

SIAMESE ASSET PLC

No. 140/2023
31 July 2023

CORPORATES

Company Rating: BB+
Outlook: Stable

Last Review Date: 27/07/22

Company Rating History:		
Date	Rating	Outlook/Alert
14/07/20	BB+	Stable

Contacts:

Preeyaporn Kosakarn
preeyaporn@trisrating.com

Auypom Vachirakanjanaporn
auypom@trisrating.com

Hattayanee Pitakpatapee
hattayanee@trisrating.com

Bundit Pommata
bundit@trisrating.com

Jutamas Bunyawanichkul
jutamas_b@trisrating.com

Suchada Pantu, Ph.D.
suchada@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Siamese Asset PLC (SA) at “BB+” with a “stable” rating outlook. The rating reflects SA’s modest business scale, relatively concentrated product portfolio, and high financial leverage. However, the rating is supported by an expected improvement in SA’s operating performance. The rating also takes into consideration our concerns over the reimposition of the loan-to-value (LTV) rules and interest rate hikes which could negatively impact housing demand in the short to medium term.

KEY RATING CONSIDERATIONS

Modest revenue base

SA’s revenue base remains relatively modest compared with other rated real estate developers. The company’s annual operating revenue ranged from THB2.0-THB3.6 billion during 2019-2022. In the first three months of 2023, the company’s operating revenue amounted to THB317 million, which represented a comparatively small proportion of the total revenues generated by the 25 developers rated by TRIS Rating.

Real estate sales remained the company’s major source of revenue, contributing 82% of total operating revenue in 2022. Rental and service income accounted for approximately 12%, while other operating revenue made up the rest.

Portfolio concentration in the condominium segment

The company’s business risk profile remained pressured by its portfolio concentration in the high-rise condominium segment. In 2022, revenue from condominium sales contributed almost 90% of the company’s revenue from real estate sales, with the remainder from sales of landed projects. The narrower product breadth means the company’s earnings are vulnerable to shifts in buyer preferences and changes in the operating environment.

As of June 2023, the company’s portfolio comprised 10 condominium projects and three landed property projects. The value of the unsold units was THB10.2 billion, 83% of which were condominium projects. To address the portfolio concentration and boost earnings, the company added one landed project in 2022 and another in the first quarter of 2023. Nonetheless, the majority of the new landed projects have yet to be transferred, thus, the company’s revenue in 2022 and the first quarter of 2023 primarily relied on sales of unsold condominium inventories.

Looking ahead, we expect the proportion of landed property projects to increase over the next few years, underpinned by the anticipated launch of landed projects worth around THB7 billion in 2023 and around THB6 billion in the next two years. In our view, this should help mitigate the portfolio concentration risk and smooth out the company’s earnings.

Operating performance expected to strengthen

We expect the company’s revenue to improve over the next three years driven by the completion and transfer of three condominium projects, “Landmark @ MRTA Station”, “Landmark @ Grand Station”, and “Landmark @ TSH Station”. Additionally, the company is expected to generate more sales from newly launched landed projects.

In our base-case forecast, we project the company's revenue from residential property for sale to range from around THB4-THB7 billion per annum during 2023-2025. At the end of June 2023, the company's backlog amounted to THB7.3 billion, THB2.2 billion of which is expected to be recognized as revenue in 2023, THB3.4 billion in 2024, and THB1.7 billion in 2025. Revenues from the rental and service business are expected to improve to around THB300-THB600 million per annum in 2023-2025. This upturn is attributed to an expected increase in the number of hotel rooms following the completion of several hotel buildings. The company's earnings before interest, taxes, depreciation and amortization (EBITDA) are expected to be around THB1.1 billion in 2023 and around THB1.6-THB1.9 billion annually in 2024-2025. The EBITDA margin is expected to be around 23%-26% over the forecast period.

In addition to the normal sales of its residential units, the company also has a strategy to sell its hotels and rental units for a profit should the opportunity arise. This strategy should help reduce the company's leverage; however, it may also lead to fluctuations in EBITDA over time. In 2022, the company recorded a gain on asset sales of THB260 million, mostly from sales of hotel units in the "Siamese Exclusive Queens". The company also recorded a gain on asset sales of THB102 million in the first quarter of 2023 from sales of "Q-Box Hotel".

