

SANSIRI PLC

No. 69/2019

10 May 2019

CORPORATES

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

Last Review Date: 13/02/19

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 on Sansiri PLC (SIRI) and the ratings on SIRI's senior unsecured debentures at "BBB+". The ratings reflect the company's diverse product portfolio, strong market position in both landed property and condominium segments, and higher contribution from business management income and share profit from its joint ventures (JVs). The ratings also take into consideration SIRI's high level of selling and administrative expenses and its aggressive financial leverage. The ratings continue to reflect the cyclical and competitive environment in the residential property development business and the lingering high household debt. The impact from the introduction of new loan-to-value (LTV) rules by the Bank of Thailand (BOT) may also affect demand for condominiums in the short term.

KEY RATING CONSIDERATIONS

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

TRIS Rating views that 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 units cover low- to high-end segments, with selling prices ranging from Bt50,000 to Bt400,000 per square meter (sq.m.). SIRI offers SDH units under the Kanasiri, Habitia, Saransiri, Burasiri, Setthasiri, Narasiri, and Baan Sansiri brands. Its SDH units are priced from Bt4 million to Bt240 million. Townhouse units are sold under the Habittown, Met Town, Siri Place, Siri Avenue, Town Avenue, and B Avenue brands. SIRI offers townhouse units with unit prices ranging from Bt2 million to Bt6 million.

TRIS Rating views that SIRI's broad project portfolio and well-recognized brands give the company the flexibility to adjust its portfolio to meet market demand and retain market position. As of March 2019, SIRI had 38 existing condominium projects (including 15 condominium projects under JVs) and 58 landed property projects, with total unsold value of Bt78,000 million (including built and un-built units). Condominium projects comprised 54% of the total remaining value, while landed property projects accounted for the rest.

Strong competitive position

TRIS Rating expects SIRI could maintain its strong competitive position in the residential property market over the next three years. SIRI's leading market position is underpinned by presales and transferred value of its own and JV projects. Presales reached a record high of Bt48,344 million in 2018. Condominium presales contributed 60%-65% of total presales during 2016-2018. Presales during the first three months of 2019 dropped by 2% year-on-year (y-o-y) to Bt6,628 million. Transferred value, including transferred value from JV projects, was Bt30,000-Bt32,000 million per annum during the past three years. Condominium transfers contributed more than half of total transfers during 2016-2018.

SIRI's total operating revenue decreased to Bt26,674 million in 2018, from Bt31,291 million in 2017 and Bt34,131 million in 2016. The drop came because SIRI recognized lower revenue from its own condominium projects. However, TRIS Rating expects SIRI's total operating revenue to stay at Bt28,000 million in 2019 and above Bt30,000 million per annum from 2020 since the company

plans to launch more of its own projects.

SIRI's backlog was worth Bt53,000 million, comprising Bt30,000 million in its own backlog and Bt23,000 million in backlog under JVs. SIRI will deliver its own backlog to customers, worth Bt7,300 million in 2019, Bt7,200 million in 2020, Bt11,000 million in 2021, and Bt4,800 million in 2022. The JV backlog will be delivered to customers during 2019-2022. The larger amount of backlog partly secures SIRI's future revenue stream.

Higher contribution from business management income and share profit from JVs

As of March 2019, SIRI had 15 existing condominium projects under JVs, with total remaining unsold value of Bt23,000 million. The JV projects were 58% sold and 17% transferred to customers. The backlog under JVs was Bt23,000 million, or 43% of the total backlog in SIRI's portfolio. Thus, SIRI will continue to realize share profit from JVs during the next four years. Also, SIRI plans to continuously launch several projects under JVs. The more JV projects SIRI manages, the more business management income the company receives.

Under TRIS Rating's base case scenario, we expect SIRI's revenue from business management through JVs will be Bt3,500-Bt4,500 million per annum during 2019-2021. Share profit from investments in JVs is forecast to be Bt500-Bt700 million per year over the next three years. We expect SIRI's earnings before interest, taxes, depreciation, and amortization (EBITDA) to stay at Bt5,000 million in 2019, and increase to Bt7,000 million in 2020 and Bt10,000 million in 2021.

