

AP (THAILAND) PLC

No. 69/2020

11 May 2020

CORPORATES

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

Last Review Date: 17/01/20

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 brand and market position in the residential property market, its balanced product portfolio, and the sizeable condominium backlog under its joint venture (JV) with a Japanese company, Mitsubishi Estate Co., Ltd. (MEC), which is expected to contribute a substantial amount of shared profits to the company over the next few years. The ratings also take into consideration its moderately high financial leverage, a slowdown in demand for condominiums, and concerns over the impact of coronavirus (COVID-19) pandemic which will add more pressure on the demand for residential properties.

KEY RATING CONSIDERATIONS

Strong brand and 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 are widely recognized 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's revenues grew to Bt27.3 billion in 2018 from Bt20.3 billion in 2016. Revenue in 2019 was Bt23.9 billion, a 13% decline year-on-year (y-o-y) amid concerns over the slowdown in both global and domestic economies and the implementation of new loan-to-value (LTV) rules by the Bank of Thailand (BOT) in April 2019. However, the company earned a significant share of profit from its JV projects at around Bt1-Bt1.2 billion per annum in 2018 and 2019. Thus, AP's earnings before interest, tax, depreciation, and amortization (EBITDA) margin has been maintained at around 19%-20% in the past three years.

Balanced product portfolio

AP's product portfolio is well balanced between condominiums and landed properties. Its product lines cover various types and price ranges. The company has long been recognized for its market position in the middle- to high-end townhouse and condominium segments. However, the company has been able to build its brand and gained significant market share in the single-detached house segment (SDH) over the past three years. Its presales in the landed property segment increased to Bt20-Bt25 billion during 2017-2019 from Bt12-Bt13 billion per annum during 2014-2016. AP's presales value (including presales from JV projects) in 2019 was Bt31.8 billion. Around 33% of its presales came from SDHs, 25% from townhouses (THs), and 42% from condominiums.

The rising revenues from landed properties partly compensated for the drop in revenue from condominiums in 2019. Revenues from landed properties grew to around Bt18 billion per year in 2018 and 2019, from Bt12-Bt13 billion annually during 2015-2017. The gross profit margin of its SDH segment also improved to 32%-34% in the past three years from 24%-28% during 2014-2016. Therefore, despite the sharp drop in gross profit margin of its owned condominiums to below 30% in the past couple of years, the company was able to maintain its overall gross profit margin at 32% in 2019.

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 2019, AP's portfolio comprised 34 SDH projects, 52 TH projects, and 20 condominium projects (including 11 JV projects). The total units available for sale (both built and un-built) carried a value of around Bt70 billion, comprising SDHs (26%), THs (39%), and condominiums (35%).

Sizeable backlog helps maintain earnings during the downturn

Despite a slowdown in demand for residential properties, we expect AP's annual revenue to stay above Bt20 billion with an EBITDA of Bt3.5-Bt4 billion per annum over the next three years. We project its funds from operations (FFO) to stay at Bt2.5-Bt3 billion per annum, based on forecast earnings supported by strong presales and the large condominium backlog built up over the past three years. AP's presales in the condominium segment (including presales from projects conducted through a JV) were Bt15-Bt28 billion per annum during 2017-2019, up from Bt10-Bt15 billion per year during 2014-2016.

At the end of 2019, the backlog of AP's own projects stood at Bt9 billion, comprising Bt4.9 billion in landed properties and Bt4.1 billion in condominiums. AP's backlog will be recognized as revenue of around Bt7.4 billion in 2020, and the rest in 2021. The backlog of condominium projects under the JV worth around Bt38.8 billion will mostly be transferred to customers during 2020-2022. Around Bt12 billion of its JV backlog is expected to be transferred in 2020, Bt13 billion in 2021, and the remainder transferred from 2022 onwards. We project AP to realize shared profits from its JV investment of around Bt1.2-Bt1.5 billion per annum over the next three years.

Concerns over softening demand and impacts of COVID-19

The residential property market closely follows trends in the domestic economy. However, volatility in this market is much more pronounced than in the overall economy. The slowdown of the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the purchasing power of local homebuyers. Negative impacts from the global trade war and appreciation of the Thai baht have also caused a drop in demand for condominiums from foreign investors, especially Chinese investors, since 2019.

For 2020, the economic fallout from the COVID-19 pandemic is going to further suppress market demand. Most developers are adopting a wait-and-see approach as demand from local and foreign buyers is expected to drop during the first half of 2020. In addition, due to the travel restrictions in several countries, AP may have to postpone the transfers of foreign-buyer residential units for a few months. However, its backlog of units sold to foreign buyers which are ready for transfer this year will only be around Bt1 billion, or 6% of total backlog to be transferred this year. Thus, the delay in transfers should not significantly impact the company's revenue recognition this year.

