

AP (THAILAND) PLC

No. 77/2021

14 May 2021

CORPORATES

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Stable

Last Review Date: 14/01/21

Company Rating History:

Date	Rating	Outlook/Alert
21/06/11	A-	Stable
12/07/10	BBB+	Positive
28/06/07	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on AP (Thailand) PLC (AP) and the ratings on AP's outstanding senior unsecured debentures at "A-" with a "stable" rating outlook. The ratings reflect AP's strong market position, its large and diverse product line, and strong operating performance resulted from revenue growth in the housing segment and a substantial amount of shared profits under joint venture (JV) projects. The ratings also take into consideration its moderate financial leverage, and the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, which could put more pressure on the demand for residential properties.

KEY RATING CONSIDERATIONS

Strong market position

TRIS Rating expects AP to maintain its strong market position over the next three years. AP is one of the top five property developers in Thailand. The company's products cover a broad range in the middle- to high-end market segments. AP's major housing brands include "Pleno", "Baan Klang Muang", "The Centro", "The City", and "The Palazzo". Its main condominium brands include "Aspire", "Life", "Rhythm", and "The Address". AP has a proven record of offering products that adapt to changes in consumer behavior. The company has established a good record of completing projects on time, strengthening the acceptance of its brands among city dwellers. In 2020, AP also expanded its single detached house (SDH) product into upcountry under the new "Api Town" brand and has received a good reception from customers.

AP's revenues and profitability have improved consistently over the past five years. Amidst the COVID-19 pandemic in 2020, AP's revenues grew to peak at THB30 billion in 2020 from THB20 billion in 2016. The company's investment in JV projects also contributed a significant share of profit at around THB1-THB1.2 billion per annum during 2018-2019 then jumped to THB1.9 billion in 2020. AP's earnings before interest, taxes, depreciation, and amortization (EBITDA) had stayed in the range of THB4.5-THB5.5 billion per annum in 2017 through 2019 and then increased to THB6 billion in 2020. AP's EBITDA margin has been maintained at around 20% over the past three years.

Balanced portfolio with large and diverse product line

AP's product portfolio is well balanced between condominiums and landed properties. Its product line covers almost all of the segments in the residential property market, with most of its projects located within the Greater Bangkok area. AP has been able to build its brand and gained significant market share in the SDH segment over the past three years. Its presales in the landed property segment increased to THB27.8 billion in 2020 from THB18-THB19 billion per annum during 2018-2019. AP's presales value (including presales from JV projects) in 2020 was THB31.7 billion. Around 47% of its presales came from SDHs, 41% from townhouses (THs), and 12% from condominiums.

In TRIS Rating's view, AP's diversified product portfolio gives the company more flexibility to meet market demand. Its revenues and profitability are also less volatile than other developers. At the end of 2020, AP's portfolio comprised 43 SDH projects, 59 TH projects, and 16 condominium projects (including 11 JV projects). The total units available for sale (both built and un-built) carried a value of around THB84 billion, comprising SDHs (32%), THs (40%), and

condominiums (28%).

Strong operating performance is expected to continue

AP's operating performance in 2020 exceeded TRIS Rating's expectation. Despite the COVID-19 outbreak at the beginning of 2020, AP's revenue was record high at THB30 billion, up 25% from 2019. Thanks to its large and diverse portfolio, AP's housing projects generated strong revenue of THB24.4 billion in 2020, jumping from the previous level of THB17-THB18 billion per year in 2018-2019. The rising revenues from landed properties partly compensated for the drop in revenue from condominiums during 2019-2020. The company has been able to maintain overall gross profit margin at 32%-34% over the past three years. Looking forward, we expect AP's annual revenue to stay between THB27-THB29 billion with an EBITDA of THB4.5-THB4.8 billion per annum over the next three years. We project its funds from operations (FFO) to range between THB3.2-THB3.5 billion per annum, supported by strong presales and the large condominium backlog under the JV.

At the end of 2020, the backlog of AP's own projects stood at THB10.2 billion and is expected to be recognized as revenue of around THB9.8 billion in 2021, and the rest in 2022. The backlog of condominium projects under JV worth around THB23.3 billion are expected to be mostly transferred to customers during 2021-2023. Around THB11 billion of its JV backlog is expected to be transferred in 2021, THB10 billion in 2022, and the remainder from 2023 onwards. We project AP to realize shared profits from its JV investment of around THB1-THB1.2 billion per annum over the next three years.

