

# SC ASSET CORPORATION PLC

No. 213/2023  
30 October 2023

## CORPORATES

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
Senior unsecured	BBB+
<b>Outlook:</b>	Stable

**Last Review Date:** 26/09/23

### 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 ratings on SC's senior unsecured debenture at "BBB+" with a "stable" rating outlook. The ratings reflect SC's strong market position in the mid- to high-end segments of the residential property market and its satisfactory operating performance with continued revenue growth.

However, the ratings are constrained by SC's anticipated rise in financial leverage, resulting from the increasing new project launches and expansion toward recurring income assets. The ratings are weighed down by the cyclical nature of the residential property industry and our concerns over the imposition of more stringent loan-to-value (LTV) rules this year and interest rate hikes. These could negatively impact demand for housing and the funding costs of developers in the short to medium term.

## KEY RATING CONSIDERATIONS

### Strong position in mid- to high-priced segment

TRIS Rating views SC has a strong foothold in the mid- to high-priced residential property segment, with unit prices exceeding THB10 million. Its revenue share comprises around 6%-7% of total revenues from the real estate sales of 25 property developers rated by TRIS Rating. SC's revenue in 2022 reached THB21.7 billion, up 11% from 2021. During the first half of 2023 (1H2023), revenue stood at THB10.3 billion, up 13% compared with the same period last year. Revenues from the high-end residential property segment, with unit prices exceeding THB10 million, contributed more than 70% of the company's total revenues in both 2022 and 1H2023.

Since 2018, SC has expanded its property development portfolio to encompass products in the lower-priced segment (THB3-THB6 million per unit), which has been well-received. In 2022-2023, SC launched its brand-new condominium project under the "Reference" and "COBE" brands targeting the customer group of the new generation, early in their careers. In our view, expansion toward the lower-end segment will help support the company's revenue growth in the medium term. However, the company needs to focus more on its customer screening process given the high rejections for mortgages in this segment.

### Consistently good operating performance with continued revenue growth

SC's revenue base has increased steadily from THB17.6 billion in 2019 to more than THB20 billion per annum in 2022. We expect this growth momentum to continue over the next 2-3 years. Under TRIS Rating's base case, SC's annual revenue is expected to stay in the THB21-THB25 billion range over the next three years. Revenues from landed property sales will remain the major portion, accounting for more than 70% of total revenues, followed by condominium sales of 20%, and rental and service revenues of 5%. We expect the earnings before interest, taxes, depreciation, and amortization as a percentage of revenue (EBITDA margin) to hold at 17%-18% over the next three years.

SC's strong market position in the landed property segment and moderate backlog should help the company achieve its target revenues. As of June 2023, SC had a backlog worth THB10.7 billion. Around THB8.5 billion of which is expected to be transferred within 2023, and the rest over the next two years.

### Rental properties expansion to potentially support earnings growth

TRIS Rating views that if SC's expansion into rental properties across various asset classes is successful, it should play a crucial role in supporting its long-term earnings growth and stability. Currently, SC's rental assets portfolio consists of six office buildings and one hotel in Thailand, as well as four apartments in the US. The rental income from its existing rental properties has been around THB850-THB880 million per annum, accounting for around 4%-5% of its total revenues. Over 70% of its rental income comes from its four office buildings: "Shinawatra Tower 1, 2, and 3" and "SC Tower". The company aims to increase its EBITDA from rental properties to around 20% of total EBITDA within the next four to five years.

SC set a budget of THB1.8-THB1.9 billion to invest in apartments in the US during 2023-2024, with a strategy to earn capital gains from selling apartments in the US after holding these assets for a certain period. The company successfully completed and commenced operations at the first hotel "YANH Ratchawat" in March 2023. The second hotel at Sukhumvit 29 is currently under construction and due to be operational by early 2025. SC has earmarked an investment budget of around THB1.6-THB1.8 billion for its hotel business expansion spanning from 2023 to 2025.

Furthermore, SC is directing its attention towards the development of a ready-built warehouse business, with a strategic goal of achieving one million square meters (sq.m.) of rental space by 2030. The first warehouse, located in Nakhon Sawan Province, will have a total leasable area of 16,000 sq.m. This warehouse is currently under construction and due to be completed within this year. SC has set an investment budget of THB3.0-THB3.2 billion for warehouse development during 2023-2025.

