TRIS RATING
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SUPALAI PLC

No. 197/2023
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CORPORATES

Company Rating:	A
Outlook:	Stable

Last Review Date: 25/10/22

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, solid operating performance with substantial backlog on hand, well-diversified portfolio, and low financial leverage. The rating also incorporates our concerns over interest rate hike and the reimposition of the loan-to-value (LTV) rules, which could negatively impact demand for residential property in the short to medium term.

KEY RATING CONSIDERATIONS

Strong market position in the industry

SPALI's credit profile takes into account the company's strong market presence and competitive edges in the residential property market, especially in the middle-income segment. The company's presales and transfers have been above THB20 billion per annum since 2015. Its total operating revenues rank among the top-five listed residential property developers. In 2022, SPALI's presales hit THB32 billion, while revenue from residential sales increased 18% year-on-year (y-o-y) to reach a peak of THB34 billion.

Looking forward, we forecast SPALI's total operating revenues to range between THB35-THB36 billion during 2023-2025. The projected revenues are supported by SPALI's significant backlog and its plan to launch more new residential projects worth THB38-THB41 billion annually. Revenue contributions from landed properties are expected to increase to 65%-75% of total revenues, with 8%-10% of revenues from Australian projects.

At the end of June 2023, SPALI's backlog (excluding Australian projects) was THB19.8 billion, comprising THB9.6 billion in landed properties and THB10.2 billion in condominium projects. The backlog should be recognized as revenues of around THB11.6 billion in the second half of 2023, THB6.9 billion in 2024 and THB0.6-THB0.7 billion per annum in 2025-2026.

Diversified portfolio helps sustain revenue and earnings base

SPALI's portfolio is well diversified in terms of product types, price ranges, and locations. The company has diversified its portfolio and consistently increased its market base in provincial areas of Thailand and in Australia. Given this diversity, the company is resilient and able to adjust its portfolio to suit market demand. This helps strengthen SPALI's portfolio in the long run and lessens the downside risk from unfavorable market conditions in any particular market segment or period.

Revenue contribution from upcountry projects reached a peak of THB10 billion in 2022, from THB6.5-THB7.5 billion during 2017-2021. The revenue contribution from projects in Australia jumped to THB0.7-THB0.8 billion in 2021-2022 and THB1.1 billion during the first half of 2023, up from THB0.2 billion per annum in 2019-2020. The share of profit from its joint investment in eight property projects in Australia also rose, climbing to THB0.4-THB0.5 billion in 2021-2022 and THB0.2 billion during the first six months of 2023, from below THB0.3 billion before 2020.

As of June 2023, SPALI had 38 existing condominium projects and hundreds of landed property projects, with total remaining project value of THB95 billion (including built and un-built units). Of the unsold value, 63% was made up of landed property projects while condominium projects made up the remainder.

Around 44% of total unsold value was located upcountry, with landed property projects accounting for 93% of that amount. SPALI is also involved in 12 land development projects worth around THB133 billion mainly based in Melbourne and Brisbane, which are being jointly developed with several Australian partners including Stockland Corporation Ltd. and Mirvac Group. As of June 2023, SPALI's overseas investments amounted to THB8.3 billion, accounting for 10% of total assets.

Profitability anticipated to soften, but remain solid

SPALI has consistently outperformed the industry in terms of profitability, largely due to its cost competitiveness. The company has maintained a robust gross profit margin in the range of 37%-40%, with its earnings before interest, taxes, depreciation, and amortization (EBITDA) margin ranging from 31%-34%, even during the Coronavirus Disease 2019 (COVID-19) pandemic. In comparison, the average gross profit margin and EBITDA margin of 25 rated developers over the last five years have hovered around 32%-35% and 22%-24%, respectively.

However, we anticipate that the growing contribution of landed property projects in its portfolio will temper the company's profit margin, as landed residential projects generally yield lower margins compared to condominium projects. In addition, intense competition from leading players in the market as well as rising land, construction material, and labor costs could exert downward pressure on SPALI's profitability. Nevertheless, we expect SPALI to maintain its gross profit margin and EBITDA margin at approximately 34%-35% and 27%-29%, respectively, over the forecast period.

