

ORIGIN PROPERTY PLC

No. 66/2023
24 April 2023

CORPORATES

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Outlook:	Stable

Last Review Date: 24/03/22

Rating History:

Date	Rating	Outlook/Alert
24/03/22	BBB+	Stable
30/04/21	BBB	Positive
05/04/19	BBB	Stable
03/08/18	BBB-	Positive
29/09/17	BBB-	Stable
23/05/17	BBB-	Alert Developing
12/09/16	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Origin Property PLC (ORI) and the ratings on its outstanding senior unsecured debentures at “BBB+” with a “stable” rating outlook. At the same time, TRIS Rating assigns a rating of “BBB+” to ORI’s proposed issue of up to THB7 billion senior unsecured debentures due within five years. The proceeds from the debenture issuance will be used to repay some of the company’s existing loans and fund business expansion.

The ratings reflect ORI’s satisfactory operating performance with sizable backlog which should support its revenues and earnings growth in the short to medium term. The ratings are weighed down by its relatively high financial leverage, resulting from its aggressive expansion in both residential and commercial property segments, and concerns over the reimposition of the loan-to-value (LTV) rules and interest rate hikes which could negatively impact demand for housing in the short to medium term.

KEY RATING CONSIDERATIONS

Satisfactory operating performance

ORI continues to deliver strong operating performance with satisfactory profit margins. Its ability to adjust its products mix to meet changes in consumer preferences has seen steady growth in its revenues and earnings over the last three years. ORI’s revenues improved to THB14-THB15 billion per annum in 2021-2022, from THB10.9 billion in 2020. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) also grew to THB6 billion in 2022 from THB4.1 billion in 2020. Its gross margin and EBITDA margin stood at 43.7% and 41.2%, respectively.

Revenues from residential property business continue to be the major contributor, accounting for more than 80% of total revenues and 75% of EBITDA in 2022. Condominium presales (including presales from joint venture (JV) projects) in 2022 reverted to the pre-COVID level at more than THB20 billion, increasing by 60% year-on-year (y-o-y). Sales of landed properties, developed under Britania PLC (BRI), also increased steadily to almost THB6 billion in 2022 from less than THB1 billion in 2018.

Continuing revenue and earnings growth over next few years

Under TRIS Rating’s base case, we project ORI’s annual revenue will grow from THB15 billion in 2023 to THB20 billion in 2025. Its EBITDA should stay above THB5 billion per annum over the forecast period. Revenue and earnings growth will be supported by its sizable condominium backlog and the higher contribution from landed properties. Condominium backlog at the end of 2022 stood at THB39.1 billion, including THB29.1 billion of backlog under JVs. Shares of profit from its investments in JV projects are expected to be around THB1.0-THB1.5 billion per annum during 2023-2025, increasing from THB0.4 billion in 2022. ORI expects to earn management fee income from JV projects at around THB0.9-THB1.4 billion per annum over the next two-three years.

At the end of 2022, ORI’s portfolio comprised 23 landed property projects and 38 owned condominium projects. Projects developed under JVs comprised 5 landed property projects and 20 condominium projects. The total units available for sale (both built and un-built) carried a value of around THB62 billion, comprising owned projects (65%) and JV projects (35%). In

2023, the company plans to launch residential property projects (including projects under JVs) worth THB50 billion, comprising landed property projects worth THB22.5 billion and condominium projects worth THB27.5 billion.

Continues to expand investments in other businesses

ORI has diversified into the hospitality business and the office rental business since 2017, through its subsidiary One Origin PLC (ONEO). Currently, the company's commercial real estate portfolio comprises five hotels with 1,314 rooms and retail space of 2,000 square meters (sq.m.). Looking ahead, four new hotels with 1,404 rooms and 12,000 sq.m. of retail space will be added to its portfolio in 2023 while two office buildings with total leasable areas of approximately 59,000 sq.m. will be completed in 2024. Thus, rental and services income from its commercial property is expected to be around THB300-THB400 million in 2023-2024 and jump to THB600 million in 2025.

In addition, ORI has invested in several other businesses including warehouse for rent, asset management, health and wellness, and energy. The company has joined hands with specialists in each business segment, for example, SCGJWD Logistics PLC (SJWD) for the warehouse business, Kin and Senizens for the health and wellness business, and Gunkul Engineering PLC (GUNKUL) for the energy business. ORI's expansion into these new businesses is still in initial stages and the success of the investments remains to be seen. In our view, the diversification into other businesses, if successful, will broaden ORI's business mix and enhance earnings stability in the long run.