Moderately high financial leverage

In TRIS Rating's base-case forecast, AP's debt to capitalization ratio is expected to stay at 50%-55% over the next three years, or the net debt to equity ratio at 1.0-1.2 times. At the end of 2019, AP's debt to capitalization ratio (including 51% of the debt carried by the JV) stood at 56.5%, up from 48%-50% during the past five years and slightly higher than our trigger of 55%. AP's total outstanding debt (including 51% of the debt of the JV) in 2019 increased to Bt34.7 billion, up from Bt24.7 billion at the end of 2018. The rise in total debt was due to lower-than-expected transfers while several large condominium projects were under construction. In addition, the company purchased more land plots for its new landed property projects.

However, we expect AP's debt to capitalization ratio to drop below 55% by the end of 2020 once several large projects under the JV are transferred. Its FFO to debt ratio could drop below 10% in 2020 but should recover to more than 10% in the following years. Due to the concerns over the COVID-19 pandemic, AP has set the budget for new land acquisitions (for both AP and JV projects) at only Bt3-Bt4 billion, significantly lower than the Bt10 billion last year. The company has also postponed launches of new condominium projects (under AP and the JV) worth around Bt12.1 billion to 2021. In 2020, the company will focus mainly on landed property projects for which the demand is not expected to change much from prior years. AP plans to launch new landed property projects in 2020 worth Bt35 billion.

Acceptable liquidity position

We assess AP to have an acceptable liquidity position over the next 12 months. The company's liquidity sources comprised cash on hand of Bt2.2 billion and available credit facilities of Bt10 billion as of March 2020. We forecast AP's FFO over the next 12 months to hold above Bt2.5 billion. The company also has unencumbered assets, including land banks at book value, worth Bt10.4 billion and remaining units in its own debt-free projects worth Bt13.6 billion at selling price. AP's uses of funds over the next 12 months will amount to Bt11.7 billion, comprising repayments of Bt5.6 billion in short-term bills of exchange (B/Es), Bt1.2 billion in promissory notes (P/Ns), Bt0.1 billion in financial leases, Bt3.5 billion in bonds, and a dividend payment of around Bt1.3 billion. 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 bonds with new bond issues. However, as demand for corporate bonds has largely dried up, AP plans to use available credit facilities to repay its short-term obligations and debentures.

We believe that AP should be able to comply with its financial covenants over the next 12 to 18 months. Under the financial covenants of its bank loans and bonds, AP has to keep its net interest-bearing debt to equity ratio below 2 times. The ratio at the end of December 2019 was 1.03 times.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for 2020-2022:

- AP plans to launch landed property projects worth around Bt30-Bt35 billion in 2020, while the launches of both own condominium projects and JV projects worth around Bt12 billion will be postponed to 2021. Going forward, the company will launch new residential projects worth Bt40-Bt50 billion per annum during 2021-2022.
- Revenue is forecast at Bt20-Bt22 billion per annum during 2020-2022. The shared profits from the JV investment to amount to around Bt1.2 billion in 2020 and Bt1.4 billion per annum in 2021 and 2022, as the JV is expected to transfer condominium units worth around Bt12 billion in 2020, and Bt14-Bt15 billion per annum in 2021 and 2022.
- Land acquisition for its own projects is budgeted at around Bt4-Bt6 billion per year and Bt3-Bt4 billion 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 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 is expected to stay at around 10%.

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% 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 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 2020, AP's major shareholder was Mr. Anuphong Assavabhokhin, owning 21.3% of the company's shares.

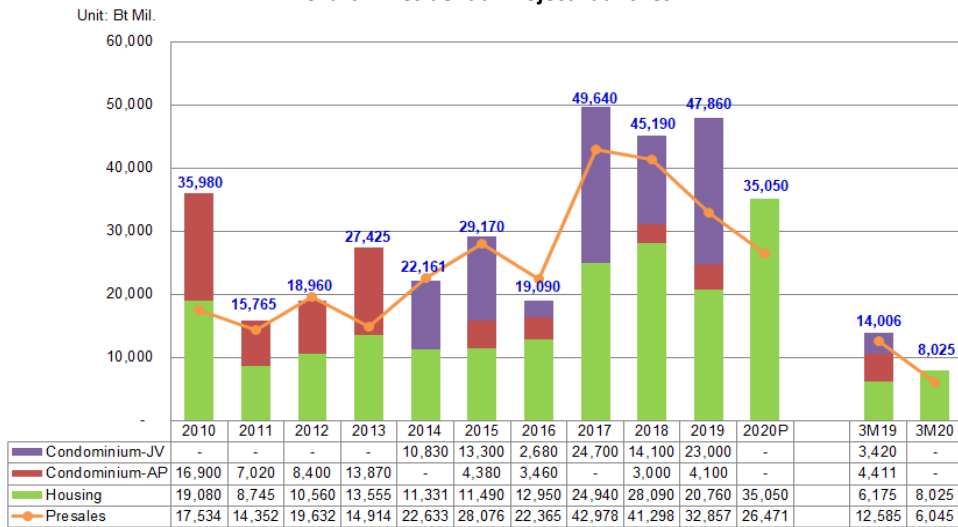
AP's product portfolio covers a wide range of price points and product segments. The company's revenue mix has been split approximately 50:50 between the housing and condominium segments during the past few years. Most of AP's projects are located within the Greater Bangkok area.

