

SANSIRI PLC

No. 42/2018

11 April 2018

CORPORATES

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

Company Rating History:

| Date | Rating | Outlook/Alert |
|----------|--------|---------------|
| 12/05/14 | BBB+ | Stable |
| 10/05/13 | BBB+ | Positive |
| 05/02/10 | BBB+ | Stable |
| 19/03/09 | BBB | Positive |
| 12/07/04 | BBB | Stable |
| 08/10/03 | BBB | |

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RATIONALE

TRIS Rating affirms the company rating of Sansiri PLC (SIRI) and the ratings of SIRI's existing senior unsecured debentures at "BBB+". At the same time, TRIS Rating assigns the rating of "BBB+" to SIRI's proposed issue of up to Bt2,000 million in senior unsecured debentures. The proceeds from the new debentures will be used to refinance SIRI's existing debentures maturing in May 2018 and for business operation.

The ratings of SIRI and its debentures reflect the company's leading position and proven track record in the residential property development industry, well-recognized condominium and housing brands, and diverse product portfolio. The ratings also reflect SIRI's moderate profitability and its expected higher financial leverage from aggressive business expansion, which will lower its cash flow protection. The ratings also take into consideration the cyclical and competitive environment in the residential property development business and the concern over the high level of household debt nationwide which impacts the affordability of homebuyers, especially in the middle- to low-income segments.

KEY RATING CONSIDERATIONS

Diversified product portfolio, with well-accepted brands in residential property market

SIRI's product portfolio is well-diversified. The company offers condominium, single detached house (SDH), and townhouse units to different market segments. SIRI's condominium projects cover low- to high-end segments, with selling prices ranging from Bt50,000 to Bt700,000 per square meter (sq.m.). SIRI offers SDH units under the Kanasiri, Habitia, Saransiri, Burasiri, Setthasiri, and Narasiri brands. SIRI's SDH products mainly focus on units priced between Bt5-Bt8 million per unit. Townhouse units are sold under the Habittown, Town Avenue, SIRI Place, SIRI Avenue, SIRI Square, and Garden Square brands. SIRI offers townhouse units with unit prices ranging from Bt1.4 million to Bt15 million. SIRI's broad project portfolio gives the company the flexibility to adjust its portfolio to meet market demand.

As of December 2017, SIRI had 33 existing condominium projects (including 11 condominium projects under joint ventures (JVs) with BTS Group and one condominium project under the JV with Tokyu Corporation) and 52 housing projects, with the total project value of Bt170,000 million. Condominium projects accounted for 55% of the total portfolio value, while SDH and townhouse projects accounted for the rest. At the end of December 2017, the value of the remaining unsold units (including built and un-built units) across SIRI's portfolio was around Bt49,000 million (excluding unsold units worth Bt16,000 million under JVs with BTS Group). The total backlog was valued at around Bt11,000 million (excluding backlog worth Bt25,000 million under JVs with BTS Group) and partly secures SIRI's future revenue stream during 2018 through 2021. The backlog under the JV projects will support the revenue growth of business management under the JVs over the next four years.

Strong market position

SIRI's strong market position is underpinned by the operating performances of both its own and the JV condominium projects. Presales increased to Bt38,565 million in 2017 from Bt31,139 million in 2016 and Bt28,512 million in

2015. Condominium presales (including presales from JV projects) contributed 60%-65% of total presales during the past three years. SDH has generated presales of Bt9,000-Bt12,000 million per annum since 2011. Townhouse presales contributed around 5% of total presales during the past three years.

SIRI's total revenue has ranked among the top three listed property developers for several years. However, its revenue continually decreased to Bt33,811 million in 2016 and Bt30,916 million in 2017 from Bt36,955 million in 2015. The drop came because SIRI recognized lower revenue from its own condominium projects. Revenue from condominium projects was Bt23,048 million in 2015, and thus declined to Bt19,260 million in 2016 and Bt12,897 million in 2017. Going forward, SIRI's revenue during 2018-2019 is expected to be around Bt30,000 million per annum, as few of its own condominium units will be delivered to customers.

Moderate profitability

SIRI's gross profit margin decreased to 29%-31% during 2015-2017 from 33%-34% during 2010-2014 due to higher spending on sales promotions for several condominium projects to speed up the sales of the remaining finished units. Selling, general, and administrative (SG&A) expenses was 17%-20% of total revenue during the past four years. Thus, SIRI's operating profit margin was able to stay at 12%-14%. Its net profit margin stood at 9%-12% of total revenue during 2014-2017. Under TRIS Rating's base case scenario, SIRI is expected to keep operating profit margin and net profit margin at current levels over the next three years. However, SIRI's profitability may be threatened by the intense competition among large property developers and a thin profit margin from business management under the JV projects.