Concerns over the prolonged COVID-19 pandemic

TRIS Rating expects the demand for residential properties in 2021 to grow slightly from 2020, supported by low interest rates and improved economic recovery prospects following the rollout of vaccination programs. In addition, the extended stimulus measures and reduction in the transfer and mortgage registration fees for homes priced below THB3 million should help boost demand for the low-end segment. Added to this, there remains a significant risk to the recovery and earnings prospects of developers, which is not helped by the slow progress of vaccination rollouts. Moreover, the rise in non-performing mortgage loans has prompted banks to tighten their lending policies. The weak purchasing power of homebuyers combined with stringent bank lending policies will continue suppressing demand for housing. This could negatively impact demand in the middle income segment, which is the target segment of the company.

In addition, due to the softening demand in the condominium segment among both local and foreign homebuyers, several developers, including AP, have shifted their focus to landed property projects. Thus, competition in landed property segment becomes more intense and could pressure the company's profit margin in the short to medium term. Nonetheless, we expect AP to maintain its EBITDA margin above 16% over the next three years.

Moderate financial leverage

TRIS Rating expects AP's financial leverage to maintain at its current level over the next three years. AP's financial leverage is moderately high. At the end of 2020, AP's debt to capitalization ratio (including 51% of the debt carried by JV projects) stood at 46.6%, down from 56.5% in 2019. The ratio dropped due to AP's good performance in the landed property segment and the transfers of several large projects under JV.

We expect AP's debt to capitalization ratio to stay at 45%-50% over the next three years, or the net debt to equity ratio at 0.8-1 times. In our base-case forecast, we project AP to launch its own new residential property projects worth THB30-THB35 billion per annum and JV projects worth THB10 billion annually over the next three years. AP has set the budget for new land acquisitions (for both AP and JV projects) at THB10-THB14 billion per year. The FFO to debt ratio is expected to stay around 10%-15% while the debt to EBITDA ratio is expected to stay below 6 times.

Adequate liquidity

We assess AP to have adequate liquidity over the next 12 months. The company's liquidity sources comprised cash on hand of THB3.9 billion and available credit facilities of THB11 billion as of March 2021. We forecast AP's FFO over the next 12 months to hold above THB3.2 billion. AP's uses of funds over the next 12 months will amount to THB7.8 billion, comprising repayments of THB3.1 billion for short-term loans, THB0.1 billion for financial leases, and THB4.6 billion for debentures. AP typically matches the maturities of its short-term debts with the cash it expects to receive from transfers of finished condominium units to its customers. AP usually refinances most of its maturing debentures with new debenture issuances.

We believe that AP should be able to comply with its financial covenants over the next 12 to 18 months. The financial covenants on its bank loans and debentures require AP to keep its net interest-bearing debt to equity ratio below 2 times. The ratio at the end of December 2020 was 0.71 times.

BASE-CASE ASSUMPTIONS

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

- AP will launch residential property projects in 2021 worth THB43 billion, comprising its own condominium projects worth THB4.2 billion and JV projects worth THB10 billion. New landed property launches will be worth THB28.8 billion. After 2021, the company will launch new residential projects worth THB40-THB50 billion per annum.
- Revenue will be THB27-THB29 billion per annum during 2021-2023. Shared profits from JV investment will amount to THB1-THB1.2 billion annually, as JV is expected to deliver condominium units worth around THB11-THB12 billion per annum over the next three years.
- Land acquisition for its own projects is budgeted at around THB10 billion per annum and THB3-THB4 billion per annum for JV projects.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectations that AP will remain competitive in its core market segments and will rebalance its product portfolio as market conditions and customer needs change. The outlook is also based on our expectation that AP will maintain its prudent financial policies and keep its debt to capitalization ratio below 55% over the next three years. Its FFO to debt ratio is expected to stay at around 10%-15%.

RATING SENSITIVITIES

The ratings and/or outlook of AP could be revised downward should its financial profile deteriorate significantly from the current level or if the debt to capitalization ratio stays above 55% and FFO to debt ratio stays below 10% on a sustained basis. In contrast, the ratings could be revised upward if the company can improve its profitability while its debt to capitalization ratio declines to the 40%-45% range and FFO to debt ratio stays around 20% on a sustained basis.

