TRIS RATING
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SC ASSET CORPORATION PLC

No. 143/2018
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CORPORATES

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

Company Rating History:

Date	Rating	Outlook/Alert
04/08/11	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on SC Asset Corporation PLC (SC) and the rating of its senior unsecured debentures at "BBB+". The ratings reflect SC's acceptable track record in the middle- to high-end segments of the residential property market, reliable cash flow streams from the rental property segment, and moderate backlog. The ratings are, however, constrained by our concern over its relatively high financial leverage, the cyclical and competitive nature of the residential property industry, and the relatively high household debt nationwide.

KEY RATING CONSIDERATIONS

Acceptable track record in the middle- to high-end segment

SC has an acceptable market position, especially in the middle- to high-end segment where units are priced above Bt10 million per unit. During the past four years, SC's revenues have stayed in a range of Bt12,000-Bt14,000 million annually. Revenues from the housing segments accounted for 55%-60% of total revenue, while revenues from the condominium and rental property segments contributed around 30%-40% and 5%-7%, respectively.

SC's products target middle- to high-income customers. As of June 2018, SC had 38 projects on hand. The value of the remaining unsold units was around Bt31.9 billion, with an average unit price of Bt12.8 million per unit. The average unit price of housing projects was Bt12.1 million per unit, while the average unit price for condominiums was Bt14.7 million per unit.

SC plans to expand its housing products to the middle- to lower-priced segments, with a price range of Bt3-Bt5 million per unit. SC expects that the middle- to lower-priced segments will be its key growth driver in the medium term. The lower-priced segment is quite large and its growth potential remains robust, despite the higher bank rejection rate.

Operating performance in line with expectation

SC's operating performance during 2017 through the first half of 2018 was in line with TRIS Rating's expectation. SC's presales in 2017 were Bt15,278 million, up 32% from 2016. Presales in the first half of 2018 were Bt7,235 million, decreasing by 3% from the same period last year. Presales improved in the past three years due to growth in the housing segment. We expect SC's presales will be in the range of Bt16,000-Bt20,000 million per year during 2018-2021.

SC's revenues have grown steadily over the past 10 years but dropped in 2017. Revenue in 2017 was Bt12,472 million, down 14% from Bt14,465 million in 2016. The drop was mainly attributed to fewer new projects launched during 2014-2015. During the first half of 2018, revenue was Bt6,652 million, up 44% from the same period in 2017. Sales of housing units continue to be the major driver of revenues. The operating margin (operating income before depreciation and amortization as a percentage of revenue) during 2017 through the first half of 2018 stayed around 15%, declining from above 18% in 2015 and 2016. The decline in profitability was due to the lower gross profit margin of the condominium segment and relatively high selling and administrative expenses.

For the projected period of 2018-2021, TRIS Rating's base-case forecast assumes SC's revenue will range from Bt15,000-Bt20,000 million per annum. The operating margin is expected to hold at 15%-18%. We expect SC's revenue and profitability will improve over the next three years, supported by its moderate backlog. As of June 2018, the value of the backlog stood at Bt10,730 million, splitting between housing units worth Bt2,363 million and condominium units worth Bt8,367 million. The housing units in backlog will be recognized as revenue in 2018. The condominium units in backlog are expected to be recognized as revenue of around Bt2,284 million in the remainder of 2018, Bt3,040 million in 2019, and Bt3,042 million in 2020.

Reliable income stream from rental properties

SC has a reliable income stream from its rental property segment. SC operates six office buildings: Shinawatra Tower 1, 2, and 3, SC Tower, Computer Center Building, and Technical Training Center. In addition, SC operates 109 mobile switching centers located in 42 provinces. Excluding the mobile switching centers, SC manages a total combined rentable area of 119,822 square meters (sq.m.). As of June 2018, the occupancy rate (OR) of each office building was 100%, with the exception of Shinawatra Tower 3 at 89%. SC's rental properties generated around 5%-8% of its total revenue over the past five years. The office rental segment will make up a smaller portion of total revenue in the future as the residential property segment grows. Nonetheless, these commercial properties provide secure sources of recurring income. Revenue from the rental property segment will be around Bt850-Bt950 million per annum over the next three years.