Financial leverage improving, but remains high

Under TRIS Rating's base case, we assume ORI will launch residential projects worth THB44-THB47 billion in 2023, including JV projects of THB1.0-THB1.3 billion. The value of new launches in 2024-2025 is expected to be around THB27-THB30 billion per annum, with projects launched under JVs constituting around 40% of the total. The budget for land acquisition will be THB5-THB7 billion per annum. The investment budget for hotels and offices is set at THB3 billion in total during 2023-2025 while the investment budget for other businesses e.g. warehouses for rent, asset management, and health and wellness, is set at THB1.0-THB1.5 billion in total over the next three years.

According to ORI's aggressive growth plan, we expect its debt to capitalization ratio to hang around 55%-60% while the funds from operations (FFO) to debt ratio will remain in the 10%-15% range over the forecast period. The financial covenants on its bank loans and debentures require ORI to maintain its net interest-bearing debt to equity ratio below 2.5 times. The ratio at the end of 2022 was 0.95 times. In our view, ORI should have no problem complying with its financial covenants over the next 12-18 months. Also, the higher portion of investment through the JV structure and the company's plan to list ONEO on the Stock Exchange of Thailand (SET) in late 2023 will also help improve its capital structure substantially.

At the end of 2022, ORI's priority debt, including secured debt at the company and debts at its subsidiaries, was THB8.1 billion. This translates to a priority debt to total debt ratio of 36.5%. As the company's priority debt ratio was below the threshold of 50%, we view that the company's senior unsecured creditors are not significantly disadvantaged to its priority debt holders.

Reimposition of LTV rules and interest rate hikes could negatively impact housing demand

The reimposition of LTV rules and rising interest rates could dampen housing demand in the short to medium term. From January 2023, banks need to cap LTV at 80%-90% for second mortgage contracts and at 70% for third mortgage contracts. In our view, the LTV rules will have greater impact on the mid- to high-end housing segments since these buyers may have more than one mortgage contract. On the other hand, rising interest rates will have a greater impact on the debt servicing capacity of homebuyers, especially those in the lower-income segment. Interest rate hikes will also affect the funding costs of developers. However, given the easing pressure from both foreign exchange and inflation, we expect the Bank of Thailand (BOT) to raise the policy rate by only 50 basis points (bps) in 2023. The BOT has already raised the policy rate twice this year, by 25 bps in January 2023 and by another 25 bps in March 2023.

Adequate liquidity

We assess ORI will have adequate liquidity over the next 12 months. ORI's sources of funds comprised cash on hand of THB3.2 billion and available credit facilities of THB7.0 billion at the end of 2022. ORI's FFO is expected to range between THB3.8-THB4.0 billion. ORI's uses of funds over the next 12 months will amount to THB12.8 billion, including debt repayment of THB8.6 billion, capital expenditures of THB2.5 billion, and dividend payment of THB1.5 billion.

Debt due over the next 12 months comprised THB2.8 billion short-term loans, THB1.9 billion project loans, THB0.2 billion financial leases, and THB3.7 billion 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. We expect project loans to be repaid with internally generated cash from the transfers of residential units. The company plans to refinance maturing debentures with new debenture issuances.

BASE-CASE ASSUMPTIONS

- Residential property project launches of THB44-THB47 billion in 2023 and THB27-THB30 billion per annum during 2024-2025, with the value of new launches under JVs of around 40% of total.
- Revenue will be THB15-THB20 billion per annum during 2023-2025. Shared profits from JV investments will amount to THB1.0-THB1.5 billion annually, as JVs are expected to deliver condominium units worth around THB10-THB15 billion per annum over the next three years.
- Land acquisition, including land for JV projects, is budgeted at THB5-THB7 billion yearly over the next three years.
- Capital expenditures for commercial properties and other business investments are set at THB4.0-THB4.5 billion in total during 2023-2025.

RATING OUTLOOK

The “stable” rating outlook embeds our expectation that ORI will sustain its competitive edge and market position, and deliver its sizable backlog as scheduled. Despite its aggressive expansion plan, we expect ORI to maintain its debt to capitalization ratio below 60% while its FFO to debt ratio is maintained at the 10%-15% level over the next three years.

RATING SENSITIVITIES

The ratings could be revised upward if the company continues to expand its revenue base and cash flow significantly while maintaining profitability. Its debt to capitalization ratio should decline below 55% on a sustained basis. Conversely, the ratings and/or outlook could be revised downward should operating performance or financial leverage deteriorate significantly from current levels, causing its debt to capitalization ratio to rise above 60% and/or its FFO to debt ratio to drop below 10% on a sustained basis.

