

SANSIRI PLC

No. 80/2024
14 May 2024

CORPORATES

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

Last Review Date: 16/02/24

Company Rating History:

Date	Rating	Outlook/Alert
30/04/21	BBB+	Stable
01/04/20	BBB+	Negative
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 on Sansiri PLC (SIRI) and the ratings on SIRI's senior unsecured debentures at "BBB+", with a "stable" rating outlook. We also affirm the ratings on SIRI's subordinated capital debentures (hybrid debentures) at "BBB-".

The ratings on SIRI and its debentures reflect the company's leading market position in both landed property and condominium segments, driven by renowned brands and diversified product portfolio. Also, the company is expected to deliver strong operating results throughout the forecast period. However, the ratings are weighed down by its high financial leverage, stemming from aggressive investments in residential property and other businesses. Additionally, the property industry is facing challenges from unfavorable market sentiment following the reimposition of stringent loan-to-value (LTV) rules in 2023, lingering high interest rates, and elevated household debt level.

The ratings on SIRI's hybrid debentures are two notches below the company rating. This rating differential reflects the subordinated nature of the hybrid debentures and the option of the issuer to defer coupons on a cumulative basis. Currently, one tranche of its outstanding hybrid debentures (THB2,050 million) receives 0% equity content in our leverage ratio calculation as it was issued to the single investor, while another tranche (SIRI20PA) receives 50% equity content.

KEY RATING CONSIDERATIONS

Well-recognized brands and diversified products: strong market position

We expect SIRI to be able to sustain its solid market position and competitive edge in the residential property market over the next three years. SIRI's residential sales have consistently ranked in the top five listed residential property developers over the past several years. Its residential unit transfers (including joint venture (JV) projects) ranged between THB32-THB39 billion per annum in 2021-2023, or a 12%-13% market share among 25 property developers rated by TRIS Rating.

SIRI's competitive position is strengthened by its well-recognized brands and diverse product range. Its strong brands in both the landed property and condominium markets are backed by the well-received response from homebuyers in most existing and newly launched projects. This enables SIRI to generate revenue growth with a decent profit margin. SIRI's gross profit margin recovered from its trough of 25%-26% in 2019-2020 to 34%-35% in 2021-2023.

Also, SIRI's product portfolio is well-diversified in terms of product type and price range. The products cover single-detached houses (SDH), semi-detached houses (Semi-DH), townhouses, and condominiums spreading premium, medium, and affordable segments.

As of March 2024, SIRI had 85 active landed property projects (including one project under JV) and 35 condominium projects (including four projects under JVs) with the remaining units available for sale worth THB84 billion. Landed properties accounted for 78% of total remaining value and condominiums made up the rest.

Sound operating performance anticipated

Our base-case scenario projects SIRI to continue generating revenue growth with a satisfactory profit margin in 2024-2026. We anticipate SIRI's total operating revenue to rise to THB42-THB47 billion per annum in the next three years from THB35-THB38 billion in 2022-2023. SIRI's projected revenue is based on our assumption that the company will launch new projects worth around THB40-THB60 billion per annum, most being SIRI's own projects. Also, the company is expected to deliver most of its existing backlog as scheduled. The backlog as of March 2024 was worth THB17.6 billion, with around three-fourths from SIRI's own projects and the rest from JVs.

SIRI's improving cost control and higher commanding profit margin in the premium SDH products should benefit the company to sustain profitability at an acceptable level in 2024-2026. The gross profit margin of its SDH segment has increased to 38%-39% in 2022-2023 from 30%-35% over the past several years. We project SIRI's average gross profit margin from all businesses to be 33%-34% of total operating revenue. Despite the high gross profit margin of SDHs, the company's overall gross profit margin could be weighed down by lower profit margin from other residential products and hotel operations, together with the expected continuing loss from the hotel management business.

Given the larger business scale, we expect SIRI to maintain its selling, general, and administrative (SG&A) expenses at below 20%. This will result in a projected earnings before interest, taxes, depreciation, and amortization (EBITDA) of THB10-THB11 billion annually, or EBITDA margin of 24%-25% in 2024-2026. We forecast the pretax return on permanent capital (ROPC) ratio to hold around 7% as SIRI's investments in other businesses and assets have not generated proper returns yet. As of December 2023, SIRI's other investments totaled THB4.5 billion, including THB1.9 billion in XSpring Capital PLC (XPG).

High financial leverage; expected to slightly decline

SIRI's financial leverage in 2023 was relatively high due mainly to the launch of numerous new projects and large amount of land acquisition. The level of real estate development for sales reached THB108 billion at the end of 2023, or around 5 times the cost of real estate sales. Adjusted net debt jumped to THB90.4 billion in 2023 from THB73.9 billion in 2022. As a result, the debt to capitalization ratio increased to 67% in 2023 from 64%-65% in 2020-2022. The ratio of funds from operations (FFO) to debt slightly dropped in 2023 but remained in line with our previous projection.

