SUPALAI PLC

No. 168/2021
12 October 2021

CORPORATES

Company Rating:	A
Outlook:	Stable

Last Review Date: 20/10/20

Company Rating History:

Date	Rating	Outlook/Alert
18/07/14	A	Stable
07/06/13	A-	Positive
20/05/10	A-	Stable
03/03/06	BBB+	Stable
29/10/04	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Supalai PLC (SPALI) at "A" with a "stable" rating outlook. The rating reflects the company's strong market position, well-balanced residential property portfolio, large condominium backlog, and high level of profitability compared with its peers in the industry. The rating also reflects lower financial leverage resulting from its plan to sell an office building to its newly set-up real estate investment trust (REIT) in 2022 and to sell treasury stock within three years under the Stock Exchange of Thailand (SET)'s regulations. The rating also takes into consideration our concerns over the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, which continues to put pressure on the domestic economy and demand for residential properties.

KEY RATING CONSIDERATIONS

Strong market position in the middle-income segment

TRIS Rating expects SPALI to maintain its strong market position in the residential property market, especially in the middle-income segment, over the next three years. SPALI's strong market presence has been reflected by its ability to generate presales and transfers of finished property units worth over THB20 billion per annum since 2015. The company has ranked as one of the top five property developers in terms of revenue from 2015 up to the present. Despite stagnant demand and the negative impacts of the COVID-19 pandemic, SPALI's presales in 2020 grew by 9% year-on-year (y-o-y) to THB24.38 billion. However, revenue from residential sales dropped by 13% y-o-y to THB20.34 billion in 2020 due to the lower number of condominium transfers.

Amid the ongoing COVID-19 outbreak, SPALI's presales in the first half of 2021 reached THB13 billion, up by 7.7% y-o-y, thanks to strong sales of landed property. We expect its presales in 2021 to grow by 5% y-o-y, based on sizable new residential projects in the pipeline. SPALI launched only landed residential property projects worth THB9 billion in the first half of 2021. The company plans to launch residential property projects worth THB25 billion in the second half of this year, comprising new landed property projects worth THB19 billion and condominium projects worth THB6 billion.

Well-balanced portfolio

SPALI's portfolio is well balanced between landed property projects and condominium projects. Its product portfolio includes single-detached houses (SDH), semi-detached houses (semi-DHs), townhouses, and condominiums in various market segments. In addition, SPALI has diversified its portfolio and consistently increased its market base in upcountry areas. The revenue contribution from upcountry projects accounted for 33% of the total in 2020 and 29% in the first half of 2021. In our view, the diversity of its products and locations gives the company flexibility to adjust its portfolio in response to changes in market conditions. During the latest COVID-19 outbreak, SPALI's housing projects in Bangkok were affected by the lockdown measures and 30-day closure of construction sites in July 2021 while its housing projects in upcountry areas were less affected.

As of June 2021, SPALI had 40 existing condominium projects and 130 landed property projects, with total remaining project value of THB77.22 billion (including built and un-built units). Of the unsold value, 56% was made up for landed property projects while condominium projects made up the remainder. Around 38% of total unsold value was in upcountry areas, with landed property projects accounting for 89% of that amount.

Recovery of performance

We expect SPALI to deliver satisfactory performance over the next three years, supported by its sizable backlog and its ability to control costs and sustain high profit margins. Despite the resurgence of the COVID-19 pandemic, we expect the company's annual revenue to recover from THB20.59 billion in 2020 to around THB27 billion in 2021-2023. The forecast is supported by SPALI's large condominium backlog and growing revenue base in the landed property segment. Its landed property projects have generated revenue in the range of THB12-THB14 billion per annum over the past five years.

Based on the sizable new landed property projects planned for launch, we expect the company to be able to maintain its revenue from landed residential property at the same level over the past five years. Revenue should also be partly secured by the significant amount of backlog. As of June 2021, the company's backlog stood at around THB36 billion, comprising landed properties worth THB7.1 billion and condominium projects worth THB28.9 billion. The backlog is expected to be recognized as revenue of around THB14.2 billion in the second half of 2021, THB13.33 billion in 2022, THB5.38 billion in 2023, and the rest in 2024.