Reimposition of LTV rules and interest rate hikes may have negative impacts

The reimposition of LTV rules and rising interest rates could dampen housing demand in the short to medium term. From January 2023, banks have been obliged to cap LTV at 80%-90% for second mortgage contracts and at 70% for third mortgage contracts. In our view, the LTV rules will generally have greater impacts on the middle and high-end housing segments since these buyers may have more than one mortgage contract.

On the other hand, rising interest rates are likely to have a significant impact on the debt servicing capacity of homebuyers, especially those in the lower-income segment. Interest rate hikes will also affect the funding costs of developers. The Bank of Thailand (BOT) has already raised the policy rate three times this year, in January, March, and May. We view that rising interest rate could impact the company's target customers to some extent as customers in the middle-income segment may have difficulties seeking mortgages in the high interest rate environment.

Financial leverage to remain high

We anticipate the company's financial leverage to remain high over the next three years, with a projected debt to capitalization ratio of around 62%-64% over the forecast period. Our base-case scenario assumes SA will launch new residential projects worth around THB16 billion in 2023, consisting of 60% condominiums and mixed-use projects and 40% landed projects, and will launch new projects worth around THB6 billion per annum in 2024-2025. The company has already secured all the required land plots for its project launches in 2023. The budget for land acquisition and investment in the rental and service business is expected to be around THB1.2-THB1.9 billion per annum during the forecast period. The ratio of funds from operations (FFO) to debt is expected to be approximately 4% in 2023, before improving to around 6%-9% in 2024-2025 once earnings from the new condominium and landed projects materialize.

The financial covenants on SA's debt obligations require the company to maintain its ratio of interest-bearing debt to equity below 2.5 times and its ratio of net interest-bearing debt to equity below 3 times. At the end of March 2023, the ratios were 1.7 times and 1.6 times, respectively. We expect the company to remain compliant with the financial covenants over the next 12 months.

Manageable liquidity

We expect SA's liquidity to remain manageable over the next 12 months. As of March 2023, the company had maturing debt over the next 12 months totaling THB4.6 billion, comprising THB3.1 billion in project loans and THB1.5 billion in debentures. As of March 2023, the company's sources of liquidity included cash on hand of around THB0.5 billion and undrawn committed credit facilities of around THB0.2 billion. We forecast the company's FFO to be around THB0.4 billion in 2023. We expect the project loans to be repaid with the proceeds from the underlying projects' unit transfers, and maturing debentures to be refinanced with new debenture issuances.

At the end of March 2023, SA had total debt excluding lease liabilities of THB10.5 billion. The company's priority debt, including the secured debts of the company and its subsidiaries, was THB8.2 billion, which translates to a priority debt to total debt ratio of 79%. As this ratio exceeds the 50% threshold according to TRIS Rating's "Issue Rating Criteria", we view the company's unsecured creditors as being significantly disadvantaged to its priority debt holders with respect to the priority of claims against the company's assets.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for SA's operations during 2023-2025:

- SA to launch new residential projects worth around THB16 billion in 2023 and THB6 billion per annum during 2024-2025.
- Operating revenue of around THB4.0-THB8.0 billion per annum during 2023-2025.
- Land acquisition budget of around THB1.2-THB1.5 billion per year.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectations that SA will deliver operating performance and maintain its financial profile as targeted. We expect the company to keep its EBITDA margin at around 20% and debt to capitalization ratio at around 65% on average.

RATING SENSITIVITIES

TRIS Rating could revise SA's rating or outlook upward if the company's revenue base and cash flow increase, and/or its debt to capitalization ratio falls below 60% and its FFO to debt ratio rises above 10% on a sustained basis. On the other hand, we would revise the rating and/or outlook downward should SA's operating performance and financial leverage fall materially short of our base-case target.

COMPANY OVERVIEW

SA was established in 2010 by Mr. Kajonsit Singsansern to develop residential property projects in Bangkok. Mr. Singsansern holds the position of Managing Director and has been the major shareholder since the company's inception. The company was listed on the Stock Exchange of Thailand (SET) in December 2020. After the initial public offering (IPO), the Singsansern Family continued to be SA's largest shareholder, holding a total of 43.8% stake in the company as of April 2023.

SA focuses on the middle- and high-end condominium segments. Its product portfolio covers a price range of THB3-THB14 million per unit. SA's condominium projects are located near mass transit line stations on Sukhumvit Road and in Rama 9-Ratchada areas of Bangkok. SA also has land in the Ramindra area to develop landed property projects.

