

AP (THAILAND) PLC

No. 74/2022
13 May 2022

CORPORATES

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

Last Review Date: 11/01/22

Company Rating History:

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

Contacts:

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Hattayanee Pitakpatapee
hattayanee@trisrating.com

Jutamas Bunyawanichkul
jutamas@trisrating.com

Preeyaporn Kosakarn
preeyaporn@trisrating.com

Suchada Pantu, Ph.D.
suchada@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on AP (Thailand) PLC (AP) and the ratings on AP's outstanding senior unsecured debentures at "A-". At the same time, TRIS Rating revises the company's outlook to "positive" from "stable". The "positive" outlook reflects AP's strong market position and the expectation that the company will sustain its revenues and earnings growth momentum while keeping its debt to capitalization ratio below 45% on a sustained basis.

The ratings continue to reflect AP's large and diverse product lines as well as substantial shared profits from joint-venture (JV) projects. The ratings also take into consideration our concerns over the relatively high household debt level and rising inflation rates which could impact the purchasing power of homebuyers in the short to medium term.

KEY RATING CONSIDERATIONS

Strong operating performance expected to continue

AP continued to demonstrate strong operating performance amidst the economic downturn and the lingering Coronavirus Disease 2019 (COVID-19) pandemic. Presales (including presales from JV projects) in 2021 rose to THB35 billion, from THB31.6 billion in 2020. Presales in the first quarter of 2022 jumped by 62% year-on-year (y-o-y) to THB13 billion. AP's revenues peaked at THB32 billion in 2021, up by 7% y-o-y. The company's investments in JV projects also contributed shares of profit of around THB1.0-THB1.2 billion per annum. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) margin has remained steady 20% over the past several years.

Looking forward, we expect AP's annual revenue will range from THB35 billion to THB38 billion while its EBITDA will increase to THB6.3-THB7.2 billion per annum over the next three years. The growth in revenues and earnings will be supported by the planned launches of a substantial number of new landed property projects coupled with the significant amount of backlog on hand.

At the end of 2021, the backlog of AP's own projects stood at THB12.8 billion, most of which will be recognized as revenue in 2022. The backlog of condominium projects under JVs was THB16 billion. Around THB7.3 billion of its JV backlog is expected to be transferred in 2022, THB7.4 billion in 2023, and the remainder from 2024 onwards. We project AP will realize shared profits from its JV investments of THB1.0-THB1.2 billion per annum over the next three years.

Leading market position in various product segments

TRIS Rating expects AP will maintain its solid market position over the forecast period. In our view, AP's diversified product portfolio gives the company flexibility to adjust its product portfolio to meet changing consumer preferences, making its revenues and profitability less volatile than other developers.

AP's products cover the middle- to high-end market segments. Its major housing brands include "Pleno", "Baan Klang Muang", "The Centro", "The City", and "The Palazzo" while its main condominium brands include "Aspire", "Life", "Rhythm", and "The Address". The company has expanded its landed property projects upcountry under the "Api Town" brand since 2020 and has received a good response from customers.

At the end of 2021, AP's portfolio comprised 42 single detached house (SDH) projects, 61 townhouse (TH) projects, and 15 condominium projects (including 10 JV projects). The total units available for sale (both built and un-built) carried a value of around THB72 billion, comprising SDHs (23%), THs (36%), and condominiums (41%).

Challenging year for residential property amid concerns over high household debt and rising inflation

As of December 2021, household debt in Thailand peaked at THB14.58 trillion. The household debt to gross domestic product (GDP) ratio stood at 90.12%, increasing slightly from 89.66% at the end of 2020. The relatively slow pace of economic recovery has caused this ratio to hang at a high level. The Thai GDP dropped by 6.2% y-o-y in 2020 and grew by only 1.6% y-o-y in 2021. This year, we expect the GDP will grow by 2%-3% y-o-y. Thus, assuming household debt stays at the same level, the household debt to GDP ratio should remain at around 87%-88% in 2022. The relatively high household debt level will impact housing sales, especially in the lower-priced housing segment where bank rejection rates are high.

