

# AP (THAILAND) PLC

No. 61/2018  
10 May 2018

## CORPORATES

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
Senior unsecured	A-
<b>Outlook:</b>	Stable

### 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 of AP (Thailand) PLC (AP) and the ratings of AP's outstanding senior unsecured debentures at "A-". The ratings reflect AP's satisfactory business profile, driven by its proven track record in the residential property development industry, diverse range of products, and moderate backlog, which secures a portion of its future revenues. These strengths are partially offset by the cyclical nature of the property development industry, AP's moderate use of financial leverage, and concerns over the relatively high level of household debt nationwide.

## KEY RATING CONSIDERATIONS

### Strong market position

AP's business profile is strong, reflecting its size, proven growth strategy, and diverse product lines. The size of AP's revenue base has ranked it fourth among the property developers listed on the Stock Exchange of Thailand (SET) over the past five years. During the past five years, AP's revenues have stayed in a range of Bt20,000-Bt23,000 million annually. AP's revenues and profitability have improved consistently over the past five years.

Presales have grown steadily, rising at a compound annual growth rate (CAGR) of 30% over the past five years. Presales in the condominium segment (including presales from projects conducted through a joint venture (JV)) were Bt10,000-Bt15,000 million per year. Presales in the housing segment increased from Bt7,000-Bt9,000 million per annum during 2011-2013 to Bt11,000-Bt14,000 million per annum during 2014-2017.

In TRIS Rating's view, AP benefits from economies of scale, strong bargaining power with contractors and material suppliers, improving brand recognition, and accessibility to the capital market. In addition, the projects undertaken through a joint venture receive favorable borrowing terms from financial institutions.

### Large and diverse product line

AP has a proven record of offering products that match changes in consumer behavior. Its product line covers almost all of the segments in the residential property market, with the bulk of its projects located within the Greater Bangkok area. Projects in each product segment have generated strong presales and captured respectable market shares. The company has established a good record of completing projects on time, strengthening the acceptance of its brands among city dwellers. The track record is particularly strong in the middle- to high-end townhouse and condominium segments.

The product portfolio at the end of 2017 comprised 30 single-detached house (SDH) projects, 33 townhouse projects, and 12 condominium projects. In sum, the projects carried a value of around Bt95 billion, excluding projects developed through the JV. The projects developed through the JV comprised 11 condominium projects, worth Bt52 billion.

### Satisfactory operating performance

AP's operating performance in 2017 was slightly higher than TRIS Rating's expectation. In 2017, AP's owned projects generated presales of Bt19,190 million. The company also had Bt23,788 million of presales from condominium

projects undertaken by the JV, about Bt22,864 million generated from three condominium projects, including presales at the Life Ladprao project of Bt6,542 million, the Life one Wireless of Bt7,084 million, and the Life Asoke-Rama 9 of Bt9,238 million.

As of December 2017, the value of the backlog stood at Bt5,894 million, splitting between the housing units worth Bt3,098 million and the condominium units worth Bt2,796 million. The backlog will be recognized as revenue in 2018. The backlog of the projects under the JV stands at around Bt36,070 million. This backlog will be recognized as revenue from 2018 onwards. Revenue in 2017 stood at Bt22,176 million, up 9% from 2016. The operating margin (operating income before depreciation and amortization as a percentage of revenue) in 2017 was 15.5%, a slight improvement from the average of 15% over the past five years.

During 2018-2020, TRIS Rating's base-case forecast assumes AP's revenue will range from Bt21,000-Bt23,000 million per annum. The operating margin is expected to hold at 12%-15%. The net profit margin during the next three years is expected to improve because AP will recognize a significant share of the profits earned from the JV projects.

### **Moderate financial leverage**

AP's financial leverage is moderately high. According to its financial covenant, the company has to maintain its net debt to equity ratio to stay below 2 times. The company was able to comply with its financial covenant comfortably. In addition, the company has been able to maintain its debt to capitalization ratio (including 51% of the debt carried by the JV) at around 50% over the past five years. At the end of 2017, total debt (including 51% of the debt of the JV) was Bt23,256 million, up from Bt17,583 million in 2016. Total debt rose because several large condominium projects were launched and because AP bought more land for new projects.