SA's condominium brands include: "Blossom", "Siamese", "Siamese Exclusive", and "The Collection". "The Collection" is a high-end brand with selling prices of THB230,000-THB300,000 per square meter (sq.m.). The "Siamese Exclusive" brand has selling prices of THB150,000-THB230,000 per sq.m. while the "Siamese" brand sets prices at THB100,000-THB150,000 per sq.m. The "Blossom" brand was introduced to capture the middle-income segment, with selling prices from THB80,000-THB100,000 per sq.m. Most of the condominium projects are located in Bangkok. The company's single detached house (SDH) brands, "Siamese KIN" and "Monsane", are priced in the THB5-THB22 million per unit range, while its "Monsane Exclusive" has a price of around THB30 million per unit.

SA intends to expand its business to generate more recurring income. The company plans to retain ownership of some units of its condominium projects situated in good locations for development as hotels, serviced residences, or commercial spaces for rent. SA has also bought land and a building under construction named "Tribe 39" on Soi Sukhumvit 39 to redesign and renovate for development as a hotel or serviced residence. The hotel is set to start operating in the third quarter of 2023.

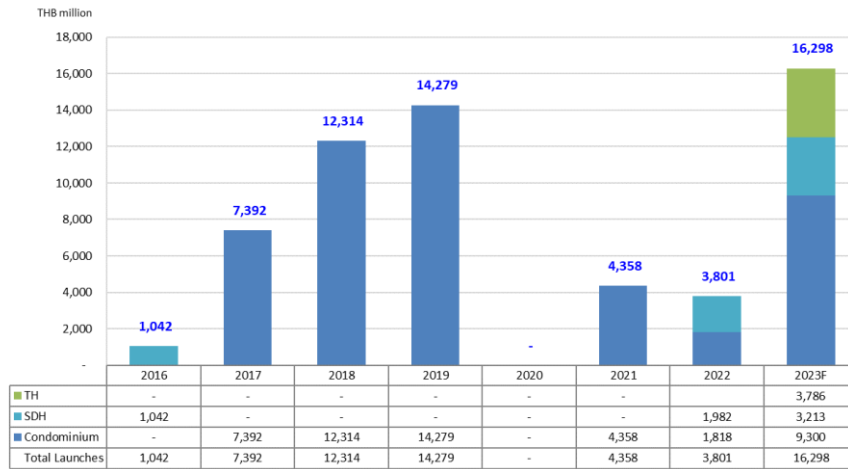
In 2020, the company rebranded four of its condominium projects as branded-residence projects that also offer hotel-like services. The rebranded projects are "Wyndham Residence" (formerly "Siamese Exclusive Queens"), "Wyndham Garden Residence" (formerly "Siamese Exclusive 42"), "Ramada Plaza Residence" (formerly "Siamese Sukhumvit 48"), and "Ramada Residence" (formerly "Siamese Sukhumvit 87").

In July 2021, SA established the subsidiary, Siamese Wellness Co., Ltd., to expand into the health and wellness business. The paid-up capital was THB1 million, and SA holds a 51% stake in the company. In September 2021, the company set up Siamese Technology Co., Ltd. as a subsidiary with a paid-up capital of THB10 million. SA holds a 99% stake in the company. In November, SA established the subsidiary, Siamese and Wealth Asset Management Co., Ltd., with paid-up capital of THB25 million, having the intention to explore the asset management business. SA holds a 70% stake in the company. In December 2021, SA entered into a joint venture with KSS Land Co., Ltd., with SA holding a 1.11% stake. The joint venture was later renamed Siamese Rangsit Co., Ltd., with a paid-up capital of THB405 million.

In 2022, the company established the new subsidiary, Hybrid Kitchen Co., Ltd., to operate the rental business of commercial buildings. The company had a registered capital of THB25 million with SA holding a 99.99% stake in the company.