Rising inflation since the last quarter of 2021 poses another threat to both developers and homebuyers. High inflation rates will push up development and funding costs for developers while lowering the purchasing power of homebuyers. The high inflation rates will impact the prices of construction materials and labor costs. Thus, developers' profit margins could decline if they are unable to pass through the rising costs to homebuyers. With our concerns over the rising construction and labor costs, we expect AP's EBITDA margin will slightly decline but it should remain in the 18%-19% range over the forecast period.

Debt to capitalization ratio expected to stay below 45% on a sustained basis

In TRIS Rating's base-case forecast, AP's debt to capitalization ratio (including 51% of the debt carried by JV projects) is expected to stay below 45% over the next three years. AP's debt to capitalization ratio was 42.8% at the end of 2021, down from 46.6% in 2020 and 56.5% in 2019. The ratio declined due to AP's good performance in the landed property segment and the transfers of several large projects under JVs.

Looking forward, we assume AP will launch its own residential property projects worth THB40-THB60 billion and JV projects worth THB8-THB12 billion annually over the next three years. The budget for land acquisitions (for both AP and JV projects) is set at THB17-THB19 billion per year. Based on our assumptions, AP's debt to capitalization ratio is expected to hover around 45% over the forecast period. Its debt to EBITDA ratio is expected to remain below 4 times while the ratio of its funds from operations (FFO) to total debt is also expected to improve and stay above 20% in 2023-2024.

The financial covenants on 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 2021 was 0.6 times. We believe that AP should have no problem complying with its financial covenants over the next 12 to 18 months. Its priority debt to total debt ratio at the end of 2021 was 8%.

Adequate liquidity

We assess AP will have adequate liquidity over the next 12 months. As of December 2021, the company's liquidity sources comprised cash on hand of THB2.1 billion and unused committed credit facilities of THB11.4 billion. We forecast AP's FFO over the next 12 months will be THB6.4 billion. AP's uses of funds include THB6.4 billion of debt due over the next 12 months, THB3-THB6 billion of working capital to increase inventory, and dividend payments of around THB1.5-THB1.7 billion per annum. Debt due in the next 12 months will be comprised THB1.9 billion for short-term loans and THB4.5 billion for debentures. Short-term loans are mostly for working capital and bridging loans for land purchases which are expected to be converted to project loans over time while its maturing debentures are usually refinanced with new debenture issues.

BASE-CASE ASSUMPTIONS

- AP to launch residential property projects in 2022 worth THB68 billion, comprising THB5.3 billion of its own condominium projects, THB55 billion of its landed property projects, and THB7.7 billion of JV projects. We also assume the company will launch new residential projects worth THB40-THB50 billion per annum in 2023-2024.
- Land acquisition for AP's own projects is budgeted at around THB13-THB15 billion per annum and THB3-THB4 billion per annum for JV projects.
- Revenue will be THB35-THB38 billion per annum during 2022-2024. Shared profits from JV investments will amount to THB1.0-THB1.2 billion annually.
- EBITDA margin is expected to be around 18%-19%.

RATING OUTLOOK

The "positive" outlook reflects our expectation that AP will maintain its strong market position in both the landed property and condominium segments. The company is expected to sustain its revenues and earnings growth momentum while its debt to capitalization ratio should remain at around 45%.

RATING SENSITIVITIES

The ratings and/or outlook could be revised upward should AP's financial profile improve such that its debt to capitalization ratio declines to the 40%-45% range and FFO to debt ratio improves to around 20% on a sustained basis. In contrast, the ratings could be revised downward should the company's financial profile deteriorate significantly from the current level, causing its debt to capitalization ratio to stay above 55% and FFO to debt ratio to drop below 10% 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 2022, AP's major shareholder was Mr. Anuphong Assavabhokhin, owning 21.3% of the company's shares.

