

AP (THAILAND) PLC

No. 70/2019

10 May 2019

CORPORATES

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

Last Review Date: 12/12/18

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

Jutamas Bunyawanchkul

jutamas@trisrating.com

Hattayanee Pitakpatapee

hattayanee@trisrating.com

Tulyawat Chatkam

tulyawat@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-". The ratings reflect AP's strong market position, driven by its growing revenues and stable profitability, its sizeable backlog which secures a portion of its future revenues, and its balanced products portfolio.

These strengths are partially offset by AP's moderate use of financial leverage and the cyclical and competitive nature of the residential property development industry. The impact from the new loan-to-value (LTV) lending rules set by the Bank of Thailand (BOT) and a persistently high level of household debt nationwide could affect the demand for housing over the next few years.

KEY RATING CONSIDERATIONS

Strong market position

TRIS Rating expects AP to maintain its strong market position in the next five years. 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. AP's revenues have grown from Bt20,300 million in 2016 to Bt27,700 million in 2018. Its operating profit margin has been maintained at around 14%-16% while its pretax return on permanent capital stood at around 10%-12%.

The growth in revenue was driven mainly by a 35% increase in its landed property segment. The operating margin (operating income before depreciation and amortization as a percentage of revenue) was 13.8% in 2018, decreasing from 15.5%-17.0% during 2015-2017. This ratio dropped because the company accelerated the sales of finished units in the stock of condominium projects with a lower gross profit margin. The gross profit margin of the condominium segment in 2018 was only 29%, declining from 35%-37% in the past three years. However, due to the higher share profit from its joint ventures (JV), AP's pretax return on permanent capital improved to 11.2% in 2018, from 10.5% in 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.

Balanced products portfolio

AP's products portfolio is well balanced between condominiums and landed properties. Its product line covers various types and price ranges. However, its diversification in terms of location remains limited. Most of AP's projects are located within the Greater Bangkok area. Previously, its products have been well-accepted in the middle- to high-end townhouse and condominium segments. However, the company is able to build its brand in the single-detached house segment (SDH). Revenues from landed properties grew to Bt17,838 million in 2018, from Bt12,941 million in 2016. Revenues from the SDH segment in 2018 accounted for 52% of landed properties sales, increasing from 35% in 2016.

The product portfolio as of March 2019 comprised 36 SDH projects, 46 townhouse projects, and 22 condominium projects (including 10 joint ventures projects). The total units available for sale carried a value of around Bt54,000

million, including projects developed through the JV.

Sizeable backlog

TRIS Rating views that AP's revenues and profitability will continue to grow over the next two to three years. Its earnings are expected to be supported by strong presales and the large backlog built in the past couple years. AP's presales have grown steadily in both the landed property segment and condominium segment. Presales in the condominium segment (including presales from projects conducted through a JV) were Bt28,156 million in 2017 and Bt21,646 million in 2018, up from Bt10,000-Bt15,000 million per year during 2014-2016. Presales in the landed property segment increased from Bt12,000-Bt13,000 million per annum during 2014-2016 to Bt14,822 million in 2017 and Bt19,652 million in 2018. Presales in the first quarter of 2019 was Bt12,585 million, up 26% from the same period last year.

Due to the large number of presales in the last two years, the value of AP's backlog stood at Bt17,700 million as of March 2019, the backlog will be recognized as revenue of around Bt14,000 million in 2019, Bt2,500 million in 2020, and the rest in 2021. The backlog of the projects under the JV stands at Bt41,300 million. Units in this backlog will be transferred to customers in 2019 onwards. Thus, AP will realize share profit from the JV of around Bt700-Bt1,000 million per year over the next three years. In TRIS Rating's base case, AP's revenue will range from Bt26,000-Bt28,000 million per annum during 2019-2021. 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

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 December 2018, its net debt to equity ratio was 0.83 times. According to its financial covenant, the company has to maintain its net debt to equity ratio to stay below 2 times. Thus, the company was able to comfortably comply with its financial covenant. 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% (or the debt to equity ratio at 1 times) over the past five years. The total outstanding debt (including 51% of the debt of the JV) in the last two years increased to Bt23,000-Bt24,000 million, up from Bt16,000-Bt17,000 million during 2013-2016. 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 at around 1.0-1.2 times.

Implementation of macro-prudential measures may cause a slowdown in presales

TRIS Rating expects that implementation of the new LTV rules by the BOT should impact the sales of condominium units in the short term. The BOT will implement a new macro prudential policy in April 2019. Under the new LTV rules, homebuyers can borrow up to 70%-80% of the collateral value, down from 90%-100%, for their second and subsequent mortgage loans. Therefore, the company may have to lengthen the down payment period for some homebuyers. The delay in transfer will impact the company's revenue recognized in the second half of 2019.

However, we expect the lower LTV ratio for the second and subsequent mortgage loans should benefit developers in the long run. The new measures will reduce speculative demand and will help strengthen the property market. In the meantime, the company will take a wait-and-see approach. The company may delay its new project launches should the new measures significantly slow demand and cause its accumulated inventory to rise.

