

PRINSIRI PLC

No. 37/2021
25 March 2021

CORPORATES

Company Rating:	BBB-
Issue Rating:	
Senior secured	BBB
Outlook:	Stable

Last Review Date: 05/06/20

Company Rating History:

Date	Rating	Outlook/Alert
13/03/19	BBB-	Stable
21/02/18	BB+	Positive
17/03/16	BB+	Stable
03/07/15	BBB-	Alert Developing
29/10/14	BBB-	Negative
21/08/12	BBB-	Stable
24/11/11	BBB-	Negative
24/05/11	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Prinsiri PLC (PRIN) at “BBB-” and the rating on PRIN’s existing secured debentures at “BBB”, with a “stable” outlook. The company rating reflects PRIN’s small size, improving operating performance, and moderate financial leverage. The rating also takes into consideration our concerns over the adverse effects of the Coronavirus Disease 2019 (COVID-19), which could put more pressure on the demand for residential property.

PRIN’s secured debentures issue is secured by land plots worth 1.88 times the issue size and thus the rating is enhanced one notch from the company rating.

KEY RATING CONSIDERATIONS

Small size with market segment concentration

PRIN’s revenue base is relatively small compared with other rated property developers. PRIN’s revenue in 2020 ranked 22nd out of the 23 developers rated by TRIS Rating. Its revenue in 2020 stood at THB2.39 billion, accounting for 1% of the total revenues generated by the 23 rated developers.

The company’s product portfolio is relatively concentrated in the middle- to low-priced segments. Its products comprise single detached houses (SDH), townhouses (TH), and low-rise condominiums. Most of its products have average selling prices in the range of THB2-THB6 million per unit. As of December 2020, PRIN had 19 active projects. The remaining value of unsold units (both built and un-built) was around THB8.07 billion, comprising SDHs and semi-detached houses (semi-DH) (58%), THs (21%), and condominiums (21%). PRIN’s revenue was mainly derived from landed property projects, contributing 88% of the total revenue in 2020.

Improving operating performance

We expect PRIN’s operating performance to gradually improve over the next three years, with revenue to fall in the range between THB2.5 billion and THB3 billion per annum. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) margin is expected to hold at 24%-25% over the next three years. According to the management, the company will focus more on the development of TH projects which have a large customer base, plus the company has a relatively strong brand position in this segment. An increase in the revenue base and lower operating expenses after the divestment of “Plearnary Mall” should help improve the company’s EBITDA margin in the short to medium term.

PRIN’s revenue in 2020 increased 33% year-on-year (y-o-y) to THB2.39 billion, up from the low-point of THB1.79 billion in 2019, despite the effects of the COVID-19 pandemic. The increased revenue was driven by promotional campaigns on some housing projects and the relaxation of the loan-to-value (LTV) rules by the Bank of Thailand (BOT) which allow homebuyers to borrow up to 110% for their first mortgage for housing priced below THB10 million per unit.

Concerns over the impacts of COVID-19

TRIS Rating expects the demand for residential properties in 2021 to grow slightly from 2020, supported by low interest rates and the improved economic recovery prospects from the rollout of vaccination. In addition, the extended

stimulus measures and reduction in the transfer and mortgage registration fees, for homes priced below THB3 million should help boost demand. However, there remains a significant risk to the recovery and earnings prospects of developers, which is not helped by the slow progress of vaccination rollouts. Moreover, the rise in non-performing mortgage loans has prompted banks to tighten their lending policies. The weak purchasing power of homebuyers combined with stringent bank lending policies will continue suppressing the demand for housing, especially in the middle- to low-income segments, which are the target customers of the company.

Due to softening demand in the condominium segment among both local and foreign homebuyers, several developers shift their strategies to launch more landed property projects, especially in the middle- and low-priced housing segments which have high demand. Thus, competition in this market segment has intensified. PRIN needs to constantly update its products and marketing strategy in order to remain competitive.

Moderate financial leverage

We expect PRIN to maintain its financial leverage at the current level in the short to medium term. At the end of 2020, PRIN's outstanding debt stood at THB3.33 billion, comprising THB1.41 billion of bank loans and THB1.92 billion of debentures. Around THB1.51 billion of its debts were secured with land banks and/or housing projects. As the company plans to launch only housing projects and low-rise condominium projects, which need lower capital outlays than high-rise condominium projects, we forecast that its debt to capitalization ratio will stay below 50% during 2021-2023. At the end of 2020, the debt to capitalization ratio was 41%.

