

SC ASSET CORPORATION PLC

No. 187/2024
17 October 2024

CORPORATES

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

Last Review Date: 28/06/24

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 debentures at “BBB+” with a “stable” rating outlook. The ratings reflect SC’s strong market position in the mid- to high-priced segment of the residential property market and its stable operating performance. The ratings are weighed down by the company’s high financial leverage, resulting from its aggressive project launches and expansion into recurring income assets. The ratings also take into consideration the negative impacts of persistently high interest rates and rising household debt levels, which have resulted in higher mortgage rejection rates.

KEY RATING CONSIDERATIONS

Consistent operating performance despite a downturn in the residential property market

SC’s revenue base has expanded steadily from THB17.6 billion in 2019 to a peak of THB24.7 billion in 2023. However, the slowdown in the residential property market during late 2023 through the first half of 2024 (1H2024) resulted in a decline in SC’s revenue in 1H2024 to THB8.8 billion, down 14% year-on-year (y-o-y).

Given the current unfavorable housing market sentiment and intense competition, we forecast SC’s revenue to remain subdued in 2024, with a gradual recovery from THB20 billion in 2024 to around THB25 billion in 2026, supported by its moderate backlog. Revenues from landed property sales will continue to be the dominant contributor, representing 75%-80% of total revenues, followed by condominium sales at 15%, and rental and service revenues at 5%. The EBITDA margin is expected to remain stable at 17%-18% over the next three years.

As of June 2024, SC’s total backlog stood at THB17.4 billion, including THB15.0 billion from its own projects and THB2.4 billion from joint-venture (JV) projects. Residential units from its own projects will be recognized as revenue of around THB6.7 billion in 2024, THB1.4 billion in 2025, THB5.5 billion in 2026, and the rest in 2027. Backlog from JV projects is expected to be transferred to customers in 2024-2025.

Strong market position in the mid- to high-priced segment

TRIS Rating notes that SC has established a strong foothold in the mid- to high-priced residential property segment, particularly for units priced above THB10 million. In 2023, the company’s revenues reached a peak of THB24.7 billion, reflecting a 14% y-o-y increase. Among the 25 property developers rated by TRIS Rating, SC’s market share in terms of total revenues rose to 8.6% in 2023, up from 6%-7% during 2020-2022. Over the past five years, more than 70% of the company’s total revenues have been derived from mid- to high-priced residential properties, reinforcing its competitive position in this segment.

SC has also expanded its property development portfolio to encompass products in the lower-priced segment (THB3-THB6 million per unit), which have also been well-received. In 2022-2023, SC launched brand-new condominium projects 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 customer screening process given the high rejections for mortgages in this segment.

Higher income from rental properties will help support earnings stability in the long term

SC is actively expanding its portfolio of rental properties as part of a strategy to bolster earnings stability over the long term. The company is focusing on growing its recurring income base by increasing its investments in hotels, warehouses, and apartments. The strategy is intended to mitigate the inherent volatility of the residential property market. SC aims to increase its EBITDA from rental properties to around 25% of total EBITDA within the next five years. Currently, SC's rental property portfolio includes six office buildings, three hotels, and four warehouses in Thailand, as well as four apartments in the US. The company generates approximately THB1.0-THB1.1 billion annually in rental income and THB600-THB650 million in EBITDA, accounting for around 5% of total revenues and 12%-14% of total EBITDA. Currently, over 70% of this rental income is derived from four office buildings: Shinawatra Tower 1, 2, and 3 and SC Tower.

Looking forward, the company will focus more on expanding its warehouse and hospitality businesses. For its warehouse business, SC plans to expand the rental space of its warehouses to 350,000 square meters (sq.m.) by 2028. The budget for the development of six new warehouses, both owned and under JV projects, over the 2024-2026 period is set at around THB2.7-THB2.8 billion. The company's first warehouse in Nakhon Sawan Province, with 16,000 sq.m. of leasable space, commenced operations in late 2023. For the hospitality business, SC completed its first hotel, YANH Ratchawat, in March 2023. In 2024, the company joined with its JV partners to develop two additional hotels -- KROMO on Sukhumvit 29 and THE STANDARD in Pattaya, slated to open by early 2025. The investment budget for expanding the hotel business in 2024-2026 is expected to be around THB1.8-THB1.9 billion.