Negative impact from reimposition of LTV rules and interest rate hikes

The reimposition of LTV rules could soften housing demand in the short to medium term. In our view, the LTV rules will generally have a greater impact on the middle- and high-end segments since these buyers may have more than one mortgage contract. We view the impact of the LTV measures on SPALI should be partly alleviated by its well-balanced portfolio across price ranges.

On the other hand, rising interest rates will have greater 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 by 100 basis points (bps) to 2.5% this year. However, the policy rate Is likely to be held at this level in the short to medium term, according to the BOT's latest statement.

Rising but still low leverage compared with rated peers

SPALI's financial leverage, as measured by the debt to capitalization ratio, rose to 33.5% at the end of June 2023 from 29.9% in 2021, exceeding our previous expectation of 29%. This was due to the company's increasing investments in listed companies and property projects in Australia, and a reduction in paid-up capital after writing off the company's unsold repurchased shares in 2022. Its debt to EBITDA ratio also rose, reaching 2.2 times as of June 2023 from 1.8 times in 2021. Despite the increase in SPALI's financial leverage, we consider the debt ratios remain low compared with rated peers.

Looking forward, we expect SPALI's debt to capitalization ratio to hover around 30%-32% in 2023-2025, supported by its strong operating performance in the landed property segment. The debt to EBITDA ratio is forecast to stay in 2.3-2.6 times during the same period. We assume SPALI will launch new landed property projects worth around THB35 billion in 2023 and THB30 billion per annum during 2024-2025. New condominium projects worth THB6 billion are slated for launches this year and THB8 billion per annum in 2024-2025. We estimate annual budget for land acquisition of THB8-THB9 billion and investment in Australian projects of THB3.0-THB3.5 billion per annum over the next three years.

At the end of June 2023, SPALI had total consolidated debt of THB28.4 billion, comprising THB10.9 billion debentures, THB5 billion bills of exchange (B/E), and THB12.5 billion short-term borrowings from financial institutions. THB6.7 billion of its total debt was considered priority debt, which translates to a priority debt to total consolidated debt ratio of 24%

Adequate liquidity

We assess SPALI to have adequate liquidity to cover its debt repayments over the next 12 months. As of June 2023, SPALI's sources of liquidity consisted of cash on hand of around THB3.6 billion, and undrawn committed credit facilities from banks of THB4.8 billion. Funds from operations (FFO) over the next 12 months are forecast to be in the THB7.5-THB8.0 billion range. SPALI also has unencumbered land at book value worth THB7.3 billion, which can be pledged as collateral for new credit facilities, if needed. Additionally, based on its strong credit profile, SPALI should have no problem accessing capital markets.

The company had debts of THB26.3 billion coming due in the next 12 months, comprising THB8.8 billion debentures, THB5 billion B/E, THB7.7 billion promissory notes (P/N), and THB4.8 billion short-term loans from financial institutions. The company already repaid the debentures due in 2023 with new debentures issuances and rolled over matured B/E and P/N. SPALI plans to refinance the remaining maturing debentures with new debenture issues, and roll over most of the outstanding B/E and P/N. The maturing short-term loans will be repaid with cash received from the transfers of residential property units to customers. We expect SPALI's cash flow protection to remain strong over the next three years, with its FFO to debt ratio remaining above 29% and EBITDA interest coverage ratio not falling below 13 times.