High SG&A expenses pressure SIRI's profitability

SIRI's profitability has declined continuously over the last three years. Its operating profit margin dropped to 11% in 2018 from 15% in 2016. Its pretax return on permanent capital also declined to 6% in 2018 from 9% in 2016. The company's selling, general, and administrative (SG&A) expenses remained high due to lower revenue recognition during 2017-2018.

Going forward, SIRI's profitability may be threatened by the intense competition among large property developers and the thin profit margin from business management under the JV projects. However, the operating profit margin and net profit margin should stay above 10% and above 7%, respectively, during 2019-2021. The higher contribution from the JV projects should help improve its pretax return on permanent capital during 2020-2021.

Exposure to cyclical and highly competitive residential property business

The residential property market closely follows the domestic economy. However, the volatility in this market is much more pronounced than in the overall economy. Slow recovery in the domestic economy, coupled with a high level of household debt nationwide, has raised concerns over the affordability of middle- to low-income homebuyers. In addition, the implementation of the new LTV rules by the BOT should impact the sales of condominium units in the short term. Under the new LTV rules, homebuyers can borrow up to 70%-80% of the collateral value, down from 90%-100%, for their second and subsequent mortgage loans. Therefore, the company may have to lengthen the down payment period for some homebuyers. The delay in transfer may impact the company's revenue recognition in the second half of 2019. However, we expect the lower LTV ratio for the second and subsequent mortgage loans should benefit developers in the long run.

The slow growth in the domestic market has driven the company to expand its foreign customer base. SIRI's presales to foreign buyers increased substantially during 2017-2018. Sales to foreign buyers increased to Bt9,300 million in 2017 and Bt14,000 million in 2018, from Bt5,400 million in 2016, or to 24% of total presales in 2017 and 29% in 2018, from 17% in 2016. Most foreigner buyers are Chinese. However, slower growth in the Chinese economy and concerns over the global trade tension may negatively affect demand from foreign buyers. Thus, SIRI has to carefully manage new project launches to match the demand in each segment.

High leverage

TRIS Rating views that SIRI's debt burden will remain high during 2019-2021. Under TRIS Rating's base case, SIRI's debt to capitalization ratio may peak in 2019. The ratio will improve after 2019 since SIRI will deliver more of its own and JV condominium projects during 2020-2021. The company is expected to launch new projects worth Bt45,000 million per annum during 2019-2021. New projects under JVs will be Bt5,000 million in 2019 and Bt10,000 million per annum during 2020-2021. TRIS Rating expects SIRI's capital injection in JVs and associates will be Bt1,800 million in 2019 and Bt600 million per annum during 2020-2021. We assume the company will spend Bt6,000-Bt10,000 million per year in land purchases for its own projects.

Although its JV structures with the partners partially alleviate its funding needs, SIRI's need for capital to pursue its growth plan remains significant. However, we expect the company to keep its debt to capitalization ratio below 66%, or its interest-bearing debt to equity ratio lower than 2 times in order to maintain its current ratings. The ratio of funds from operations (FFO) to total debt should be in a range of 5%-10%.

Tight liquidity but should be manageable

At the end of December 2018, the company had Bt6,301 million in cash and cash equivalents plus undrawn unconditional committed credit facilities from financial institutions of around Bt10,000 million. FFO over the next 12 months is forecast at Bt2,500 million. Debt due over the next 12 months amounts to Bt18,635 million, comprising Bt12,125 million in short-term bills of exchange (B/Es) and promissory notes (P/Ns), Bt3,997 million in debentures, and Bt2,513 million in project loans.

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. The company plans to refinance its maturing bonds with new bond issues. Project loans will be repaid with cash flow from the transfers of residential units. SIRI will maintain its financing structure of 50% debentures, 25% project loans, and 25% short-term loans in order to match sources of funds with the development period of each project.