### Anticipated rise in financial leverage resulting from aggressive expansion

SC's financial leverage is relatively high. The debt to capitalization ratio at the end of June 2023 was 56.6%, increased from 55.2% in 2022. Based on its expansion plan, we project this ratio to range between 55%-60% (including proportion of the debt carried by the joint venture projects -- JV) over the next three years. Its funds from operations (FFO) to debt ratio should range around 6%-10% over the same period, down from around 10%-11% during 2020-2022. The financial covenants on its bank loans and debentures require SC to maintain its interest-bearing debt to equity ratio below 2 times. As of June 2023, the ratio was 1.4 times. We expect the company to be able to comply with this covenant in the next 12-18 months. Its priority debt to total debt ratio at the end of June 2023 was 29%.

Under TRIS Rating's base case, we assume SC to launch residential property projects totaling THB30-THB43 billion annually from 2023 to 2025. The company is expected to launch residential property projects worth THB42.6 billion in 2023, comprising condominium projects worth THB10 billion and new landed property launches worth THB32.6 billion. Looking ahead, all landed property projects will be developed under SC, while condominium projects will be developed through JVs. Consequently, we assume SC to launch landed property projects worth THB20-THB30 billion per year and condominium projects under JVs worth THB20-THB22 billion during 2024-2025. The company set a budget for land acquisitions of THB6-THB7 billion per annum for its landed property projects. The investment budget for its recurring income assets, including apartments in the US, hotels, and warehouses for rent, is set at THB2.0-THB2.8 billion per annum over the next three years.

### Negative impact from reimposition of LTV rules and interest rate hikes

The reimposition of LTV rules is expected to temper housing demand in the short to medium term. In our view, the LTV rules will generally have greater impact on the middle- and high-end segments since these buyers may have more than one mortgage contract. However, we anticipate the impact of the LTV measures on SC will be relatively milder compared to other developers given that the company has a significant proportion of cash buyers.

On the other hand, any increase in interest rate will significantly affect the company's funding costs. The Bank of Thailand (BOT) has already raised the policy rate by 100 basis points (bps) to 2.5% this year. Due to the company's relatively high financial leverage, higher interest rates may potentially impact the company's profit margin if it cannot pass on the rising interest cost to its clients.

### Manageable liquidity

We assess SC's liquidity should be manageable over the next 12 months. As of June 2023, the company's liquidity sources comprised cash on hand of THB2.3 billion and unused committed credit facilities of THB4.6 billion. We forecast SC's FFO over the next 12 months to be THB2.5-THB2.7 billion. The company also has unencumbered land banks worth around THB8.0-THB8.5 billion. These can be pledged as collateral for bank loans if needed.

SC has THB16.9 billion maturing debts over the coming 12 months, comprising THB8.0 billion short-term loans, THB5.3 billion project loans, and THB3.6 billion debentures. Short-term loans are mostly for working capital and bridging loans for land purchases which are expected to be converted into project loans over time. The company's project loans will be repaid with cash received from the transfer of completed units to customers, while most of its maturing debentures will be refinanced with issuances of new debentures.

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## BASE-CASE ASSUMPTIONS

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- SC to launch residential property projects worth THB42.6 billion in 2023, comprising condominium projects worth THB10 billion and new landed properties worth THB32.6 billion. Going forward, the company expects to launch new landed property projects worth THB20-THB30 billion per annum and launch new condominium projects under JVs worth THB20-THB22 billion during 2024-2025.
- Revenue to continue increasing from THB21 billion in 2023 to THB25 billion in 2025.
- Land acquisition for landed property projects to be THB6-THB7 billion yearly over the next three years.
- Capital expenditures on its rental assets to be THB2.0-THB2.8 billion per annum over the next three years.

## RATING OUTLOOK

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The “stable” outlook reflects our expectation that SC will maintain its competitive position and financial profile in the medium term, with the FFO to debt ratio maintained at 5%-10%. Despite its aggressive business expansion plan, we expect SC to keep its debt to capitalization ratio in the 55%-60% range over the next three years.

## RATING SENSITIVITIES

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We could revise SC’s rating and/or outlook downward should its operating performance or financial profile deteriorate significantly from current levels, causing its debt to capitalization ratio to rise above 60% and/or FFO to debt ratio to drop below 5% over a sustained period. Conversely, we could revise the ratings upward if its revenue base grows as targeted while FFO to debt ratio improves to around 10%-15% and the debt to capitalization ratio stays around 50%-55% on a sustainable basis.

