

SC ASSET CORPORATION PLC

No. 172/2020

20 October 2020

CORPORATES

Company Rating: BBB+

Outlook: Stable

Last Review Date: 04/10/19

Company Rating History:

Date	Rating	Outlook/Alert
04/08/11	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on SC Asset Corporation PLC (SC) at “BBB+” with a “stable” outlook. The rating reflects SC’s well-accepted brand name and satisfactory market position in the residential property market, an uplift in its revenue base, and relatively high financial leverage. The rating also takes into consideration SC’s concentration in high-priced condominium projects and our concerns regarding the adverse effects of the Coronavirus Disease 2019 (COVID-19), which could put more pressure on the domestic economy and demand for residential properties in the short to medium term.

KEY RATING CONSIDERATIONS

Well-accepted brand and satisfactory market position

TRIS Rating views that SC’s brand name is widely recognized, and its market position is satisfactory, especially in the mid- to high-priced housing segments. Its revenue share is around 5%-6% of total revenues from the real estate sales of 23 property developers rated by TRIS Rating. Revenue in 2019 was recorded high at THB17.7 billion, up 14% from 2018. During the first half of 2020, revenue was THB7.9 billion, up 19% compared with the same period last year. SC has a leading market position in the landed property segment for a unit price of more than THB10 million. Revenues from this segment accounted for more than 42% of SC’s total revenues in 2019 and in the first half of 2020.

Since 2018, SC expanded its property development portfolio to increase product offerings in the lower-priced segment, with prices ranging between THB3-THB5 million per unit. The company has received a good response in the market for this product segment. The management views the lower-priced segment as quite large and its growth potential remains robust, despite the higher bank rejection rate. The expansion toward the lower-end segment will help support the company’s revenue growth in the medium term. However, the company needs to focus more on the customer screening process since the bank rejection rate for this segment is quite high.

Uplift in its revenue base

We expect SC’s annual revenue to stay in the range of THB17-THB18 billion over the next three years. During 2015-2017, SC’s revenue base remained around THB14 billion per annum. The revenue base has elevated to THB16-THB17 billion since 2018 after SC diversified into lower price segments. Revenues from landed property sales are expected to constitute the major portion, accounting for more than 75% of total revenues, followed by condominium revenue of 20%, and rental and service revenues of 5%. We expect the earnings before interest, tax, depreciation, and amortization as a percentage of revenue (EBITDA margin) to hold at 15%-18%.

SC’s strong market position in the landed property segment and moderate amount of backlog should help the company achieves the target revenues. As of June 2020, its backlog stood at around THB8.1 billion, comprising landed property units worth THB3.9 billion and condominium units worth THB4.2 billion. The housing units in backlog will be recognized as revenue in 2020. The condominium units in backlog are expected to be recognized as revenue of around THB1.4 billion for the remainder of 2020, THB0.4 billion in 2021, THB2.1 billion in 2022, and the rest in 2023.

Concentration in high-priced condominium projects

SC's product portfolio is concentrated in the high-end segment, especially condominium projects. As of June 2020, SC had 10 condominium projects available for sale. The value of the remaining unsold units was around THB14 billion, with an average unit price of THB17.4 million per unit. Three out of 10 projects ("BEATNIQ", "28 Chidlom", and "SCOPE Langsuan") comprise 87% of the remaining value, with an average unit price of THB27.5 million per unit. In addition, next year, SC will partner with Nishi-Nippon Railroad Co., Ltd. (NNR) to launch the condominium project "The Crest Park Residences", worth THB3.5 billion. The target average selling price for this project will be around THB8.3 million per unit. SC holds a 55% stake in the joint venture while NNR holds 45%.

Since most of its condominium projects are located in prime areas, the investment cost of each project is fairly high. Added to this, condominium projects require a considerable time to bring to completion. Therefore, a slow selling rate may cause SC's leverage to linger at a high level for a long period.

Relatively high financial leverage

In our base case forecast, we project SC's debt to capitalization ratio to range between 50%-60% over the next three years. This takes into account the company's plans to launch new residential property projects worth THB15-THB20 billion per annum and invest in recurring income assets of around THB1.3-THB1.8 billion per annum. SC's leverage has increased continuously over the past three years. The higher value of new projects launched each year coupled with the slowdown in condominium sales has led to build-up in its inventory faster than sales. As a result, SC's debt to capitalization ratio at the end of June 2020 rose to 57%, from 55.8% at the end of 2019. Over the next three years, the company plans to lower the budget for land acquisition to around THB3-THB5 billion per annum and launch new residential projects worth around THB15-THB20 billion per annum.