Exposure to cyclical and competitive industry

Demand for housing is cyclical and depends largely on the state of the economy. Due to a slowdown in the domestic economy and concerns over the high level of household debt nationwide, lending policies at banks have tightened. Rejection rates for mortgage loans have increased significantly, especially in the low-priced housing segment (units priced at less than Bt3 million). To avoid the problem of rising rejection rates, several developers focus more on the higher-priced segments. However, the demand in the higher-priced segments is much lower than in the lower-priced segment. Thus, SC is expected to face more intense competition resulting from the rising supply of housing units in this segment. SC tries to diversify its products toward the lower-priced housing segment where demand is still robust. However, due to the higher bank rejection rate for homebuyers in this segment, the company has to focus more on the screening process of its potential customers. In the first half of 2018, the bank rejection rate dropped to 8.7% from 11.5% in 2017.

Relatively high financial leverage

SC's financial leverage is relatively high. SC's leverage has increased continuously over the past three years, because the company purchased more land plots and launched a number of new projects. Furthermore, SC's three large condominium projects, Saladaeng One, BEATNIQ, and 28 Chidlom, are capital intensive and take a long time to finish. As the result, SC's debt to capitalization ratio at the end of June 2018 rose to 56.10%, from 54.77% at the end of 2017. Over the next three years, the company has set a budget for land acquisition of around Bt6-Bt7 billion per annum. This year, the company plans to launch new projects worth around Bt18 billion. In addition, SC set a budget for investment in rental property assets in America amounting to Bt1,000 million per year over the next three years. Therefore, SC's leverage is expected to maintain at around the current level.

Under TRIS Rating's base case scenario, we expect SC's debt to capitalization ratio should stay in the range of 50%-60% over the next three years, taking into account the company's plans to launch new residential property projects worth Bt18-Bt22 billion per annum and invest in recurring income assets at around Bt1,000 million per annum.

Tightening but manageable liquidity

SC's liquidity is tight but should be manageable. At the end of June 2018, SC had Bt10,245 million in debt coming due over the next 12 months, comprising Bt6,286 million in short-term bills of exchange (B/E) and promissory notes (P/N), Bt3,125 million in bonds, and Bt834 million in project loans. At the end of June 2018, the company had Bt1,208 million in cash and Bt5,100 million in undrawn committed credit facilities. TRIS Rating forecasts SC's funds from operations (FFO) over the next 12 months will be around Bt1,500-Bt1,700 million. The company plans to repay the project loans with cash received from the transfer of completed units to customers and plans to refinance most of the maturing bonds with new bonds. Due to its relatively large amount of short-term debt, we expect the company to carefully manage its liquidity. SC also has unencumbered land bank worth around Bt4,400 million. These assets can be used as collateral for new bank borrowings, if needed.

Over the next three years, we forecast the ratio of FFO to debt will stay around 8%-10%, while the EBITDA (earnings before interest, tax, depreciation, and amortization) interest coverage ratio is expected to stay above 3 times.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectations that SC will maintain its competitive position and financial profile in the medium term. The operating margin is expected to stay around 15%, while the debt to capitalization ratio is expected to stay in the range of 50%-60% over the next three years.

TRIS Rating's base case forecast assumes SC's revenue will be around Bt15,000 million in 2018, Bt17,000 million in 2019, and then increase to around Bt20,000 million yearly during 2020-2021. The expected revenue increase is supported by its moderate backlog in condominium projects. The revenue contribution from the rental segment will be around Bt850-Bt950 million per year. The operating margin is expected to stay around 15%. The debt to capitalization ratio is expected to stay around 50%-60% for the next three years.

RATING SENSITIVITIES

TRIS Rating would revise SC's ratings and/or outlook downward should its operating performance or financial profile deteriorate significantly from the current levels or if the debt to capitalization ratio rises above 60% for a sustained period. In contrast, we would revise the ratings upward if the FFO to debt ratio improves to around 12%-15% and the debt to capitalization ratio stays at around 50%-55% on a sustainable basis.

