PRE-BUILT PLC

No. 13/2022
23 February 2022

CORPORATES

Company Rating:	BBB
Outlook:	Stable

Last Review Date: 22/02/21

Company Rating History:

Date	Rating	Outlook/Alert
11/04/17	BBB	Stable
30/06/14	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Pre-Built PLC (PREB) at "BBB" with a "stable" rating outlook. The rating reflects the company's well-built track record in the construction of high-rise buildings, acceptable financial risk profile, and moderate project backlog. However, these strengths are weighed down by the high concentration risk in the end-markets PREB serves, as well as the cyclical nature and stiff competition of the engineering and construction (E&C) industry. The rating also takes into account a rise in leverage and execution risk due to the company's strategic move into the property development business.

KEY RATING CONSIDERATIONS

Well-built track record in high-rise building projects

PREB's business profile reflects its well-built track record in the construction of high-rise buildings in various segments, including residential properties, commercial properties, hotels, and industrial projects. However, PREB mainly focuses on condominium projects in Bangkok and in prime locations outside the metropolitan area. PREB's major customers are leading property developers, most of which are listed on the Stock Exchange of Thailand (SET).

In the past, PREB was able to secure new contracts worth around THB3.5-THB4.5 billion per annum. However, the slowdown in the condominium market, following the implementation of stringent loan-to-value rules by the Bank of Thailand (BOT) in 2019 and the impact of the Coronavirus Disease 2019 (COVID-19) pandemic that started in 2020, prompted most developers to postpone new project launches. Thus, the value of new contracts signed by PREB dropped to THB2.7-THB2.9 billion per annum during 2020-2021. Its backlog at the end of September 2021 stood at THB7.6 billion, a decline from the peak of THB8.9 billion in 2019.

High concentration in end-markets served

The rating on PREB takes into consideration the concentration of the company's business in the condominium segment where the value of new project launches fluctuates in tandem with the prevailing market condition and competition is intense. PREB's revenues from the construction of condominium projects have accounted for 65%-75% of its total revenue annually over the past five years. In addition, PREB depends on a small number of clients in the private sector, exposing the company to the credit risk of developers, especially during industry downturns.

At the end of September 2021, PREB's top-four clients were MQDC Town Royal Place Co., Ltd., One Bangkok Co., Ltd., Ananda Development PLC (ANAN), and Origin Property PLC (ORI). These clients' projects accounted for 81% of the total backlog. Despite the strong brands and market position in the property sector of these clients, this level of concentration is a key concern that constrains the rating on PREB.

Higher contribution from residential property sales

PREB has made a concerted effort to expand in the property development business with an eye on the long-term growth of revenue and earnings. PREB has set up joint ventures (JVs) with several developers to develop residential property projects. As of September 2021, the company had seven JV projects on hand, with a combined value of THB14 billion. Five projects (THB4 billion) have been launched while another two projects are on hold.

PREB has also developed residential projects through its wholly-owned subsidiary, Pre-built Development Co., Ltd. PREB launched two single-detached house (SDH) projects, namely “Pannana” in mid-2020 and “Pimnara” in mid-2021, worth THB2 billion. These projects have received good responses from the market, with 84% and 11% sold, respectively, as of December 2021. The projects delivered completed units to their customers from the last quarter of 2020 onwards. In 2022, PREB plans to launch one SDH and one townhouse project, for project value of THB1.2-THB1.3 billion in total. Besides housing projects, PREB bought two land plots located on Sukhumvit 24 and Sukhumvit 26, worth a total of THB1.1 billion, to develop condominium projects. Nonetheless, these projects have been put on hold, given the dwindling demand among target local and foreign buyers.

Going forward, PREB plans to launch residential property projects worth THB1.2-THB1.5 billion yearly. The budget for land acquisition will be around THB350-THB500 million per annum. We forecast PREB’s annual revenue from its property development business to be THB800-THB900 million per annum. Although the higher contribution from its residential property business will help bolster revenues and operating margins, the company’s debt level is also likely to increase. We expect the company to balance the returns and funding needs for its property business such that its debt to earnings before interest, tax, depreciation, and amortization (EBITDA) ratio does not change much from the current level.

Expected recovery in performance following downturn

PREB’s operating performance in the first nine months of 2021 was in line with TRIS Rating’s forecast, albeit with lower-than-expected revenues. Revenue was THB3 billion, down 2% year-over-year (y-o-y). However, its overall gross margin improved to 13.5% from 10.3% in 2020, which was comparable to the normal range of 13%-15% achieved over the past several years. Its EBITDA also increased by 31% y-o-y to THB310 million. As the backlog of low-margin projects depletes, the gross profit margin of its E&C business should stay above 10% over the forecast period.