Higher-than-average profitability

Amid intense competition in the residential property market and pressure from the ongoing COVID-19 outbreak, we expect SPALI to sustain decent levels of profitability. SPALI's profitability has been comparatively higher than the industry average. The company excels at controlling its construction costs, resulting in high profit margins of around 37%-39% from 2015 through the first half of 2021. In addition, the company has been able to manage its selling, general and administrative (SG&A) expenses at around 10%-13% of total revenues. As a result, its earnings before interest, taxes, depreciation, and amortization (EBITDA) margin over the past five years has sustained at above 31%, compared with the industry average of 15%-25%.

Looking forward, we anticipate that SPALI's profitability over the next three years could be pressured by intense competition in the industry. Nonetheless, we expect the company to maintain a gross profit margin in the range of 36%-39% over the next three years. According to its business plan, SPALI intends to set up a real estate investment trust (REIT), "Supalai Real Estate Investment Trust" (SPALIRT) and sell its freehold office building "Supalai Grand Tower" to SPALIRT by the first quarter of 2022. The company estimates the gain on the sale of assets to the REIT of THB1 billion. Based on that estimate, we forecast its EBITDA margin to stay in the range of 27%-34% over the next three years, with a peak of 34% in 2022. In addition, we expect the company to recognize a share of profit of THB300-THB500 million per annum from its joint investment in 11 property projects in Australia. We project SPALI's EBITDA to range between THB7-THB9 billion per annum during 2021-2023.

Lower leverage expected

We expect SPALI's debt to capitalization ratio to drop below 30% over the next three years, given its plans to sell treasury stock and sell an office building to SPALIRT. SPALI repurchased shares (treasury stock) worth around THB3 billion in 2020, causing its debt to capitalization ratio to rise to almost 35% at the end of 2020, from 25%-28% in 2018-2019. Due to the improving market condition, we assume the company to sell all its treasury stock within 2022. We expect the proceeds from selling the treasury stock coupled with the proceeds of selling assets to its REIT, worth around THB5.5-THB7 billion in total, will be used to reduce debt and fund business expansion.

In our base-case forecast, we project SPALI's debt to capitalization ratio to be around 34% in 2021, and then drop to the 27%-30% range in 2022-2023. The debt to EBITDA ratio is forecast to be 2-3 times during the same period. We assume that SPALI will launch new residential property projects worth THB34 billion in 2021, comprising landed property projects worth THB28 billion and condominium projects worth THB6 billion, and to launch new residential property projects worth THB30 billion per annum in 2022-2023. The budget for land is expected to be around THB8-THB9 billion per annum over the next three years.

As of June 2021, SPALI had debts of THB24.94 billion, including THB7.59 billion of priority debt. SPALI's priority debt to total debt ratio was 30%. As SPALI's priority debt ratio is less than the threshold of 50% according to TRIS Rating's "Issue Rating Criteria", we view that its unsecured creditors are not significantly disadvantaged with respect to claims against the company's assets.

Adequate liquidity

We assess SPALI to have adequate liquidity over the next 12 months. At the end of June 2021, the company had debts of THB18.94 billion coming due in the next 12 months, comprising THB3 billion in debentures, THB4 billion in bills of exchange (B/E), THB10.44 billion in promissory notes (P/N), and THB1.5 billion in short-term loans from financial institutions. The company has already refinanced THB1 billion debentures due in July 2021 with a new two-year debenture issuance and rolled over THB2 billion of B/E. SPALI plans to refinance the remaining maturing debentures with new debenture issues, and to roll over the outstanding B/E. The maturing P/N and short-term loans will be paid with cash received from the transfers of residential property units to customers.

At the end of June 2021, SPALI's sources of liquidity included cash on hand of THB1.47 billion and undrawn committed credit facilities of around THB8.97 billion. We forecast funds from operations (FFO) to hover around THB7 billion over the next 12 months. We expect SPALI's cash flow protection to remain strong over the next three years. The FFO to debt ratio is expected to stay above 25%, and the EBITDA interest coverage ratio above 15 times.

The financial covenant on SPALI's debt obligations requires the company's total liability to equity (D/E) ratio to remain below 2 times. The ratio at the end of June 2021 was 0.9 times. We believe the company should remain comfortably in compliance with the financial covenant over the next 12 months.