Aggressive business expansion may lead to higher leverage and weaker cash flow protection

In 2017, SIRI spent Bt12,000 million to purchase land plots and launch 14 residential projects (including three condominium projects under JVs with BTS Group and one condominium project under JV with Tokyu Corporation) worth Bt36,000 million. SIRI's budget for land acquisition will be around Bt8,000 million in 2018. The company plans to launch 31 new residential projects worth Bt63,000 million this year, almost double from last year. Around 50% of total value will be from its own and JV's condominium projects. SIRI plans to launch more condominium projects under its own brands since the company wants to maintain its revenue recognition at around Bt30,000 million per annum. In addition, SIRI expects to generate more revenue from its townhouse projects as the company plans to launch 10 new townhouse projects worth Bt7,500 million in 2018. Its townhouse projects will focus on the Bt1-Bt3 million segment.

Despite its JVs partially alleviate its funding needs, SIRI's need for capital to pursue its growth plan remains significant. Over the next three years, TRIS Rating views SIRI's financial leverage will be higher than the current level. However, its adjusted debt to capitalization ratio is expected to stay below 66%, or its adjusted interest-bearing debt to equity ratio to stay below 2 times. The ratio of adjusted funds from operations (FFO) to adjusted total debt should be maintained at 5%-10% since its debt burden is expected to increase faster than earnings.

Expected higher share profit and revenue contribution from JVs

As of December 2017, SIRI had 11 existing condominium projects under JVs with BTS Group. The combined project value was around Bt45,000 million. The JV projects were 64% sold and 9% transferred to customers. The backlog under the JVs with BTS Group was around Bt25,000 million, or 70% of SIRI's total backlog. SIRI started to recognize its share profits from its investments in the JVs in 2017. The JV backlog will be delivered to customers during 2018 through 2021. Thus, SIRI will realize a greater portion of its share profits from the JVs during the next four years. SIRI also plans to continuously launch several condominium projects under the JVs. Therefore, revenue from business management through the JV projects will constitute a greater portion over the next three years.

Exposed to cyclicity and highly competitive residential property business

The residential property market closely follows trends in the overall economy. However, the volatility in this market is much more pronounced than in the general economy. Slow recovery in the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the affordability of homebuyers, especially in the middle- to low-income segments. Thus, several property developers have shifted their focus toward the higher-income segment, making competition in this segment more intense due to more supply in the market. Thus, SIRI plans to launch more projects in the middle-to low-price range in order to capture the recovery of demand in the lower-priced segment and to diversify its portfolio. However, the stringent of bank's lending criteria will be a major challenge for developers.

Acceptable liquidity profile

SIRI's liquidity is acceptable. At the end of December 2017, the company had Bt2,978 million in cash plus undrawn unconditional credit facilities of project loans from financial institutions of around Bt48,000 million. Adjusted FFO over the next 12 months is forecast at around Bt2,000 million. Debt due over the next 12 months amounts to Bt21,540 million, comprising Bt5,998 million in debentures, Bt3,974 million in project loans, Bt3,200 million in long-term promissory notes

(P/Ns) for land purchase, and Bt8,368 million in short-term bills of exchange (B/Es) and P/Ns.

SIRI plans to refinance its maturing bonds with new bond issues. Project loans will be repaid with cash flow from the transfers of residential units. Long-term P/Ns for land purchase will be converted to long-term project loans thereafter. Short-term B/Es and P/Ns will either be rolled over or repaid within 3-6 months. SIRI normally uses short-term B/Es and P/Ns in order to lower cost of funds. However, SIRI is expected to maintain its undrawn project loans to cover all outstanding B/Es and P/Ns in order to avoid rollover risk.

According to the key financial covenants on its bank loans and debentures, the company has to maintain its interest-bearing debt to equity ratio (based on its consolidated financial statements) at lower than 2.5 times. The ratio at the end of December 2017 was 1.27 times. Thus, the company was in compliance with its financial covenants. TRIS Rating believes that SIRI should have no problem complying with its financial covenant over the next 12 to 18 months.

RATING OUTLOOK

The “stable” outlook reflects the expectation that SIRI will be able to sustain its operating performance at the target levels. Also, the company should be able to deliver the units in its backlog as scheduled. The operating profit margin and net profit margin should be maintained at the current levels over the next three years. With its aggressive business expansion, SIRI’s debt burden will be on the rise. However, SIRI is expected to keep its adjusted debt to capitalization ratio below 66%, or adjusted interest-bearing debt to equity ratio lower than 2 times. The adjusted FFO to adjusted total debt ratio should stay at 5%-10% for a certain period.