In our base-case forecast for the next three years, we project PREB’s revenue from construction business to range THB3.5-THB4.5 billion per annum, supported by its moderate backlog. PREB’s backlog will likely secure a crucial portion of construction revenue in the years ahead, equivalent to 85% in 2022 and 60% in 2023. Revenue from residential property projects is forecast to be THB800-THB900 million per annum, and revenue from construction material sales to be THB400-THB500 million per annum. On the whole, we project PREB’s total revenue to gradually increase from THB4.3 billion in 2021 to THB6 billion in 2023. Although the company’s profitability will remain under pressure, given the increasing material prices and the lingering impacts of COVID-19, we expect PREB to maintain its overall gross margin at 12%-14%. We expect its EBITDA to rebound to around THB500 million per annum while funds from operations (FFO) to range THB300-THB350 million per year over the next three years.

Acceptable financial profile

The debt to capitalization ratio (including JV debts on a proportionate basis) at the end of September 2021 was 31.8%, up from 29% in 2020. Despite its investment in the residential property business, we forecast PREB’s debt to capitalization ratio to stay in the 30%-35% range in the next three years. PREB’s debt to EBITDA ratio is expected to stay at around 3.0-3.5 times while the FFO to debt ratio to range 25%-30%.

According to the key financial covenants on its bank loans, PREB is obliged to maintain its total liability to equity ratio below 2.5 times. The ratio at the end of September 2021 was 1.7 times. We believe that PREB should be able to comply with the financial covenant on its debt obligations over the next 12-18 months. Most of its debts were secured. At the end of September 2021, PREB’s priority debt to total debt ratio was 60%. Since the priority debt ratio was higher than the 50% threshold according to TRIS Rating’s “Issue Rating Criteria”, we consider PREB’s unsecured creditors to be significantly disadvantaged to its priority debt holders with respect to the priority of claims against the company’s assets.

Adequate liquidity

We assess PREB’s liquidity as adequate over the next 12 months. At the end of September 2021, PREB’s liquidity sources included THB995 million in cash and short-term investments. We forecast PREB’s FFO over the next 12 months to be THB300-THB350 million. PREB’s liquidity uses over the next 12 months include debt repayments amounting to THB169 million, capital expenditures of THB80-THB100 million, working capital requirements of THB300-THB400 million and dividend payments of around THB120 million. On the whole, PREB’s sources of funds should be sufficient to cover its uses of funds over the next 12 months.

BASE-CASE ASSUMPTIONS

- New signed construction contracts of THB3-THB4 billion per year.
- Total revenue to gradually increase from THB4.3 billion in 2021 to THB6.0 billion in 2023.
- Residential property sales of THB450 million in 2021, increasing to THB850-THB950 million per annum over the next three years.
- Construction material sales of THB400-THB500 million per year.
- Overall gross profit margin in the range of 12%-14%.
- Land acquisition budgeted at THB350-THB500 million yearly over the next three years.

RATING OUTLOOK

The "stable" rating outlook embeds our expectation that PREB will sustain its competitive edge in the E&C business. We expect PREB's operating performance and financial leverage to remain in line with our forecast, with the debt to EBITDA ratio remaining below 3.5 times, and the debt to capitalization ratio staying in the 30%-35% range over the next three years.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term. However, it could materialize if PREB significantly enlarges revenues and earnings from the current levels while its leverage is maintained at the current level. Conversely, the rating and/or outlook could be lowered if PREB's operating performance is significantly worse than our forecast or if its investments in residential property projects cause the debt to EBITDA ratio to exceed 5 times on a sustained basis.

COMPANY OVERVIEW

PREB was established in 1995 by the Charoentra family, AP (Thailand) PLC (AP), and the Quest Capital Group. The company is a general contractor focusing on the construction of high-rise buildings for private-sector clients. PREB was listed on the SET in 2005. As of May 2021, the founding Charoentra family was the company's largest group of shareholders, owning 26.3% of the total shares.

PREB also has the capability to build industrial plants and public works (infrastructure projects) as well as take on system and design work. However, the company remains focused on the construction of residential property projects. PREB's customer base largely comprises reputable property developers, most of which are listed on the SET.

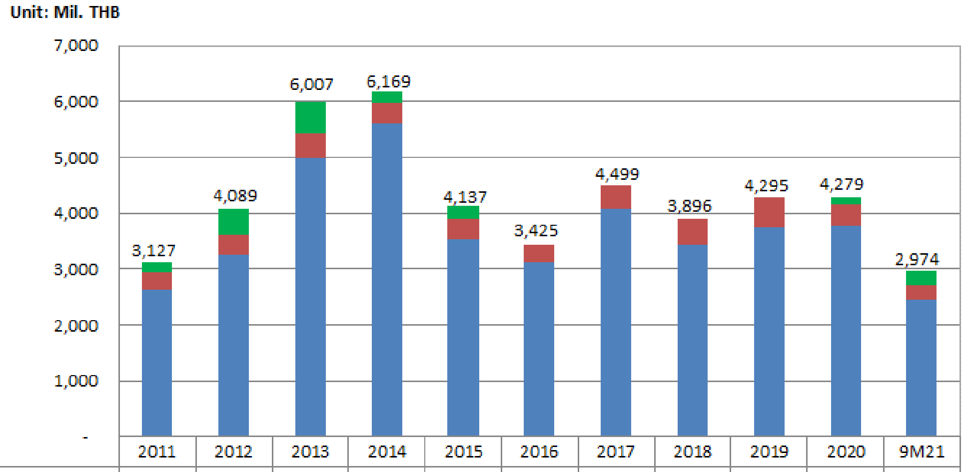
PREB expanded into the production and distribution of construction materials in 2004, through a wholly-owned subsidiary, PCM Construction Material Co., Ltd. (PCM), under the "PCM" brand. PCM produces precast concrete. In 2009, PREB established a wholly-owned subsidiary, Built Land Co., Ltd., to develop residential property including condominium and townhouse projects. PREB's expansion into the property development segment was a strategic move aimed at ramping up revenue and profitability.

