

AP (THAILAND) PLC

No. 84/2024
23 May 2024

CORPORATES

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

Last Review Date: 08/01/24

Company Rating History:

Date	Rating	Outlook/Alert
22/05/23	A	Stable
13/05/22	A-	Positive
21/06/11	A-	Stable
12/07/10	BBB+	Positive
28/06/07	BBB+	Stable

Contacts:

Auyporn Vachirakanjanaporn
auyporn@trisrating.com

Preeyaporn Kosakarn
preeyaporn@trisrating.com

Jutamas Bunyawanichkul
jutamas_b@trisrating.com

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



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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 leading market position with diverse product portfolio, satisfactory profitability, and significant backlog. The ratings also consider its moderately high financial leverage, the cyclical nature of the residential property industry, and our concerns over the reimposition of tighter loan-to-value (LTV) rules, lingering high interest rates, and elevated levels of household debt.

KEY RATING CONSIDERATIONS

Leading market position in residential property market

TRIS Rating expects AP to maintain its strong market position over the forecast period. AP's market share, despite the Coronavirus Disease 2019 (COVID-19) pandemic, has been increasing over the past five years. Residential unit transfers, including joint venture (JV) projects, in 2022-2023 ranged around THB48-THB49 billion, accounting for more than 16% of total residential unit transfers among the 25 developers rated by TRIS Rating.

In our view, AP's diversified product portfolio provides the company flexibility to adjust its product portfolio to meet changing consumer preferences. Thus, its operating performance is quite resilient compared with other rated developers. AP's products are well diversified in terms of product types and price ranges. Its housing prices per unit range from THB2 million to THB100 million. At the end of March 2024, AP's portfolio comprised 61 single detached house (SDH) projects, 85 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 THB108 billion, comprising SDHs (46%), THs (38%), and condominiums (16%).

Satisfactory profits

AP was able to increase its market share while maintaining its profit margins at satisfactory levels. Its gross profit margin improved steadily, reaching 36.6% in 2023, an increase from 34.2% in 2022 and the low of 31.7% in 2020. AP's earnings before interest, taxes, depreciation, and amortization (EBITDA) also rose to THB8.4 billion in 2023, up from THB8.0 billion in 2022. Its EBITDA comprised a sizable share of profits from its investments in condominium projects developed under JV. The shared profit from its JV projects has been around THB1.0-THB1.2 billion per annum over the past three years. Its EBITDA margins during the same period remained relatively stable at around 21%-22%.

Operating performance likely to be maintained or grow slightly

Given its relatively large revenue and earnings base, we expect AP's operating performance to remain or grow slightly from its current level. Its annual revenue is expected to range between THB39-THB43 billion with an EBITDA of THB8.0-THB8.8 billion per annum over the forecast period. AP's forecasted revenues and earnings will be partly supported by the substantial number of existing and new projects to be launched this year and the sizeable backlog on hand.

At the end of March 2024, the backlog of AP's own projects stood at THB16.3 billion, with most will be recognized as revenue in 2024. The backlog of condominium projects under JVs was THB17.7 billion. Around THB7.4 billion of

its JV backlog is expected to be transferred in 2024, THB5.7 billion in 2025, and the remainder from 2026 onwards. We project AP will realize shared profits from its JV investments of THB850-THB950 million per annum over the next three years.

Also, government measures to reduce transfer and mortgage fees from 2% and 1%, respectively, to 0.01% for housing priced up to THB7 million per unit should help stimulate transfers this year. However, the tighter LTV rules, lingering high interest rates, and relatively high household debt levels remain obstacles for homebuyers and could temper growth in the housing sales of property developers.

Financial leverage expected to rise temporarily

AP's debt to capitalization ratio, including 51% of the debt of the JV, rose to around 47% at the end of 2023 until March 2024 from 41% in 2022 and surpassed our threshold of 45%. Meanwhile, the ratio of funds from operations (FFO) to debt declined to 16.7% in 2023 and 15.3% in the first quarter of 2024, falling below our target of 20%. AP's rising financial leverage was due to the numerous new residential projects launched in 2023 and the acquisition of several land plots to bolster its growth strategy. Consequently, the value of its real estate investments surged to THB73 billion by the end of March 2024, compared with THB56 billion in 2022 and THB48 billion in 2021. However, we anticipate that AP's robust operating performance, along with effective inventory management, will help improve its financial leverage to align with our threshold.

Under TRIS Rating's base case, we assume AP will launch its own residential property projects worth THB45-THB50 billion and JV projects worth THB7-THB8 billion annually over the next three years. The budget for land acquisitions (for both AP and JV projects) is set at THB12-THB13 billion per year, lower than THB17 billion last year. Based on our assumptions, AP's debt to capitalization ratio is expected to hover in the 40%-45% range over the forecast period. Its debt to EBITDA ratio is expected to remain below 4 times while the FFO to debt ratio is expected to recover to around 20% in 2025 onwards.

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 March 2024 was 0.8 times. We believe that AP should have no problem complying with its financial covenants over the next 12 to 18 months.