COMPANY OVERVIEW

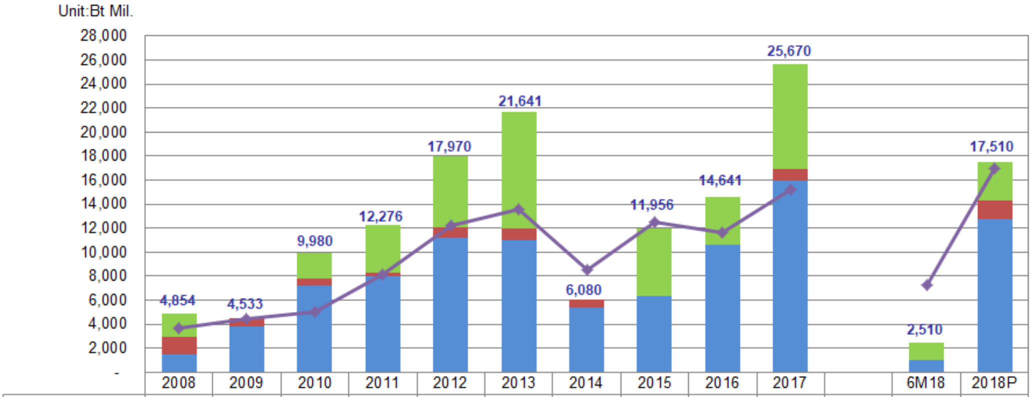
SC is a property developer established in 1989. The Shinawatra family took over the company in 1995 and entered the rental property segment by developing "Shinawatra Tower 3". In 2003, SC was reorganized to focus on developing residential property. The company was listed on the Stock Exchange of Thailand (SET) in 2003. The Shinawatra family continues to be the company's major shareholder, with a 65% stake as of May 2018.

As a developer of residential property, SC focuses on the middle- to high-income segments in the Bangkok Metropolitan Area (BMA). SC offers a number of residential property products, including single detached houses (SDH), townhouses (TH), home offices, and condominiums. The SDH projects are sold under the Granada, Grand Bangkok Boulevard, Gentry, Headquarter, Bangkok Boulevard, Life Bangkok Boulevard, Venue, and Pave brands, with prices ranging from Bt4-Bt100 million per unit. Townhouse projects are sold under the Vista and Verve brands, with selling prices of Bt2-Bt5 million per unit. SC also offers a home office under the Work Place brand, with unit prices between Bt8-Bt15 million. SC has three condominium brands: The Crest, Centric, and Chambers. Projects under The Crest brand offer condominium units with selling prices of Bt200,000-Bt300,000 per sq.m., Centric projects offer condominium units with selling prices of Bt120,000-Bt200,000 per sq.m., while Chambers projects target the lower-income segment with selling prices of Bt60,000-Bt120,000 per sq.m. In addition, SC also developed the luxury condominium segment with selling prices above Bt280,000 per sq.m. under the signature brands: Saladaeng One, BEATNIQ, and 28 Chidlom.

SC's revenue base has stayed around Bt12,000-Bt14,000 million per annum in the past four years. The residential property development segment has been the company's largest source of revenue, constituting about 90%-95% of total revenue during 2014 through the first half of 2018. Revenue from the rental and service income segment comprised about 5%-7%.

KEY OPERTING PERFORMANCE

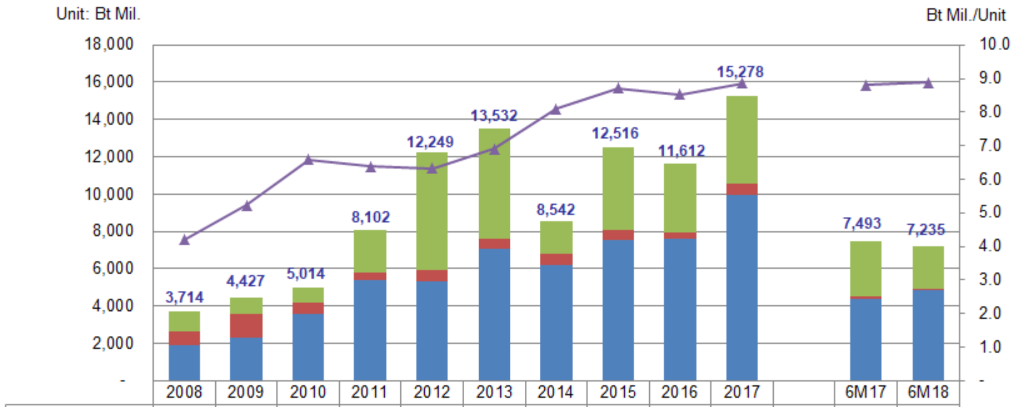
Chart 1: New Residential Project Launches