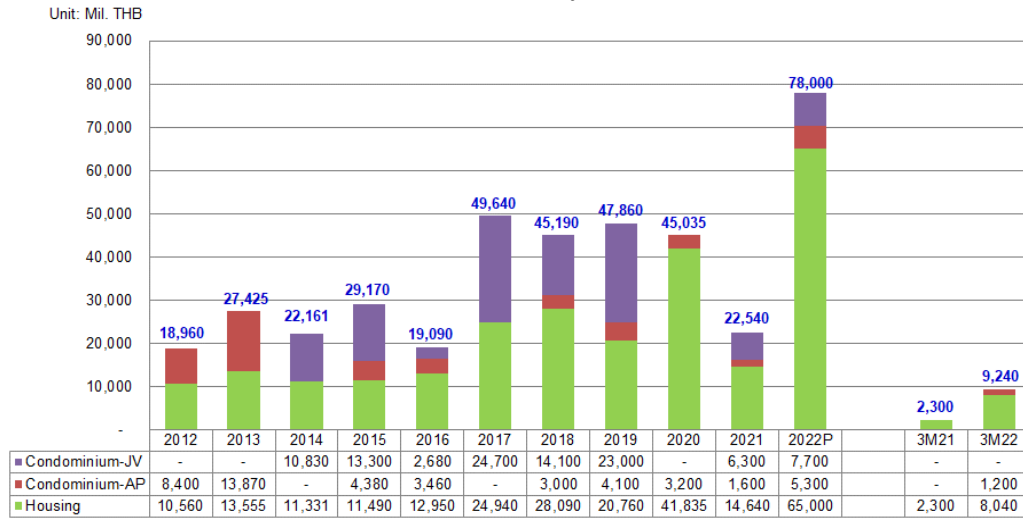
AP's product portfolio covers a wide range of price points and product segments. The company's revenue mix has been split approximately 50:50 between the housing and condominium segments during the past few years. Most of AP's projects are located within the Greater Bangkok area.

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%.

