

# SANSIRI PLC

No. 68/2021  
30 April 2021

## CORPORATES

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
Senior unsecured	BBB+
Hybrid	BBB-
<b>Outlook:</b>	Stable

**Last Review Date:** 09/02/21

### Company Rating History:

Date	Rating	Outlook/Alert
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+", and also affirms the rating on its subordinated capital debentures (hybrid debentures) at "BBB-". We revise the rating outlook on SIRI to "stable" from "negative". The "stable" rating outlook reflects our expectation that SIRI will be able to deliver its operating performance and sustain its financial profile as targeted.

The ratings continue to reflect SIRI's diverse product portfolio, its strong competitive position in both landed property and condominium segments, and its relatively high financial leverage. The ratings also incorporate our concern over the prolonged Coronavirus Disease 2019 (COVID-19) pandemic, which could put further pressure on the demand for residential property.

## KEY RATING CONSIDERATIONS

### Cash flow protection remains intact despite a sharp drop in profitability

The COVID-19 outbreak at the beginning of 2020 significantly affected SIRI's operating performance. The company resorted to aggressive price campaigns for several completed condominium projects to raise sales and cash flows. SIRI's total operating revenue in 2020 jumped by almost 40% year-on-year (y-o-y) to THB34.6 billion. However, the spike in sales was at the expense of profitability with its gross profit margin of real estate sales in 2020 dropping to 25% of total operating revenue, from 27% in 2019 and 32% in 2018. Due to the lower gross profit margin and higher selling and administrative (SG&A) expenses, SIRI's earnings before interest, tax, depreciation, and amortization (EBITDA) margin also dropped to 18% in 2020 from 22% in 2019.

The company was able to generate EBITDA and funds from operations (FFO) of THB6.4 billion and THB3.5 billion in 2020, respectively, up by 14% y-o-y. SIRI's adjusted net debt, including debts proportionate to its equity holdings in joint ventures (JVs) and the debt portion on hybrid securities, declined to THB62.5 billion at the end of 2020 from THB67.8 billion at the end of 2019. Consequently, its FFO to total debt ratio improved to 5.6% in 2020 from 4.5% in 2019, significantly better than our previous forecast of 1%.

### Revenue to drop but profitability should improve

In our base-case forecast, we expect SIRI's total operating revenue to revert back to its normal level of THB29-THB30 billion per annum during 2021-2023. Revenue from residential property sales remains the main contributor, accounting for around 90% of total operating revenue. However, we project SIRI's EBITDA margin to recover to 20%-21% due to less pressure on inventory sales and no extra SG&A expenses.

Our base-case scenario includes the expectation that SIRI will be able to deliver the backlog as scheduled. SIRI's backlog at the end of March 2021 stood at THB22.1 billion, comprising THB18.2 billion in backlog of its own projects and THB3.9 billion in backlog under JVs. The backlog worth THB10.6 billion is expected to be transferred to customers during the remainder of 2021, THB8 billion in 2022, THB3.3 billion in 2023, and THB0.2 billion in 2024.

## Diversified portfolio and strong brand in residential property market

We view that SIRI's product portfolio is well-diversified in terms of products and price range. The company offers single-detached houses (SDH), semi-detached houses (Semi-DH), townhouses, and condominium units in different market segments. SIRI's landed properties cover the low- to high-end segments with the unit price ranging from THB2 million to THB80 million. SIRI's condominium products also cover low- to luxury-segments, with selling prices ranging from THB50,000 to THB600,000 per square meter (sq.m.). SIRI's brands are quite strong in all segments.

In our view, 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 2021, SIRI had 59 existing landed property projects and 22 condominium projects (including 7 condominium projects under JVs), with total unsold value of THB66.3 billion (including built and un-built units). Landed property projects accounted for 60% of the total remaining value, while condominium projects accounted for the rest.

## Leverage remains high

In our base-case forecast, we project SIRI's debt to capitalization ratio to maintain at 62%-64%. SIRI's leverage may not drop much despite the company plans to launch more landed property projects than condominium projects. This is because the company also plans to launch more of its own condominium projects than JV projects. In our base-case forecast, we assume that SIRI will launch new landed property projects worth THB15 billion per annum over the next three years. We also assume that SIRI will launch condominium projects worth THB10 billion per annum, comprising THB6 billion of its own projects and THB4 billion of JV projects. Nearly all new projects will be in the middle-to low-end segment. The budget for land for its own projects is expected to be around THB7 billion per annum as SIRI already has some land plots on hand.