The financial covenant on SPALI's debt obligations requires the company to maintain its total liabilities to equity (D/E) ratio below 2 times. The ratio at the end of June 2023 was 0.7 times. We believe SPALI should have no problems complying 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 2023-2025:

- SPALI to launch new residential property projects in 2023 worth THB41 billion, comprising new landed property projects worth THB35 billion and condominium projects worth THB6 billion. During 2024-2025, SPALI to launch new residential property projects worth THB38 billion annually.
- Annual budget for land acquisition to be THB8-THB9 billion.
- Foreign Investment is set to be THB3.0-THB3.5 billion per annum.
- Total operating revenue in the THB35-THB36 billion per annum range with annual revenue from Australia projects of THB2.9-THB3.3 billion.
- Gross profit margin to hover around 34%-35% and the EBITDA margin to stay in the range of 27%-29%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SPALI will be able to deliver operating results in line with our target and sustain its strong financial profile. We expect SPALI to maintain its debt to capitalization ratio below 50% and the FFO to debt ratio above 20% over the forecast period.

RATING SENSITIVITIES

The rating and/or outlook could be revised upward if the company's operating performance and financial profile improve substantially, such that its FFO to debt ratio exceeds 40% on a sustainable basis. Larger revenue contributions from recurring-income assets will be a plus for the ratings or outlook. On the other hand, a rating and/or outlook downward revision could emerge if the company's profitability and/or capital structure significantly deviate from our expectations.

COMPANY OVERVIEW

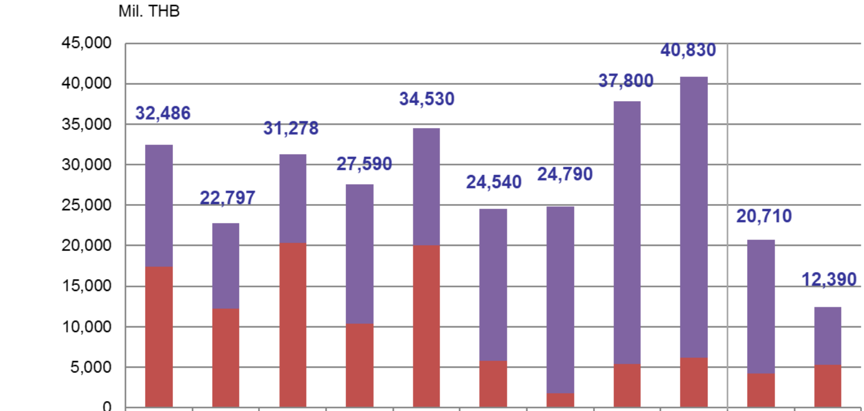
Established by the Tangmatitham Family in 1989, SPALI is one of Thailand's leading property developers. As of May 2023, the Tangmatitham Family, the largest shareholder, held a 35% stake in SPALI. The company offers a wide range of residential property products including single detached houses (SDHs), 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 operations and joint ventures with local residential property developers in Australia. SPALI's foreign investments account for about 10% of total assets. However, the contribution from foreign investments to SPALI's overall performance remains modest.

As of June 2023, SPALI had more than a hundred active projects. The value of unsold units was approximately THB95 billion. About 63% of the value was in housing projects and the remainder in condominium projects. The backlog was sizable, standing at about THB20 billion.

KEY OPERATING PERFORMANCE

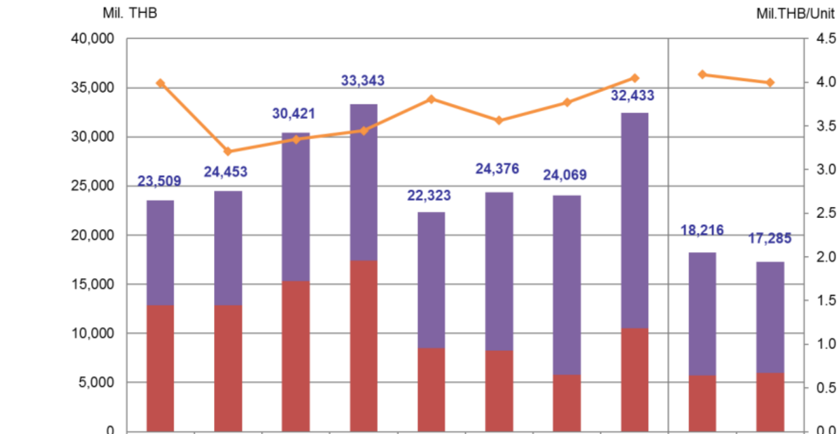
Chart 1: New Project Launches



	2015	2016	2017	2018	2019	2020	2021	2022	2023P	6M22	6M23
Housing	15,116	10,602	10,926	17,250	14,460	18,740	23,040	32,400	34,680	16,510	7,060
Condominium	17,370	12,195	20,352	10,340	20,070	5,800	1,750	5,400	6,150	4,200	5,330