In 2017, PREB made a significant change in strategy by divesting Built Land for around THB900 million. PREB recorded a gain of THB289 million from the divestiture, leaving the company with a debt-free balance sheet and a considerable amount of cash.

PREB re-entered the property development business in March 2017 with the establishment of Pre-Built Holding Co., Ltd. (PBH), a wholly-owned investment vehicle. PBH develops residential property projects through JVs with other property developers. PBH started developing residential property projects in mid-2017. In the meantime, PREB has set up Prebuilt Development Co., Ltd. (PBD) to develop its own property projects. PBD's current projects comprise two condominium projects in the Sukhumvit area, and two SDH projects, with a combined value of around THB5 billion. The construction segment has contributed more than 85% of PREB's total revenue over the past five years.

KEY OPERATING PERFORMANCE

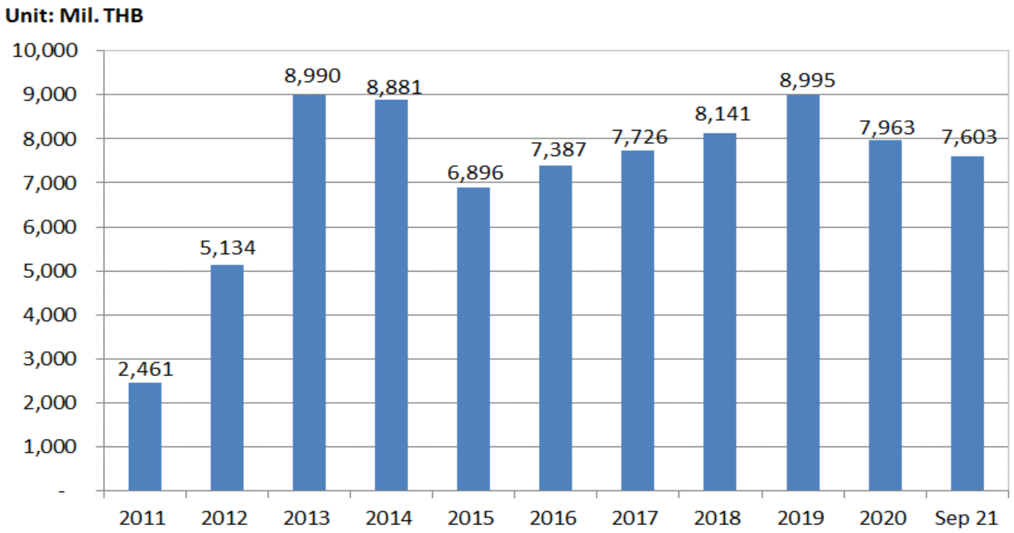
Chart 1: Revenue Breakdown



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	9M21
Residential property	192	462	577	194	234	0	0	0	0	128	272
Sales of construction materials	290	371	451	357	366	309	408	469	559	392	258
Construction	2,645	3,256	4,979	5,618	3,538	3,117	4,091	3,427	3,736	3,759	2,443

Source: PREB
Note: Restated in 2016 and 2017

Chart 2: Backlog as of Sep 2021



Source: PREB

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2021		2020	2019	2018	2017
			-------------Year Ended 31 December ------------			
Total operating revenues	2,980		4,294	4,304	3,903	4,505
Earnings before interest and taxes (EBIT)	237		242	348	477	428
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	310		350	388	510	472
Funds from operations (FFO)	225		262	308	411	263
Adjusted interest expense	38		46	56	6	5
Capital expenditures	21		35	47	55	17
Total assets	6,042		5,936	5,948	5,030	4,326
Adjusted debt	1,036		895	1,123	587	0
Adjusted equity	2,223		2,191	2,205	2,264	2,128
Adjusted Ratios						
EBITDA margin (%)	10.40		8.15	9.03	13.07	10.47
Pretax return on permanent capital (%)	7.44	**	5.57	8.72	15.79	18.43
EBITDA interest coverage (times)	8.09		7.58	6.88	84.14	101.84
Debt to EBITDA (times)	2.45	**	2.56	2.89	1.15	0.00
FFO to debt (%)	30.53	**	29.23	27.42	70.03	n.a.
Debt to capitalization (%)	31.80		29.00	33.74	20.60	0.00

* *Consolidated financial statements*
** *Annualized with trailing 12 months*
n.a. *Not available*

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Rating Methodology – Corporate, 26 July 2019

Pre-Built PLC (PREB)

Company Rating:	BBB
Rating Outlook:	Stable

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