Adequate liquidity

We assess AP to have adequate liquidity over the next 12 months. As of March 2024, the company's liquidity sources comprised cash on hand of THB2.9 billion and unused committed credit facilities of THB12.3 billion. We forecast AP's FFO over the next 12 months to be THB5.8 billion. AP's uses of funds will include THB14.8 billion of debt due over the next 12 months, THB4-THB5 billion of working capital, and dividend payments of around THB2 billion per annum. Debt due in the next 12 months comprises THB8.7 billion short-term loans, THB5.8 billion debentures, and the rest project loans and financial leases. 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.

Debt structure

As of March 2024, AP's consolidated debt, excluding lease liabilities, amounted to THB35.9 billion. Of this, THB6.9 billion was priority debt, comprising secured debt held by AP and all borrowings undertaken by its subsidiaries. The priority debt to total debt ratio was 19%.

BASE-CASE ASSUMPTIONS

- AP to launch its own residential property projects worth THB45-THB50 billion and JV projects worth THB7-THB8 billion per annum over the next three years.
- Revenue will be THB39-THB43 billion per annum during 2024-2026. Shared profits from JV investments will amount to THB850-THB950 million annually.
- EBITDA margin is expected to remain at around 20%.
- Land acquisition for AP's own projects is budgeted at around THB10-THB11 billion per annum and THB2 billion per annum for JV projects.

RATING OUTLOOK

The "stable" 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 as planned. Also, we expect AP to lower its debt to capitalization ratio to stay in the 40%-45% range while its FFO to debt ratio should gradually improve to around 20% over the next one to two years.

RATING SENSITIVITIES

The ratings could be revised upward if the company's operating performance and financial profile improve significantly, such that its EBITDA stays above THB10 billion and the FFO to debt ratio stays above 40% on a sustained basis. Conversely, the ratings could be revised downward should the company's financial profile deteriorate from the current level, causing its debt to capitalization ratio to stay above 45% and FFO to debt ratio to drop below 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 2024, AP's major shareholder was Mr. Anuphong Assavabhokhin, owning 21.3% of the company's shares.

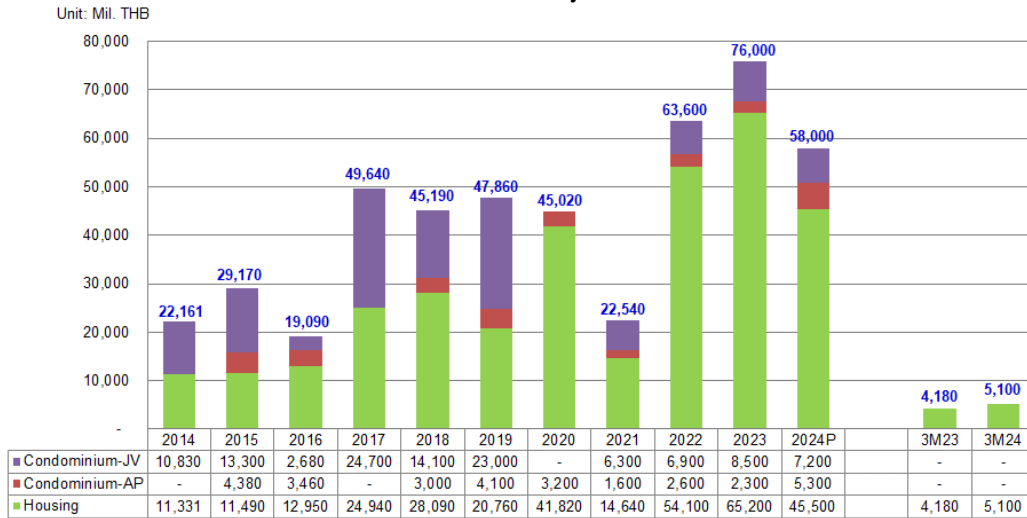
AP's product portfolio covers a wide range of price points and product segments. The company's revenue mix has been split roughly 70:30 between the housing and condominium segments since the past few years. Most of AP's projects are located within the Greater Bangkok Area.

AP's primary SDH brands include: "Moden", "Centro", "The City", and "The Palazzo", with unit prices ranging from THB3 million to THB100 million. Its TH projects are developed under brand names like "Pleno", "Baan Klang Muang", and "Baan Klang Krung". Home office projects are sold under the brand name "District". Its condominium brands include "Aspire", "Life", "Rhythm", and "The Address". 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 projects while MEC's subsidiary holds 49%.