Source: SPALI

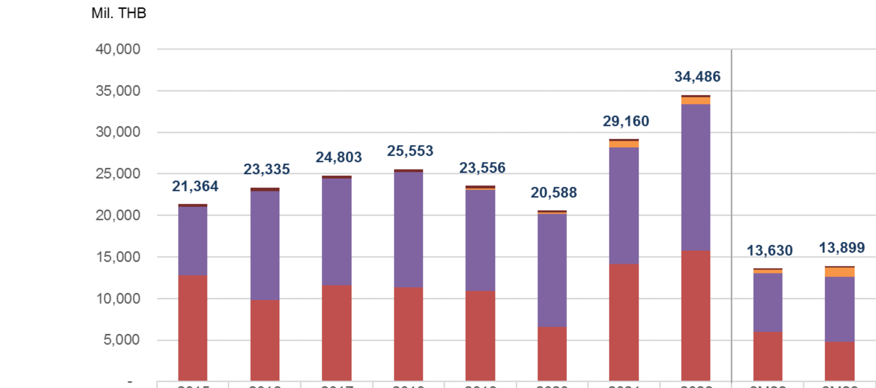
Chart 2: Presales Performance



	2015	2016	2017	2018	2019	2020	2021	2022	6M22	6M23
Housing	10,656	11,566	15,074	15,938	13,837	16,145	18,290	21,939	12,486	11,304
Condominium	12,853	12,887	15,347	17,405	8,486	8,231	5,779	10,494	5,730	5,981
Avg. Price	4.0	3.2	3.3	3.4	3.8	3.6	3.8	4.1	4.1	4.0

Source: SPALI

Chart 3: Revenue Breakdown



	2015	2016	2017	2018	2019	2020	2021	2022	6M22	6M23
Rental and Services	366	434	403	349	332	252	222	264	123	169
Housing - Australia					158	178	738	840	463	1,093
Housing	8,209	13,074	12,821	13,837	12,126	13,554	14,039	17,659	7,027	7,854
Condominium	12,789	9,827	11,579	11,366	10,940	6,604	14,162	15,723	6,018	4,783
Total Revenues	21,364	23,335	24,803	25,553	23,556	20,588	29,160	34,486	13,630	13,899

Source: SPALI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

		-----------Year Ended 31 December ---------			
	Jan-Jun 2023	2022	2021	2020	2019
Total operating revenues	13,899	34,486	29,160	20,588	23,557
Earnings before interest and taxes (EBIT)	4,203	11,694	10,090	6,331	7,659
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,249	11,735	10,037	6,501	7,615
Funds from operations (FFO)	3,160	9,089	7,685	4,869	5,908
Adjusted interest expense	282	417	439	441	368
Real estate development investments	30	125	84	56	105
Total assets	84,684	79,924	71,432	68,207	60,511
Adjusted debt	24,757	22,985	18,286	20,005	12,737
Adjusted equity	49,202	47,463	42,926	37,396	37,849
Adjusted Ratios					
EBITDA margin (%)	30.57	34.03	34.42	31.58	32.32
Pretax return on permanent capital (%)	14.90 **	17.28	16.54	11.44	15.10
EBITDA interest coverage (times)	15.07	28.12	22.88	14.73	20.69
Debt to EBITDA (times)	2.19 **	1.96	1.82	3.08	1.67
FFO to debt (%)	35.10 **	39.54	42.03	24.34	46.39
Debt to capitalization (%)	33.47	32.63	29.87	34.85	25.18

* *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

Supalai PLC (SPALI)

Company Rating:	A
Rating Outlook:	Stable

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