Looking ahead, we expect SIRI should reduce its financial leverage to a level aligned with our target. Our baseline forecasts SIRI's debt to capitalization ratio is heading to below 65% and its FFO to debt ratio should persist in the 5%-10% range in 2024-2026. This is assuming an 8% year-on-year (y-o-y) revenue growth on average with the EBITDA margin held at 24%-25%. We project SIRI to launch new residential projects (including JVs) worth THB61 billion in 2024 and THB41-THB46 billion per annum in 2025-2026. Around 60%-70% will be landed property projects and the rest will be condominium projects. SIRI's budget for land acquisition for its own projects will be THB5 billion in 2024 and THB10 billion annually in 2025-2026. We also incorporate the capital expenditures of THB0.5-THB1 billion per annum in 2024-2026 for the SIXTY SOHO Hotel renovation, expansion in the hotel management business under "The Standard" brand, and other investments in our forecast.

The financial covenants on SIRI's bank loans and debentures require the company's interest-bearing debt to equity ratio (excluding lease liability and land availability) to remain below 2.5 times. As of December 2023, the ratio was 1.7 times. We believe that SIRI should comfortably comply with the financial covenants over the next 12 to 18 months.

Manageable liquidity

We assess SIRI's liquidity to be manageable over the next 12 months. As of December 2023, SIRI's sources of liquidity consisted of THB2.8 billion cash plus THB9.4 billion undrawn committed credit facilities from banks. Projected FFO will be THB5 billion in 2024. SIRI also had unencumbered land banks at a book value of THB16 billion and remaining finished units in its own debt-free projects with selling prices totaling THB3.5 billion, which can be pledged as collateral for new loans if needed.

On the other hand, SIRI's maturing debts over the next 12 months will amount to THB35.4 billion, comprising THB11.5 billion long-term project loans, THB9.2 billion short-term promissory notes (P/Ns), THB9.1 billion debentures, THB5.5 billion bills of exchange (B/Es), and THB0.1 billion lease liability. We expect project loans to be repaid with cash generated from the residential unit transfers. P/Ns and B/Es are mostly for working capital and bridging loans for land purchase, which SIRI plans to either roll over or convert to long-term project loans thereafter. SIRI normally refinances its maturing debentures by new debenture issuances. SIRI's use of funds also includes capital expenditures of around THB900 million in 2024 and dividend payment of 50% of net profit.

Debt structure

As of December 2023, SIRI's consolidated debt, including full amount of hybrid debentures but excluding lease liability, was THB91.3 billion. SIRI's priority debt was THB28.8 billion, comprising secured debts owned by SIRI and its subsidiaries. This results in a priority debt to total debt ratio of 32%.

BASE-CASE ASSUMPTIONS

The key assumptions in TRIS Rating's base-case forecast for SIRI's operations in 2024-2026 are as follows:

- SIRI to launch new residential projects (including JVs) worth THB61 billion in 2024 and THB41-THB46 billion per annum in 2025-2026.
- Budget for land acquisition for its own projects of THB5 billion in 2024 and THB10 billion per annum in 2025-2026.
- Total operating revenue to reach the THB42-THB47 billion level per annum.
- EBITDA margin to hover 24%-25% per annum.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SIRI will be able to deliver its operating performance and sustain its financial profile as targeted. We expect SIRI should lower its debt to capitalization ratio to below 65% and retain its FFO to debt ratio in the 5%-10% range over the forecast period.