In our base-case forecast, we expect PRIN to launch new landed property projects worth THB2.58 billion in 2021 and THB2.5-THB3 billion per annum during 2022-2023. The budget for land acquisition is forecast to be THB850 million in 2021 and THB750 million per annum in 2022-2023. As a result, we expect the debt to capitalization ratio to be 41%-42% and the funds from operations (FFO) to total debt ratio to be 9%-12% over the next three years.

Tight liquidity

The company had debts coming due over the following 12 months of THB874 million, comprising THB759 million in debentures, THB60 million in bills of exchange (B/Es), and THB55 million in a bridge loan. The whole amount of the B/Es has already been rolled over. The company plans to refinance the remaining maturing debentures with new debenture issues. PRIN's source of liquidity as of mid-February 2021 comprised cash on hand of around THB22 million and undrawn committed credit facilities of around THB225 million. We forecast PRIN's FFO over the next 12 months to be around THB330 million. PRIN also has unencumbered assets at cost worth THB1.74 billion, which can be pledged as collateral for new credit facilities, if needed. To further support liquidity, the company is in the process of seeking back-up facilities with a financial institution.

The financial covenants on its bank loans and bonds require PRIN to maintain its interest-bearing debt to equity ratio below 2 times and total liabilities to total equity (D/E) below 2 times. The ratios at the end of December 2020 were 0.7 times and 1 times, respectively. We expect that the company should have no problem complying with the financial covenants over the next 12 months.

BASE-CASE ASSUMPTIONS

- Operating revenue to be in the range of THB2.44-THB2.96 billion per annum during 2021-2023.
- Gross profit margin to hover around 32% and EBITDA margin to hover around 24% over the next three years.
- Budget for land acquisition of THB850 million in 2021 and THB750 million per annum in 2022-2023.

RATING OUTLOOK

The "stable" outlook on PRIN reflects our expectation that the company will maintain its operating performance as targeted and keep its financial position at the current level, with the debt to capitalization ratio below 50%. The FFO to debt ratio should stay above 5% in 2021-2023.

RATING SENSITIVITIES

The rating and/or outlook of PRIN could be under downward pressure if its operating performance and/or financial profile further deteriorate from the target levels. Due to its relatively small revenue base, a rating upgrade is unlikely in the near term. However, we could upgrade the rating if PRIN is able to enlarge its business scale significantly while maintaining its financial profile at the current level.