AP's SDH brands include: "Centro", "The City", "Mind", "Soul", and "The Palazzo", with unit prices from Bt5 million to over Bt25 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 "Coo", "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 MEC, one of the three largest property developers in Japan. AP holds a 51% stake in the JV while MEC's subsidiary holds 49%.

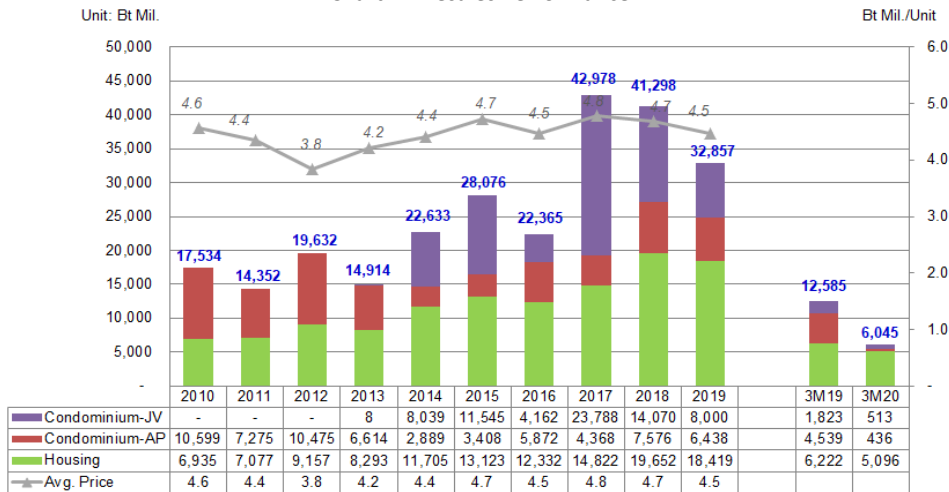
KEY OPERATING PERFORMANCE

Chart 1: Residential Project Launches



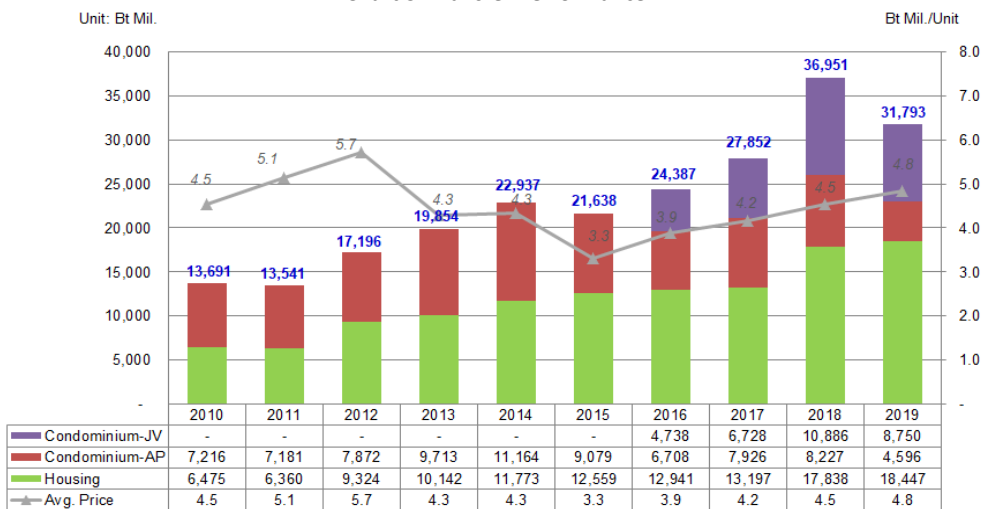
Source: AP

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 -----				
	2019	2018	2017	2016	2015
Total operating revenues	23,881	27,320	22,257	20,336	22,203
Earnings before interest and taxes (EBIT)	4,318	5,349	4,298	3,745	3,819
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,584	5,550	4,435	3,857	3,947
Funds from operations (FFO)	3,261	4,205	3,115	2,660	2,601
Adjusted interest expense	743	566	582	578	613
Real estate development investments	50,394	41,828	36,079	31,350	32,534
Total assets	58,794	49,395	43,936	37,790	36,147
Adjusted debt	34,123	23,753	22,145	16,173	16,573
Adjusted equity	26,296	24,491	21,633	19,424	17,654
Adjusted Ratios					
EBITDA margin (%)	19.20	20.32	19.93	18.97	17.78
Pretax return on permanent capital (%)	7.84	11.38	10.54	10.50	11.55
EBITDA interest coverage (times)	6.17	9.81	7.63	6.68	6.44
Debt to EBITDA (times)	7.44	4.28	4.99	4.19	4.20
FFO to debt (%)	9.56	17.70	14.07	16.45	15.69
Debt to capitalization (%)	56.48	49.24	50.59	45.43	48.42

* 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:	
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-
AP238A: Bt1,230 million senior unsecured debentures due 2023	A-
AP241A: Bt2,500 million senior unsecured debentures due 2024	A-
AP248A: Bt770 million senior unsecured debentures due 2024	A-
Rating Outlook:	Stable

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