

SIAMESE ASSET PLC

No. 123/2024
19 July 2024

CORPORATES

Company Rating: BB+
Outlook: Stable

Last Review Date: 31/07/23

Company Rating History:

Date	Rating	Outlook/Alert
14/07/20	BB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Siamese Asset PLC (SA) at “BB+” with a “stable” rating outlook. The rating reflects the company’s modest and volatile revenue base, concentrated revenue source, high financial leverage, and tight but manageable liquidity profile. However, the rating is supported by an expected improvement in SA’s operating performance and an increase in the contribution from its hotel business. The rating also incorporates the impacts of higher bank rejection rates for mortgage loan applications, persistently high interest rates and household debt on the property market.

KEY RATING CONSIDERATIONS

Modest revenue base, concentrated in a few projects

SA’s revenue base remains relatively modest and volatile compared with other rated real estate developers, given its limited number of active residential projects and small hotel portfolio. The company’s annual operating revenue has ranged from THB1.5-THB3.5 billion over the past five years. Real estate sales have remained the company’s major source of revenue, contributing around 90% of total operating revenue for the first three months of 2024, while rental and service income and other operating revenue accounted for the rest.

In an effort to diversify its revenue sources and stabilize earnings, the company launched four new landed property projects in 2023 worth a total of THB7.4 billion. Nonetheless, the company’s landed property projects encountered construction delays, leading to a slowdown in sales over the past year. Consequently, the company continued to rely on its single condominium project, the Landmark @ MRTA station project, for revenue in 2023 and the first half of 2024.

Weak performance in 2023 but improvement expected from 2024 onwards

SA’s operating revenues fell significantly below our 2023 forecast due to the delays in construction and the transfer of condominium and housing projects. However, we expect the company’s operating revenue to improve over the next few years as the construction problem of its landed property projects is expected to be resolved, while a significant amount of delayed condominium backlog should be transferred this year. Under our base case, we forecast revenue from real estate sales of THB5.0-THB6.0 billion per annum over the forecast period.

For the first three months of 2024, the company reported an increase in total operating revenue to THB1.2 billion from THB0.3 billion in the same period last year, as it started realizing revenue from its new condominium project that was completed for transfer in late 2023. At the end of June 2024, the company’s backlog amounted to THB7.2 billion, 34% of which is expected to be recognized as revenue in 2024, 25% in 2025, 29% in 2026, and the rest in 2027.

As of June 2024, the company had 15 active residential projects, comprising nine condominium projects and six landed property projects. The value of the unsold units (both built and un-built) totaled THB14.6 billion, 55% of which were landed property projects.

Increasing contribution from the hotel business

We anticipate the company's hotel portfolio will expand due to an increase in the number of hotel rooms following the completion of several new hotel buildings. The expansion should support revenue growth over the forecast period. The company's revenues from the rental and service business are expected to range from THB0.4-THB0.6 billion per annum in 2024-2026.

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 2023, the company recorded a gain on asset sales of THB109 million, the majority of which was from the sales of "Q-Box Hotel".

Financial leverage to remain high but gradually decline

We expect the company's financial leverage to remain high with a projected debt to capitalization ratio of around 62% in 2024 and gradually decline to slightly below 60% in 2025-2026 as operating performance continues to improve. Its total operating revenue is expected to range from THB6.0-THB6.5 billion per annum with an EBITDA margin of around 26%-28%. Its annual EBITDA and funds from operations (FFO) are expected to improve to around THB1.6-THB1.7 billion and THB700-THB750 million, respectively. Thus, the company's FFO to debt ratio should improve to around 6%-7% over the forecast period.

Our base-case scenario assumes the company will launch new residential projects worth around THB8 billion per annum in 2025 (80% mixed-use projects and 20% landed projects) and around THB4 billion in 2026. None will be launched in 2024. The company has already secured the required land plots for its mixed-use projects in 2025. The budget for land acquisition and investment in the rental and service business is expected to total around THB0.8-THB1.0 billion during 2025-2026.

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 2024, the ratios were 2.0 times and 1.9 times, respectively. We expect the company to remain compliant with the financial covenants over the next 12 months.