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		6M18	2018P
Condominium	1,950	-	2,143	3,943	5,917	9,679	-	5,630	4,000	8,780		1,500	3,200
Townhouse	1,426	711	618	376	832	950	705	-	-	945		-	1,580
SDH	1,478	3,822	7,219	7,957	11,222	11,011	5,375	6,326	10,641	15,945		1,010	12,730
Presales	3,714	4,427	5,014	8,103	12,249	13,532	8,542	12,516	11,612	15,278		7,235	17,000

Source: SC

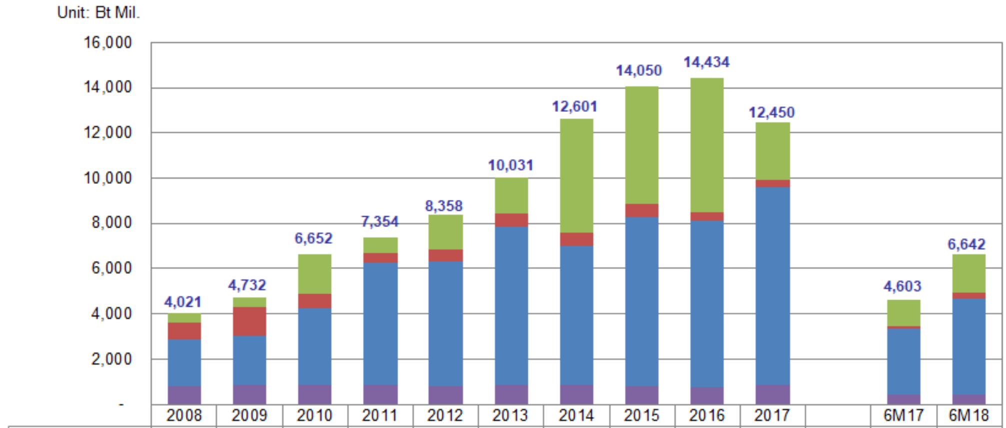
Chart 2: Presales Performance



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		6M17	6M18
Condominium	1,091	817	846	2,336	6,354	5,933	1,712	4,442	3,658	4,731		3,001	2,319
Townhouse	724	1,310	611	350	593	535	618	534	341	586		130	41
SDH	1,898	2,300	3,558	5,416	5,303	7,064	6,212	7,541	7,612	9,962		4,361	4,876
Avg. Price	4.2	5.2	6.6	6.4	6.3	6.9	8.1	8.7	8.5	8.9		8.8	8.9

Source: SC

Chart 3: Revenue Breakdown by Product



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		6M17	6M18
Condominium	398	454	1,791	675	1,490	1,603	5,022	5,180	5,967	2,508		1,143	1,701
Townhouse	765	1,275	614	421	569	549	580	568	346	364		104	255
SDH	2,046	2,173	3,418	5,431	5,496	7,048	6,148	7,488	7,364	8,729		2,940	4,267
Rental & Service	812	829	829	828	803	830	851	814	756	850		416	419

Source: SC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Jun 2018		--------------Year Ended 31 December ------------			
			2017	2016	2015	2014
Total operating revenues	6,652		12,472	14,465	14,089	12,627
Operating income	988		1,889	2,663	2,581	2,168
Earnings before interest and taxes (EBIT)	1,115		2,091	2,999	2,918	2,457
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,174		2,207	3,129	3,013	2,547
Funds from operations (FFO)	646		1,231	2,063	1,919	1,457
Adjusted interest expense	338		646	568	608	689
Capital expenditures	54		147	744	371	180
Total assets	41,711		38,498	33,487	30,957	28,934
Adjusted debt	19,334		18,061	15,046	13,312	12,826
Adjusted equity	15,128		14,915	14,441	13,225	11,636
Adjusted Ratios						
Operating income as % of total operating revenues (%)	14.85		15.14	18.41	18.32	17.17
Pretax return on permanent capital (%)	8.11	**	6.48	10.33	10.98	9.99
EBITDA interest coverage (times)	3.47		3.41	5.50	4.95	3.70
Debt to EBITDA (times)	6.78	**	8.19	4.81	4.42	5.04
FFO to debt (%)	8.93	**	6.81	13.71	14.42	11.36
Debt to capitalization (%)	56.10		54.77	51.03	50.16	52.43

* *Consolidated financial statements*
** *Annualized with trailing 12 months*

SC Asset Corporation PLC (SC)

Company Rating:	BBB+
Issue Rating:	
SC191A: Bt1,300 million senior unsecured debentures due 2019	BBB+
Rating Outlook:	Stable

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