Apart from the residential property business, we project SIRI to invest THB0.1 billion in its hotel management business operated by The Standard brand during 2021-2022. In addition, we forecast SIRI to fund land and construction costs for its industrial estate for rent project under JV with 70% debt and 30% equity throughout the development period. We expect SIRI to be more cautious in its ongoing business expansion in residential property development and other supportive businesses amid unfavorable conditions. We expect SIRI to keep its debt to capitalization ratio below 66% and its FFO to total debt ratio in the 5%-10% range.

The financial covenants on SIRI's bank loans and debentures require the company's interest-bearing debt to equity ratio (excluding lease liability) to remain below 2.5 times. As of December 2020, the ratio was 1.42 times. We believe that SIRI should have no problems complying with the financial covenants over the next 12 to 18 months.

## Liquidity should be manageable

We assess SIRI's liquidity to be manageable over the next 12 months. As of December 2020, SIRI's sources of funds consisted of THB3 billion cash and THB0.7 billion marketable securities, and THB9.5 billion undrawn unconditional committed credit facilities from banks. SIRI had unencumbered land banks at book value of THB3.6 billion and remaining units in its own debt-free projects with a selling price of THB5.3 billion. FFO over the next 12 months is forecast to be THB3.2 billion. Debts due over the next 12 months will amount to THB20 billion, comprising THB2.9 billion short-term promissory notes (P/Ns), THB1.1 billion short-term bills of exchange (B/Es), THB5.4 billion in long-term project loans, THB2.4 billion long-term P/N for land, and THB8.2 billion debentures.

Short-term P/Ns and B/Es will either be rolled over or repaid. SIRI normally borrows through short-term P/Ns and B/Es in order to lower cost of funds. Project loans will be repaid with cash flow from the transfers of residential units. SIRI plans to convert long-term bridging P/Ns for land purchases into long-term project loans thereafter. The company plans to refinance its maturing debentures with new debentures issues. We expect SIRI to manage its financial flexibility efficiently during a prolonged period of sluggish demand in the residential property market.

## BASE-CASE ASSUMPTIONS

These are the key assumptions in TRIS Rating's base-case forecast for 2021-2023:

- SIRI to launch new landed property projects worth THB15 billion per annum
- SIRI to launch its own new condominium projects worth THB6 billion annually during 2021-2023 and new JV condominium projects worth THB4 billion annually during 2022-2023
- Annual budget for land acquisition for its own projects to be THB7 billion
- Total operating revenue to stay in the THB29-THB30 billion range

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**RATING OUTLOOK**

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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 the company to keep its debt to capitalization ratio below 66% and its FFO to total debt ratio in the 5%-10% range over the forecast period. We also expect SIRI to retain its pretax return on permanent capital (ROPC) ratio above 5%.

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**RATING SENSITIVITIES**

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SIRI’s ratings and/or outlook could be revised downward should the prolonged COVID-19 pandemic evolve in a way that leads us to believe the company’s operating performance and/or financial profile are heading for a deeper deterioration than expected. On the other hand, a credit upside would materialize if SIRI’s financial profile improves to the levels attained by its peers of higher ratings, such that the debt to capitalization ratio stays below 55% and the FFO to total debt ratio increases to 10%-15% on a sustained basis.