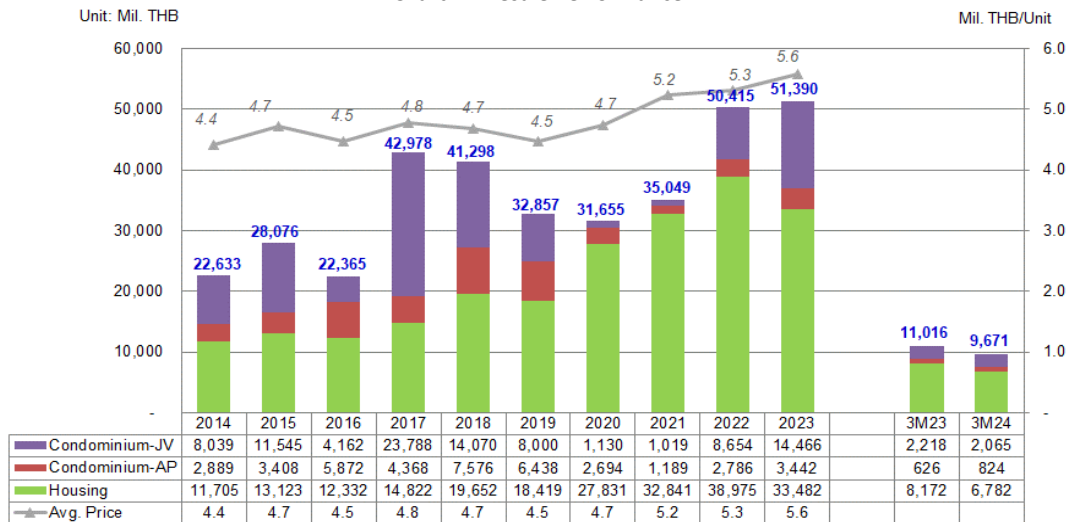
KEY OPERATING PERFORMANCE

Chart 1: Residential Project Launches



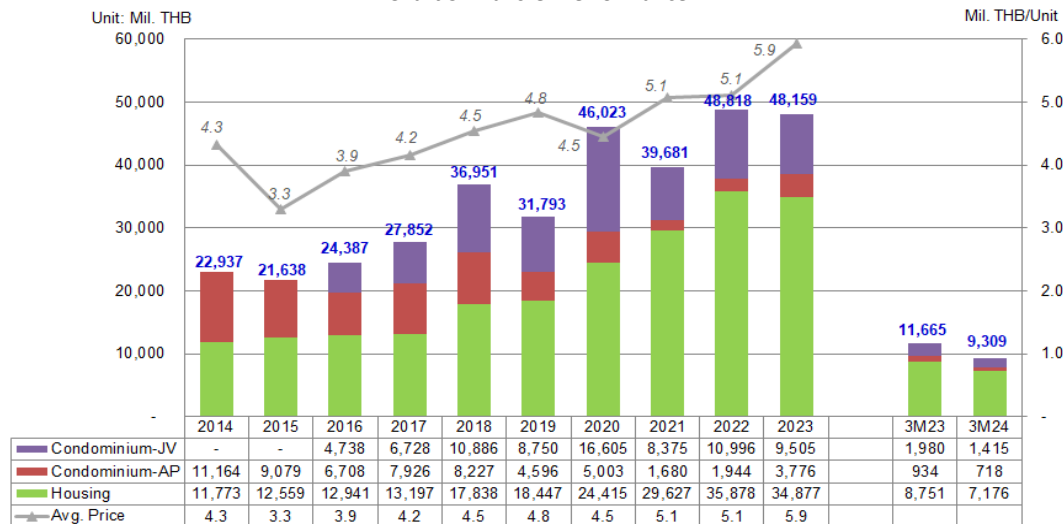
Source: AP

Chart 2: Presale Performance



Source: AP

Chart 3: Transfer Performance



Source: AP

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	7,968	38,373	38,697	31,973	29,952
Earnings before interest and taxes (EBIT)	1,449	8,053	7,685	6,035	5,668
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,525	8,358	7,988	6,334	6,039
Funds from operations (FFO)	905	6,028	6,092	4,786	4,553
Adjusted interest expense	409	909	599	601	733
Real estate development investments	73,573	72,696	56,453	48,497	46,737
Total assets	86,183	83,944	68,227	60,409	58,724
Adjusted debt	36,610	36,177	25,861	24,315	25,561
Adjusted equity	41,833	40,737	36,728	32,423	29,263
Adjusted Ratios					
EBITDA margin (%)	19.1	21.8	20.6	19.8	20.2
Pretax return on permanent capital (%)	10.1 **	11.2	12.5	10.4	9.6
EBITDA interest coverage (times)	3.7	9.2	13.3	10.5	8.2
Debt to EBITDA (times)	4.6 **	4.3	3.2	3.8	4.2
FFO to debt (%)	15.3 **	16.7	23.6	19.7	17.8
Debt to capitalization (%)	46.7	47.0	41.3	42.9	46.6

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

- Homebuilders and Real Estate Developers Rating Methodology, 12 January 2023
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

AP (Thailand) PLC (AP)

Company Rating:	A
Issue Ratings:	
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
AP251B: THB1,000 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
AP262A: THB1,500 million senior unsecured debentures due 2026	A
AP267A: THB500 million senior unsecured debentures due 2026	A
AP267B: THB1,500 million senior unsecured debentures due 2026	A
AP26DA: THB1,500 million senior unsecured debentures due 2026	A
AP271A: THB3,500 million senior unsecured debentures due 2027	A
AP277A: THB2,500 million senior unsecured debentures due 2027	A
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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

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