According to the key financial covenants on its bank loans and debentures, SIRI has to maintain the 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 2018 was 1.68 times. Thus, the company was in compliance with its financial covenants. TRIS Rating believes that SIRI should have no problem complying with its financial covenants over the next 12 to 18 months.

BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base case forecast:

- SIRI will launch condominiums under its own and JV projects worth around Bt25,000 million per annum as well as landed property projects worth around Bt20,000 million per annum during 2019-2021.
- Land acquisition for its own projects is budgeted at Bt6,000-Bt10,000 million per year.
- Capital investment in JV projects and associates will be Bt1,800 million in 2019 and Bt600 million per annum during 2020-2021.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SIRI will be able to sustain its operating performance at the target levels. TRIS Rating expects the company to deliver the units in backlog as scheduled. The operating profit margin and net profit margin should be maintained at current levels during 2019-2021. Despite its aggressive business expansion, SIRI should keep its debt to capitalization ratio below 66%, or interest-bearing debt to equity ratio below 2 times. The FFO to total debt ratio should stay at 5%-10% on a sustainable basis.

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, such that the debt to capitalization ratio stays below 55% and the FFO to total debt ratio increases to around 15% on a sustainable basis. We could also lower the ratings and/or outlook if SIRI's operating performance and/or financial position significantly deteriorate from the target levels.

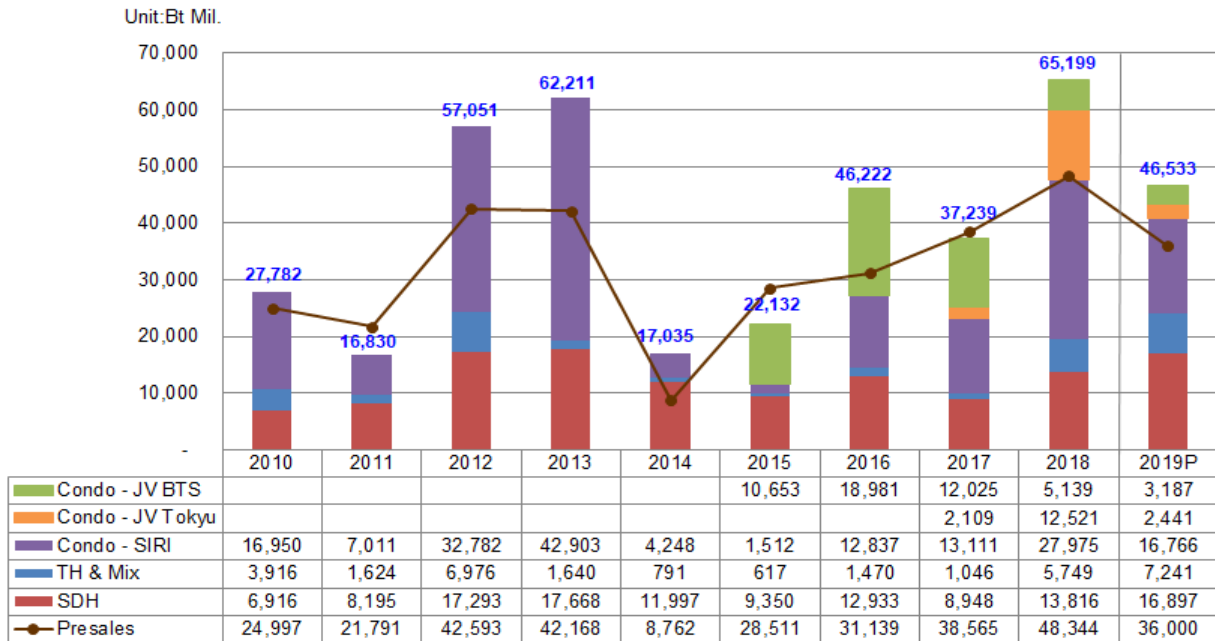
COMPANY OVERVIEW

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 Bt400,000 per sq.m. SIRI's SDH units are priced from Bt4 million to Bt240 million per unit, while the prices of its townhouse products range from Bt2 million to Bt6 million. At the end of March 2019, condominiums accounted for 60% of SIRI's total project value and landed properties accounted for the rest.