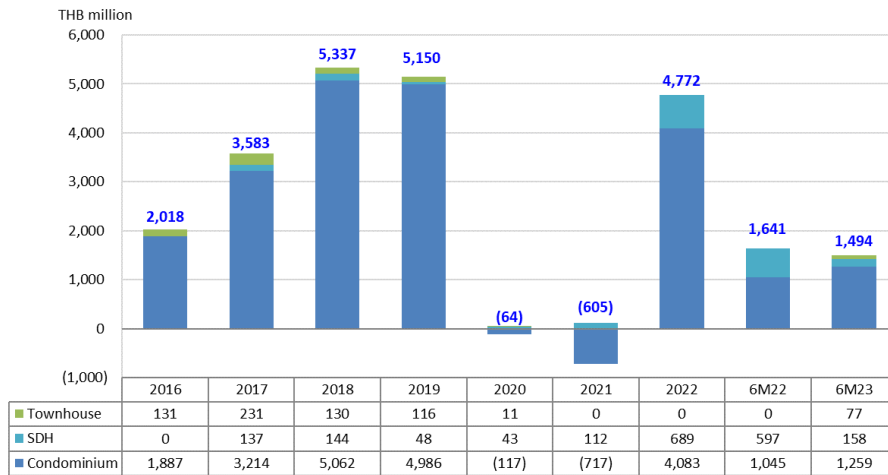
KEY OPERATING PERFORMANCE

Chart 1: Residential Project Launches



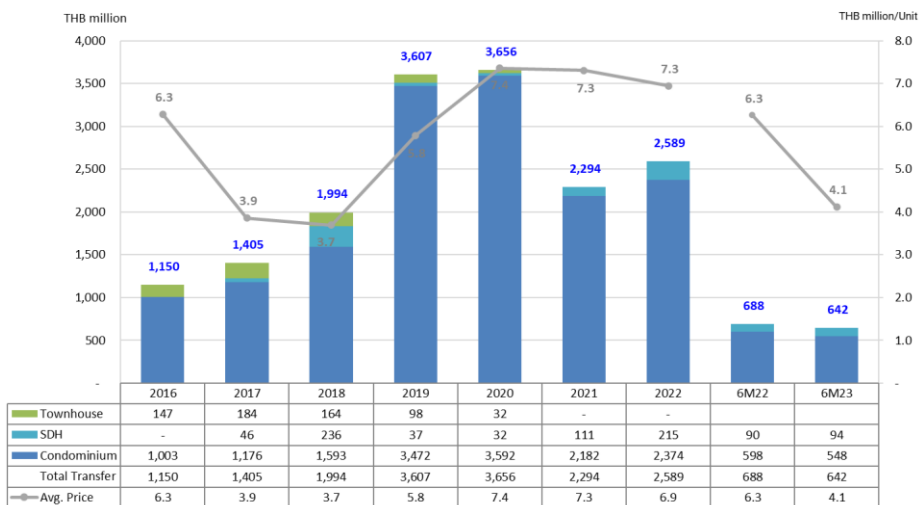
Source: SA

Chart 2: Presales Performance



Source: SA

Chart 3: Transfer Performance



Source: SA

Table 1: Number of Hotel Rooms

	2019	2020	2021	2022	2023F	2024F	2025F
Q-Box Hotel	118	152	132	100	-	-	-
Wymdham Bangkok Queen Convention Centre		36	39	85	28	28	28
Wymdham Garden Bangkok Sukhumvit 42			58	84	98	98	98
Ramada by Wymdham Bangkok Sukhumvit 87			16	135	135	135	135
Ramada Plaza Sukhumvit 48				78	87	87	87
Tribe 39					272	272	272
Crown Plaza Rama 9						260	260
Hilton Garden Inn Ramintra							224
Hotel at TSH							192
Total no. of rooms	118	188	245	482	620	880	1,296

F = Forecast

Source: SA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	317	2,155	2,346	3,606	3,520
Earnings before interest and taxes (EBIT)	75	495	429	1,082	1,019
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	115	687	519	1,148	1,066
Funds from operations (FFO)	(25)	153	76	631	520
Adjusted interest expense	137	513	375	353	361
Real estate development investments	10,814	10,301	8,547	8,241	9,286
Total assets	19,064	16,702	14,154	13,009	13,047
Adjusted debt	10,113	9,004	7,192	5,691	6,485
Adjusted equity	5,690	4,668	4,370	4,032	2,515
Adjusted Ratios					
EBITDA margin (%)	36.43	31.90	22.13	31.84	30.28
Pretax return on permanent capital (%)	3.57**	3.74	3.83	11.04	11.20
EBITDA interest coverage (times)	0.84	1.34	1.38	3.26	2.95
Debt to EBITDA (times)	14.35**	13.10	13.85	4.96	6.08
FFO to debt (%)	1.34**	1.69	1.06	11.09	8.02
Debt to capitalization (%)	63.99	65.86	62.20	58.54	72.05

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Homebuilders and Real Estate Developers Rating Methodology, 12 January 2023
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Siamese Asset PLC (SA)

Company Rating:	BB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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