## COMPANY OVERVIEW

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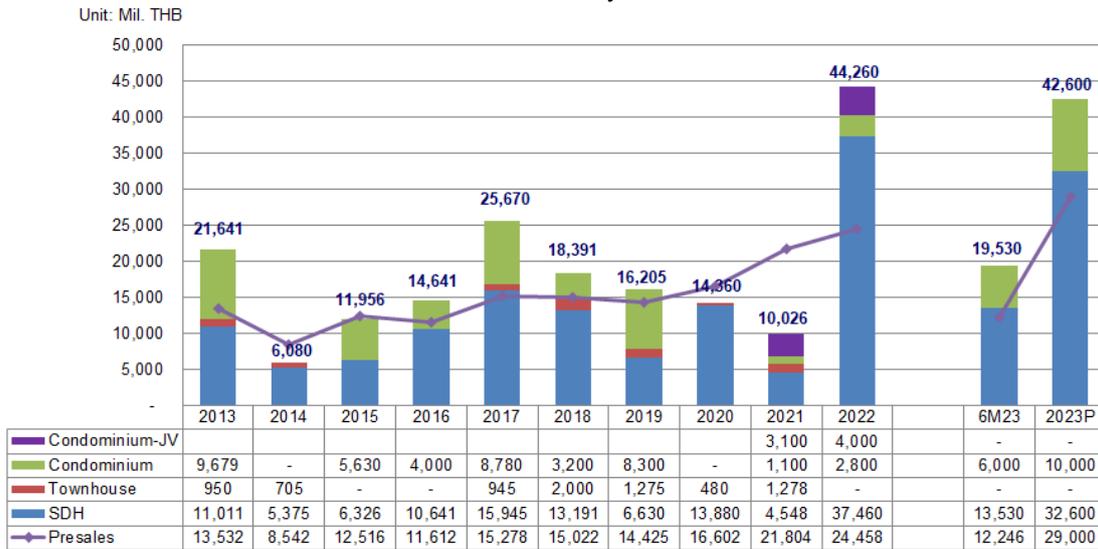
SC is a property developer established in 1989. The Shinawatra family took over the company in 1995 and entered the rental property segment by developing “Shinawatra Tower 3”. In 2003, SC was reorganized to focus on developing residential properties. The company was listed on the Stock Exchange of Thailand (SET) in 2003. The Shinawatra family continues to be the company’s major shareholder, with a 60% stake as of May 2023.

SC focuses on the mid- to high-income segments in the Bangkok metropolitan area. Its products comprise single detached houses (SDH), townhouses (TH), home offices, and condominiums. The SDH projects are sold under the brands of “95E1”, “Granada”, “Grand Bangkok Boulevard”, “The Gentry”, “Bangkok Boulevard”, “Venue”, “Pave”, and “V Compound”, with prices ranging from around THB4-THB150 million per unit. TH projects are sold under the “Verve” brands, with selling prices of THB2-THB5 million per unit. SC also offers a home office under the “Headquarter” and “Work Place” brand, with prices between THB8-THB50 million per unit. SC has five condominium brands: “The Crest”, “Centric”, “Reference”, “Cobe”, and “Chambers”. Projects under The Crest brand offer condominium units with selling prices of THB200,000-THB250,000 per sq.m., Centric and Reference projects offer condominium units with selling prices of THB130,000-THB200,000 per sq.m., while Cobe and Chambers projects target the lower-income segment with selling prices of THB100,000-THB130,000 per sq.m. SC also targets the luxury condominium segment with selling prices above THB250,000 per sq.m. under the signature brands: “Saladaeng One”, “BEATNIQ”, “28 Chidlom”, “SCOPE Langsuan”, and “SCOPE Thonglor”.

SC’s revenue base has remained at around THB19-THB21 billion per annum in the past three years. The residential property development segment has been the company’s largest source of revenue, constituting about 95% of total revenue during 2020 through the first half of 2023. Revenue from the rental and service income segment comprised about 5%.