SIRI's revenue contribution from residential sales constituted more than 85% of total operating revenue during 2014-2016, but its contribution decreased to 83% in 2017 and 81% in 2018. Revenue contribution from business management through JV projects increased to 11%-12% of total operating revenue during 2017-2018, from 6% in 2016 and 2% in 2015, following larger portfolio of JV condominium projects. Revenue from business management of Plus Property Co., Ltd. contributed 2%-4% of its total operating revenue during the past five years. Revenue from other businesses accounted for the rest.

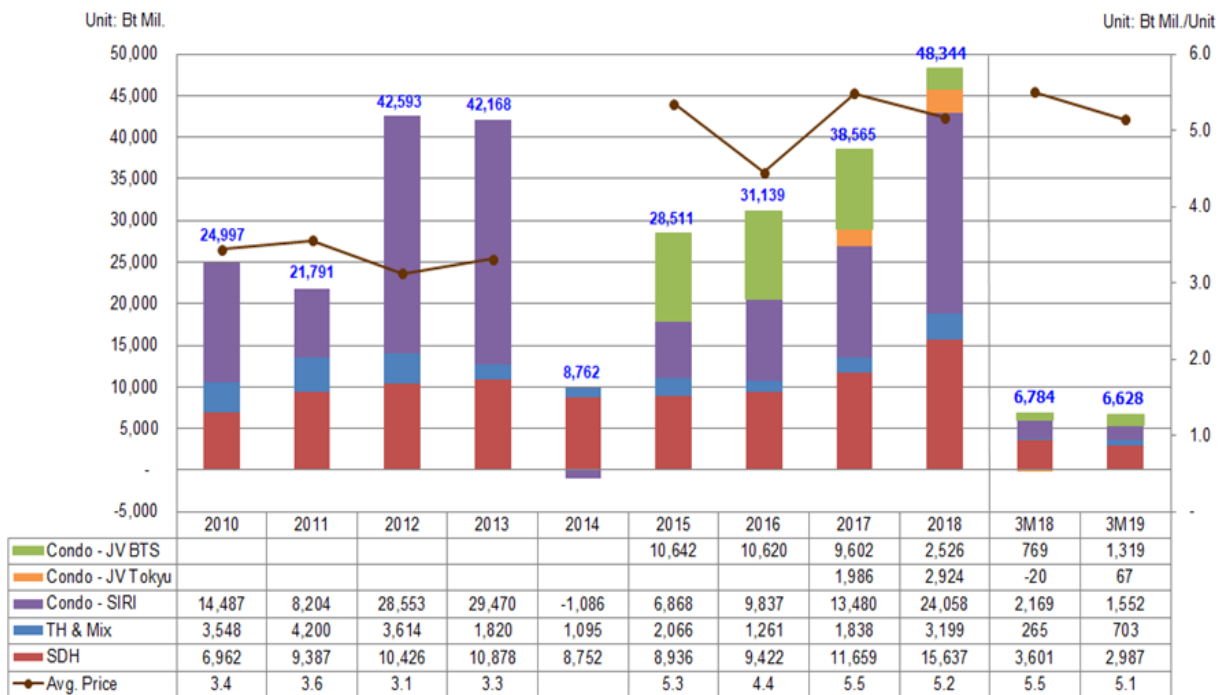
KEY OPERATING PERFORMANCE

Chart 1: New Residential Project Launches



Source: SIRI

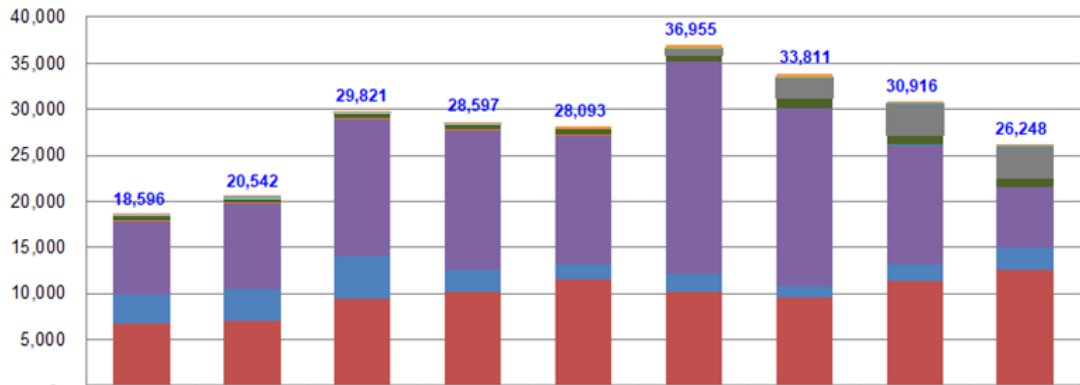
Chart 2: Presales Performance



Source: SIRI

Chart 3: Breakdown of Revenue from Sales and Services

Unit: Bt Mil.



	2010	2011	2012	2013	2014	2015	2016	2017	2018
School	69	96	142	184	184	227	212	205	206
Hotel	15	18	19	14	53	77	90	88	91
Medical spa	68	65	75	49					
Leasehold rights written off	43	43	51	52	54	52	57	54	52
Business management (JV)						770	2,201	3,423	3,329
Business management (PLUS)	376	438	473	500	606	661	1,072	944	982
Projects for rent	156	113	106	74	22	12	23	36	32
Sales of construction materials						4	57	86	2
Others	12	37	109	34	20	1	5	7	22
Condominium	7,988	9,262	14,804	15,157	14,045	23,048	19,260	12,897	6,605
TH & Mix	3,081	3,372	4,635	2,367	1,622	1,996	1,224	1,781	2,396
SDH	6,788	7,099	9,406	10,166	11,488	10,107	9,611	11,394	12,530

Source: SIRI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	-----Year Ended 31 December -----				
	2018	2017	2016	2015	2014
