

# SC ASSET CORPORATION PLC

No. 179/2021

25 October 2021

## CORPORATES

**Company Rating:** BBB+

**Outlook:** Stable

**Last Review Date:** 20/10/20

**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” rating outlook. The rating reflects SC’s strong market position in the middle- to high-end segments of the residential property market, continued revenue growth, and anticipated rise in its financial leverage, resulting from the increasing value of new project launches and the expansion toward recurring income assets. The rating also takes into consideration SC’s concentration in high-priced condominium projects and the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, which could put more pressure on the domestic economy and demand for residential properties in the short to medium term.

## KEY RATING CONSIDERATIONS

### Strong market position in the middle- to high-priced housing segments

TRIS Rating views that SC has a strong market position, especially in the middle- to high-priced housing segment with unit prices above THB10 million. Its revenue share in 2020 was around 6%-7% of total revenues from the real estate sales of 23 property developers rated by TRIS Rating. SC’s revenue in 2020 was at THB19 billion, up 7.8% from 2019. During the first half of 2021, revenue reached THB8.7 billion, up 10.6% compared with the same period of last year. SC has a leading market position in the landed property segment for unit prices of more than THB10 million. Revenues from this segment accounted for more than 43% of SC’s total revenues in 2020 and the first half of 2021.

Since 2018, SC has 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 market response for this product segment. The management views the lower-priced segment is a large segment with robust growth potential, despite the typically higher rejection rate in mortgage loan applications. The expansion toward the lower-end segment will help support the company’s revenue growth in the medium term. However, we view that the company needs to focus more on its customer screening process due to the high rejection rate in mortgage loan applications.

### Continued growth in revenue

We expect SC’s revenue growth to continue, with annual revenue gradually increasing to be in the range of THB18-THB21 billion over the next three years. During 2015-2017, SC’s revenue base remained around THB14 billion per annum. The revenue base has expanded to THB16-THB19 billion since 2018 after SC diversified into the lower-priced segments. We expect revenues from landed property sales to continue representing the majority portion, accounting for more than 75% of its total revenues, followed by condominiums sales of 20%, and rental and service revenues of 5%. We expect the earnings before interest, taxes, depreciation, and amortization as a percentage of revenue (EBITDA margin) to hold at 15%-18% over the next three years.

SC’s strong market position in the landed property segment and moderate amount of backlog should help the company achieve its target revenues. As of June 2021, its backlog stood at around THB8.6 billion, comprising landed property units worth THB4.6 billion and condominium units worth THB4 billion. The housing units in backlog will be recognized as revenue in 2021.

The condominium units in backlog are expected to be recognized as revenue of around THB0.8 billion in the remainder of 2021 and THB3.2 billion in 2022.

### **Concentration in high-priced condominium projects**

SC's condominium portfolio is quite concentrated in the high-end segment. As of June 2021, SC had 11 condominium projects available for sale. The value of the remaining unsold units was around THB14.7 billion, accounting for 43% of the total remaining portfolio. The average price per unit was around THB14.4 million. Three out of 11 projects ("SCOPE Langsuan", "28 Chidlom", and "The Crest Park Residences") comprised 84% of the remaining value, with an average unit price of THB18 million.

Due to the impact of the COVID-19 pandemic, the demand for condominiums slowed down substantially in the past couple of years. Presales of the company's condominium projects were only THB1.9 billion in 2020 and THB2 billion in the first half of 2021. A slow selling rate may cause SC's leverage to linger at a high level for a long period. However, since most of its condominium projects are located in prime areas, offers of attractive prices or promotion packages could help accelerate sales and bring down its leverage, if needed.

### **Increasing investment in rental properties**

SC plans to diversify its portfolio toward rental assets, covering office buildings, apartments, and hotels. The company expects to increase its rental income to around 7%-10% of total revenues. Currently, SC's rental properties comprised six office buildings in Thailand and two apartments in the United States (US). Most of its rental income was from its six office buildings: "Shinawatra Tower 1, 2, and 3", "SC Tower", "Computer Center Building", and "Technical Training Center". SC manages a total combined rentable area of around 120,000 square meters (sq.m.). As of June 2021, the overall occupancy rate (OR) of rentable area was 92%. The rental income from its existing rental properties has been around THB800-THB850 million per annum, or around 4%-6% of its total revenues in the past five years.

To enlarge its rental and service income bases, the company plans to invest more in apartment buildings for rent in the US. The investment budget is set at around THB3 billion and spread over the next three years. The company plans to earn capital gains from selling its apartments in the US after holding these assets for a certain period. 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 should help strengthen SC's portfolio and improve its earnings in the long run. However, SC's leverage may stay at a high level during the investment period.