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**COMPANY OVERVIEW**

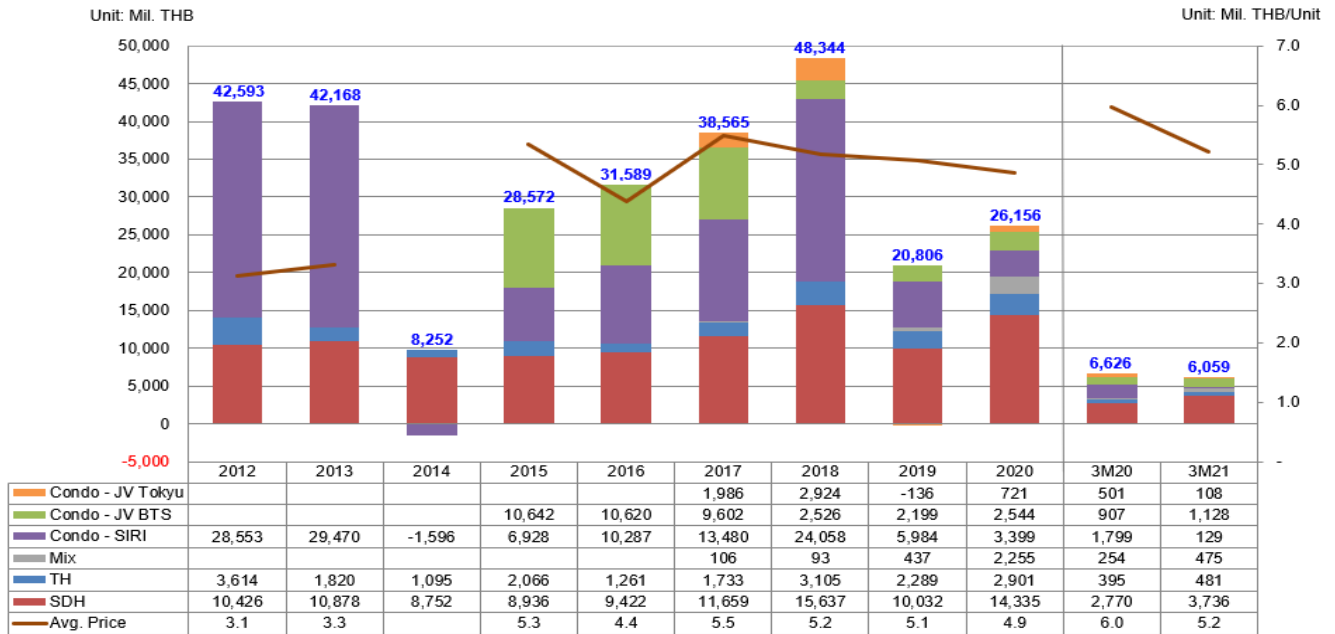
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SIRI was established in 1984 by the Chutrakul family and listed on the Stock Exchange of Thailand (SET) in 1996. SIRI offers landed property and condominium units covering low- to high-end segments. Its landed property units include SDH, Semi-DH, and townhouse, with the price ranging from THB2 million to THB80 million per unit. Its condominium units are priced from THB50,000 to THB600,000 per sq.m. As of March 2021, landed property accounted for 54% of total project value, while condominium accounted for the rest.

SIRI’s revenue contribution from residential sales constituted 80%-90% of 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 decreased to 5% in 2020 from 10%-15% during 2017-2019, following the smaller portfolio of JV condominium projects. Revenue contribution from business management of Plus Property Co., Ltd. was 3%-4% of total revenue from sales and services during the past five years. Revenue contribution from other businesses remained negligible.

