

SINGHA ESTATE PLC

No. 65/2024
25 April 2024

CORPORATES

| | |
|------------------------|--------|
| Company Rating: | BBB+ |
| Issue Ratings: | |
| Senior unsecured | BBB |
| Outlook: | Stable |

Last Review Date: 08/01/24

Company Rating History:

| Date | Rating | Outlook/Alert |
|----------|--------|---------------|
| 09/05/23 | BBB+ | Stable |

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RATIONALE

TRIS Rating affirms the company rating on Singha Estate PLC (S) at “BBB+” and affirms the ratings on its existing senior unsecured debentures at “BBB” with a “stable” rating outlook. The ratings reflect the good quality of its hotel portfolio, well-accepted residential brands, and recurring revenue streams from its commercial business. However, the ratings are constrained by the company’s high although declining financial leverage, and its limited track record in the real estate business.

The issue ratings are one notch below the company rating due to the subordination of the company’s senior unsecured debentures to its priority debt, in terms of the priority of claims against the company’s assets.

KEY RATING CONSIDERATIONS

Hotel operation to continue improving

TRIS Rating anticipates continued revenue growth for S’s hotel business in 2024-2026. This is fueled by the return to normal operations of hotels that underwent renovations in 2023. The overall hotel occupancy rate (OR) is expected to climb to roughly 68% in 2024 and stabilize at 71% throughout 2025-2026. The average daily room rate (ADR) is forecast to rise by 1%-3% annually during the same period.

The company’s hotel business performance improved in 2023 following the end of the COVID-19 pandemic. However, renovations at SAii Laguna Phuket Hotel, SAii Phi Phi Island Village Hotel, and Outrigger Fiji Beach Resort resulted in lagged recovery in operating results. Legionella in the water system also forced the closure for renovation of Outrigger Mauritius Beach Resort. By the end of 2023, all these hotels had resumed full operations. Revenue from the hotel business increased to THB9.7 billion in 2023 from THB8.7 billion in 2022. The overall OR climbed to around 66% in 2023 from 61% in 2022, and ADR experienced significant growth of around 10% year-on-year (y-o-y). Consequently, the average revenue per available room (RevPAR) in 2023 already surpassed pre-pandemic levels.

Expanding hotel portfolio via brownfield acquisition

The company’s hotel expansion strategy prioritizes acquisitions of existing hotels, focusing on upper midscale to luxury properties in leisure destinations. Geographic diversification, market segment, and customer base are also key considerations in this strategy. S is also constantly seeking ways to enhance the quality of its hotel assets and increase the efficiency of its hotel portfolio.

In 2024, the company plans to renovate the remaining two-thirds of rooms at SAii Laguna Phuket. Also, renovations are planned for selected UK hotels with high potential for ADR increases. The company is also considering selling off underperforming hotels and exploring brand changes or repositioning to attract a higher customer segment for hotels with such potential.

TRIS Rating projects S to allocate a budget of THB1 billion for hotel renovations during 2024-2026 and around THB2 billion per annum for hotel acquisitions during the same period. Based on our assumptions on existing hotels and planned investment, we project revenue from the hotel business to reach THB10.2 billion in 2024 and THB11.5-THB12.3 billion per year during 2025-2026.

Well-accepted residential brands in luxury segments

We view the company's residential brands as well accepted in terms of quality and style among high-end residential customers, despite its narrowly focused penetration strategy on high-end single-family detached houses and condominium projects. Ongoing housing projects include Santiburi The Residences, an ultra-luxury project with an average unit price of THB200 million, and Siraninn Residences, a super-luxury project with an average unit price of THB100 million. For condominium projects, the company's The ESSE brand covers luxury condominiums in the THB250,000-THB300,000 per square meter (sq.m.) price range, and the new The Extro brand covers luxury condominiums in the THB200,000-THB250,000 per sq.m. price range. In 2023, the company launched new luxury house projects under new brands including S'Rin and Shawn in a lower price range, with average unit prices of THB20-THB60 million. We believe that success in these new housing segments would further strengthen the company's residential business. However, the company still has a limited track record for covering a wider range of price points.