### **Anticipated rise in financial leverage**

TRIS Rating holds the view that SC's leverage will likely remain elevated in the short to medium term. 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 plan 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 over the next three years. The company has set a budget for land acquisitions of around THB10 billion in 2021 and THB7 billion per annum during 2022-2023. The rising budget for new land plots and the high value of new projects launched each year are expected to cause a significant rise in financial leverage over the next three years. However, we expect the company to keep the ratio of its funds from operations (FFO) to total debt at around 8%-10% and its debt to capitalization ratio below 60%.

SC's bank loans and debentures have a key financial covenant stipulating that the company must maintain its interest-bearing debt to equity ratio below 2 times. As of June 2021, the ratio was 1.24 times. We expect the company should be able to comply with this covenant in the next 12-18 months. SC's total debt at the end of June 2021 stood at THB23 billion, of which THB8.8 billion was priority debt according to TRIS Rating's "Issue Rating Criteria". SC's priority debt, which included debt at its subsidiaries and secured debt at the company, translated into a priority debt to total debt ratio of 38.5%. As the company's priority debt ratio was below the threshold of 50%, we view that the company's senior unsecured creditors are not significantly disadvantaged to its priority debt holders.

### **Manageable liquidity**

We assess SC's liquidity should be manageable over the next 12 months. At the end of June 2021, SC had THB11.3 billion in maturing debts over the following 12 months, comprising THB2.9 billion short-term bills of exchange (B/E), THB2.8 billion promissory notes (P/N), THB2.8 billion debentures, and THB2.8 billion 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 to refinance most of the maturing debentures with issuances of new debentures.

Its sources of funds comprised cash on hand of THB2.9 billion, short-term investments of THB3 billion, and THB4.4 billion in undrawn committed credit facilities. SC's FFO over the next 12 months is projected to be THB1.9-THB2 billion. Moreover, the company also had unencumbered assets of around THB3.3 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.

### BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for SC's operations during 2021-2023:

- SC to launch residential property projects worth THB13.7 billion in 2021, comprising condominium projects worth THB4.1 billion and new landed property launches worth THB9.6 billion. Going forward, the company expects to launch new residential projects worth THB15-THB20 billion per annum.
- Revenue of THB18-THB21 billion per annum during 2021-2023.
- Land acquisition to be THB10 billion in 2021 and THB7 billion yearly during 2022-2023.
- 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 in a range of 50%-60% over the next three years.

### RATING SENSITIVITIES

We could revise SC's rating 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

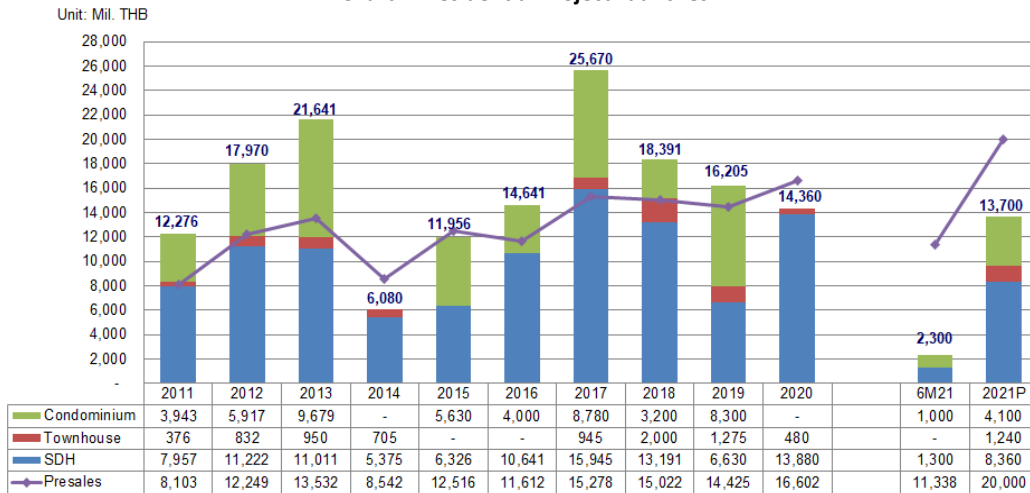
SC is a property developer established in 1989. The Shinawatra family took over the company in 1995 and entered the rental property segment by developing "Shinawatra Tower 3". In 2003, SC was reorganized to focus on developing residential properties. The company was listed on the Stock Exchange of Thailand (SET) in 2003. The Shinawatra family continues to be the company's major shareholder, with a 60% stake as of May 2021.

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 from around THB4-THB100 million per unit. TH 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 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 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", "28 Chidlom", and "SCOPE Langsuan".

SC's revenue base has stayed around THB14-THB19 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 2016 through the first half of 2021. Revenue from the rental and service income segment comprised about 5%-7%.