RATING SENSITIVITIES

SIRI’s ratings and/or outlook could be upgraded should its financial profile improve to the same levels as its higher rated peers. The adjusted debt to capitalization ratio should stay below 55% on a sustainable basis. Also, the ratio of adjusted FFO to adjusted total debt should increase to around 15%. On the other hand, the ratings and/or outlook could be revised downward should SIRI’s operating performance and/or financial position significantly deteriorate from the target levels.

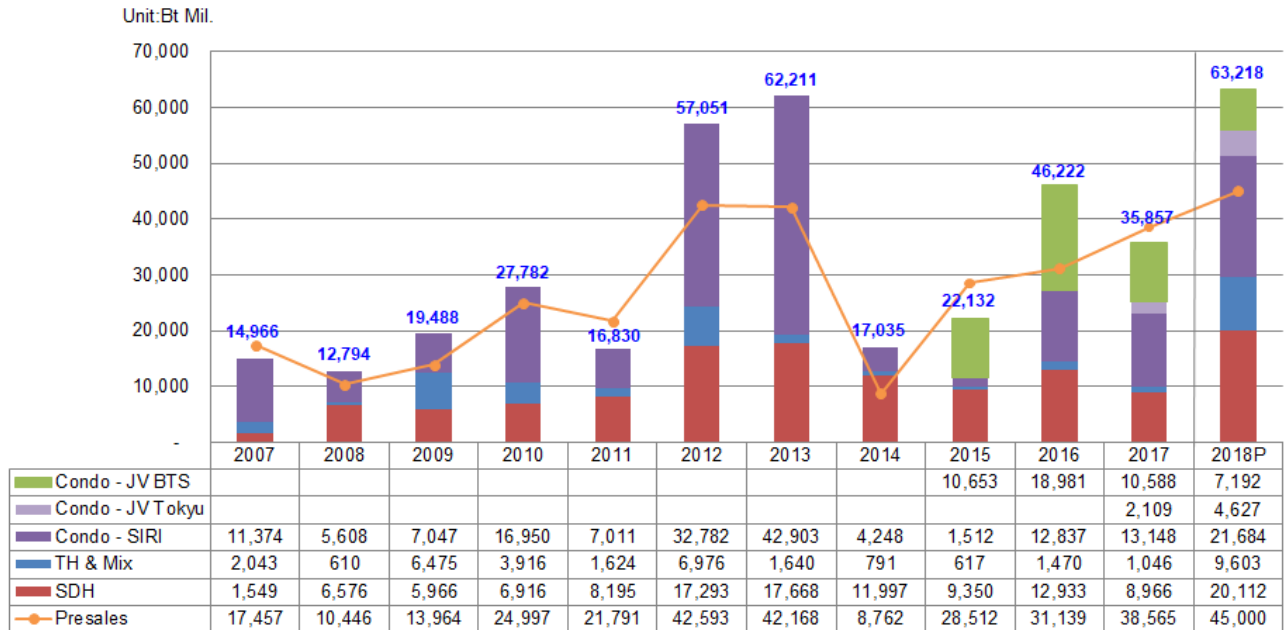
COMPANY OVERVIEW

SIRI was established in 1984 by the Chutrakul family and listed on the Stock Exchange of Thailand (SET) in 1996. SIRI offers condominium, SDH, and townhouse units covering low-end to high-end segments. Its condominium units are priced from Bt50,000 to Bt700,000 per sq.m. SIRI’s SDH units are priced from Bt4 million to Bt40 million per unit, while the unit price of its townhouse products range from Bt1.4 million to Bt15 million. SIRI mainly focuses on the development of condominium projects. To enlarge its condominium portfolio while mitigating risks and reducing debt burdens, SIRI has developed several condominium projects under JVs with BTS Group since 2015 and with Tokyu Corporation since 2017.

SIRI’s total revenue mainly derives from condominium projects. The revenue from condominiums constituted 50%-60% of total revenue annually during 2012-2016, but decreased to 42% of total revenue in 2017. Revenue from SDH and townhouse units contributed around 30%-40% of total revenue during the past three years. Revenue from business management through the JV projects increased to 7% in 2016 and 11% in 2017 from only 2% in 2015 following a larger portfolio of condominium projects under the JVs.

