TRIS RATING
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RAIMON LAND PLC

No. 205/2018
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CORPORATES

Company Rating: BBB-
Outlook: Stable

Last Review Date: 28/12/17

Company Rating History:

Date	Rating	Outlook/Alert
30/06/15	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Raimon Land PLC (RML) at “BBB-” with a “stable” outlook. The rating reflects RML’s volatile operating performance, rising financial leverage, and well-accepted brand name in the high-end segment of the condominium market. The rating also incorporates concerns over rising competition in the high-priced condominium segment and the cyclicality of the residential property industry.

The rating is not affected by the changes in the composition of major shareholders and board of directors after the completion of the transaction between RML and KPN Land Co., Ltd. (KPNL) as the management team remains intact.

KEY RATING CONSIDERATIONS

Limited number of projects leading to volatile operating performance

Over the past several years, RML focused only on the transfer of its significant amount backlog. The company launched only two condominium projects and one housing project over the last four years. As the amount of its backlog depleted, RML’s revenue dropped to Bt2,929 million in 2017, from Bt5,000-Bt6,000 million per annum during 2012-2016. During the first nine months of 2018, revenue was only Bt1,644 million.

As of September 2018, RML had only eight active condominium projects and one active housing project, with the remaining value (including built and un-built units) of Bt3,028 million available for sale. The total backlog was Bt5,608 million, which were scheduled to transfer in 2019 and 2020 at around Bt2,423 million and Bt2,135 million, respectively. Recently, RML has acquired the assets from KPNL: two land plots held by KPNL’s subsidiaries, and two completed projects, The Diplomat39 and The Diplomat Sathorn. The value of the two completed projects was Bt2,566 million, comprising a backlog of Bt1,797 million and Bt769 million in unsold units. Transfer of units in both projects will help improve revenues during 2019 and 2020. However, both projects carry high costs. As a result, RML’s gross profit margin will decline to 23%-25%, down from more than 30% previously.

Going forwards, RML plans to launch at least two projects worth around Bt8-Bt10 billion each year. The continuation of its new projects launches should help its income streams and profitability more stable in the future. During the last quarter of this year, RML launched two joint venture projects: The Estelle project and the Tait 12 project, worth Bt9,232 million. At the end of November 2018, presales of both projects were Bt4,600 million.

Profitability dropped, but expected to improve

Due to the sharp drop in revenue, RML’s profitability has fallen noticeably. RML’s operating margin (operating income before depreciation and amortization as a percentage of revenue) dropped to 11% in 2017, down from 23%-27% during 2014-2016. During the first nine months of 2018, the operating margin was -2%, down from 15% in the same period last year. The drop was mainly due to a significant decrease in gross profit, while its selling, general, and administrative expenses remained high, given the component of fixed cost. The gross profit margin fell because RML cut the selling prices of the remaining units in the Unixx South Pattaya project in an effect to close out the project. The gross profit margin fell to 27% in the first nine months of 2018, down from

33% during the same period in 2017.

Going forward, RML's profitability is expected to recover. Over the next three years, the operating margin is expected to rebound but will not be as high as before. Under TRIS Rating's base case, RML's revenues will range between Bt2,100-Bt4,700 million during 2019-2021. The operating margin is expected to stay around 8%-10%.

Leverage expected to rise from investment in recurring-income business

RML plans to add more recurring-income assets into its portfolio in order to secure its revenue streams. In the upcoming year, RML will launch a mixed-use project on Ploenchit Road. The total construction cost of the project during 2019 through 2023 will be around Bt4,500 million. RML plans to join with a partner to develop this project in order to partially relieve its capital need and alleviate the debt burden. Due to its investment plan, RML's debt to capitalization ratio is expected to rise. However, the company's debt to capitalization ratio should not significantly higher than 60% in order to keep its rating at the current level. At the end of September 2018, the debt to capitalization ratio stood at 57%.

According to the key financial covenants in its bank loans and debentures, RML has to maintain its interest-bearing debt to equity ratio below 1.75 times and 2.5 times, respectively. The ratio at the end of September 2018 was 1.3 times. Thus, the company was in compliance with its financial covenants. RML has to manage its capital structure carefully as it expands in order to avoid breaching the covenants.