Tight but manageable liquidity

We expect SA's liquidity to remain tight but manageable over the next 12 months. As of March 2024, the company had maturing debt over the next 12 months totaling THB6.9 billion, comprising THB3.9 billion project loans, THB2.7 billion debentures, and THB0.3 billion short-term loans. As of March 2024, the company's sources of liquidity included cash on hand of around THB0.3 billion and undrawn committed credit facilities of around THB1 million. We forecast the company's FFO to be around THB0.7 billion in 2024. 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.

Debt Structure

At the end of March 2024, SA had total debt excluding lease liabilities of THB12.6 billion. The company's priority debt, including the secured debts of the company and its subsidiaries, was THB10.4 billion, which translates to a priority debt to total debt ratio of 83%. As this ratio exceeds our 50% threshold, 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 2024-2026:

- Residential project launches worth around THB8 billion in 2025 and THB4 billion in 2026.
- Revenue from real estate sales of around THB5.0-THB6.0 billion per annum; revenue from hotel operations and others of THB0.4-THB0.6 billion per annum.
- Land acquisition budget and investment in the rental and service business of around THB0.8-THB1.0 billion during 2025-2026.
- EBITDA margin to range from around 26%-28%.

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 above 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 44.8% stake in the company as of March 2024.

SA focuses on the mid-priced 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 the Rama 9-Ratchada areas of Bangkok. SA also has land in the Ramindra area for the development of 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 also bought land and a building under construction named "Tribe 39" on Soi Sukhumvit 39 to redesign as a hotel. The hotel started operations in February 2024.

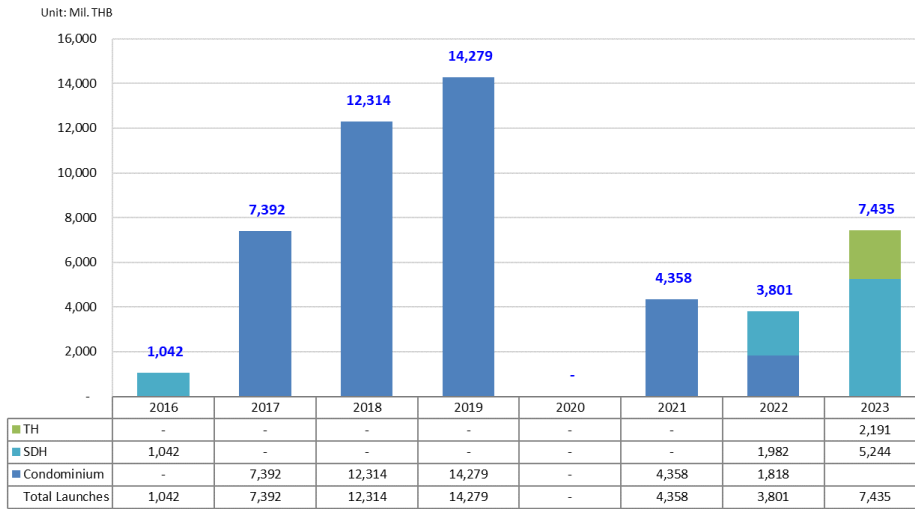
In 2020, the company rebranded four of its condominium projects as branded-residence projects that also offer hotel-like services. The rebranded projects are "Wyndham Residence" (formerly "Siamese Exclusive Queens"), "Wyndham Garden Residence" (formerly "Siamese Exclusive 42"), "Ramada Plaza Residence"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

In 2023, the company invested in a joint venture, Siamese Stone Development Co., Ltd., to develop luxury pool villas in Phuket. The company holds a 19% stake in the joint venture, which has a registered capital of THB5 million.

The company also operates numerous subsidiaries to bolster its core businesses. The supporting businesses include food and beverages, rental space, health and wellness, living solutions, finance and investment, and property service.