The company also plans to increase its recurring income to 7%-10% of its total revenues. Currently, SC's income from rental properties, mainly from four office buildings, is around THB800-THB850 million per annum, or around 5% of total revenues. To enlarge its recurring income base, the company plans to invest in apartment buildings for rent in the United States (US) with a budget amounting to THB3 billion and spread over the next three years. In addition, SC plans to enter the hotel business, with an investment budget of THB2 billion over the next four years. In our view, the investments in rental properties will help fulfill SC's portfolio and smooth its earnings in the long run. However, SC's leverage may stay at a high level during the investment period.

Concerns over softening demand and impacts of COVID-19

The residential property market closely follows trends in the domestic economy. However, volatility in this market is much more pronounced than in the overall economy. A prolonged outbreak of the COVID-19 could cause a severe economic downturn and further suppress market demand. In addition, the number of non-performing mortgage loans (NPL) could rise further. The weakening purchasing power of homebuyers and stringent bank lending policies have been the key factors affecting demand for housing, especially in the mid- to low-income segments. With this backdrop, SC needs to be more cautious in launching new projects as well as screening its customers.

However, we expect some positive effects from several stimulus measures launched by the government to boost housing demand. Recently, the Bank of Thailand (BOT) relaxed the loan to value (LTV) regulations by allowing first-time homebuyers to take out a top-up of 10% on their housing loans, constituting 110% for the mortgage bundled with the top-up. Another measure is a cut in housing transfer and mortgage fees to 0.01% for homes priced below THB3 million, effective till the end of December 2020. Nonetheless, with the current market situation, many developers have shifted their focus toward landed property projects, particularly in the mid- to low-income segments which still have real demand. As a result, competition in this market segment appears to be intensified.

Manageable liquidity

We assess SC's liquidity should be manageable over the next 12 months. At the end of June 2020, SC had THB15.8 billion in debt to be due over the next 12 months, comprising THB3 billion in short-term bills of exchange (B/E), THB5.7 billion in promissory notes (P/N), THB3.2 billion in bonds, and THB3.9 billion in project loans. Most of its P/N are used for land purchases and will be converted to project loans. The company plans to repay the project loans with cash received from the transfer of completed units to customers and plans to refinance most of the maturing bonds with new bond issuances.

Its sources of funds comprised cash on hand of THB2.1 billion and THB8.1 billion in undrawn committed credit facilities. SC's funds from operations (FFO) over the next 12 months are projected to be THB1.6-THB1.8 billion. Moreover, the company also had unencumbered assets of around THB1.5 billion as an alternative source of liquidity, if needed. Due to its relatively large amount of short-term debt, we expect the company to carefully manage its liquidity. Over the next three years, we forecast the FFO to debt ratio to be 7%-10%, while the EBITDA interest coverage ratio to be above 3.5 times.

The key financial covenants on SC's bank loans and debentures require the company to maintain its interest-bearing debt to equity ratio below 2 times. The ratio at the end of June 2020 was 1.4 times. We believe the company should have no problem complying with these financial covenants over the next 12 months.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base case forecast:

- SC will launch new landed property projects in 2020 worth THB14.1 billion. Going forward, the company to launch new residential projects worth THB15-THB20 billion per annum.
- SC's revenue to be THB17-THB18 billion per annum during 2020-2022. Revenue from the residential segment to comprise 95% of total revenues, with the rest from rental and service income.
- Land acquisition to be THB3-THB5 billion yearly.
- Capital expenditures on its rental assets to be THB1.3-THB1.8 billion per annum over the next three years.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SC will maintain its competitive position and financial profile in the medium term, with an EBITDA margin of 15%-18%. Despite its aggressive business expansion plan, we expect SC to keep its debt to capitalization ratio below 60% over the next three years.

RATING SENSITIVITIES

We could revise SC's ratings and/or outlook downward should its operating performance or financial profile deteriorate significantly from current levels or if the debt to capitalization ratio rises above 60% for a sustained period. In contrast, we could revise the ratings upward if the FFO to debt ratio improves to around 12%-15% and the debt to capitalization ratio stays around 50% on a sustainable basis.