Well-accepted brand name in the high-end segment, but competition is more intense

RML focuses mostly on the high-end condominium segment, with selling prices ranging from Bt8-Bt38 million per unit (excluding units in Unixx South Pattaya and Zire Wongamat). RML's condominium projects are widely accepted among high-income buyers in terms of product quality and style. However, several developers have shifted their focus toward the higher-priced segments due to tightening banks' lending policies in the low-priced segment. Meanwhile, the demand in the higher-priced segments is limited and much lower than in the lower-priced segment. Thus, RML is expected to face more intense competition resulting from the rising supply of condominium units in this segment.

Liquidity is relatively tight but should be manageable

RML's liquidity is tight but should be manageable. Lower revenue recognition and increasing debt caused RML's cash flow protection to be lower than before. We estimate RML's funds from operations (FFO) will decline to around Bt70 million in 2018, down from Bt302 million in 2017, and then slightly increase to Bt150-Bt275 million per annum during 2019-2021. During the investment period, the FFO to adjusted debt ratio is forecast at 1.2% in 2018, and will range around 2%-3% in 2019-2021. The earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio is expected to stay at 1.5-2.0 times.

As of September 2018, the company had Bt2,309 million in debt due in the next 12 months, comprising debentures of Bt1,000 million, long-term project loans of Bt1,139 million, and a revolving credit facility of Bt170 million (excluding short-term bridge loans of Bt2,163 million used to purchase land and acquired assets from KPNL, which will be converted to long-term loans). The project loans will be repaid with the cash received from the transfers of residential property units to customers. RML plans to refinance the maturing debentures with a new debenture issue. Its sources of fund include cash and marketable securities of Bt566 million and undrawn committed credit facilities of around Bt100 million. In addition, the company plans to sell a land plot and expected to receive cash of around Bt500 million.

RATING OUTLOOK

The "stable" outlook reflects our expectation that RML will be able to transfer its backlog and improve its operating margin to around 8%-10%. In addition, TRIS Rating expects the company to raise capital and/or find strategic partners to lighten its debt burden. Under TRIS Rating's base case scenario, RML is expected to keep the adjusted debt to capitalization ratio below 60%.

RATING SENSITIVITIES

The ratings and/or outlook of RML could be under downward pressure if its operating performance deteriorates further and/or its financial leverage higher than 65% or the interest-bearing debt to equity ratio stays above 2 times for a sustained period. The company's credit upside is unlikely in the near term owing to its financial leverage expected to rise from its expansion stage of business.

COMPANY OVERVIEW

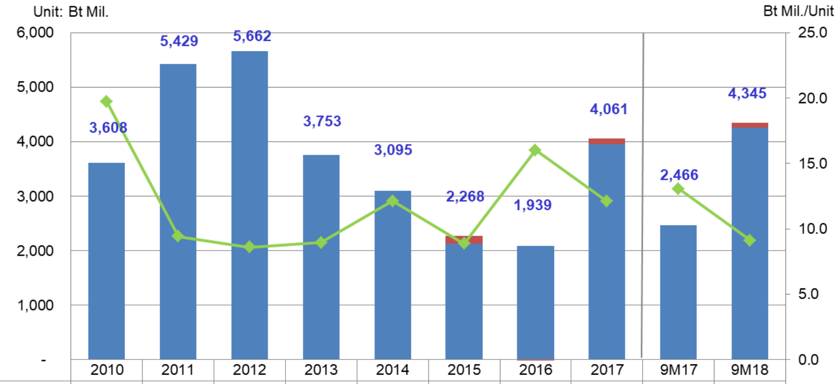
RML was established by Mrs. Jurairat E. Bonithern in 1987 and listed on the Stock Exchange of Thailand (SET) in 1994. The major shareholders have changed several times. In February 2013, JS Asset Management Pte., Ltd. (JS Asset) purchased a

24.98% stake in RML, and became the major shareholder. JS Asset is a Singaporean investment holding company, owned entirely by Mr. Lee Chye Tek Lionel. Mr. Lee is also the owner and the director of Jit Sun Investments (Jit Sun), whose businesses include offshore oil and gas services, engineering and ship construction for the offshore and marine industries, a boutique hotel, and food & beverages. In August 2018, RML invested in the assets of KPNL. The company has acquired two subsidiaries of KPNL plus the sold and unsold units of the Diplomat39 project and the Diplomat Sathorn project with a backlog of Bt1,797 million. All of the transactions were completed on 12 December 2018. As a result of these transactions, the shareholding of JS Asset, the major shareholder of RML, was diluted to 21% from 25%. JS Asset has remained the major shareholder of RML. KPNL became the second-largest shareholder, with a 14.31% stake, and obtained two seats on RML's board of directors.

RML focuses on the high-end condominium segment, with selling prices ranging from Bt150,000 to Bt400,000 per square metre (sq.m.) (excluding units in the Unixx South Pattaya project). Across RML's product portfolio, the average selling price was Bt11.5 million per unit. As of September 2018, RML had eight active condominium projects, one housing project, and two projects from KPNL. The total project value was Bt47,186 million (RML: Bt44,620 million; KPNL: Bt2,566 million). The value of the remaining unsold units, built and un-built, was Bt3,797 million (RML: Bt3,028 million; KPNL: Bt769 million). Around 78% of the unsold units were finished and ready to move in. The total backlog was worth Bt6,788 million (RML: Bt5,608 million, KPNL: Bt1,180 million) as of September 2018.

KEY OPERATING PERFORMANCE

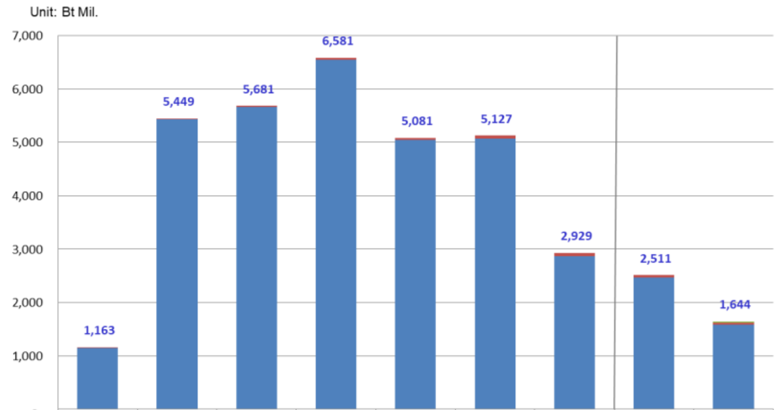
Chart 1: Presales Performance



	2010	2011	2012	2013	2014	2015	2016	2017	9M17	9M18
Housing (LHS)						145	-145	110		94
Condominium (LHS)	3,608	5,429	5,662	3,753	3,095	2,123	2,084	3,951	2,466	4,251
Avg. Price (RHS)	19.7	9.4	8.6	9.0	12.1	8.9	16.0	12.1	13.0	9.1

Source: RML

Chart 2: Revenue Breakdown



	2011	2012	2013	2014	2015	2016	2017	9M17	9M18
Food & beverages sale									20
Rental & service income	12	14	25	34	39	54	63	47	46
Real estate sale	1,151	5,435	5,656	6,547	5,042	5,074	2,866	2,463	1,578
Total revenue	1,163	5,449	5,681	6,581	5,081	5,127	2,929	2,511	1,644

Source: RML

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		--------------Year Ended 31 December ----------			
	Jan-Sep 2018	2017	2016	2015	2014
Total operating revenues	1,644	2,929	5,127	5,081	6,581
Operating income	(35)	314	1,156	1,301	1,766
Earnings before interest and taxes (EBIT)	105	439	1,317	1,558	2,063
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	176	508	1,381	1,624	2,122
Funds from operations (FFO)	(78)	302	1,036	1,216	1,474
Adjusted interest expense	203	146	120	162	234
Capital expenditures	1,324	42	323	16	62
Total assets	13,110	10,458	9,700	9,947	11,191
Adjusted debt	6,316	3,168	1,843	2,393	3,023
Adjusted equity	4,851	5,067	5,108	4,451	3,544
Adjusted Ratios					
Operating income as % of total operating revenues (%)	(2.12)	10.70	22.54	25.61	26.83
Pretax return on permanent capital (%)	1.72 **	5.07	17.06	21.58	27.77
EBITDA interest coverage (times)	0.87	3.47	11.48	10.02	9.07
Debt to EBITDA (times)	23.70 **	6.24	1.33	1.47	1.42
FFO to debt (%)	(0.72) **	9.54	56.22	50.81	48.75
Debt to capitalization (%)	56.56	38.47	26.51	34.96	46.03

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

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Company Rating: BBB-

Rating Outlook: Stable

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