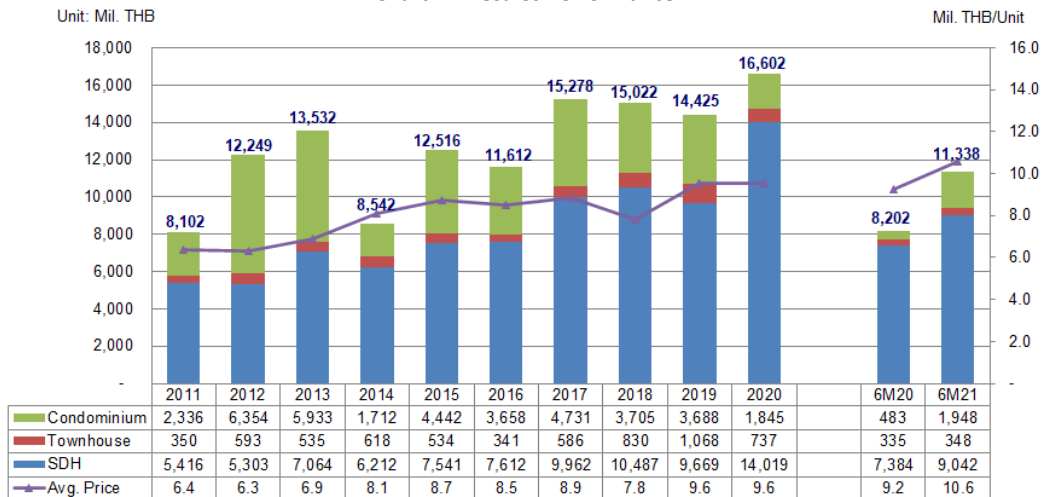
**KEY OPERATING PERFORMANCE**

**Chart 1: Residential Project Launches**



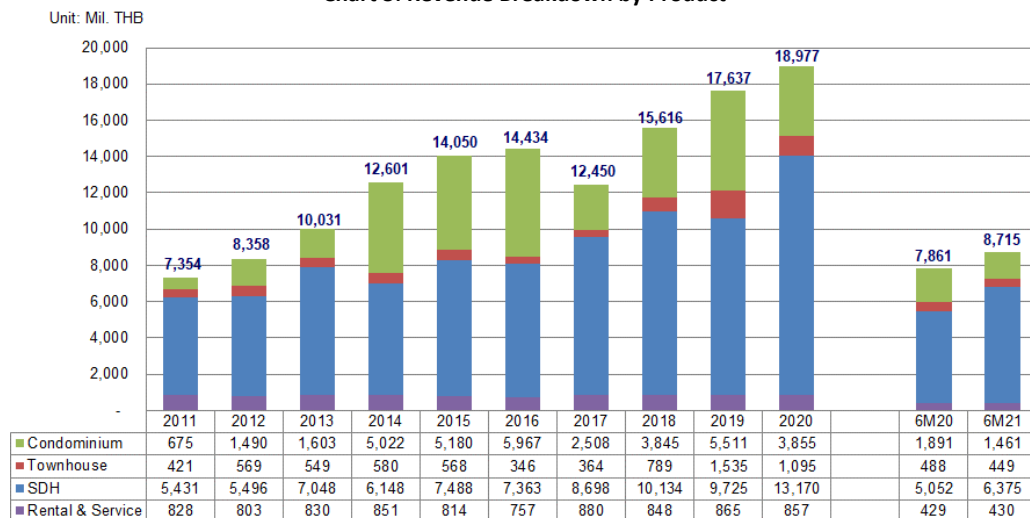
Source: SC

**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 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	8,726	19,039	17,669	15,470	12,469
Earnings before interest and taxes (EBIT)	1,499	3,124	3,113	2,841	2,092
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,583	3,287	3,262	2,986	2,236
Funds from operations (FFO)	1,001	2,012	1,928	1,811	1,260
Adjusted interest expense	340	771	823	692	646
Real estate development investments	30,777	30,537	34,276	32,420	28,468
Total assets	46,827	44,319	45,276	42,620	38,498
Adjusted debt	18,708	17,720	22,155	18,912	18,061
Adjusted equity	18,875	18,643	17,547	16,239	14,915
<b>Adjusted Ratios</b>					
EBITDA margin (%)	18.14	17.26	18.46	19.30	17.93
Pretax return on permanent capital (%)	7.82 **	7.72	8.08	8.05	6.48
EBITDA interest coverage (times)	4.65	4.26	3.96	4.32	3.46
Debt to EBITDA (times)	5.33 **	5.39	6.79	6.33	8.08
FFO to debt (%)	12.10 **	11.36	8.70	9.57	6.98
Debt to capitalization (%)	49.78	48.73	55.80	53.80	54.77

\* Consolidated financial statements

\*\* Annualized with trailing 12 months

**RELATED CRITERIA**

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

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**SC Asset Corporation PLC (SC)**

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<b>Company Rating:</b>	BBB+
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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