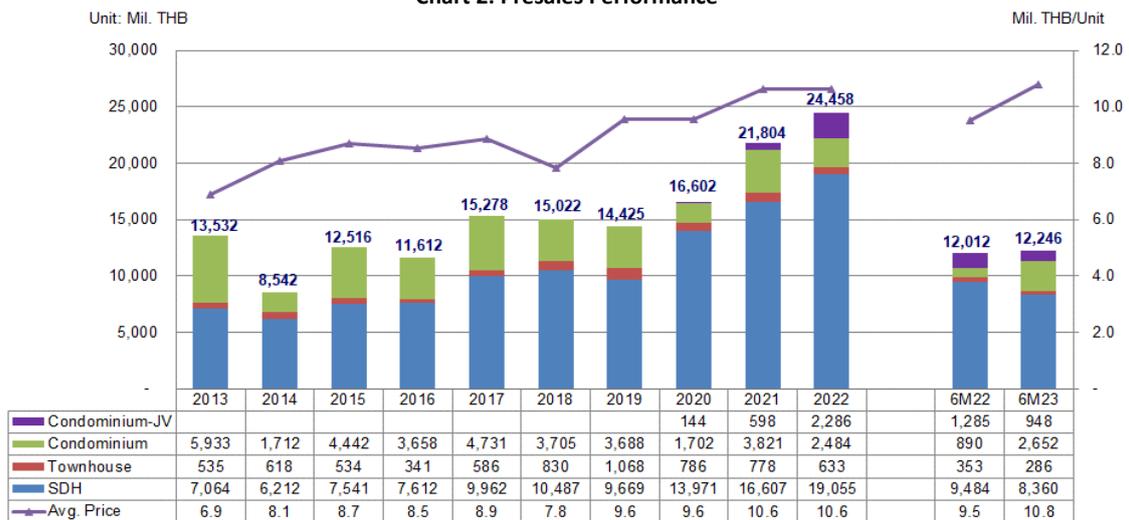
**KEY OPERATING PERFORMANCE**

**Chart 1: Residential Project Launches**



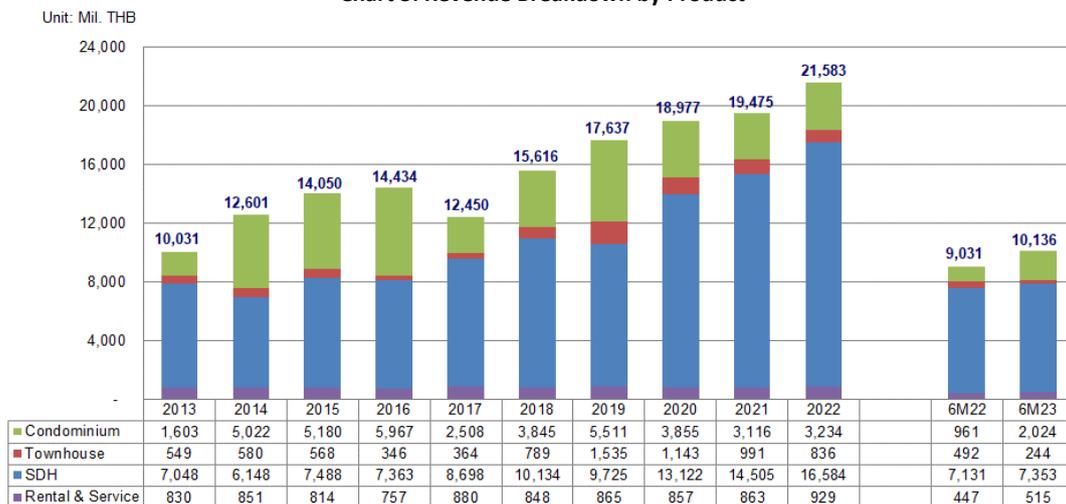
Source: SC

**Chart 2: Presales Performance**



Source: SC

**Chart 3: Revenue Breakdown by Product**



Source: SC

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	10,260	21,678	19,507	19,039	17,669
Earnings before interest and taxes (EBIT)	1,888	3,964	3,223	3,124	3,113
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,921	4,079	3,390	3,287	3,262
Funds from operations (FFO)	1,225	2,658	2,094	2,002	1,899
Adjusted interest expense	418	787	742	771	823
Real estate development investments	44,365	42,858	33,462	30,537	34,276
Total assets	59,736	57,401	49,754	44,319	45,276
Adjusted debt	28,982	26,729	18,824	17,718	22,155
Adjusted equity	22,247	21,709	20,054	18,643	17,547
<b>Adjusted Ratios</b>					
EBITDA margin (%)	18.73	18.82	17.38	17.26	18.46
Pretax return on permanent capital (%)	8.77 **	8.30	7.56	7.73	8.08
EBITDA interest coverage (times)	4.59	5.18	4.57	4.26	3.96
Debt to EBITDA (times)	6.52 **	6.55	5.55	5.39	6.79
FFO to debt (%)	10.21 **	9.94	11.12	11.30	8.57
Debt to capitalization (%)	56.57	55.18	48.42	48.73	55.80

\* 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

**SC Asset Corporation PLC (SC)**

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
SC257A: THB2,000 million senior unsecured debentures due 2025	BBB+
SC261A: THB920 million senior unsecured debentures due 2026	BBB+
SC267A: THB1,300 million senior unsecured debentures due 2026	BBB+
SC260A: THB1,500 million senior unsecured debentures due 2026	BBB+
SC271A: THB1,280 million senior unsecured debentures due 2027	BBB+
SC277A: THB700 million senior unsecured debentures due 2027	BBB+
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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