Total operating revenues	26,674	31,291	34,131	37,364	28,423
Operating income	2,843	4,003	5,130	4,995	4,218
Earnings before interest and taxes (EBIT)	4,813	5,644	6,150	6,487	6,219
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,230	5,982	6,495	6,834	6,550
Funds from operations (FFO)	2,881	3,829	4,106	3,806	3,641
Adjusted interest expense	1,817	1,335	1,445	1,786	1,972
Real estate development investments	69,532	58,546	56,099	55,078	60,454
Total assets	95,357	80,341	72,774	69,451	73,147
Adjusted debt	56,228	40,711	36,438	32,859	36,059
Adjusted equity	30,852	30,919	28,096	27,198	24,816
Adjusted Ratios					
Operating income as % of total operating revenues (%)	10.66	12.79	15.03	13.37	14.84
Pretax return on permanent capital (%)	5.71	7.85	9.40	10.21	10.71
EBITDA interest coverage (times)	2.88	4.48	4.50	3.83	3.32
Debt to EBITDA (times)	10.75	6.81	5.61	4.81	5.51
FFO to debt (%)	5.12	9.40	11.27	11.58	10.10
Debt to capitalization (%)	64.57	56.83	56.46	54.71	59.23

* Consolidated financial statements

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Sansiri PLC (SIRI)

Company Rating:	BBB+
Issue Ratings:	
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+
SIRI218A: Bt5,000 million senior unsecured debentures due 2021	BBB+
SIRI21NA: Bt2,000 million senior unsecured debentures due 2021	BBB+
SIRI222A: Bt4,933.4 million senior unsecured debentures due 2022	BBB+
SIRI229A: Bt2,000 million senior unsecured debentures due 2022	BBB+
SIRI229B: Bt2,500 million senior unsecured debentures due 2022	BBB+
SIRI231A: Bt4,000 million senior unsecured debentures due 2023	BBB+
Rating Outlook:	Stable

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