COMPANY OVERVIEW

ORI was established in 2009 by the Jaroon-ek family. The company became a public company in November 2014 and was listed on the SET in October 2015. After the initial public offering, the Jaroon-ek family continued to be ORI’s largest shareholder, holding a 63.5% stake in the company as of March 2023.

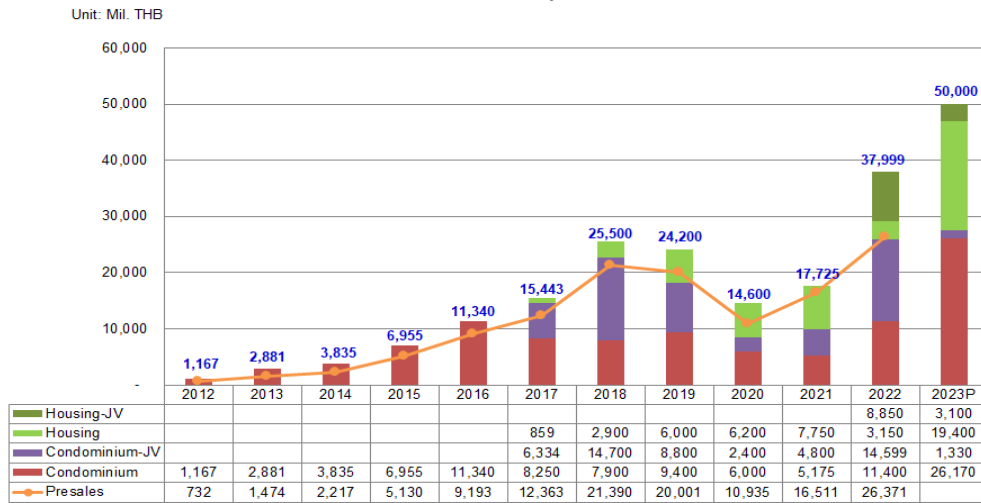
ORI focuses on the residential property development business. The company’s condominium projects are developed under the “The Origin”, “Origin Play”, “Origin Place”, “So Origin”, and “Park Origin” brands. Its condominium products cover the low- to high-end segments, with selling prices ranging from THB50,000 to more than THB200,000 per square meter. Most of its condominium projects are located in Bangkok and its vicinity, Chonburi, and Rayong. The company recently expanded to Phuket, Chiang Mai, and Khon Kaen.

ORI began diversifying into the landed property sector in 2017 through its subsidiary, Britania PLC (BRI). ORI’s single detached house (SDH) brands include: “Britania”, “Grand Britania”, and “Belgravia”, with unit prices from THB4-THB50 million. Its townhouse projects are developed under brand names like “Brighton”, with selling prices of THB2.5-THB4.0 million per unit.

Besides its own projects, ORI has expanded launches of residential projects and commercial property projects by joining hands with strategic partners in JVs, primarily Nomura Real Estate Development Co., Ltd. (NRED), a Japanese property developer. At the end of 2022, existing and ongoing projects under the JVs consisted of 24 condominium projects with a total project value of THB61 billion, 8 landed property projects with a total project value of THB12 billion, and 13 commercial properties with a combined project value of THB26 billion.