COMPANY OVERVIEW

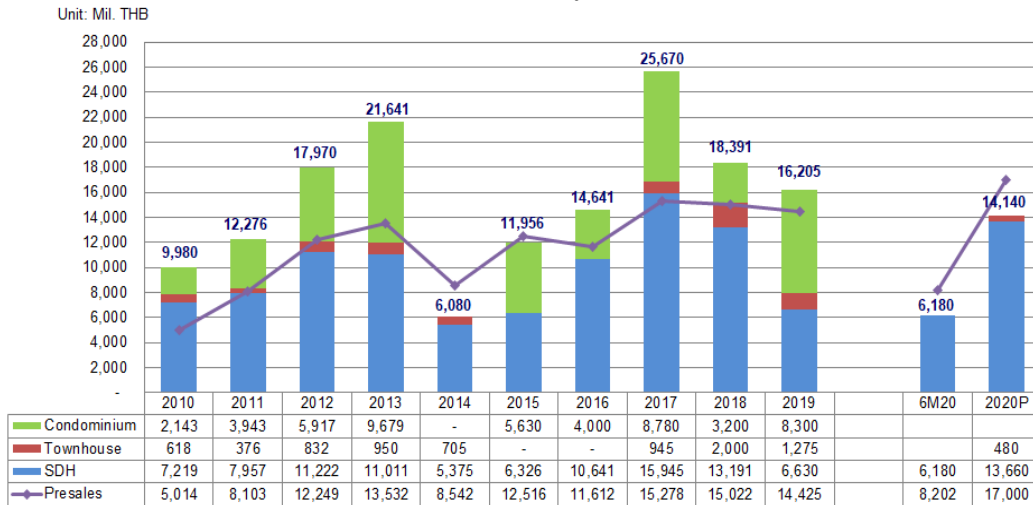
SC is a property developer established in 1989. The Shinawatra family took over the company in 1995 and entered the rental property segment by developing "Shinawatra Tower 3". In 2003, SC was reorganized to focus on developing residential properties. The company was listed on the Stock Exchange of Thailand (SET) in 2003. The Shinawatra family continues to be the company's major shareholder, with a 60% stake as of June 2020.

SC focuses on the mid- to high-income segments in the Bangkok Metropolitan Area. Its products comprise single detached houses (SDH), townhouses (TH), home offices, and condominiums. The SDH projects are sold under the "Granada", "Grand Bangkok Boulevard", "The Gentry", "Headquarter", "Bangkok Boulevard", "Venue", "V Compound", and "Pave" brands, with prices ranging around THB4-THB100 million per unit. Townhouse projects are sold under the "Vista" and "Verve" brands, with selling prices of THB2-THB5 million per unit. SC also offers a home office under the "Work Place" brand, with unit prices between THB8-THB15 million per unit. SC has three condominium brands: "The Crest", "Centric", and "Chambers". Projects under The Crest brand offer condominium units with selling prices of THB200,000-THB300,000 per square meter (sq.m.), Centric projects offer condominium units with selling prices of THB120,000-THB200,000 per sq.m., while Chambers projects target the lower-income segment with selling prices of THB60,000-THB120,000 per sq.m. SC also targets the luxury condominium segment with selling prices above THB280,000 per sq.m. under the signature brands: Saladaeng One, BEATNIQ, 8 Chidlom, and SCOPE Langsuan.

SC's revenue base has stayed around THB14-THB17 billion per annum in the past five years. The residential property development segment has been the company's largest source of revenue, constituting about 93%-95% of total revenue during 2015 through the first half of 2020. Revenue from the rental and service income segment comprised about 5%-7%.