BASE-CASE ASSUMPTIONS

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

- SPALI to launch residential property projects in 2021 worth THB34 billion, comprising new landed property projects worth THB28 billion and condominium projects worth THB6 billion. During 2022-2023, SPALI to launch new residential property projects worth THB30 billion annually.
- Budget for land acquisition to be THB8-THB9 billion per annum in 2021-2023
- Operating revenue to range from THB27-THB28 billion per annum during 2021-2023.
- Gain on sale of Supalai Grand Tower to SPALIRT worth THB1 billion in 2022.
- Gross profit margin to range from 36%-39% and EBITDA margin to range from 27%-34% over the next three years.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SPALI to maintain sound operating performance and a strong financial position. We expect SPALI to keep the debt to capitalization ratio below 50% and the FFO to debt ratio above 20% over the forecast period.

RATING SENSITIVITIES

SPALI's rating and/or outlook could be revised upward if the company's operating performance and financial profile improve considerably, such that its FFO to total debt ratio stays above 40% for a sustained period. Larger revenue contributions from recurring-income assets will be a plus for the ratings or outlook. In contrast, the rating and/or outlook could be revised downward if the company's profitability and/or capital structure deteriorates significantly from our base-case forecast.

COMPANY OVERVIEW

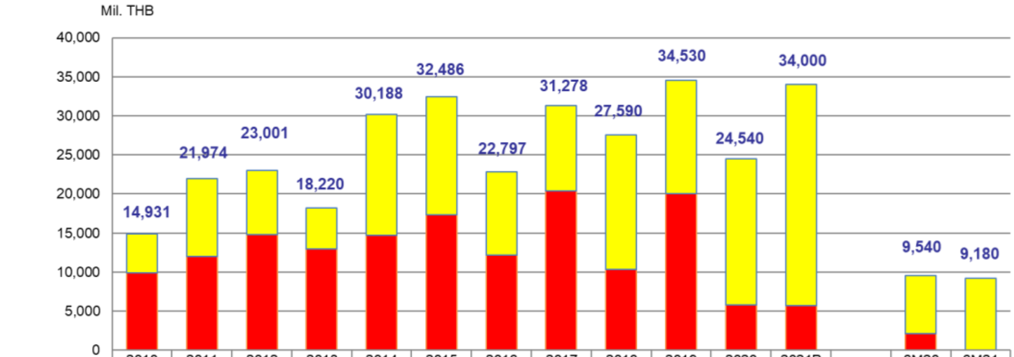
Established by the Tangmatitham family in 1989, SPALI is one of Thailand's leading property developers. As of August 2021, the Tangmatitham family, the largest shareholder, held a 30% stake in SPALI. The company offers a wide range of residential property products including single detached houses (SDHs), semi-detached houses (semi-DHs), townhouses, and condominiums. Its products, which target the middle-income segment, are located in a number of major cities in Thailand.

SPALI has explored investment opportunities abroad since 2013. It is currently investing in joint ventures with local residential property developers in Australia. However, SPALI's foreign investments account for only a small proportion of total assets. The shares of profits and losses from foreign investments also play a minor role in SPALI's overall performance.

As of June 2021, SPALI had more than a hundred active projects. The value of unsold units was approximately THB77.22 billion. About 56% of the value was in housing projects and the remainder in condominium projects. The backlog was sizable, standing at about THB36 billion.

KEY OPERATING PERFORMANCE

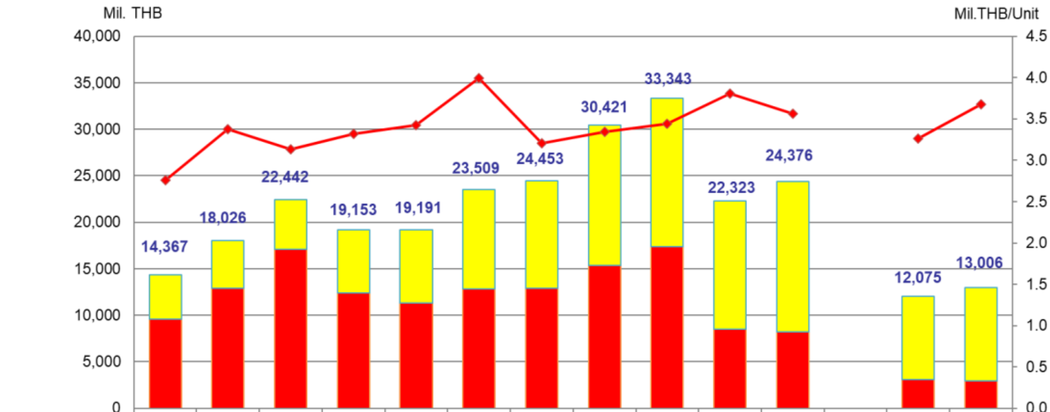
Chart 1: New Residential Project Launches



