PRE-BUILT PLC

No. 15/2024
22 February 2024

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 27/02/23

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-established track record in the construction of high-rise buildings, its moderate financial leverage, and adequate liquidity. However, the rating is weighed down by the company's relatively modest scale with high concentration risk in the end-markets it serves, as well as its exposure to the cyclical natures of the engineering and construction (E&C) and residential property industries.

KEY RATING CONSIDERATIONS

Well-established track record

PREB's business profile reflects its strong track record in the construction of high-rise buildings in various segments, including residential properties, commercial properties, hotels, and industrial projects. Its construction projects mainly focus on the Bangkok Metropolitan Region. The company is known for its reliable delivery of projects according to schedule. PREB's customer base largely comprises leading property developers, most of which are listed on the Stock Exchange of Thailand (SET).

With the recovery of private construction in the first nine months of 2023 (9M23), PREB's backlog has also improved. In 9M23, the company secured THB6.8 billion in new contracts, marking a significant increase from the THB2.5-THB2.7 billion per annum level during the condominium market slowdown from 2020 to 2022. Its backlog at the end of September 2023 stood at THB9.1 billion, up from THB5.1 billion in 2022. Additionally, several listed property developers plan to launch new condominium projects starting from 2024 onwards. Consequently, PREB anticipates the value of new contracts to hover around THB3.5-THB4.0 billion per annum over the next 2-3 years.

Modest business scale with a high concentration in end-markets served

The rating on PREB takes into consideration its modest business scale and its concentration in the construction of high-rise buildings, especially in the condominium segment. PREB's revenues from the construction of condominiums have accounted for 70%-75% of its total revenue annually over the past five years. Given the volatility in demand for condominiums, PREB's revenues and profitability tend to swing in line with this demand. 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 2023, PREB's top-three clients were One Bangkok Co., Ltd., Country Group Development PLC, and Hua Hin Sky Living Co., Ltd. These clients' projects comprised 77% of the total backlog, with One Bangkok alone accounting for approximately half of the total backlog. This level of customer concentration risk places a constraint on the rating although the risk is somewhat alleviated as the major customers are considered creditworthy.

Margins pressured by intense competition and volatile raw material costs

PREB's operating performance in 9M23 fell short of TRIS Rating's expectations. For 9M23, revenue totaled THB3.7 billion, down 17% year-over-year (y-o-y). Earnings before interest, taxes, depreciation, and amortization (EBITDA) came in at THB307 million, a hefty 38% drop y-o-y. The overall gross margin was 12.4%, a decrease from 14.2% y-o-y. PREB's deteriorating profitability is primarily attributed to heightened competition among construction companies and persistently high construction material and labor costs. Thus, PREB has encountered significant cost overruns in certain high-value projects. In 9M23, PREB's gross margin for construction plummeted to 8.2%, below the previously achievable level of over 12% before the onset of Coronavirus Disease 2019 (COVID-19). However, as the backlogs of low-margin projects deplete, the gross margin of its E&C business should improve and stay above 9% over the forecast period. The gross profit margins of residential properties and construction material sales are expected to range from approximately 25%-32% and 22%-24%, respectively.

In our base-case forecast for the next three years, we project PREB's revenue from the construction business to range from THB3.7-THB4.7 billion per annum, supported by the company's moderate backlog. PREB's backlog will likely secure a crucial portion of construction revenue over the years ahead, equivalent to 85% in 2024 and 70% in 2025. Revenue from residential property projects is forecast to be THB450-THB700 million per annum, and THB650-THB750 million per annum from construction material sales. Overall, we project PREB's total revenue to gradually increase to THB6.2 billion in 2025 from THB4.8 billion in 2023. Its EBITDA margin is expected to sustain at 8%-9%. We expect EBITDA to rebound to THB550 million in 2025 from THB350 million in 2023 while funds from operations (FFO) should range from THB300-THB350 million per year over the next three years.

Residential property development to support income growth

PREB continues its aim to expand in the property development business as part of its strategy for long-term growth of revenue and earnings. However, revenues from residential property sales have been rather volatile, ranging from approximately THB450-THB900 million per year during 2021-2023. Currently, PREB has four single-detached house (SDH) projects developed under the "Pannana" and "Pimnara" brands, worth THB2.8 billion. The company also has one townhouse project under the "Pre Village" brand, worth THB0.7 billion. Besides housing projects, PREB has two land plots located on Sukhumvit 24 Road and Sukhumvit 26 Road, worth a total of THB1.1 billion, to develop condominium projects. The company is planning to develop these projects through joint ventures (JVs) as an approach to lessen the amount of capital requirement.