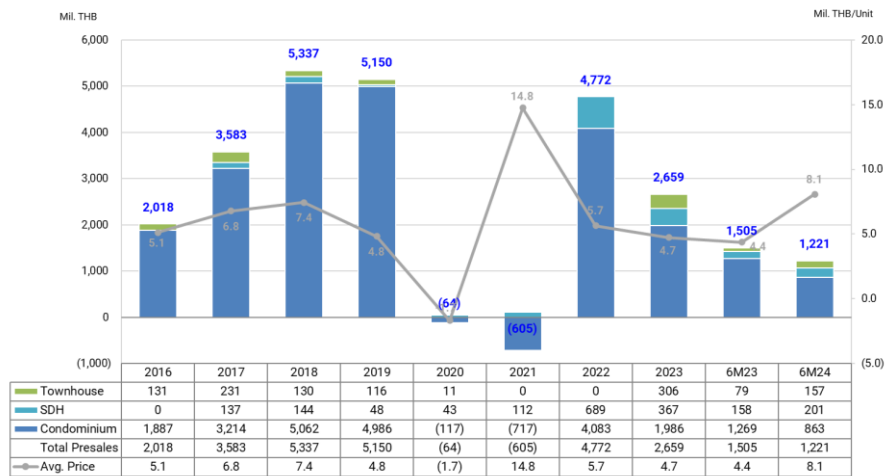
KEY OPERATING PERFORMANCE

Chart 1: Residential Project Launches



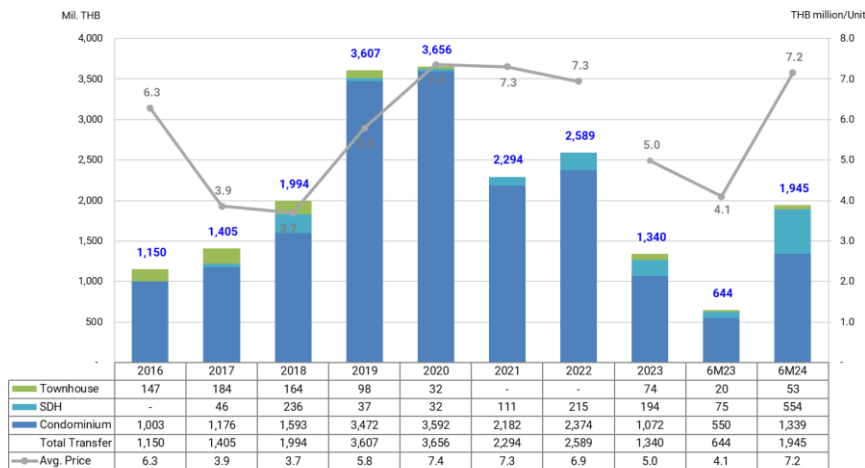
Source: SA

Chart 2: Presales Performance



Source: SA

Chart 3: Transfer Performance



Source: SA

Table 1: Number of Hotel Rooms and Serviced Apartments

	2020	2021	2022	2023	2024F	2025F
Q-Box Hotel	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	150	150
Ramada Plaza Sukhumvit 48			78	114	114	114
Tribe 39					272	272
Cassia Rama 9					81	81
Crown Plaza Rama 9						262
Total no. of rooms	188	245	482	375	743	1,005

F = Forecast

Source: SA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	Jan-Mar 2024	2023	2022	2021	2020
Total operating revenues	1,174	1,540	2,155	2,346	3,606
Earnings before interest and taxes (EBIT)	233	122	495	429	1,082
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	272	302	687	519	1,148
Funds from operations (FFO)	75	(321)	230	82	625
Adjusted interest expense	192	610	436	369	359
Real estate development investments	13,042	12,709	10,301	8,547	8,241
Total assets	21,905	21,667	16,702	14,154	13,009
Adjusted debt	12,378	11,939	9,003	7,191	5,690
Adjusted equity	6,092	5,990	4,668	4,370	4,032
Adjusted Ratios					
EBITDA margin (%)	23.2	19.6	31.9	22.1	31.8
Pretax return on permanent capital (%)	1.6 **	0.7	3.7	3.8	11.0
EBITDA interest coverage (times)	1.4	0.5	1.6	1.4	3.2
Debt to EBITDA (times)	27.0 **	39.5	13.1	13.9	5.0
FFO to debt (%)	(1.8) **	(2.7)	2.6	1.1	11.0
Debt to capitalization (%)	67.0	66.6	65.9	62.2	58.5

* 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

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