Additionally, SC has allocated a budget of USD100 million to invest in US apartments, with the remaining USD32 million, as of June 2024, scheduled for investment in 2025. These assets are earmarked for eventual sale, allowing the company to capture capital gains after a holding period.

High financial leverage but improvement expected

SC has aggressively launched new projects during 2022 through 1H2024. The value of new projects, including both wholly owned and JV projects, surged from THB10 billion in 2021 to THB44 billion in 2022, THB37 billion in 2023, and THB18 billion in 1H2024. This rapid expansion caused the company's debt to capitalization ratio (including the proportionate debt from JVs) to increase to 60.4% at the end of June 2024, up from 48% in 2021 and slightly exceeding our threshold of 60%. However, we expect SC's improving operating performance, along with its strategy of developing new condominium and rental property projects through JVs, to help reduce financial leverage, bringing it in line with our target.

Under TRIS Rating's base case, we project SC's debt to capitalization ratio to range from 55%-60% over the next three years. The funds from operations (FFO) to debt ratio is expected to remain around 6%-8% during this period. 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 2024, the ratio was 1.6 times. We expect the company to be able to comply with this covenant over the next 12-18 months.

Our base case assumes that SC will launch residential property projects worth THB31.4 billion in 2024, comprising condominium projects developed through JVs valued at THB5.0 billion and new landed properties worth THB26.4 billion. Looking ahead, we expect SC to launch landed property projects worth THB20-THB25 billion annually and condominium projects under JVs worth THB8 billion in 2025 and THB22 billion in 2026. The budget for land acquisitions for its own projects is estimated at THB2.5 billion in 2024 and THB4.5-THB6.5 billion yearly in 2025-2026. Additionally, the investment budget for recurring income assets, including apartments in the US, hotels, and warehouses for rent, will be approximately THB1.2-THB2.2 billion per annum over the next three years.

Manageable liquidity

We assess SC's liquidity should be manageable over the next 12 months. SC has THB20.5 billion maturing debts over the coming 12 months, comprising THB11 billion short-term loans, THB4.8 billion project loans, and THB4.7 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.

As of June 2024, the company's liquidity sources comprised cash on hand of THB2.0 billion and unused committed credit facilities of THB4.8 billion. We forecast SC's FFO over the next 12 months to be THB2.2-THB2.5 billion. The company also has unencumbered land banks worth THB2.7 billion and remaining finished units in debt-free residential projects totaling THB21 billion. These can be pledged as collateral for bank loans if needed.

Debt structure

As of June 2024, SC's consolidated debt, excluding lease liabilities, amounted to THB37 billion. Of this, THB13 billion was priority debt, comprising secured debt held by SC and all borrowings undertaken by its subsidiaries. The priority debt to total debt ratio was 35%.

BASE-CASE ASSUMPTIONS

- SC to launch residential property projects worth THB31.5 billion in 2024, comprising new landed properties worth THB26.5 billion and condominium projects under JVs worth THB5.0 billion. Looking ahead, the company anticipates launching new landed property projects worth THB20-THB25 billion annually.
- Condominium projects launched under JVs will be worth approximately THB8 billion in 2025 and THB22 billion in 2026.
- Revenue to increase from THB20 billion in 2024 to THB25 billion in 2026.
- Land acquisition for landed property projects to be THB2.5 billion in 2024 and THB4.5-THB6.5 billion yearly in the following two years.
- Capital expenditures on its rental assets to be THB1.3-THB2.1 billion per annum over the next three years.