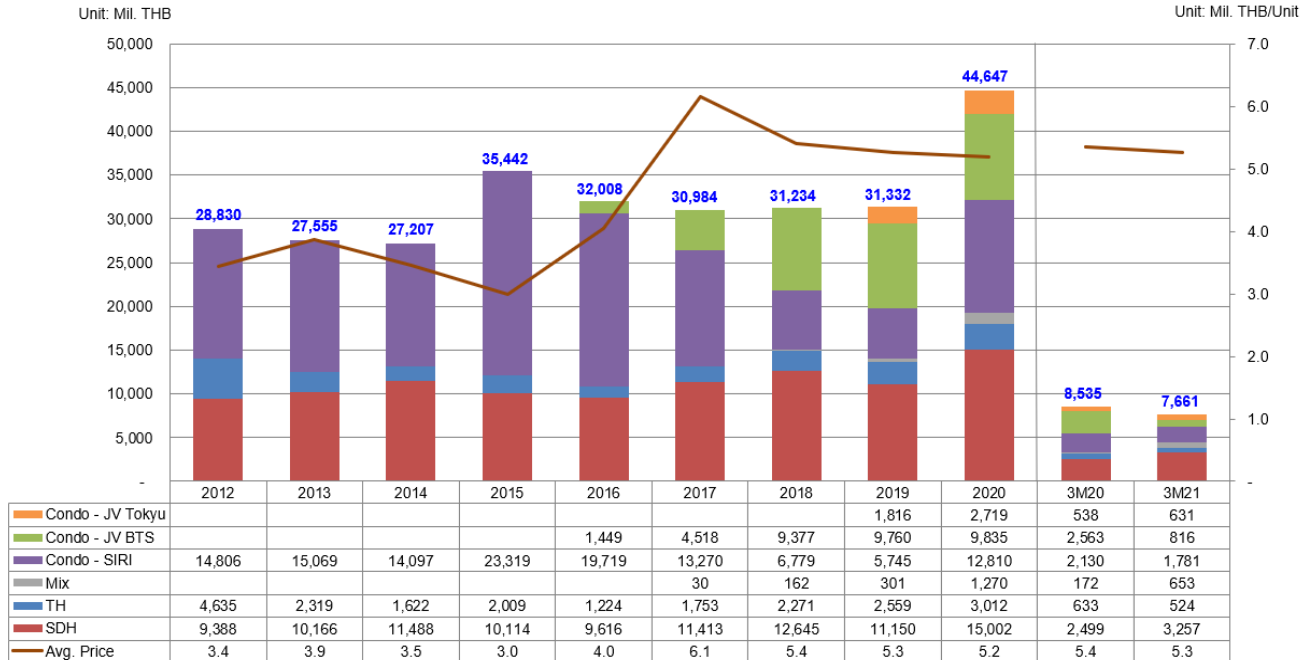
**KEY OPERATING PERFORMANCE**

**Chart 1: Presales Performance**



Source: SIRI

**Chart 2: Transfer Performance**



Source: SIRI

**Table 1: Revenue from Sales and Services Contribution**

Revenue from Sales and Services	Unit	2016	2017	2018	2019	2020
SDH	%	28.4	36.9	47.8	45.1	42.5
TH	%	3.6	5.7	8.5	10.3	8.4
Mix	%		0.1	0.6	1.2	3.5
Condo	%	56.9	41.7	25.2	22.1	35.9
<b>Revenue from sales of real estate</b>	<b>%</b>	<b>88.9</b>	<b>84.4</b>	<b>82.1</b>	<b>78.7</b>	<b>90.3</b>
<b>Sales of construction materials</b>	<b>%</b>	<b>0.2</b>	<b>0.3</b>	<b>0.0</b>	<b>0.2</b>	<b>0.2</b>
Projects for rent	%	0.1	0.1	0.1	0.1	0.2
Leasehold rights written off	%	0.2	0.2	0.2	0.2	0.1
<b>Rental and services income</b>	<b>%</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
Business management from JV	%	6.5	11.1	12.7	15.0	4.8
Business management from Plus	%	3.2	3.0	3.7	3.9	3.4
Hotel	%	0.3	0.3	0.4	0.4	0.1
School	%	0.6	0.6	0.8	0.9	0.5
Hotel management	%				0.6	0.4
<b>Revenue from rendering of services</b>	<b>%</b>	<b>10.6</b>	<b>15.0</b>	<b>17.6</b>	<b>20.8</b>	<b>9.2</b>
<b>Total Revenue from Sales and Services</b>	<b>%</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Total Revenue from Sales and Services</b>	<b>Mil. THB</b>	<b>33,811</b>	<b>30,916</b>	<b>26,248</b>	<b>24,310</b>	<b>33,833</b>

Source: SIRI

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***
*Unit: Mil. THB*

	-----Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total operating revenues	34,603	24,929	26,674	31,291	34,131
Earnings before interest and taxes (EBIT)	5,528	5,058	4,813	5,644	6,150
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	6,370	5,593	5,230	5,982	6,495
Funds from operations (FFO)	3,480	3,066	2,881	3,829	4,106
Adjusted interest expense	2,130	1,905	1,817	1,335	1,445
Real estate development investments	83,691	80,788	69,532	58,546	56,099
Total assets	112,632	108,336	95,357	80,341	72,774
Adjusted debt	62,491	67,788	56,228	40,711	36,438
Adjusted equity	35,647	31,875	30,852	30,919	28,096
<b>Adjusted Ratios</b>					
EBITDA margin (%)	18.41	22.43	19.61	19.12	19.03
Pretax return on permanent capital (%)	5.43	5.19	5.71	7.85	9.40
EBITDA interest coverage (times)	2.99	2.94	2.88	4.48	4.50
Debt to EBITDA (times)	9.81	12.12	10.75	6.81	5.61
FFO to debt (%)	5.57	4.52	5.12	9.40	11.27
Debt to capitalization (%)	63.68	68.02	64.57	56.83	56.46

\* Consolidated financial statements

**RELATED CRITERIA**

- Rating Methodology – Corporate, 26 July 2019
- Hybrid Securities Rating Criteria, 12 September 2018
- Key Financial Ratios and Adjustments, 5 September 2018

**Sansiri PLC (SIRI)**

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
SIRI218A: THB5,000 million senior unsecured debentures due 2021	BBB+
SIRI21NA: THB2,000 million senior unsecured debentures due 2021	BBB+
SIRI222A: THB4,933.4 million senior unsecured debentures due 2022	BBB+
SIRI229A: THB2,000 million senior unsecured debentures due 2022	BBB+
SIRI229B: THB2,500 million senior unsecured debentures due 2022	BBB+
SIRI231A: THB4,000 million senior unsecured debentures due 2023	BBB+
SIRI236A: THB4,000 million senior unsecured debentures due 2023	BBB+
SIRI240A: THB3,600 million senior unsecured debentures due 2024	BBB+
SIRI20PA: THB3,000 million subordinated capital debentures (hybrid debentures)	BBB-
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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