COMPANY OVERVIEW

AP was established in 1990 by Mr. Anuphong Assavabhokhin and Mr. Pichet Vipavasuphakorn to develop residential property projects in Bangkok. AP is engaged principally in residential property development. The company was listed on the Stock Exchange of Thailand (SET) in 2000. The founding members of AP hold the company's top management positions and are also the major shareholders. As of March 2021, AP's major shareholder was Mr. Anuphong Assavabhokhin, owning 21.3% of the company's shares.

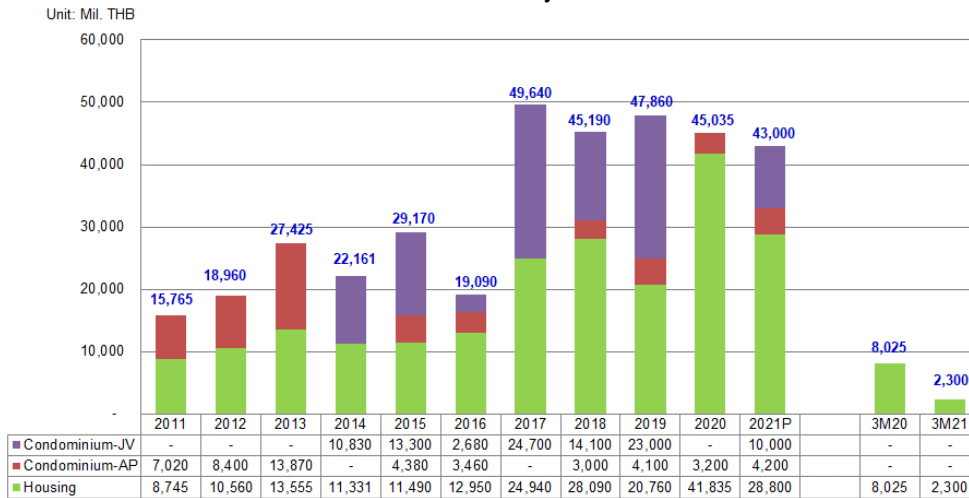
AP's product portfolio covers a wide range of price points and product segments. The company's revenue mix has been split approximately 50:50 between the housing and condominium segments during the past few years. Most of AP's projects are located within the Greater Bangkok area.

AP's SDH brands include: "Centro", "The City", and "The Palazzo", with unit prices from THB5 million to over THB25 million. Its TH projects are developed under brand names like "The Pleno", "Baan Klang Muang", and "Baan Klang Krung". Home office projects are sold under the brand name "Biztown". Its condominium brands include "Aspire", "Life", "Rhythm", "The Address", and "Vittorio". Most of the condominium projects are located in Bangkok.

In 2013, AP started to develop condominium projects together with a subsidiary of Mitsubishi Estate Co., Ltd. (MEC), one of the three largest property developers in Japan. AP holds a 51% stake in the JV while MEC's subsidiary holds 49%.