RATING OUTLOOK

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

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 the 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

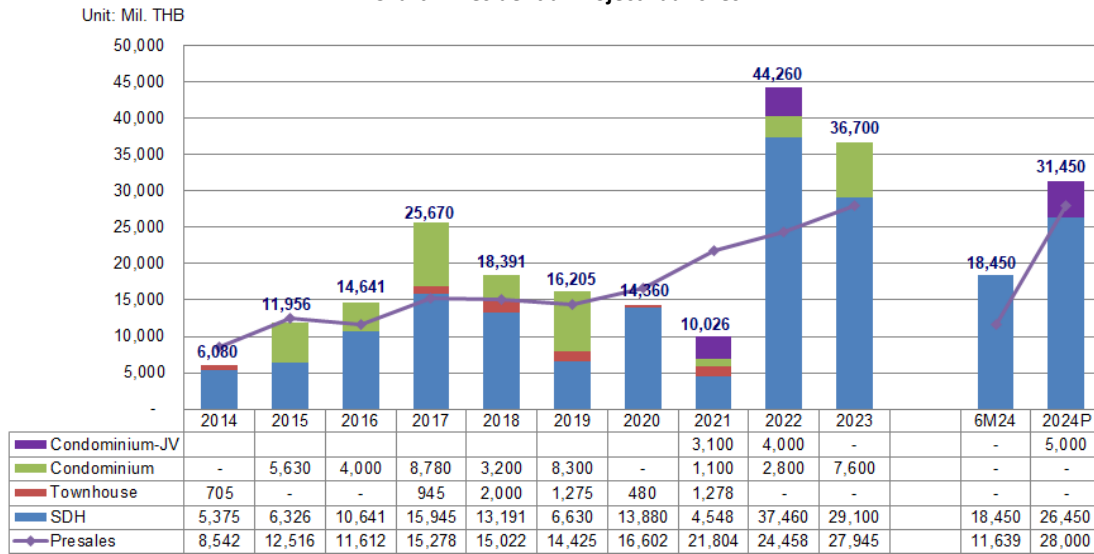
SC is a property developer established in 1989. The Shinawatra family took over the company in 1995 and entered the rental property segment by developing Shinawatra Tower 3. In 2003, SC was reorganized to focus on residential property development. The company was listed on the Stock Exchange of Thailand (SET) in 2003. The Shinawatra family continues to be the company's major shareholder, with a 60% stake as of May 2024.

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 Connoisseur, 95EI, 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 brand, with selling prices of THB2-THB5 million per unit. SC also offers a home office under the Headquarters and Work Place brands, with prices from THB8-THB50 million per unit. SC has five condominium brands: The Crest, Centric, Reference, Cobe, and Chambers. Projects under The Crest brand offer units with selling prices of THB200,000-THB250,000 per sq.m., Centric and Reference projects offer 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-THB24 billion per annum in the past three years. The residential property development segment has been the company's primary source of revenue, constituting about 95% of total revenue during 2020-2023. Revenue from the rental and service income segment comprised about 5%.

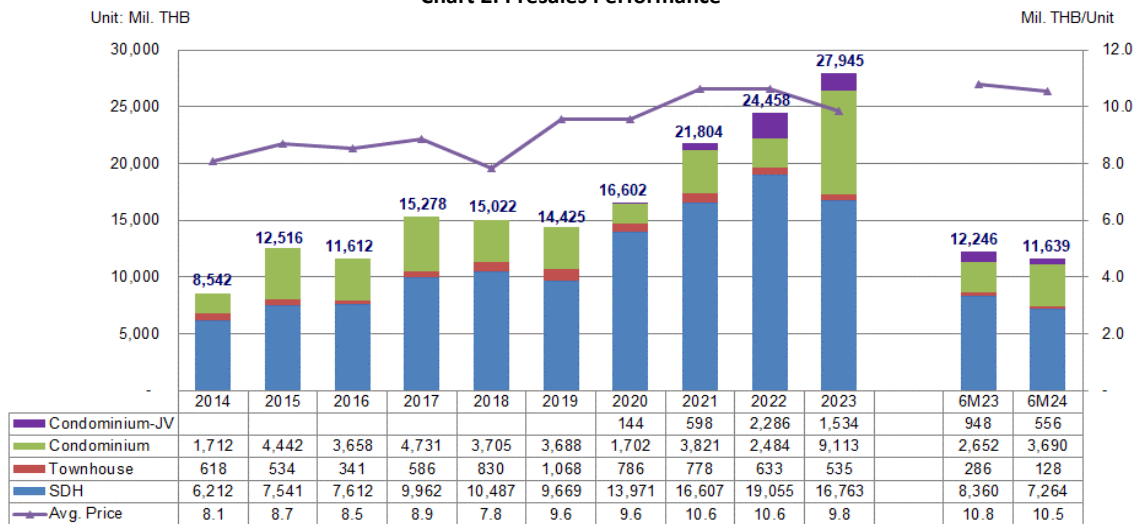
KEY OPERATING PERFORMANCE

Chart 1: Residential Project Launches



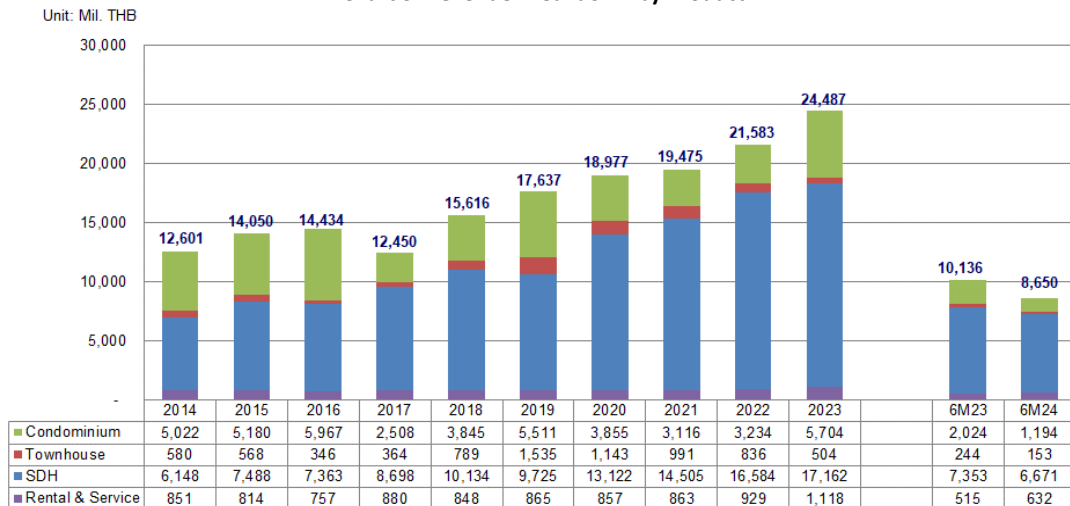
Source: SC

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 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	8,856	24,666	21,678	19,507	19,039
Earnings before interest and taxes (EBIT)	1,317	4,438	3,964	3,223	3,124
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,394	4,586	4,079	3,390	3,287
Funds from operations (FFO)	456	2,944	2,658	2,094	2,002
Adjusted interest expense	787	1,068	787	742	771
Real estate development investments	49,084	46,477	42,858	33,462	30,537
Total assets	68,270	63,888	57,401	49,754	44,319
Adjusted debt	35,802	32,001	26,729	18,824	17,718
Adjusted equity	23,425	23,252	21,709	20,054	18,643
Adjusted Ratios					
EBITDA margin (%)	15.7	18.6	18.8	17.4	17.3
Pretax return on permanent capital (%)	6.7 **	8.2	8.3	7.6	7.7
EBITDA interest coverage (times)	1.8	4.3	5.2	4.6	4.3
Debt to EBITDA (times)	8.8 **	7.0	6.6	5.6	5.4
FFO to debt (%)	6.1 **	9.2	9.9	11.1	11.3
Debt to capitalization (%)	60.4	57.9	55.2	48.4	48.7

* 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)

Company Rating:	BBB+
Issue Ratings:	
SC257A: THB2,000 million senior unsecured debentures due 2025	BBB+
SC257B: THB1,500 million senior unsecured debentures due 2025	BBB+
SC261A: THB920 million senior unsecured debentures due 2026	BBB+
SC261B: THB1,250 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+
SC271B: THB1,250 million senior unsecured debentures due 2027	BBB+
SC277A: THB700 million senior unsecured debentures due 2027	BBB+
SC277B: THB1,800 million senior unsecured debentures due 2027	BBB+
Rating Outlook:	Stable

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