Residential business revenue slips but set to increase

The company's residential business has a relatively small and volatile income base. Revenue from the residential business (excluding revenue from Nirvana Daii PLC, which the company fully divested in 2021) fluctuated between THB1.5-THB5 billion per annum during 2019-2022. In 2023, revenue fell short of TRIS Rating's projection, reaching THB3.7 billion instead of the anticipated THB4.5 billion. This shortfall stemmed from project launch delays and slower-than-expected revenue recognition from the Santiburi The Residences project.

As of the end of 2023, the company had nine ongoing projects, comprising seven landed property projects, and two condominium projects, all located in Bangkok. The combined unsold project value was THB12 billion. The company's residential backlog was THB2.9 billion, of which THB1.9 billion is expected to be recognized as revenue in 2024, with the remainder spread across 2025-2026.

The company intends to launch more projects and diversify its residential portfolio, both in terms of locations and customer base. The company's development plan includes the launch of three new landed property projects and two new condominium projects, representing a combined project value of THB10.1 billion in 2024. We also assume the company will launch projects worth around THB5 billion per annum in 2025-2026. The company's land acquisition budget is projected to be THB1.5 billion per annum in 2024-2026 to support more project launches.

TRIS Rating forecasts a rise in residential real estate revenue to THB5.3 billion in 2024. This projection is driven by the scheduled completion and transfer of units at The Extro Phayathai-Rangnam condominium project, along with additional residential sales. Revenue for 2025-2026 is expected to range between THB5.0-5.5 billion per annum. We expect an overall gross profit margin for the residential business in 2024 of 25%, affected by a lower margin of construction revenue from the Santiburi The Residences. Gross profit margin is expected to rise further to 27%-28% between 2025-2026. Construction costs, both building materials and labor costs, will likely remain high, while intense competition in the residential market will likely continue.

Recurring revenue from commercial business under pressure

The company's commercial assets comprise four office buildings and one small retail space, with a total leasable area of around 193,000 sq.m. The company's office buildings are well located in both central business district (CBD) and non-CBD areas of Bangkok, offering easy access via public transportation. The office buildings are of good quality and mostly relatively new, comprising the Singha Complex and S-Metro buildings, about five and eight years old respectively; the S-OASIS building opened in late 2022; and Suntowers, despite being opened in 1992, remains well-maintained.

The company's commercial business generated relatively steady revenues of around THB1 billion per year over the past four years (excluding one-time revenue). However, the commercial segment faces challenges related to increased supply. The overall OR (excluding the S-Oasis building) decreased to 83% in 2023 from 86% in 2022 despite the dissipating impact from COVID-19. This decline is attributed to a combination of factors: weakened demand, the growing popularity of hybrid work models, and a significant influx of new office space. According to CB Richard Ellis (CBRE), an estimated 900,000 sq.m. of new office space is expected to enter the Bangkok market in 2023-2024, while net take-up remains considerably lower at around 28,000 sq.m. in 2023 and is only projected to increase to 50,000 sq.m. per year during 2024-2026.

Looking ahead, TRIS Rating anticipates a further decrease in overall OR (excluding the S-Oasis building) to 81% throughout 2024-2026. Also, with the expected surge in supply intensifying competition, rental rate increases are unlikely during this period. Meanwhile, we expect a gradual rise in OR for the recently opened S-Oasis Building, ranging up to 38%-75% in 2024-2026 from 15% in 2023. Consequently, we project commercial real estate revenue to stay within the THB1.2-THB1.4 billion per annum range in 2024-2026.