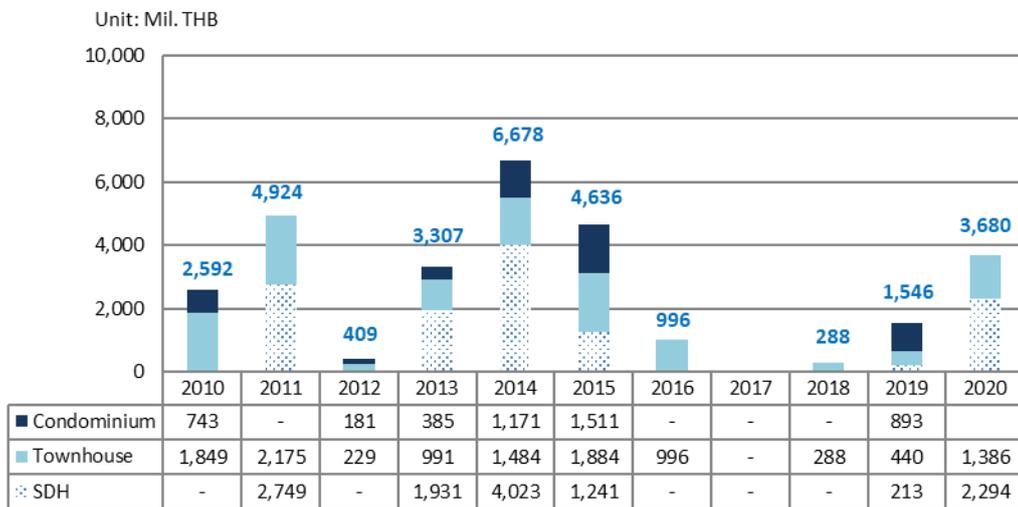
COMPANY OVERVIEW

PRIN was established by the Kovitchindachai family in 2000 and listed on the Stock Exchange of Thailand (SET) in 2005. The Kovitchindachai family has been the company’s major shareholder since its inception, owning a 35% stake as of December 2020. PRIN focuses on developing low-rise housing projects and targets the middle-income segment in the Greater Bangkok area, with an average selling price of THB4 million per unit. The company offers a wide range of residential property products, including SDHs, Semi-DHs, THs, and low-rise condominiums. PRIN’s revenue from residential sales is mainly derived from landed property, which constituted 88% of the total revenue in 2020. Revenue from condominiums contributed 11% in 2020.

As of December 2017, PRIN had a few legal disputes. One of those cases concerned a building of an existing condominium project obstructing the public sidewalk. The Court of First Instance ordered the company to remove the building. PRIN believed the construction complied with the relevant laws and filed a petition with the Court of Appeals. At the end of November 2018, the Court of Appeals decided to dismiss the petition. However, the counterparty filed an appeal with the Supreme Court. At the end of 2020, the Supreme Court upheld the judgement of the Court of Appeals.

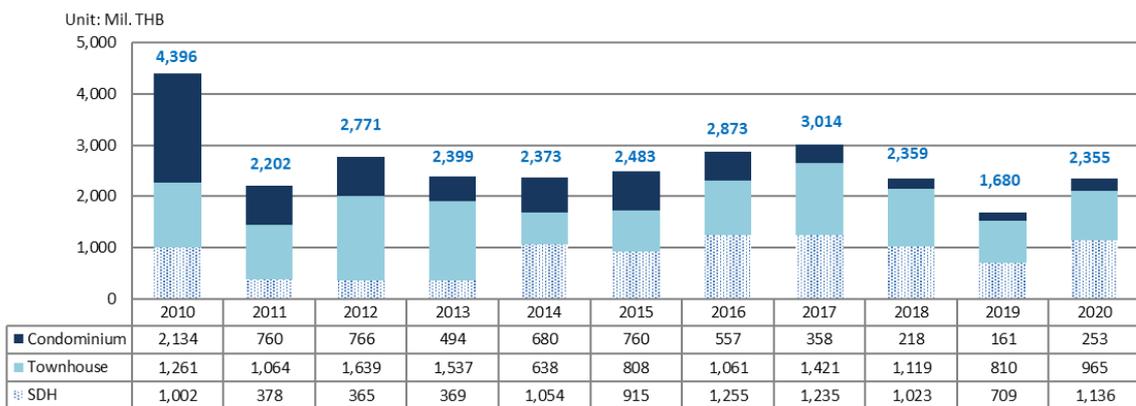
KEY OPERATING PERFORMANCE

Chart 1: New Project Launches



Source: PRIN

Chart 2: Revenue Breakdown by Product



Source: PRIN

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December-----				
	2020	2019	2018	2017	2016
Total operating revenues	2,390	1,793	2,487	3,155	3,018
Earnings before interest and taxes (EBIT)	581	359	547	642	521
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	639	418	608	702	577
Funds from operations (FFO)	221	(24)	336	395	247
Adjusted interest expense	330	397	195	220	262
Real estate development investments	7,458	7,720	6,708	6,614	7,215
Total assets	9,243	9,458	8,422	8,431	9,035
Adjusted debt	3,200	3,580	3,430	3,263	3,978
Adjusted equity	4,634	4,387	4,264	4,147	3,977
Adjusted Ratios					
EBITDA margin (%)	26.73	23.28	24.45	22.24	19.13
Pretax return on permanent capital (%)	7.04	4.38	6.86	7.82	5.87
EBITDA interest coverage (times)	1.94	1.05	3.12	3.19	2.20
Debt to EBITDA (times)	5.01	8.57	5.64	4.65	6.89
FFO to debt (%)	6.90	(0.67)	9.80	12.10	6.21
Debt to capitalization (%)	40.85	44.93	44.58	44.04	50.01

* Consolidated financial statements

RELATED CRITERIA

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

Prinsiri PLC (PRIN)

Company Rating:	BBB-
Issue Rating:	
PRIN216B: THB180 million senior secured debentures due 2021	BBB
Rating Outlook:	Stable

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