Moving forward, PREB intends to sell pre-built landed property units and be more conservative with new project launches. We forecast PREB's annual revenue from its property development business will increase to around THB700 million in 2024-2025 from around THB450 million in 2023. Although the greater contribution from residential properties will help bolster revenues and operating margins, the company's debt level is also likely to increase. Nonetheless, we expect the company to balance the returns and funding needs for its property business and bring down its debt to EBITDA ratio to below 3.5 times.

Moderate financial leverage

We forecast PREB's debt to capitalization ratio (including JV debts on a proportionate basis) will range from around 25%-35% over the next three years. The ratio at the end of September 2023 was 40.9%, up from 37.7% in 2022, since the company launched more residential property projects in 2022 and 2023. However, its plan to sell a land plot to the JVs should help reduce its debt burden from 2024 onwards. PREB has no plans to launch new landed property projects in 2024 while condominium projects will be developed under JVs. The budget for land acquisition is set at THB300 million in 2025. Under TRIS Rating's base-case forecast, PREB's debt to EBITDA ratio is expected to stay at approximately 2.5-3.0 times, while the FFO to debt ratio is likely to improve to around 30%-35% over the next 2-3 years from around 16% in 2023.

As bound by 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 2023 was 1.7 times. We believe the company should be able to comply with the financial covenant on its debt obligations over the next 12-18 months. Its priority debt to total debt ratio at the end of September was 49.8%.

Adequate liquidity

We assess PREB's liquidity as adequate over the next 12 months. At the end of September 2023, PREB's sources of funds included THB727 million in cash on hand. FFO over the next 12 months are forecast at THB300 million. PREB's liquidity uses over the next 12 months will include debt repayments amounting to THB192 million, capital expenditures of THB40-THB60 million, working capital requirements of THB300-THB400 million, and dividend payments of around THB110 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 worth THB7 billion in 2023 and THB3.5-THB4.0 billion per year during 2024-2025.
- Total revenues in the range of THB4.8-THB6.2 billion yearly.
- Residential property sales to gradually increase to around THB700 million per annum in 2024-2025 from around THB450 million in 2023.
- Construction material sales of THB650-THB750 million per year.

- EBITDA margin in the range of 7%-9%.
- Land acquisition budgeted at THB300 million in 2025.

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 forecasts, with the debt to EBITDA ratio remaining below 3.5 times, and the debt to capitalization ratio staying in the 25%-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 its revenues and earnings while maintaining leverage at the current level. Conversely, the rating and/or outlook could be lowered if PREB's operating performance deteriorates and/or it has such aggressive investments in residential property projects that its debt to EBITDA ratio rises above 3.5 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 2023, 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 the 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.

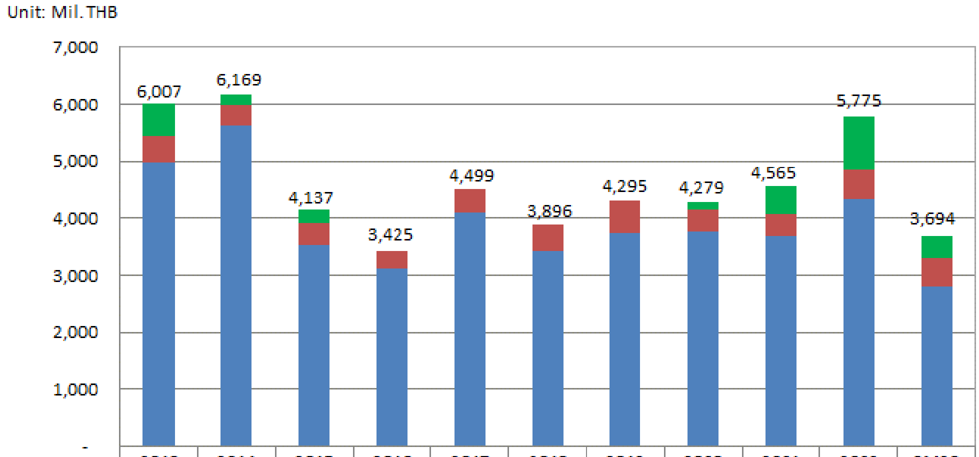
PREB expanded into the production and distribution of construction materials in 2004, through a wholly-owned subsidiary, PCM Construction Material Co., Ltd. (PCM), under the "PCM" brand. PCM produces precast concrete. In 2009, PREB established a wholly-owned subsidiary, Built Land Co., Ltd., to develop residential properties 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 developments comprise two condominium projects in the Sukhumvit area and five landed property projects, with a combined value of around THB5-THB6 billion. The construction segment has contributed 70%-75% of PREB's total revenue over the past five years.