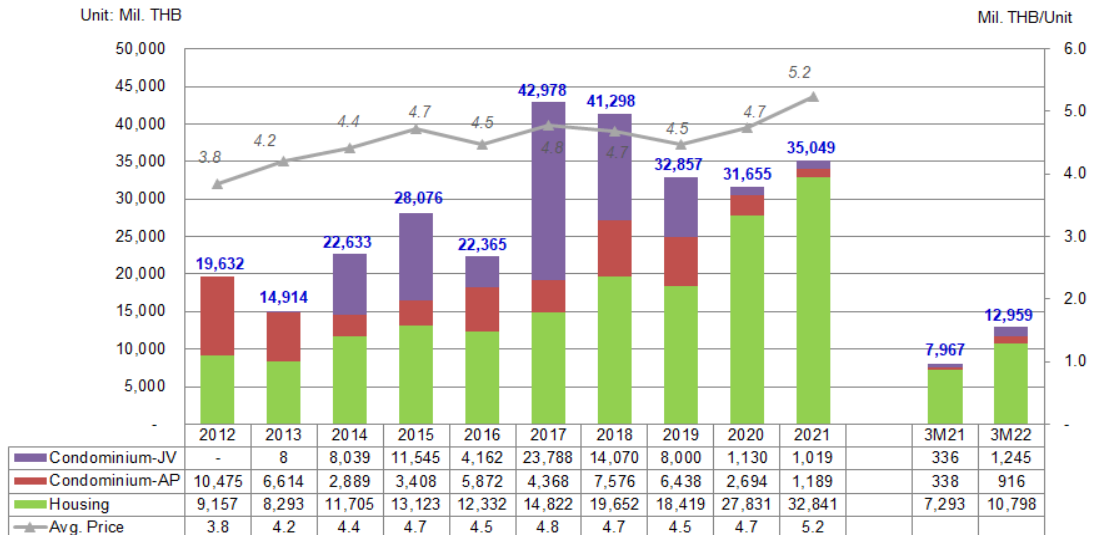
KEY OPERATING PERFORMANCE

Chart 1: Residential Project Launches



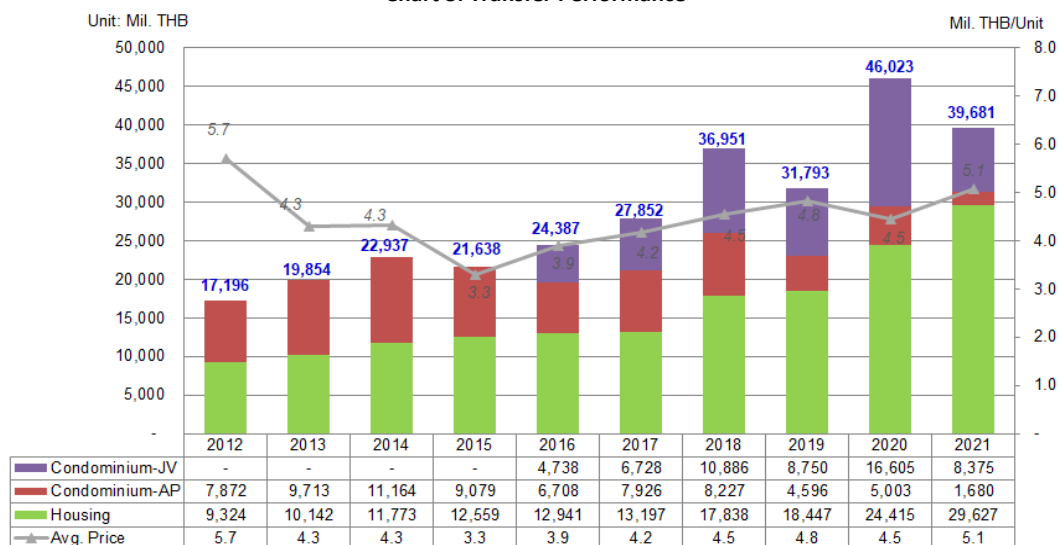
Source: AP

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 -----				
	2021	2020	2019	2018	2017
Total operating revenues	31,973	29,952	23,881	27,320	22,257
Earnings before interest and taxes (EBIT)	6,089	5,717	4,318	5,349	4,298
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	6,388	6,088	4,584	5,550	4,435
Funds from operations (FFO)	4,840	4,602	3,161	4,159	3,083
Adjusted interest expense	601	733	743	566	582
Real estate development investments	48,497	46,737	50,394	41,828	36,079
Total assets	60,409	58,724	58,794	49,395	43,936
Adjusted debt	24,315	25,561	34,123	23,753	22,145
Adjusted equity	32,423	29,263	26,296	24,491	21,633
Adjusted Ratios					
EBITDA margin (%)	19.98	20.33	19.20	20.32	19.93
Pretax return on permanent capital (%)	10.46	9.64	7.84	11.38	10.54
EBITDA interest coverage (times)	10.62	8.31	6.17	9.81	7.63
Debt to EBITDA (times)	3.81	4.20	7.44	4.28	4.99
FFO to debt (%)	19.91	18.00	9.26	17.51	13.92
Debt to capitalization (%)	42.85	46.62	56.48	49.24	50.59

* Consolidated financial statements

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

AP (Thailand) PLC (AP)

Company Rating:	A-
Issue Ratings:	
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-
AP251A: THB2,000 million senior unsecured debentures due 2025	A-
AP257A: THB2,000 million senior unsecured debentures due 2025	A-
AP258A: THB850 million senior unsecured debentures due 2025	A-
AP261A: THB1,500 million senior unsecured debentures due 2026	A-
Rating Outlook:	Positive

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2022, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria