

SENA DEVELOPMENT PLC

No. 112/2023
22 June 2023

CORPORATES

Company Rating:	BBB
Issue Ratings:	
Senior unsecured	BBB
Outlook:	Negative

Last Review Date: 26/12/22

Company Rating History:

Date	Rating	Outlook/Alert
31/05/22	BBB	Negative
08/03/22	BBB	Alert Negative
21/02/19	BBB	Stable
11/11/14	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Sena Development PLC (SENA) and the ratings on SENA's senior unsecured debentures at "BBB", with a "negative" rating outlook. The "negative" outlook reflects our concerns over the uncertainty of forthcoming revenue and earnings before interest, taxes, depreciation, and amortization (EBITDA) and expected high financial leverage of SENA. The ratings also incorporate our concerns over intense competition in the residential property market as well as unfavorable market conditions driven by interest rate hikes and the reimposition of the loan-to-value (LTV) rules.

The ratings continue to reflect SENA's acceptable track record in the middle-to low-income segments of the residential market, satisfactory profitability, higher income contribution from investments in joint ventures (JVs), and adequate liquidity.

KEY RATING CONSIDERATIONS

Future revenue and EBITDA likely to remain uncertain

SENA's total operating revenue in 2022 was below our expectation. The company reported total operating revenue growth of 25% year-on-year (y-o-y) in 2022, much lower than our prior forecast of 60%. This was due to fewer own project launches and higher cancellation rates in the middle- to low-income segments. Nevertheless, EBITDA remained in line with our expectations at THB1.5 billion, thanks to its stronger shared profit from JVs. Total transfers from JV projects were THB4.5 billion in 2022. The contribution from shared profit from JVs is expected to remain high over the next three years as SENA's new projects is geared towards JV projects.

Looking into 2023-2025, we view that the company's revenue and EBITDA would remain uncertain and may continue below our expectations owing to unfavorable market sentiment and still-weak purchasing power of middle-to low-ended homebuyers. We project the company's total operating revenue of less than THB5 billion (excluding revenue from JVs) while its EBITDA in 2023-2025 may not improve much from last year.

Financial leverage to remain high from aggressive expansion

We expect SENA's financial leverage, as measured by the debt to capitalization ratio, to remain high in 2023-2025. The ratio of its funds from operations (FFO) to debt is poised to fall below our target. SENA's rapid expansion in the residential property business and its investments in other businesses will put pressure on its financial profile.

SENA's debt to capitalization ratio remained high at 56% as of March 2023. Its FFO to debt ratio was 7% in the first quarter of 2023 (1Q23), much well below our 10% target. These were the results of fewer-than-expected transfers of residential units.

Under our base-case scenario, we expect SENA to launch new projects worth more than THB50 billion in total in the next three years. The annual budget for land acquisition for its own projects will be THB0.8-THB1.2 billion per annum. In addition, we expect SENA to spend around THB400-THB500 million per annum for its contemplated capital expenditures and equity injection in other businesses.

Given its rapid expansion coupled with uncertain revenue and EBITDA, SENA's financial leverage is likely to trend upward while its cash flow protection remains challenging. A rise in the debt to capitalization ratio to a level of above 60% and a decline in the FFO to debt ratio below 7.5% could result in a rating downgrade.

The financial covenants on SENA's bank loans and debentures require the company's total liabilities to total equity to remain below 2 times for bank loans and 2.5 times for debentures. As of 31 March 2023, the ratio was 1.31 times. We believe that SENA should remain in compliance with the financial covenants over the next 12 to 18 months.

Interest rate hikes directly impact SENA's targeted customers

The Bank of Thailand (BOT) has already raised the policy rate three times this year, in January, March and May. We view that rising interest rates will affect not only the funding costs of developers but also the debt servicing capacity of homebuyers, especially those in the middle- to low-income segments. Rising interest rates could also dampen demand from investors as their expected returns would be eroded by higher funding costs. However, we do not expect the proportion of demand from investors and/or speculative demand to increase.

The reimposition of LTV rules could also soften housing demand in the short to medium term. In our view, the LTV rules will generally have a greater impact on the middle and high-end segments since these buyers may have more than one mortgage contract. However, the impact of the LTV measures on SENA are likely to be relatively low as its key customers are in the middle and low-income segments.

Higher income contribution from JVs

We view that SENA will earn more revenue from project management fees and higher shared profit from JVs following its plan to expand its residential project portfolio through JV projects rather than its own projects.

Our base-case scenario assumes SENA will launch new condominium and landed property projects through JVs worth THB38 billion in 2023-2025, equal to the combined value of new JV projects launched in the past five years. We expect annual revenue from project management fees for the JV residential projects to reach THB1 billion in 2023-2025, or around 20% of total operating revenue, from THB0.7-THB0.9 billion in the past three years. We project shared profit from unit transfers will increase to THB250-THB350 million annually. This is supported by backlog under JVs worth THB6.4 billion, around 70% of which is scheduled to be delivered this year.

Acceptable market position with satisfactory profit margin anticipated

We expect SENA to be able to sustain its market presence and competitive edges in the residential property market over the next three years. Despite the prolonged Coronavirus Disease 2019 (COVID-19) pandemic and intense competition in the residential property market, SENA's presales in 2022 rose to THB9.3 billion from THB2.6 billion in 2020. In our view, SENA's strength in the middle- to low-income markets should help support its overall market position in the longer term.

Meanwhile, SENA's ability to efficiently control costs should help maintain its profitability at an acceptable level. The company recorded a relatively high gross profit margin of 44%-49% and operating margin of 20%-29% in the past five years, above the industry average of 32%-35% and 15%-20%, respectively. Its profit margin had been ranked in the top-5 among our 25-rated property developers. SENA's bottom line, without the one-time gain from the acquisition of Sen X PLC (SENX), remained above the industry average of 10%. However, the pretax return on permanent capital (ROPC) ratio waned to 6% in 2021-2022 following the significant investments in SENX since 2021.

Looking forward, TRIS Rating sees that its ability to secure land plots at favorable prices and its capability to control construction costs as well as selling and administrative expenses should sustain SENA's profitability at the average level of the industry. A greater portion of shared profits from investments in JVs should also boost profit margins. We expect SENA to maintain its operating margin to remain close to industry average of 15%-17% in 2023-2025. Its ROPC should not decline from the current level.

Adequate liquidity anticipated

We expect SENA to be able to refinance most of its maturing debentures and short-term bank loans to maintain adequate liquidity and to fund its business operations. As of March 2023, SENA's sources of funds consisted of THB1.8 billion in cash plus THB5 billion in undrawn credit facilities for working capital from banks. FFO over the next 12 months is forecast to be THB1.1 billion.

On the flip side, SENA's maturing debts over the next 12 months amounted to THB6.2 billion, comprising THB1.8 billion in debentures, THB1.3 billion in long-term project loans, THB1.5 billion in short-term bills of exchange (B/Es), and THB1.6 billion in short-term promissory notes (P/Ns). The debentures coming due will be repaid by the company's internally generated cash and/or replaced with a new debenture issuance. Project loans are normally repaid with proceeds from the underlying

projects' unit transfers. SENA also plans to roll over the short-term bank loans, some of which will be converted into long-term project loans thereafter.

At the end of March 2023, SENA's total debt, as per our priority debt calculation, was approximately THB11.8 billion. SENA's priority debt, including secured debts at the company and total debt at the subsidiaries, was about THB2.7 billion. This translates to a priority debt to total debt ratio of 23%.

BASE-CASE ASSUMPTIONS

These are our key assumptions for SENA's operations during 2023-2025:

- SENA to launch new property projects worth THB28 billion in 2023 and THB10-THB12 billion per annum in 2024-2025.
- Annual budget for land acquisition for its own projects of THB0.8-THB1.2 billion.
- Total operating revenue of THB4-THB5 billion per annum.
- EBITDA to reach the THB1.5-THB1.7 billion per annum level.
- Shared profit from investments in JV residential projects to be THB250-THB350 million per annum.

RATING OUTLOOK

The "negative" outlook reflects our concerns about the uncertainty of SENA's projected revenue and earnings amid the unfavourable market sentiment and intense competition in the residential property industry. We expect SENA's financial leverage to sustain at a high level due to rapid business expansion.

RATING SENSITIVITIES

The outlook could be revised to "stable" if SENA's operating performance and financial profile remain in line with our expectations, such that the FFO to debt ratio stays above 7.5% and the debt to capitalization ratio stays around 55% over the forecast period.

In contrast, downward pressure on the ratings could emerge if SENA's operating results and/or financial position deteriorate materially from our forecast, such that the FFO to debt ratio drops below 7.5% and the debt to capitalization ratio exceeds 60%, with no signs of improvement.

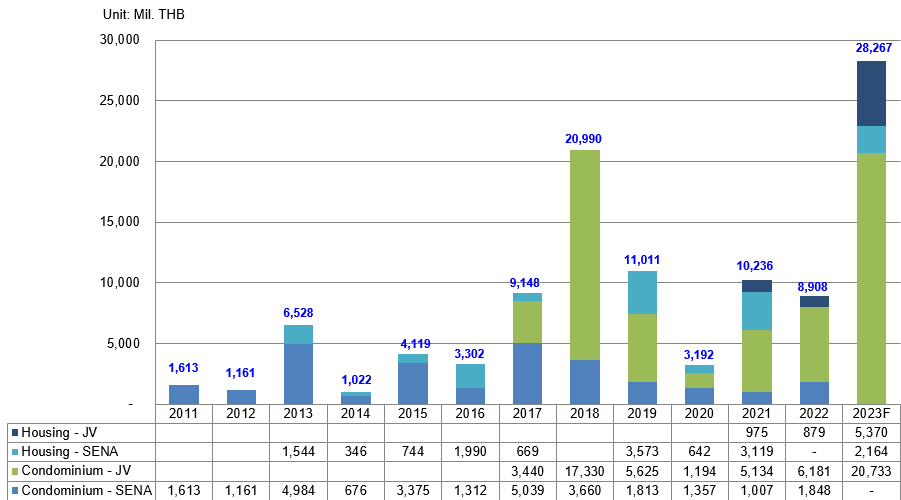
COMPANY OVERVIEW

SENA was established by Mr. Theerawat Thanyalakphark in 1993 and listed on the Stock Exchange of Thailand (SET) in 2009. As of March 2023, the Thanyalakphark family continued to be the company's largest shareholder, owning a 56.6% stake. SENA focuses on the residential property development business. Its products cover condominiums, single-detached houses (SDH), twin houses, townhouses, and commercial units. SENA's products mainly target the middle- to low-income segments, with selling prices ranging from THB30,000 to THB200,000 per square meters (sq.m.) for condominiums and an average price per unit of THB4-THB5 million for landed properties. Its products comprise condominium projects, sold under the "PITI", "The Niche Pride", "The Niche Mono", "The Niche ID", "Flexi", "The Kith", "SENA Kith", and "SENA Eco Town" brands; and landed property projects under the "Sena Park Grand", "Sena Grand Home", "Sena Ville", "Viva", "Sena Shophouse", "Sena Avenue", and "Sena Town" brands.

Revenue from condominium projects constituted 45%-55% of its total operating revenue during 2019-2021, decreasing to 28% in 2022. Revenue from landed property projects has contributed around 20% of the total in 2019-2021, rising to 38% in 2022. The revenue contribution from project management fees through JV projects increased to about 20%-25% of its total operating revenue during 2019-2022, from below 10% in 2018, as SENA launched more JV projects. Revenue from other rental and service income as well as the solar business remains negligible.