KEY OPERATING PERFORMANCE

Chart 1: Revenue Breakdown

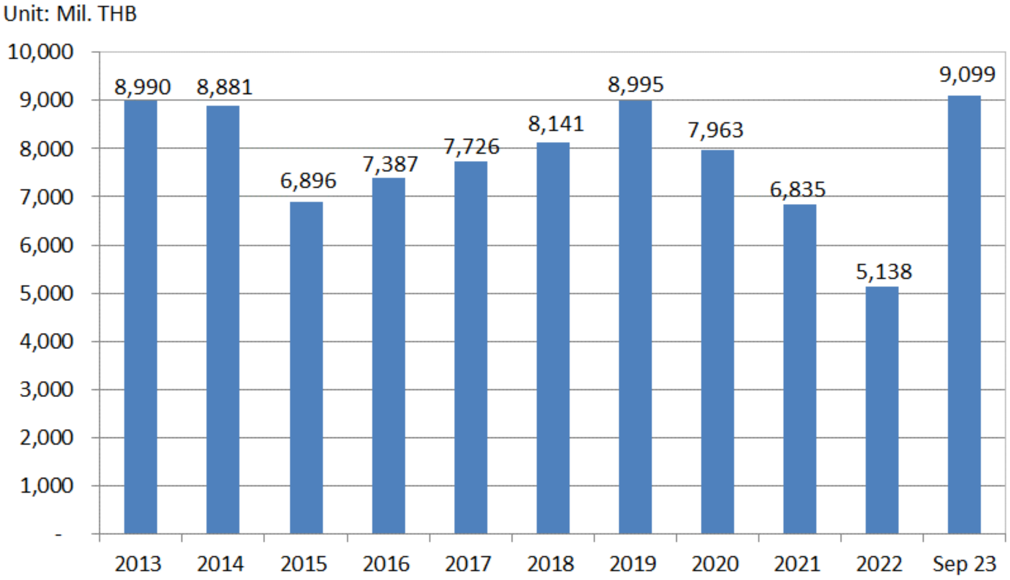


	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	9M23
Residential property	577	194	234	0	0	0	0	128	489	918	397
Sales of construction materials	451	357	366	309	408	469	559	392	389	520	488
Construction	4,979	5,618	3,538	3,117	4,091	3,427	3,736	3,759	3,687	4,337	2,810

Source: PREB

Note: Restated in 2016 and 2017

Chart 2: Backlog as of Sep 2022



Source: PREB

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

		------------Year Ended 31 December ----------			
	Jan-Sep 2023	2022	2021	2020	2019
Total operating revenues	3,705	5,789	4,580	4,294	4,304
Earnings before interest and taxes (EBIT)	252	472	362	242	348
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	307	554	460	350	388
Funds from operations (FFO)	194	409	311	248	308
Adjusted interest expense	72	60	53	60	56
Capital expenditures	18	44	25	35	47
Total assets	6,871	6,330	6,191	5,936	5,948
Adjusted debt	1,750	1,524	841	895	1,123
Adjusted equity	2,532	2,519	2,309	2,191	2,205
Adjusted Ratios					
EBITDA margin (%)	8.3	9.6	10.0	8.2	9.0
Pretax return on permanent capital (%)	6.0 **	10.6	8.3	5.6	8.7
EBITDA interest coverage (times)	4.2	9.2	8.7	5.8	6.9
Debt to EBITDA (times)	4.7 *	2.8	1.8	2.6	2.9
FFO to debt (%)	12.5 **	26.8	37.0	27.7	27.4
Debt to capitalization (%)	40.9	37.7	26.7	29.0	33.7

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

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Pre-Built PLC (PREB)

Company Rating:	BBB
Rating Outlook:	Stable

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