Under TRIS Rating's base case, AP's debt to capitalization ratio is expected to stay around 50%-55% over the next three years, or the net debt to equity ratio of around 1-1.2 times.

### **Acceptable liquidity**

AP's liquidity position is adequate. The company had Bt1,054 million in cash on hand, plus undrawn project loans of Bt5,575 million, at the end of December 2017. Debts due over the next 12 months (excluding project loans) amount to around Bt3,300 million. AP typically matches the maturities of its short-term debts with the cash it expects to receive from transferring finished condominiums to its customers. AP plans to refinance most of the maturing bonds with new bond issues. The maturing bonds are backed up by AP's undrawn bank credit lines.

Over the next three years, TRIS Rating's projections estimate AP's funds from operations (FFO) to be Bt2,500-Bt3,000 million per annum. The FFO to total debt ratio is expected to stay around 12%-15%, while the EBITDA (earnings before interest, tax, depreciation, and amortization) interest coverage ratio is expected to stay above 4 times.

### **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 the expectation that AP will continue to follow prudent financial policies and keep the debt to capitalization ratio below 55% over the next three years.

### **RATING SENSITIVITIES**

The company's ratings and/or outlook could be revised downward should its financial profile deteriorate significantly from the current level or if the debt to capitalization ratio stays above 55% 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 40%-45% 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 SET in 2000. The founding members of AP hold the company's top management positions and are also the major shareholders. As of March 2018, AP's major shareholder was Mr. Anuphong Assavabhokhin, owning 21.3% of the company's shares.

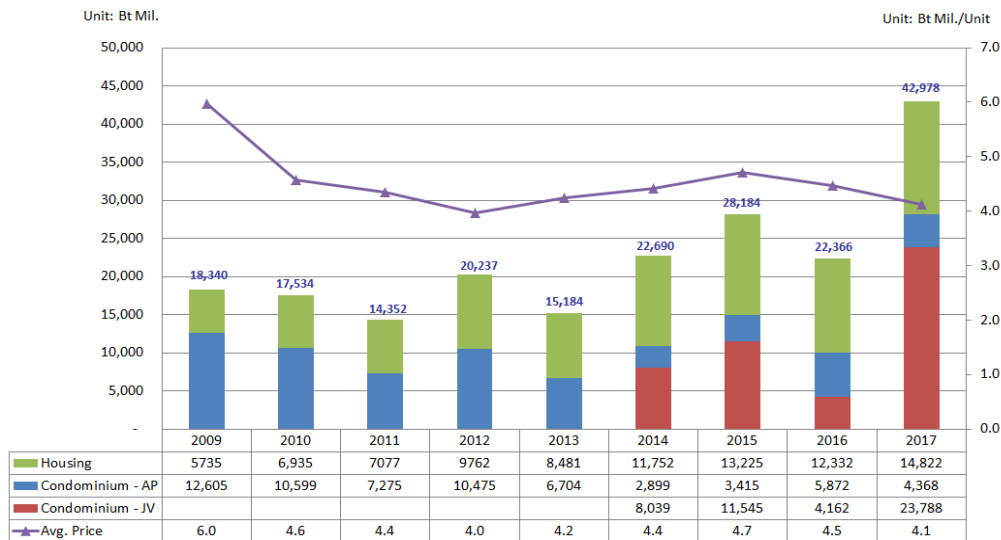
AP's product portfolio covers a wide range of price points and product segments. The company's revenue mix has been approximately 50:50 between the housing and condominium segments during the past few years. Most of AP's projects are located within the Greater Bangkok area.

AP's SDH brands include: "Centro", "The City", "Mind", "Soul", and "The Palazzo", with unit prices from Bt5 million to over Bt25 million. Its townhouse projects are developed under brand names like "Baan Klang Krung", "Baan Klang Muang", and "The Pleno". Home office projects are sold under the brand name "Biztown". Its condominium brands include: "Vittorio", "The Address", "Rhythm", "Life", "Aspire", and "Coo". Most of 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%.

