2010	2011	2012	2013	2014	2015	2016	2017	2018	3M17	3M18	3M19
Condominium	2,139	2,647	5,962	3,582	5,591	4,700	3,793	4,746	5,513	519	1,513	1,505
Housing	6,716	7,292	7,472	7,232	7,425	6,666	7,023	8,593	9,265	1,671	2,366	2,235
Avg. Price	3.4	3.2	3.1	3.6	3.4	3.7	3.9	4.0	3.9	4.5	3.7	3.0

Source: PF

Chart 2: Revenue Breakdown



	2010	2011	2012	2013	2014	2015	2016	2017	2018	3M17	3M18	3M19
Construction Services						15	89	32		13	0.2	
Rental and Services					28	225	361	381	343	91	78	44
Hotel operations			276	1,018	845	1,524	2,194	2,323	2,915	944	913	1,262
Land plots	835	81	148	530	1,629	501	864	1,225	1,233			478
Condominium	778	1,074	1,181	2,626	3,667	3,160	4,988	4,766	5,535	411	1,097	1,463
Housing	7,003	6,926	7,489	6,836	6,276	6,624	6,614	7,455	8,818	1,517	1,924	2,443

Source: PF

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2019	---------------Year Ended 31 December 2018	2017	2016	2015 -----------
Total operating revenues	5,845	19,289	16,426	15,425	12,346
Operating income	1,332	2,812	2,186	2,305	939
Earnings before interest and taxes (EBIT)	1,154	2,155	1,544	1,670	649
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,375	3,043	2,390	2,511	1,149
Funds from operations (FFO)	628	779	407	765	(156)
Adjusted interest expense	594	1,935	1,763	1,461	1,292
Real estate development investments	33,386	32,780	29,985	31,925	27,555
Total assets	57,557	57,566	47,684	48,790	43,277
Adjusted debt	36,147	35,255	27,399	29,314	23,102
Adjusted equity	16,000	15,474	15,031	13,937	13,664
Adjusted Ratios					
Operating income as % of total operating revenues (%)	22.79	14.58	13.31	14.94	7.60
Pretax return on permanent capital (%)	5.41 **	4.20	3.35	3.90	1.87
EBITDA interest coverage (times)	2.32	1.57	1.36	1.72	0.89
Debt to EBITDA (times)	9.78 **	11.59	11.46	11.67	20.11
FFO to debt (%)	3.15 **	2.21	1.48	2.61	(0.68)
Debt to capitalization (%)	69.32	69.50	64.57	67.78	62.84

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Property Perfect PLC (PF)

Company Rating:	BB+
Issue Ratings:	
PF17PA: Bt447.7 million subordinated capital debentures	B+
PF18PA: Bt60.3 million subordinated capital debentures	B+
Rating Outlook:	Negative

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