Acceptable liquidity

AP's liquidity position is adequate. The company's liquidity source was cash on hand at the end of December 2018, standing at Bt951 million and undrawn project loans of Bt9,596 million. We forecast AP's funds from operations (FFO) over the next 12 months to hold above Bt3,500 million. AP's uses of funds comprise debts of Bt7,195 million due over the next 12 months (Bt3,185 million in short-term bills of exchange (B/Es) and promissory notes (P/Ns) and Bt3,850 million in bonds) and a dividend payment of around Bt1,300 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 FFO to be Bt3,500-Bt4,000 million per annum. The FFO to debt ratio is expected to stay around 12%-15%, while the earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio is expected to stay above 6 times.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base case forecast:

- AP will launch residential property projects in 2019 worth Bt56,800 million, comprising its own condominium projects worth Bt4,100 million and JV projects worth Bt18,300 million. New landed property launches will be worth Bt34,400 million. Going forward, the company will launch new residential projects worth Bt40,000-Bt50,000 million per annum.
- AP's revenue is forecast at Bt26,000-Bt28,000 million per annum during 2019-2021. Revenue of JV projects will be around Bt6,000 million in 2019, Bt10,000 million in 2020, and Bt15,000 million in 2021, from the large backlog scheduled to be delivered to its customers.
- Land acquisition for its own projects is budgeted at Bt10,000 million yearly and Bt3,000-Bt4,000 million per year 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 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. Its FFO to total debt is expected to stay around 12%-15%.

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 stay around 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 2019, AP's major shareholder was Mr. Anuphong Assavabhokhin, owning 21.3% of the company's shares.

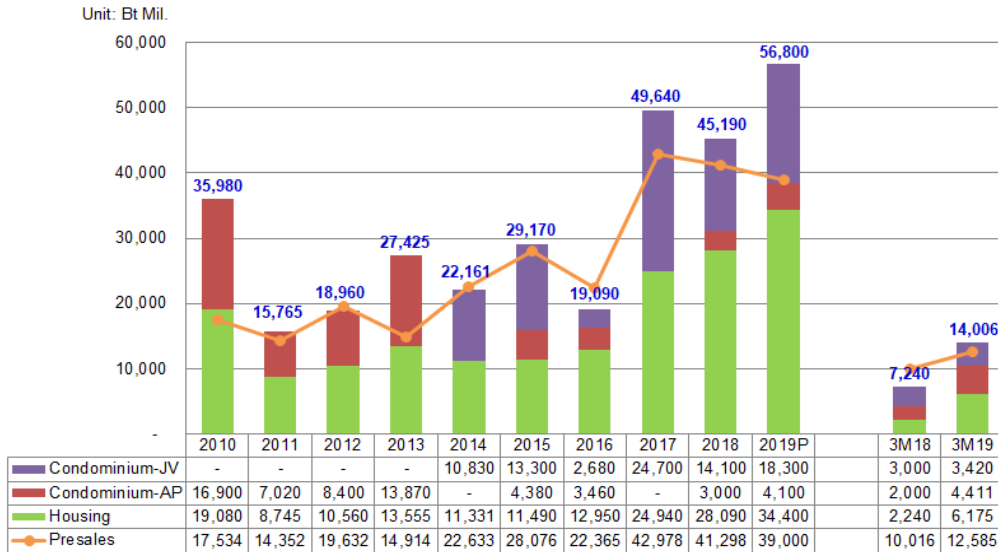
AP's product portfolio covers a wide range of price points and product segments. The company's revenue mix has been approximately 50:50 between the housing and condominium segments during the past few years. Most of AP's projects are located within the Greater Bangkok area.

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 "The Pleno", "Baan Klang Muang", and "Baan Klang Krung". Home office projects are sold under the brand name "Biztown". Its condominium brands include: "Coo", "Aspire", "Life", "Rhythm", "The Address", and "Vittorio". 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%.