RATING SENSITIVITIES

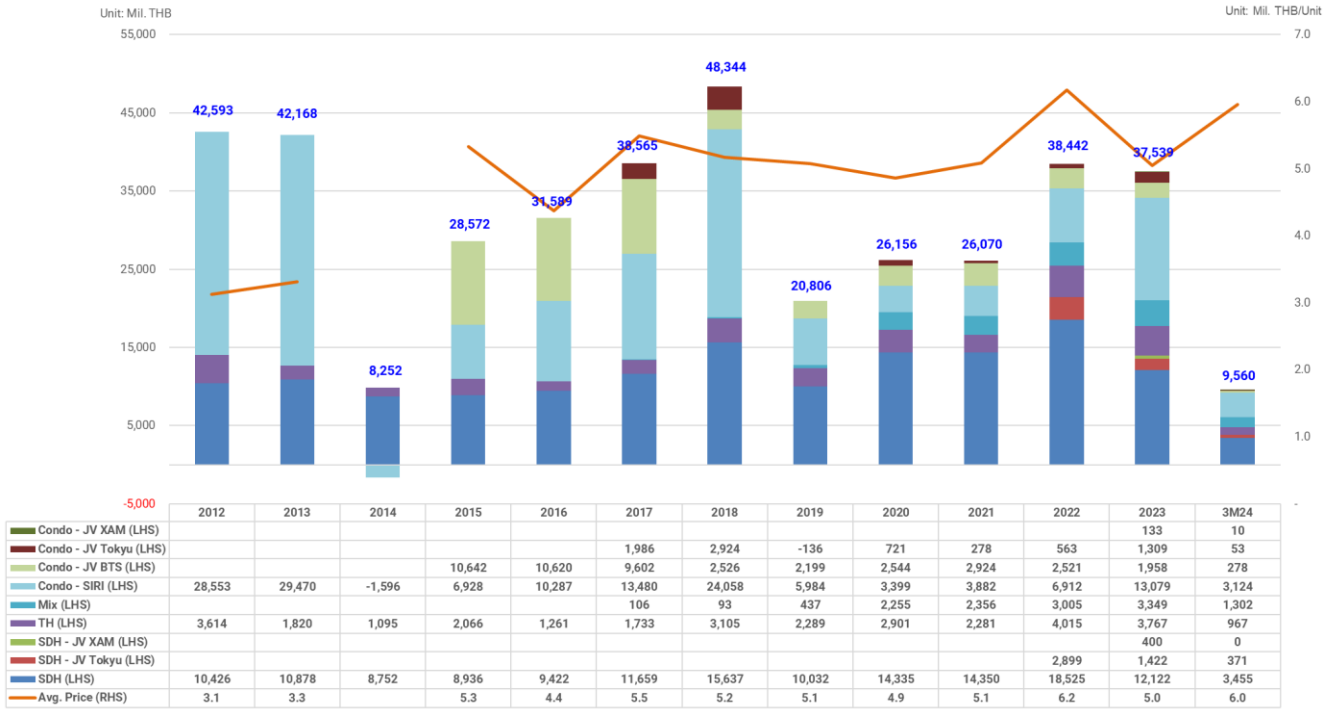
A downward revision on SIRI's ratings and/or outlook could occur if its operating results and/or financial position significantly deteriorate from our expectation. Conversely, a credit upside would materialize if SIRI's financial profile improves to the levels attained by its higher-rated peers, such that the debt to capitalization ratio stays below 55% and the FFO to debt ratio improves to 10%-15% on a sustained basis.

COMPANY OVERVIEW

SIRI was established in 1984 by the Chutrakul Family and listed on the Stock Exchange of Thailand (SET) in 1996. SIRI offers landed property and condominium units covering the low- to high-end segments. Its landed property units include SDHs, Semi-DHs, and townhouses, with the prices ranging from THB2 million to THB80 million per unit. Its condominium units are priced from THB40,000 to THB800,000 per square meter (sq.m.). As of March 2024, landed properties accounted for 74% of SIRI's total project value, while condominiums accounted for the rest. SIRI's revenue contribution from residential sales has constituted 80%-90% of its total revenue from sales and services during the past five years. Revenue from residential sales was mainly driven by SDH and condominium products. Revenue contribution from business management through JV projects declined to 1%-5% over the past four years from 11%-15% in 2017-2019, following the smaller portfolio of JV condominium projects. Revenue contribution from the business management of Plus Property Co., Ltd. has been 3%-4% of total revenue from sales and services for the past several years. Revenue contribution from hotel operation and hotel management businesses was around 4% of total revenue from sales and services in 2023. Revenue contribution from other businesses remained negligible.