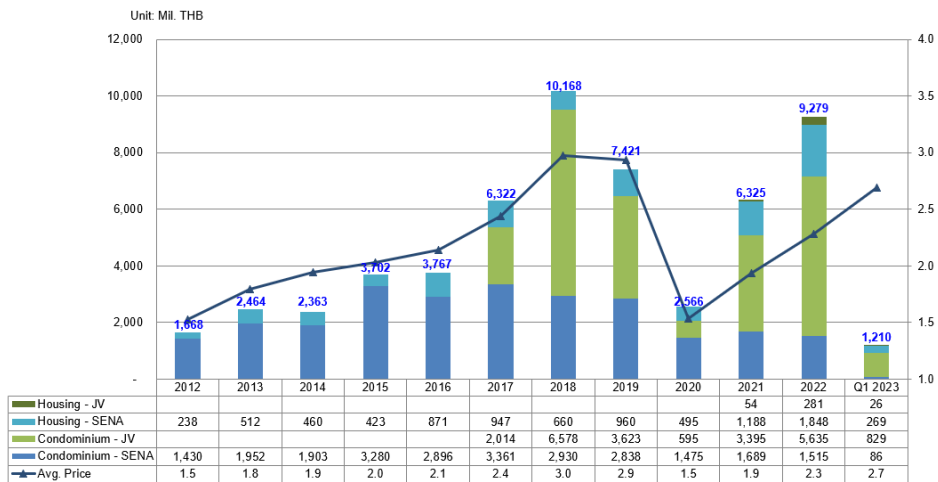
KEY OPERATING PERFORMANCE

Chart 1: New Project Launches



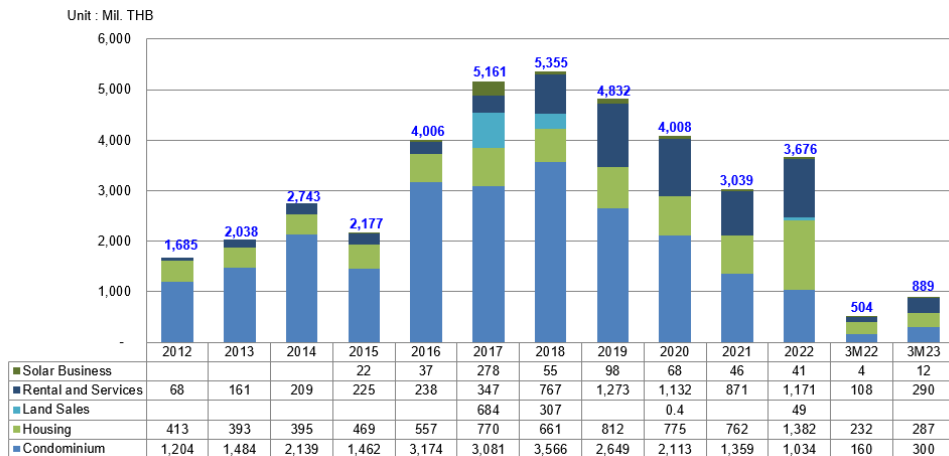
Source: SENA

Chart 2: Presales Performance



Source: SENA

Chart 3: Revenue from Sales and Services Breakdown



Source: SENA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Mar 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	912	3,954	3,152	4,228	4,989
Earnings before interest and taxes (EBIT)	271	1,326	1,216	1,681	1,478
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	281	1,523	1,304	1,982	1,533
Funds from operations (FFO)	107	964	843	1,457	898
Adjusted interest expense	157	468	369	355	315
Real estate development investments					
	11,233	11,212	8,286	7,910	8,052
Total assets	23,161	23,363	18,620	17,927	15,098
Adjusted debt	12,952	12,573	10,931	8,227	8,536
Adjusted equity	10,037	9,953	7,802	7,167	6,502
Adjusted Ratios					
EBITDA margin (%)	30.84	38.52	41.37	46.88	30.73
Pretax return on permanent capital (%)	5.61 **	5.86	6.18	9.53	9.95
EBITDA interest coverage (times)	1.79	3.26	3.53	5.58	4.87
Debt to EBITDA (times)	8.37 **	8.26	8.38	4.15	5.57
FFO to debt (%)	7.14 **	7.67	7.71	17.71	10.52
Debt to capitalization (%)	56.34	55.82	58.35	53.44	56.76

* 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

Sena Development PLC (SENA)

Company Rating:	BBB
Issue Ratings:	
SENA249A: THB470 million senior unsecured debentures due 2024	BBB
SENA253A: THB1,200 million senior unsecured debentures due 2025	BBB
SENA259A: THB1,530 million senior unsecured debentures due 2025	BBB
SENA262A: THB2,000 million senior unsecured debentures due 2026	BBB
Rating Outlook:	Negative

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