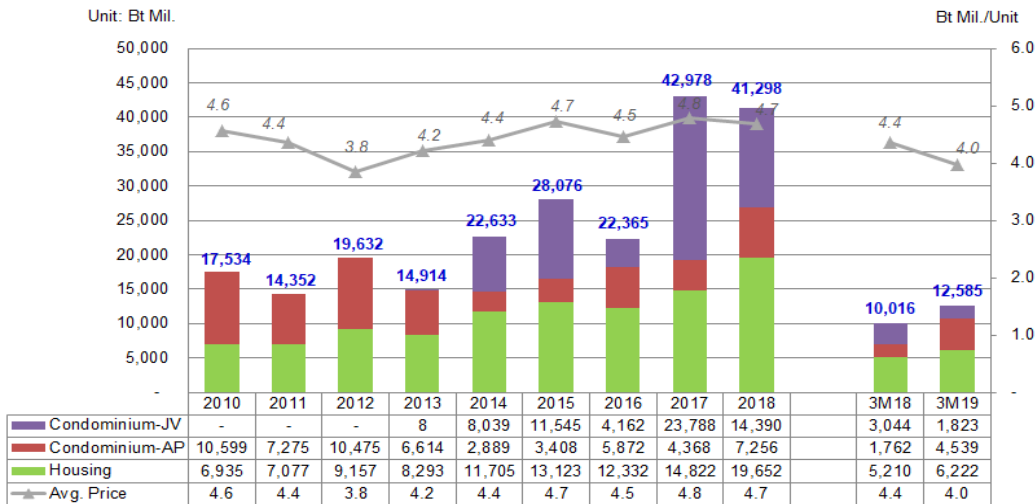
KEY OPERATING PERFORMANCE

Chart 1: Residential Project Launches



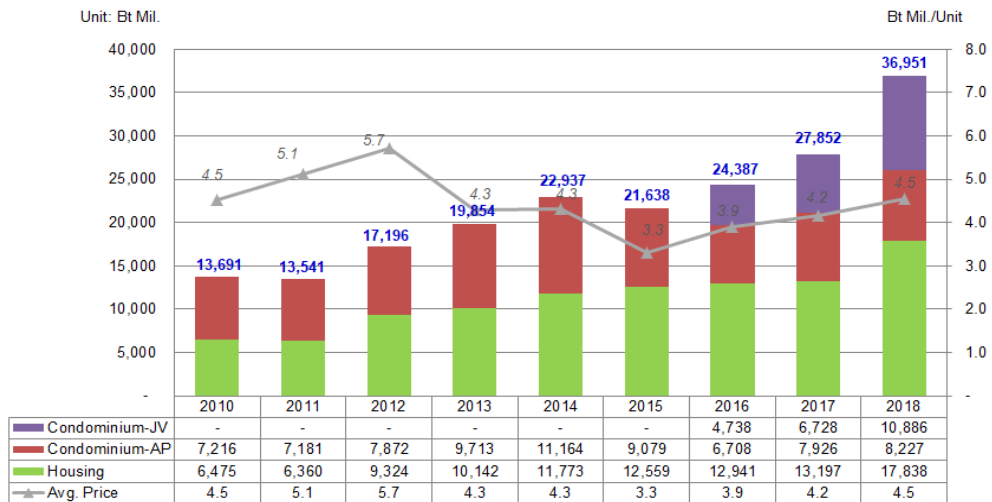
Source: AP

Chart 2: Presales Performance



Source: AP

Chart 3: Transfer Performance



Source: AP

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

| | -----Year Ended 31 December ----- | | | | |
|--------------------------------------------------------------------------|-----------------------------------|--------|--------|--------|--------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Total operating revenues | 27,750 | 22,257 | 20,336 | 22,203 | 23,197 |
| Operating income | 3,839 | 3,597 | 3,153 | 3,787 | 3,795 |
| Earnings before interest and taxes (EBIT) | 5,280 | 4,298 | 3,745 | 3,819 | 3,988 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 5,482 | 4,435 | 3,857 | 3,947 | 4,132 |
| Funds from operations (FFO) | 4,138 | 3,115 | 2,660 | 2,601 | 2,839 |
| Adjusted interest expense | 566 | 582 | 578 | 613 | 667 |
| Real estate development investments | 41,828 | 36,079 | 31,350 | 32,534 | 32,270 |
| Total assets | 49,284 | 43,936 | 37,790 | 36,147 | 35,564 |
| Adjusted debt | 23,753 | 22,145 | 16,173 | 16,573 | 15,183 |
| Adjusted equity | 24,379 | 21,633 | 19,424 | 17,654 | 15,848 |
| Adjusted Ratios | | | | | |
| Operating income as % of total operating revenues (%) | 13.83 | 16.16 | 15.50 | 17.05 | 16.36 |
| Pretax return on permanent capital (%) | 11.24 | 10.54 | 10.50 | 11.55 | 12.97 |
| EBITDA interest coverage (times) | 9.69 | 7.63 | 6.68 | 6.44 | 6.20 |
| Debt to EBITDA (times) | 4.33 | 4.99 | 4.19 | 4.20 | 3.67 |
| FFO to debt (%) | 17.42 | 14.07 | 16.45 | 15.69 | 18.70 |
| Debt to capitalization (%) | 49.35 | 50.59 | 45.43 | 48.42 | 48.93 |

* Consolidated financial statements

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

AP (Thailand) PLC (AP)

| | |
|--------------------------------------------------------------|--------|
| Company Rating: | A- |
| Issue Ratings: | |
| 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- |
| AP20DA: Bt1,000 million senior unsecured debentures due 2020 | A- |
| AP217A: Bt1,500 million senior unsecured debentures due 2021 | A- |
| AP21DA: Bt1,000 million senior unsecured debentures due 2021 | A- |
| AP221A: Bt1,500 million senior unsecured debentures due 2022 | A- |
| AP222A: Bt500 million senior unsecured debentures due 2022 | A- |
| AP228A: Bt1,500 million senior unsecured debentures due 2022 | A- |
| Rating Outlook: | Stable |

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

© Copyright 2019, 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