Entry into industrial estate business

The company entered the industrial estate business in 2021 by investing in the S-Angthong Industrial Estate Project, located on the Asian Highway in Angthong Province. The project has a total salable area of 992 rai and a project value of around THB4 billion. The project is currently under construction and will be gradually transferred to customers. Also, the company has invested in a 30% stake in three combined cycle power plants, namely B. Grimm Power (Angthong) 1 (BPAT1), B. Grimm Power (Angthong) 2 (BPAT2), and B. Grimm Power (Angthong) 3 (BPAT3). Collectively, these plants offer a total installed capacity of around 400 megawatts and have secured power purchase agreements with the Electricity Generating Authority of Thailand (EGAT) for a 25-year term, representing roughly 70% of their total generation capacity.

In 2023, the company's industrial estate business generated THB36 million in revenue from land sales, corresponding to the transfer of approximately 10 rai of land. This figure fell short of our projection. However, we anticipate a gradual rise in land sales revenue as infrastructure development within the industrial estate progresses. The company is expected to sell roughly 100 rai of land per year in the S-Angthong Industrial Estate during 2024-2026. Also, utility income is projected to increase as the customer base within the estate expands. Consequently, we forecast revenue from industrial estate business to reach around THB400 million per annum in 2024-2026.

High yet declining financial leverage

The company's financial leverage remained high in 2023 with the adjusted debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio of 10 times and the ratio of funds from operations (FFO) to adjusted debt of 3.5% in 2023. However, we expect a gradual reduction in leverage over coming years stemming from increased cash flow generation. We project the company's EBITDA to increase from THB3.5 billion in 2023 to the THB4.3-THB5.2 billion per annum in 2024-2026. The company's capital expenditures are expected to total THB2.8 billion in 2024 and approximately THB2.3-THB2.4 billion per year during 2025-2026. As a result, we forecast the adjusted debt to EBITDA ratio to decline to 8.7 times in 2024, before gradually decreasing to 7.4 times in 2026, while the FFO to debt ratio to improve to 5% in 2024 and 7% in 2026.

The key financial covenants on the company's bank loans and debentures require the company to maintain its interest-bearing debt to equity ratio below 2 times and its net interest-bearing debt to equity ratio below 2.5 times, respectively. As of December 2023, the ratios were 1.52 times and 1.38 times, respectively.

Acceptable liquidity

We assess the company to have an acceptable liquidity position. Its sources of funds included cash and cash equivalents of THB3 billion and undrawn credit facilities of THB7 billion as of December 2023. We expect the company's cash flow from operations of around THB1.9 billion in 2024. The uses of funds include loans of THB8 billion coming due in the next 12 months. The company may need to refinance a major portion of its maturing debt or seek additional funding to meet its investment plans. We expect the company's capital expenditure to be THB2.8 billion in 2024.

Debt structure

As of December 2023, S had consolidated debt of THB35 billion, of which around THB31 billion was considered priority debt. S's priority debt consisted of secured loans at the company level and secured and unsecured loans at subsidiaries. As its priority debt ratio was 89%, well exceeding the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", we view that S's senior unsecured creditors could be significantly disadvantaged compared with its priority debt holders with respect to claims against the company's assets.

BASE-CASE ASSUMPTIONS

For the three-year period from 2024-2026, TRIS Rating's assumptions for S's operations are as follows:

- Revenue of THB17.3 billion in 2024, THB18.9 billion in 2025, and THB19.3 billion in 2026.
- EBITDA margin to be around 25%-27%.
- Capital expenditures of around THB2.3-THB2.8 billion per annum.
- Land acquisition of THB1.5 billion per annum in 2024-2026.

RATING OUTLOOK

The "stable" outlook reflects our expectation that the company will maintain its competitiveness in its core businesses and that its operating performance and credit metrics will continue to improve.

RATING SENSITIVITIES

The rating could be revised downward if the company's operating performance is significantly weaker than expected or if the company makes more debt-financed investments than anticipated that cause the adjusted debt to EBITDA ratio to stay above 8 times and/or the FFO to adjusted debt ratio to remain below 5% for a prolonged period. A rating upgrade is unlikely in the near term; however, this could happen if the company demonstrates significantly better-than-expected operating performance and enlarges its cash generation, causing the adjusted debt to EBITDA ratio to remain below 5 times and/or the FFO to adjusted debt ratio to stay above 10% on a sustained basis.

COMPANY OVERVIEW

Singha Estate PLC (S) (formerly known as Rasa Property PLC) was established in 1995 and listed on the Stock Exchange of Thailand (SET) in 2007 under the stock symbol RASA. In 2014, the company completed its business acquisition by accepting the entire business transfer from Singha Property Management Co., Ltd.'s group and Mr. Santi Bhirombhakdi's group. The company also executed a shareholding restructuring, resulting in a change in the major shareholders to Singha Property Management (a wholly-owned subsidiary of Boon Rawd Brewery Group) and Mr. Santi Bhirombhakdi. Thereafter, the company was renamed Singha Estate PLC, with the SET ticker symbol changing from RASA to S. As of December 2022, Singha Property Management's group and Mr. Santi Bhirombhakdi's group together controlled 71% of S's total paid-up shares.

The company engages in four core real estate businesses: hospitality business, residential business, commercial business, as well as industrial estate and infrastructure business. The company's assets consist of 37 hotels with 4,393 keys in five countries, nine ongoing residential projects, five commercial buildings, and one industrial estate, S-Anghong, located in Anghong Province. In 2023, 66% of S's revenue came from the hospitality business, 25% from the residential business, and 8% from the commercial business.

KEY OPERATING PERFORMANCE
Table 1: S's Revenue Breakdown
Unit: %

| Revenue Breakdown | Unit | 2019 | 2020 | 2021 | 2022 | 2023 |
|----------------------------|-------------------|---------------|--------------|--------------|---------------|---------------|
| Total revenue | Bt million | 12,275 | 6,563 | 7,739 | 12,530 | 14,675 |
| Hospitality business | % | 31 | 24 | 58 | 69 | 66 |
| Residential business | % | 63 | 61 | 29 | 21 | 25 |
| Commercial business | % | 6 | 15 | 12 | 8 | 8 |
| Industrial estate business | % | 0 | 0 | 0 | 2 | 1 |
| Total revenue | % | 100 | 100 | 100 | 100 | 100 |

Sources: S & TRIS Rating calculation
Table 2: S's Hotel Portfolio

| | Hotel | Country | Segment | Number of Keys |
|---|--|------------------------------|-----------------|----------------|
| Self-managed hotels under owned brands | | | | |
| 1 | SAii Phi Phi Island Village | Thailand | Upscale | 201 |
| 2 | SAii Laguna Phuket | Thailand | Upper Upscale | 255 |
| 3 | SAii Koh Samui Choengmon | Thailand | Upper Upscale | 52 |
| 4 | Santiburi Koh Samui | Thailand | Luxury | 96 |
| 5 | Konotta Maldives | Republic of Maldives | Upper Upscale | 53 |
| Hotels under hotel management agreement with Outrigger Group | | | | |
| 6 | Outrigger Fiji Beach Resort | Republic of the Fiji Islands | Upper Upscale | 253 |
| 7 | Castaway Island, Fiji | Republic of the Fiji Islands | Upper Upscale | 65 |
| 8 | Outrigger Mauritius Beach Resort | Republic of Mauritius | Upper Upscale | 181 |
| Hotels under CROSSROADS Project | | | | |
| 9 | SAii Lagoon Maldives, Curio Collection by Hilton | Republic of Maldives | Upper Upscale | 198 |
| 10 | Hard Rock Hotel Maldives | Republic of Maldives | Upper Upscale | 178 |
| 11 | SO/ Maldives | Republic of Maldives | Luxury | 80 |
| SHR's hotels in the United Kingdom portfolio | | | | |
| 12-34 | 23 hotels under Mercure brand | United Kingdom | Upper Mid-Scale | 2,552 |
| Hotels operating under joint venture | | | | |
| 35-37 | 2 hotels under Holiday Inn brand and 1 hotel under Mercure brand | United Kingdom | Upper Mid-Scale | 229 |
| Total | | | | 4,393 |

Source: S
Table 3: S's Existing Residential Projects as of December 2023

| | Project Name | Project Value (Mil. THB) | Presales (% of Total Project Value) | Transfer (% of Total Project Value) |
|--------------|-----------------------------|-----------------------------|--|--|
| 1 | The ESSE Sukhumvit 36 | 5,916 | 85% | 85% |
| 2 | The Extro Phayathai-Rangnam | 3,996 | 32% | Expected start transfer 1Q24 |
| 3 | Santiburi The Residences | 4,997 | 100% | 72% |
| 4 | Siraninn Residences | 2,876 | 76% | 76% |
| 5 | Sentre (home office) | 92 | 52% | 29% |
| 6 | La Soie De S | 1,100 | 50% | 41% |
| 7 | S'Rin Ratchaphruek Sai 1 | 3,720 | 13% | 12% |
| 8 | Shawn Panyaindra | 1,802 | 2% | 2% |
| 9 | Shawn Wongwaen - Chatuchot | 2,816 | 0% | 0% |
| Total | | 27,314 | | |

Source: S

Table 4: S's Commercial Building Portfolio

| | Property Name | Location | Rental Space (Sq.m.) |
|---|----------------|----------|----------------------|
| 1 | Suntowers | Bangkok | 63,786 |
| 2 | Singha Complex | Bangkok | 58,927 |
| 3 | S-Metro | Bangkok | 13,677 |
| 4 | S-OASIS | Bangkok | 53,480 |
| 5 | The Lighthouse | Bangkok | 3,317 |
| | Total | | 193,187 |

Source: S

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

| | -----Year Ended 31 December ----- | | | | |
|--|-----------------------------------|--------|--------|---------|--------|
| | 2023 | 2022 | 2021 | 2020 | 2019 |
| Total operating revenues | 14,892 | 12,703 | 7,987 | 6,749 | 12,466 |
| Earnings before interest and taxes (EBIT) | 2,023 | 1,464 | (197) | (1,503) | 2,278 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 3,530 | 2,715 | 897 | (305) | 3,135 |
| Funds from operations (FFO) | 1,284 | 1,060 | (494) | (1,692) | 1,792 |
| Adjusted interest expense | 2,118 | 1,513 | 1,225 | 1,136 | 1,010 |
| Capital expenditures | 2,022 | 1,889 | 1,550 | 1,292 | 4,562 |
| Total assets | 74,598 | 68,810 | 65,990 | 65,113 | 67,681 |
| Adjusted debt | 36,474 | 31,332 | 30,544 | 20,973 | 22,651 |
| Adjusted equity | 22,708 | 22,606 | 21,898 | 23,541 | 27,596 |
| Adjusted Ratios | | | | | |
| EBITDA margin (%) | 23.7 | 21.4 | 11.2 | (4.5) | 25.1 |
| Pretax return on permanent capital (%) | 3.4 | 2.6 | (0.4) | (2.9) | 4.2 |
| EBITDA interest coverage (times) | 1.7 | 1.8 | 0.7 | (0.3) | 3.1 |
| Debt to EBITDA (times) | 10.3 | 11.5 | 34.1 | (68.7) | 7.2 |
| FFO to debt (%) | 3.5 | 3.4 | (1.6) | (8.1) | 7.9 |
| Debt to capitalization (%) | 61.6 | 58.1 | 58.2 | 47.1 | 45.1 |

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

Singha Estate PLC (S)

| | |
|--|--------|
| Company Rating: | BBB+ |
| Issue Ratings: | |
| S268A: THB1,700 million senior unsecured debentures due 2026 | BBB |
| S272A: THB1,000 million senior unsecured debentures due 2027 | BBB |
| Rating Outlook: | Stable |

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