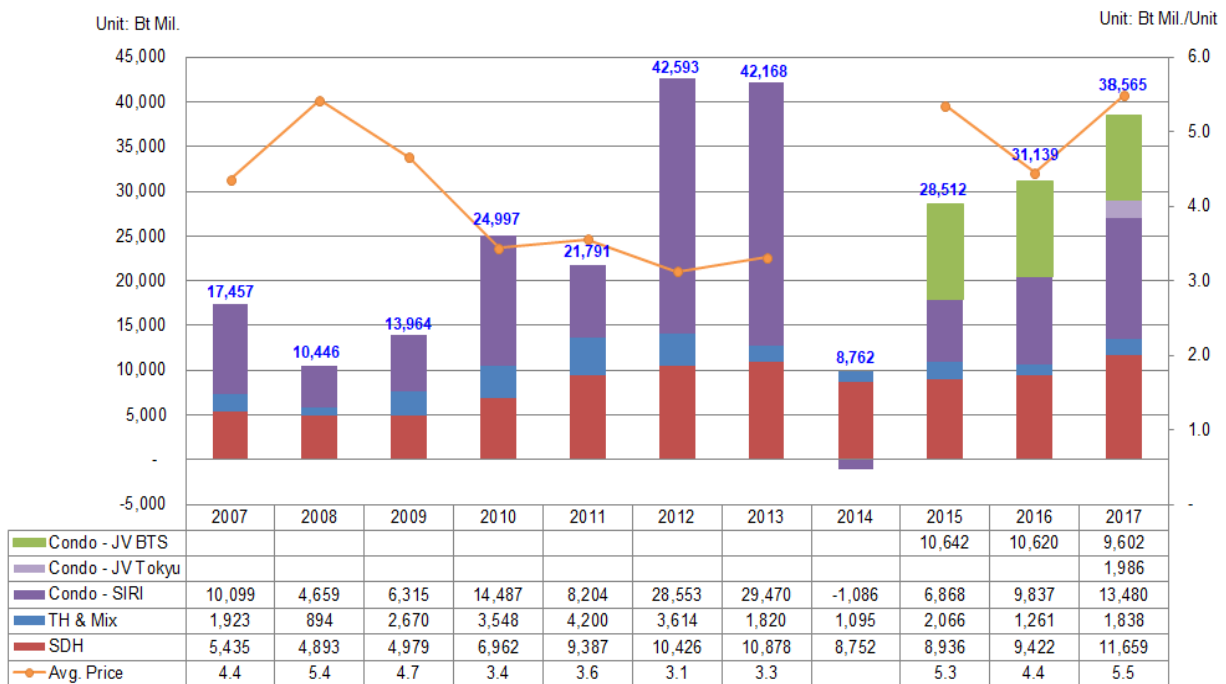
KEY OPERATING PERFORMANCE

Chart 1: New Residential Project Launches

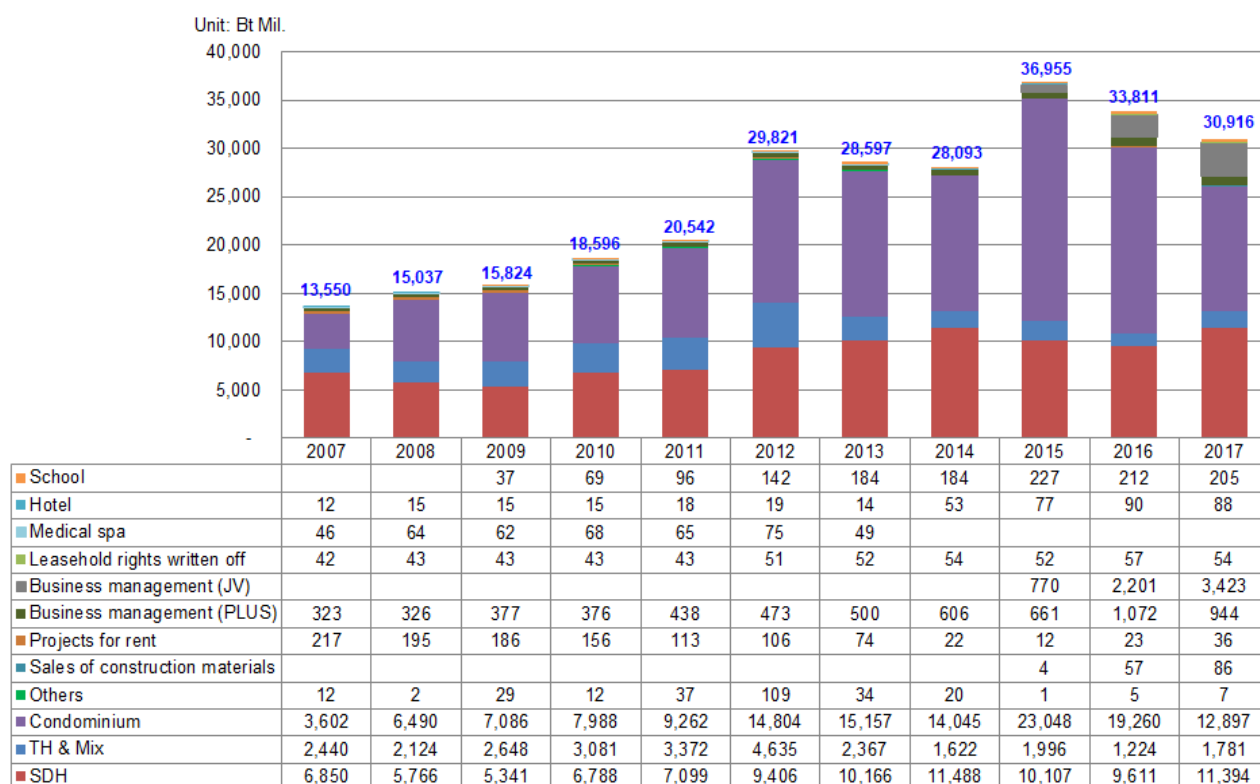


Source: SIRI

Chart 2: Presales Performance



Source: SIRI

Chart 3: Revenue Breakdown


Source: SIRI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

| | ----- Year Ended 31 December ----- | | | | |
|--------------------------------------------------------------------------------------------------|------------------------------------|--------|--------|----------|----------|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| Revenue | 30,916 | 33,811 | 36,955 | 28,093 | 28,597 |
| Gross interest expense | 1,576 | 1,593 | 1,807 | 1,956 | 1,481 |
| Net income from operations | 2,825 | 3,380 | 3,506 | 3,393 | 1,930 |
| Funds from operations (FFO) | 3,299 | 3,972 | 4,346 | 3,130 | 1,400 |
| Inventory investment | (1,678) | 19 | 5,742 | (11,125) | (11,085) |
| Total assets | 80,150 | 72,774 | 69,451 | 73,147 | 60,040 |
| Total debts | 46,142 | 40,277 | 35,713 | 39,103 | 34,675 |
| Shareholders' equity | 30,478 | 28,096 | 27,198 | 24,816 | 17,068 |
| Operating income before depreciation and amortization as % of sales | 12.08 | 14.04 | 12.59 | 14.28 | 9.80 |
| Pretax return on permanent capital (%) | 7.58 | 9.36 | 10.31 | 10.75 | 8.88 |
| Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times) | 3.65 | 4.02 | 3.77 | 3.35 | 2.92 |