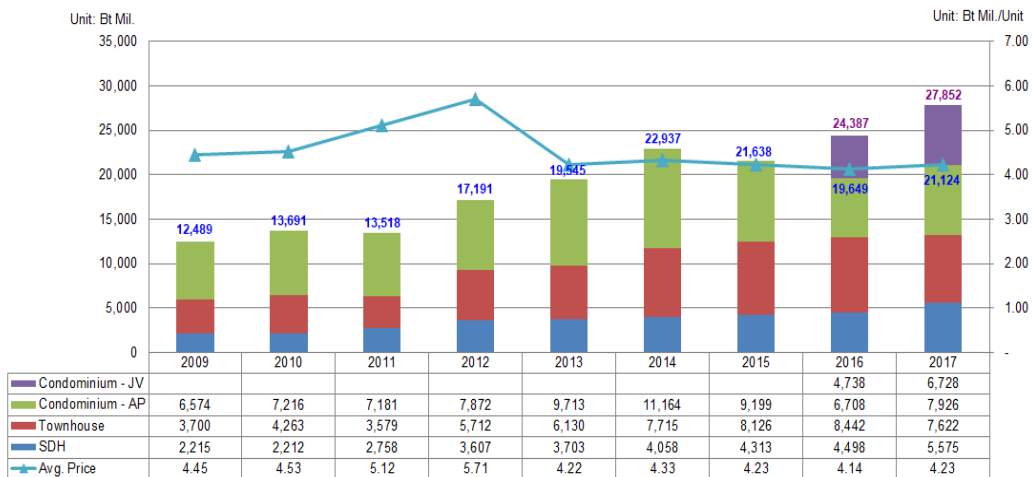
**KEY OPERATING PERFORMANCE**

**Chart 1: Presales Performance**



Source: AP

**Chart 2: Revenue Breakdown by Product**



Source: AP

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Bt million

	----- Year Ended 31 December -----				
	2017	2016	2015	2014	2013
Revenue	22,176	20,253	22,079	23,149	19,854
Gross interest expense	565	564	603	657	643
Net income from operations	3,157	2,703	2,623	2,615	2,013
Funds from operations (FFO)	3,600	2,260	2,787	2,861	2,132
Inventory investment (-increase/+decrease)	(8,007)	(1,590)	(1,926)	(1,310)	(4,903)
Total assets	43,936	37,790	36,147	35,564	34,410
Total debts	18,403	14,741	14,679	14,705	15,430
Total adjusted debts	23,256	17,583	16,871	15,448	15,801
Shareholders' equity	21,637	19,423	17,654	15,848	14,007
Operating income before depreciation and amortization as % of sales	15.51	14.83	16.45	16.37	14.10
Pretax return on permanent capital (%)	9.86	9.81	11.05	11.74	10.39
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	7.21	6.32	6.14	5.59	4.67
FFO/total debt (%)	15.48	12.86	16.52	18.52	13.49
Total debt/capitalization (%)	51.81	47.51	48.87	49.36	53.01

Note: All ratios have been adjusted by debt from the joint venture of 51% since 2013 onwards.

\* Consolidated financial statements

**AP (Thailand) PLC (AP)**

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
AP188A: Bt1,250 million senior unsecured debentures due 2018	A-
AP191A: Bt350 million senior unsecured debentures due 2019	A-
AP191B: Bt1,000 million senior unsecured debentures due 2019	A-
AP191C: Bt500 million senior unsecured debentures due 2019	A-
AP197A: Bt1,000 million senior unsecured debentures due 2019	A-
AP197B: Bt1,000 million senior unsecured debentures due 2019	A-
AP201A: Bt1,500 million senior unsecured debentures due 2020	A-
AP207A: Bt1,500 million senior unsecured debentures due 2020	A-
AP217A: Bt1,500 million senior unsecured debentures due 2021	A-
AP221A: Bt1,500 million senior unsecured debentures due 2022	A-
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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