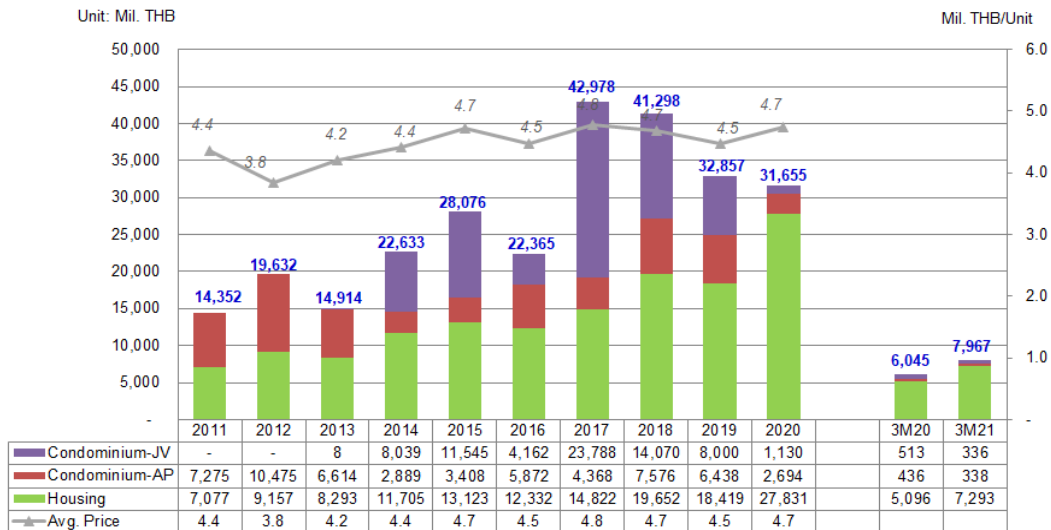
KEY OPERATING PERFORMANCE

Chart 1: Residential Project Launches



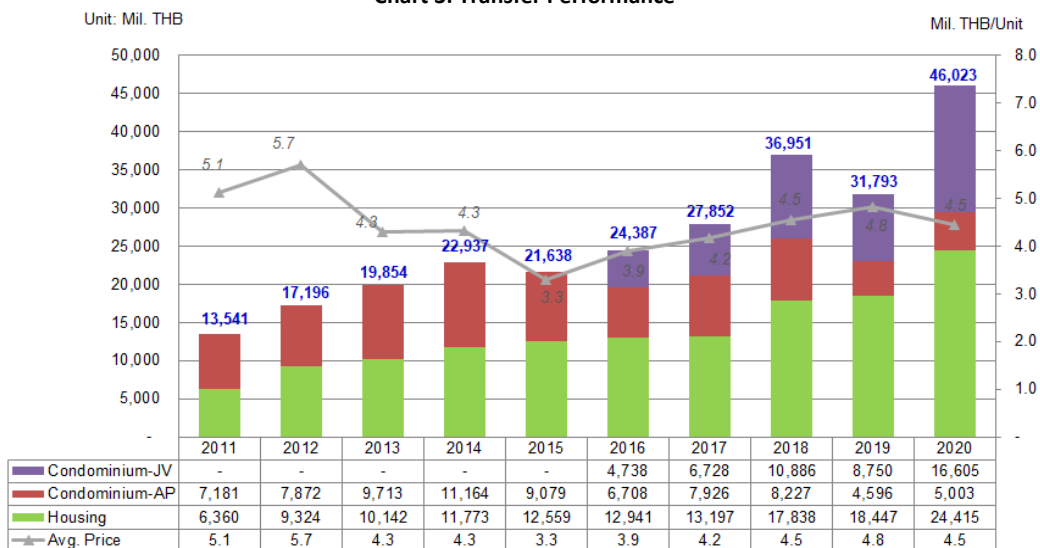
Source: AP

Chart 2: Presales Performance



Source: AP

Chart 3: Transfer Performance



Source: AP

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

	-----Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total operating revenues	29,952	23,881	27,320	22,257	20,336
Earnings before interest and taxes (EBIT)	5,710	4,318	5,349	4,298	3,745
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,979	4,584	5,550	4,435	3,857
Funds from operations (FFO)	4,563	3,261	4,205	3,115	2,660
Adjusted interest expense	726	743	566	582	578
Real estate development investments	46,737	50,394	41,828	36,079	31,350
Total assets	58,724	58,794	49,395	43,936	37,790
Adjusted debt	25,540	34,123	23,753	22,145	16,173
Adjusted equity	29,263	26,296	24,491	21,633	19,424
Adjusted Ratios					
EBITDA margin (%)	19.96	19.20	20.32	19.93	18.97
Pretax return on permanent capital (%)	9.64	7.84	11.38	10.54	10.50
EBITDA interest coverage (times)	8.23	6.17	9.81	7.63	6.68
Debt to EBITDA (times)	4.27	7.44	4.28	4.99	4.19
FFO to debt (%)	17.87	9.56	17.70	14.07	16.45
Debt to capitalization (%)	46.60	56.48	49.24	50.59	45.43

* Consolidated financial statements

RELATED CRITERIA

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

AP (Thailand) PLC (AP)

Company Rating:

A-

Issue Ratings:

AP217A: THB1,500 million senior unsecured debentures due 2021	A-
AP21DA: THB1,000 million senior unsecured debentures due 2021	A-
AP221A: THB1,500 million senior unsecured debentures due 2022	A-
AP222A: THB500 million senior unsecured debentures due 2022	A-
AP228A: THB1,500 million senior unsecured debentures due 2022	A-
AP238A: THB1,230 million senior unsecured debentures due 2023	A-
AP238B: THB400 million senior unsecured debentures due 2023	A-
AP241A: THB2,500 million senior unsecured debentures due 2024	A-
AP247A: THB1,500 million senior unsecured debentures due 2024	A-
AP248A: THB770 million senior unsecured debentures due 2024	A-
AP258A: THB850 million senior unsecured debentures due 2025	A-
AP261A: THB1,500 million senior unsecured debentures due 2026	A-

Rating Outlook:

Stable

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