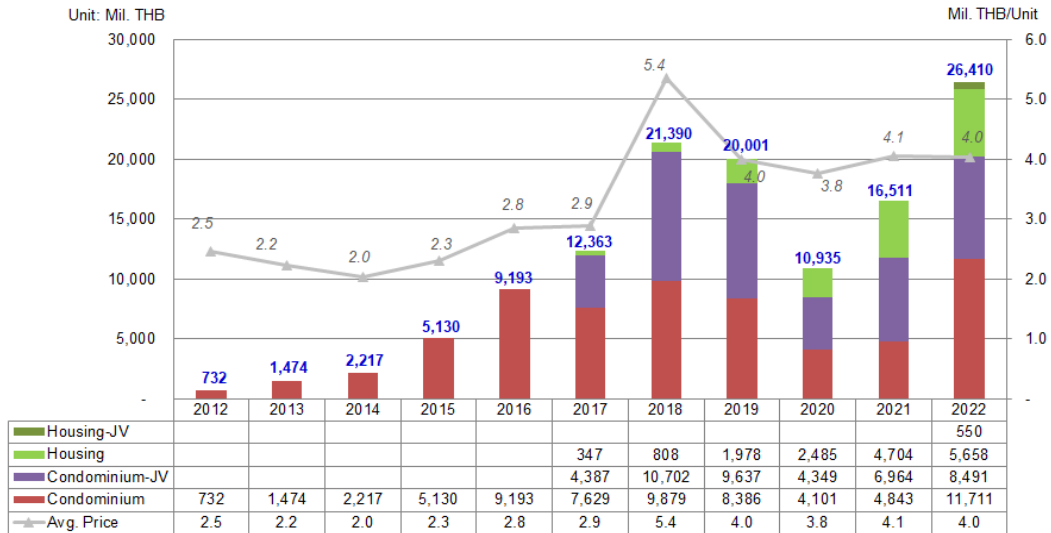
KEY OPERATING PERFORMANCE

Chart 1: Residential Project Launches



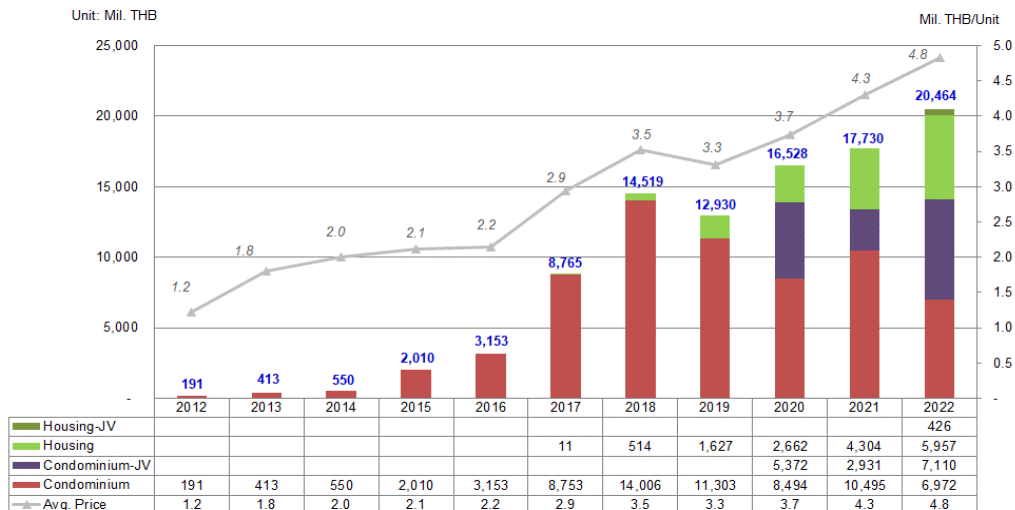
Source: ORI

Chart 2: Presales Performance



Source: ORI

Chart 3: Transfer Performance



Source: ORI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	14,536	15,260	10,917	13,663	16,011
Earnings before interest and taxes (EBIT)	5,673	5,009	3,916	4,646	5,219
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,994	5,199	4,129	4,850	5,353
Funds from operations (FFO)	3,909	3,305	2,614	3,154	3,649
Adjusted interest expense	892	972	950	728	663
Real estate development investments	26,361	22,874	23,458	22,610	20,180
Total assets	48,091	35,398	33,694	32,079	27,203
Adjusted debt	24,873	18,709	19,104	19,607	15,436
Adjusted equity	19,933	14,937	11,373	9,657	7,437
Adjusted Ratios					
EBITDA margin (%)	41.24	34.07	37.82	35.50	33.43
Pretax return on permanent capital (%)	13.47	14.93	12.64	16.80	25.17
EBITDA interest coverage (times)	6.72	5.35	4.35	6.66	8.07
Debt to EBITDA (times)	4.15	3.60	4.63	4.04	2.88
FFO to debt (%)	15.72	17.67	13.68	16.09	23.64
Debt to capitalization (%)	55.51	55.61	62.68	67.00	67.49

* Consolidated financial statements

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

Origin Property PLC (ORI)

Company Rating:	BBB+
Issue Ratings:	
ORI237B: THB500 million senior unsecured debentures due 2023	BBB+
ORI239B: THB495.3 million senior unsecured debentures due 2023	BBB+
ORI249A: THB807.8 million senior unsecured debentures due 2024	BBB+
ORI249B: THB600 million senior unsecured debentures due 2024	BBB+
ORI259A: THB982.2 million senior unsecured debentures due 2025	BBB+
ORI263A: THB1,200 million senior unsecured debentures due 2026	BBB+
ORI269A: THB714.7 million senior unsecured debentures due 2026	BBB+
ORI273A: THB700 million senior unsecured debentures due 2027	BBB+
Up to THB7,000 million senior unsecured debentures due within 5 years	BBB+
Rating Outlook:	Stable

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