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021P		6M20	6M21
Housing	5,044	9,949	8,238	5,238	15,479	15,116	10,602	10,926	17,250	14,460	18,740	28,260		7,440	9,180
Condominium	9,887	12,025	14,763	12,982	14,709	17,370	12,195	20,352	10,340	20,070	5,800	5,740		2,100	

Source: SPALI

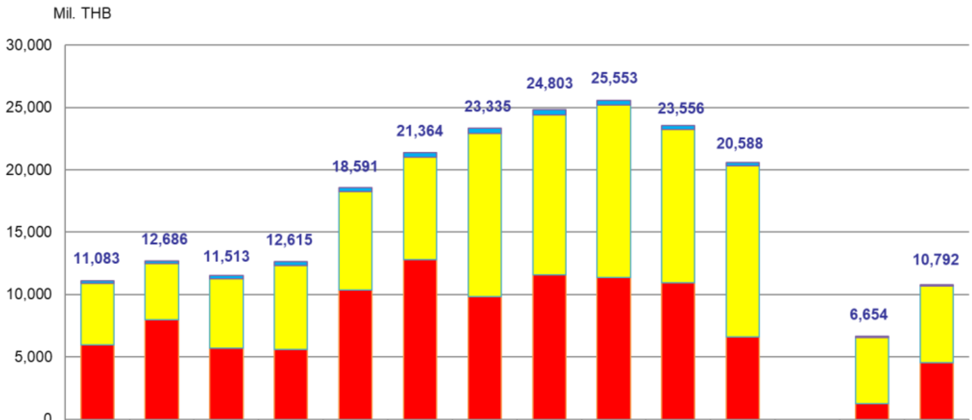
Chart 2: Presales Performance



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		6M20	6M21
Housing	4,816	5,136	5,327	6,767	7,852	10,656	11,566	15,074	15,938	13,837	16,146		8,990	10,080
Condominium	9,550	12,890	17,115	12,386	11,339	12,853	12,887	15,347	17,405	8,486	8,230		3,085	2,926
Avg. Price	2.8	3.4	3.1	3.3	3.4	4.0	3.2	3.3	3.4	3.8	3.6		3.3	3.7

Source: SPALI

Chart 3: Revenue from Sales and Rental Income Breakdown



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		6M20	6M21
Rental and Services	198	220	254	293	321	366	434	403	349	332	252		114	115
Housing	4,933	4,463	5,564	6,732	7,885	8,209	13,074	12,821	13,837	12,284	13,732		5,280	6,129
Condominium	5,952	8,003	5,696	5,590	10,385	12,789	9,827	11,579	11,366	10,940	6,604		1,260	4,549

Source: SPALI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2021	2020	2019	2018	2017
		---------------Year Ended 31 December -----------			
Total operating revenues	10,792	20,588	23,557	25,553	24,803
Earnings before interest and taxes (EBIT)	3,698	6,380	7,659	8,231	7,891
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	3,580	6,549	7,615	8,100	7,799
Funds from operations (FFO)	2,622	4,821	5,905	6,225	5,761
Adjusted interest expense	169	462	355	426	549
Real estate development investments	62,550	59,945	53,535	50,543	49,510
Total assets	72,931	68,207	60,511	57,704	55,746
Adjusted debt	22,673	20,005	12,737	13,450	18,667
Adjusted equity	39,209	37,396	37,849	34,722	28,411
Adjusted Ratios					
EBITDA margin (%)	33.17	31.81	32.32	31.70	31.44
Pretax return on permanent capital (%)	13.44 **	11.52	15.10	16.77	16.89
EBITDA interest coverage (times)	21.20	14.17	21.46	19.00	14.19
Debt to EBITDA (times)	2.75 **	3.05	1.67	1.66	2.39
FFO to debt (%)	27.09 **	24.10	46.36	46.28	30.86
Debt to capitalization (%)	36.64	34.85	25.18	27.92	39.65

* *Consolidated financial statements*
** *Adjusted with trailing 12 months*

RELATED CRITERIA

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

Supalai PLC (SPALI)

Company Rating:	A
Rating Outlook:	Stable

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