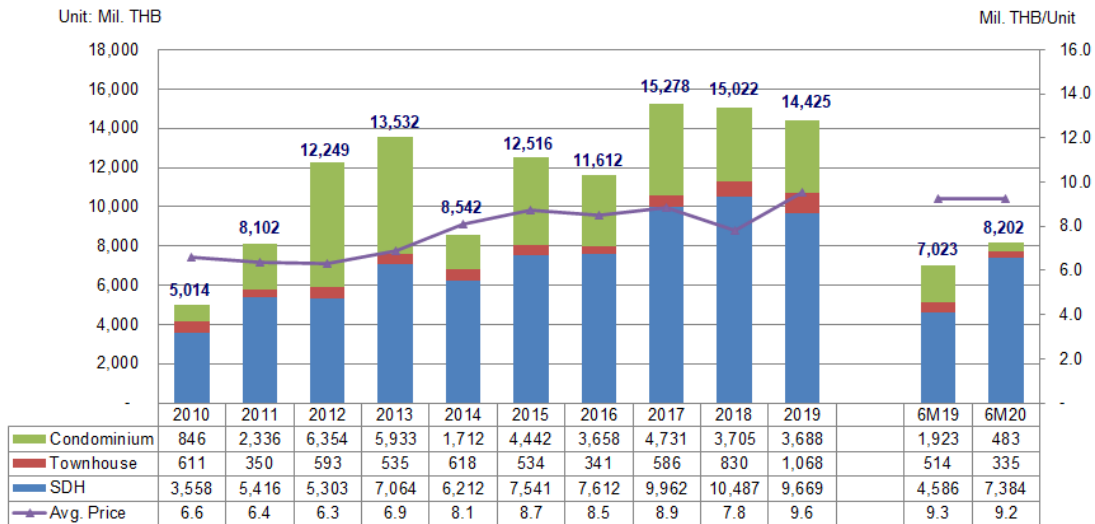
KEY OPERATING PERFORMANCE

Chart 1: Residential Project Launches



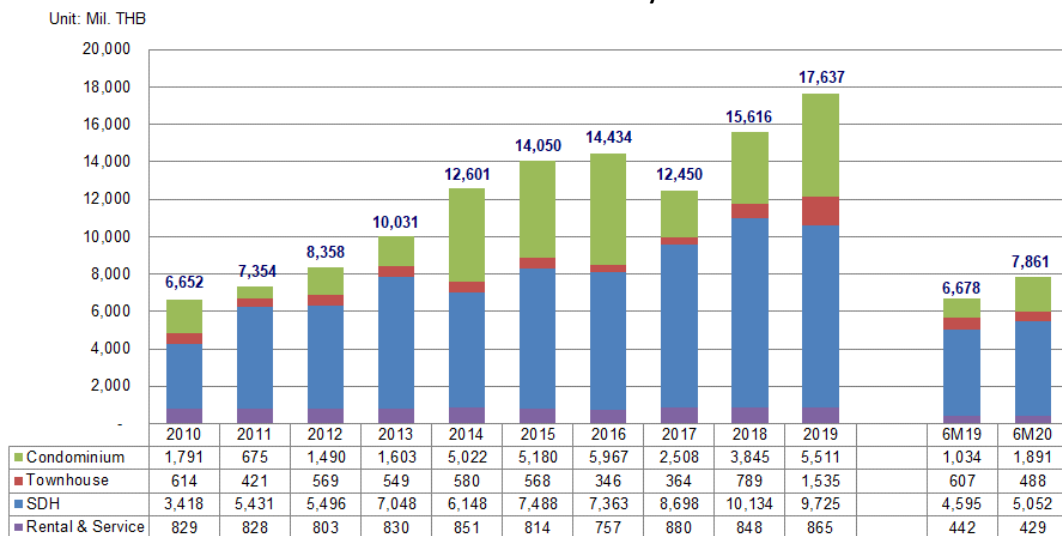
Source: SC

Chart 2: Presales Performance



Source: SC

Chart 3: Revenue Breakdown by Product



Source: SC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	7,888	17,669	15,470	12,469	14,465
Earnings before interest and taxes (EBIT)	1,321	3,103	2,841	2,092	2,999
Earnings before interest, tax, depreciation, and amortization (EBITDA)	1,403	3,226	2,986	2,236	3,132
Funds from operations (FFO)	789	1,902	1,811	1,260	2,066
Adjusted interest expense	407	812	692	646	568
Real estate development investments	35,184	34,276	32,420	28,468	24,591
Total assets	46,234	45,275	42,620	38,498	33,487
Adjusted debt	23,172	22,187	18,912	18,061	15,046
Adjusted equity	17,517	17,547	16,239	14,915	14,441
Adjusted Ratios					
EBITDA margin (%)	17.77	18.26	19.30	17.93	21.65
Pretax return on permanent capital (%)	8.23 **	8.06	8.05	6.48	10.33
EBITDA interest coverage (times)	3.44	3.97	4.32	3.46	5.51
Debt to EBITDA (times)	6.57 **	6.88	6.33	8.08	4.80
FFO to debt (%)	9.15 **	8.57	9.57	6.98	13.73
Debt to capitalization (%)	56.95	55.84	53.80	54.77	51.03

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

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

SC Asset Corporation PLC (SC)

Company Rating:	BBB+
Rating Outlook:	Stable

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