| FFO/total debt (%) | 7.15 | 9.86 | 12.17 | 8.01 | 4.04 |
| Total debt/capitalization (%) | 60.22 | 58.91 | 56.77 | 61.18 | 67.01 |
| Total debt/EBITDA (times) | 10.81 | 7.75 | 6.21 | 7.37 | 10.80 |

Note: All figures have been adjusted by proportionate debt from the JVs since 2015 onwards.

* Consolidated financial statements

Sansiri PLC (SIRI)

| | |
|------------------------------------------------------------------------|--------|
| Company Rating: | BBB+ |
| Issue Ratings: | |
| SIRI185A: Bt1,000 million senior unsecured debentures due 2018 | BBB+ |
| SIRI188A: Bt2,000 million senior unsecured debentures due 2018 | BBB+ |
| SIRI194A: Bt1,000 million senior unsecured debentures due 2019 | BBB+ |
| SIRI194B: Bt1,000 million senior unsecured debentures due 2019 | BBB+ |
| SIRI197A: Bt1,000 million senior unsecured debentures due 2019 | BBB+ |
| SIRI190A: Bt1,000 million senior unsecured debentures due 2019 | BBB+ |
| SIRI204A: Bt2,000 million senior unsecured debentures due 2020 | BBB+ |
| SIRI206A: Bt2,000 million senior unsecured debentures due 2020 | BBB+ |
| SIRI229A: Bt2,000 million senior unsecured debentures due 2022 | BBB+ |
| SIRI231A: Bt4,000 million senior unsecured debentures due 2023 | BBB+ |
| Up to Bt2,000 million senior unsecured debentures due within 3.5 years | BBB+ |
| Rating Outlook: | Stable |

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