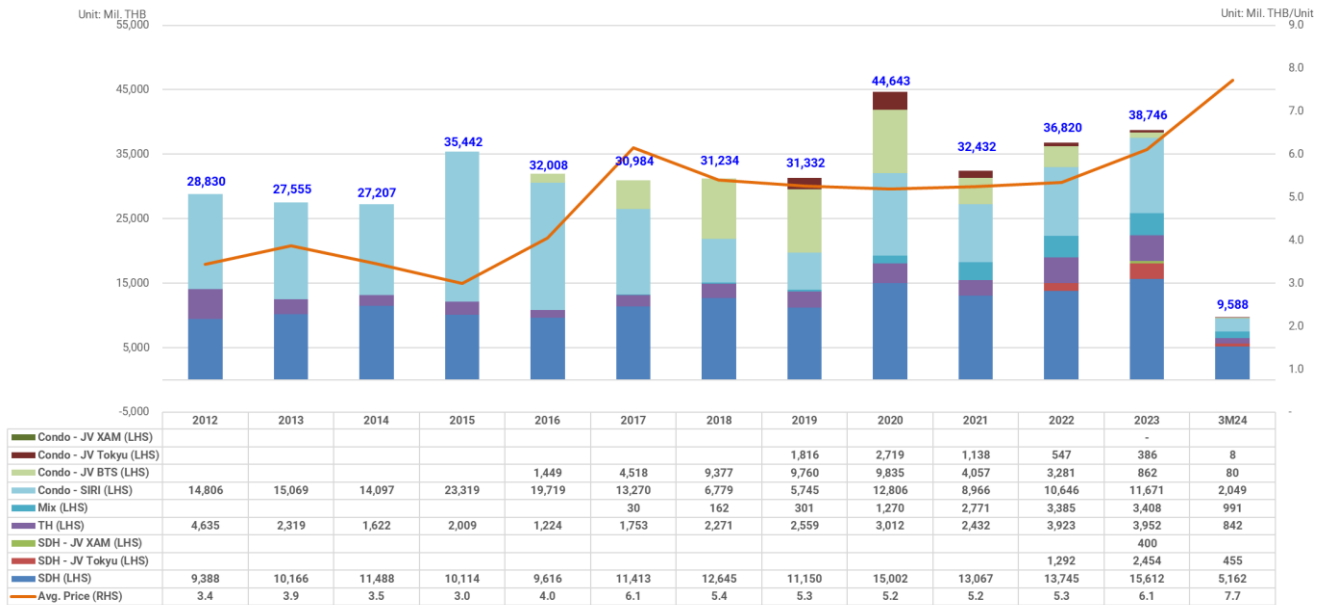
KEY OPERATING PERFORMANCE

Chart 1: Presales



Source: SIRI

Chart 2: Transfers



Source: SIRI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS *

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Total operating revenues	37,889	34,735	29,557	34,603	24,929
Earnings before interest and taxes (EBIT)	9,303	7,845	5,594	5,528	5,058
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	10,224	8,707	6,417	6,370	5,593
Funds from operations (FFO)	5,018	4,764	3,071	3,356	2,596
Adjusted interest expense	3,572	2,754	2,534	2,377	2,122
Real estate development investments	107,614	93,211	85,608	83,691	80,788
Total assets	147,303	127,451	116,632	112,632	108,336
Adjusted debt	90,439	73,925	68,600	62,491	67,788
Adjusted equity	43,858	40,491	37,417	35,647	31,875
Adjusted Ratios					
EBITDA margin (%)	27.0	25.1	21.7	18.4	22.4
Pretax return on permanent capital (%)	7.3	7.0	5.3	5.4	5.2
EBITDA interest coverage (times)	2.9	3.2	2.5	2.7	2.6
Debt to EBITDA (times)	8.8	8.5	10.7	9.8	12.1
FFO to debt (%)	5.5	6.4	4.5	5.4	3.8
Debt to capitalization (%)	67.3	64.6	64.7	63.7	68.0

* Consolidated financial statements

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
- Hybrid Securities Rating Criteria, 28 June 2021
- Issue Rating Criteria, 15 June 2021

Sansiri PLC (SIRI)

Company Rating:	BBB+
Issue Ratings:	
SIRI247A: THB2,000 million senior unsecured debentures due 2024	BBB+
SIRI24OA: THB3,600 million senior unsecured debentures due 2024	BBB+
SIRI24DA: THB800 million senior unsecured debentures due 2024	BBB+
SIRI24DB: THB500 million senior unsecured debentures due 2024	BBB+
SIRI252A: THB6,000 million senior unsecured debentures due 2025	BBB+
SIRI252B: THB100 million senior unsecured debentures due 2025	BBB+
SIRI259A: THB2,408.48 million senior unsecured debentures due 2025	BBB+
SIRI25DC: THB2,500 million senior unsecured debentures due 2025	BBB+
SIRI25DA: THB3,639.21 million senior unsecured debentures due 2025	BBB+
SIRI261A: THB500 million senior unsecured debentures due 2026	BBB+
SIRI263A: THB5,000 million senior unsecured debentures due 2026	BBB+
SIRI267A: THB1,000 million senior unsecured debentures due 2026	BBB+
SIRI267B: THB2,000 million senior unsecured debentures due 2026	BBB+
SIRI267C: THB3,379.97 million senior unsecured debentures due 2026	BBB+
SIRI269A: THB2,095.6 million senior unsecured debentures due 2026	BBB+
SIRI26DA: THB200 million senior unsecured debentures due 2026	BBB+
SIRI273A: THB4,000 million senior unsecured debentures due 2027	BBB+
SIRI273B: THB1,000 million senior unsecured debentures due 2027	BBB+
SIRI276A: THB2,360.79 million senior unsecured debentures due 2027	BBB+
SIRI277A: THB2,620.03 million senior unsecured debentures due 2027	BBB+
SIRI279A: THB2,495.92 million senior unsecured debentures due 2027	BBB+
SIRI20PA: THB3,000 million subordinated capital debentures (hybrid debentures)	BBB-
THB2,050 million subordinated capital debentures (hybrid debentures)	BBB-
Rating Outlook:	Stable

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